

# Half-Year Report 2022



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

# Half-Year Report as of 30 June 2022

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

## **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 system providers. The company’s products comprise hardware, software and cloud services. More than 250,000 POS systems have been sold so far in over 30 countries and at least 26,000 sales outlets, most of which in Germany, use the different online services.

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 specialist trade partners, mainly in Germany and other European countries. End customers vary from single POS installations to chains with more than 1,000 POS.

### **1.2. Overall economic development**

2022 is the third year affected by the global Coronavirus pandemic. The Omikron variant created another wave of infections. Early on in the year, the German government resolved to introduce a 2G+ rule for visiting gastronomic establishments. On 20 March 2022, the new Infection Protection Act (Infektionsschutzgesetz – InfSchG) came into effect, which only provided for basic protective measures any more. Several federal states extended the existing protective measures until April. Almost all Coronavirus protective measures have been abolished in all regions since April. At the same time, warnings of a new wave of infections in the autumn are increasing.

The war initiated by Russia against the Ukraine on 24 February 2022, an act of aggression that contravenes international law, resulted in the West imposing sanctions. The war disrupted the supply chain; Russia reduced its gas sales to Western Europe. These disruptions to the global economic situation primarily showed in a significant rise in inflation of almost 8 %, according to the information provided by the Federal Statistical Office.

The strain placed on the economy by the pandemic was intensified by worsening material availability and increasing delivery times.

Despite these massive challenges, Germany’s price-adjusted gross domestic product grew by 0.8 % in the first quarter of 2022. According to current calcu-

lations by the Federal Statistical Office, price-adjusted growth in the second quarter of 2022 amounted to 0.1 % compared with the previous quarter, thus reaching the pre-crisis level of the fourth quarter of 2019.

As in 2021, the core segments of Vectron Systems AG developed differently in the first half of 2022. Whereas the Coronavirus pandemic did not have any negative effects on over-the-counter bakery sales, contact / access restrictions in the gastronomy sector and cafes as well as a rise in raw materials prices led to sales decreases compared with the previous year's period. According to the Federal Statistical Office, sales in the "bakery and sweets retail sector" (approximate value for the bakery industry chart) were down by 9.6 % in nominal terms and by 4.3 % in real terms year-on-year in the first five months of 2022.

The gastronomy sector was severely impacted by de facto lockdowns caused by the 2G+ rule. At the same time, there was more freedom than in the previous year's period. Sales in the first five months of 2022 increased by 37.2 % in nominal terms and by 44.3 % in real terms year-on-year based on Federal Statistical Office data. Compared with the period before the pandemic in 2019, sales decreased by 23.2 % in nominal terms and by 13.2 % in real terms. Catch-up effects amongst consumers met with a range of products that was broader than during the height of the pandemic but was under pressure due to the increase in raw material and energy costs as well as a lack of staff.

To summarise, the general economic conditions for the German customers of Vectron Systems AG, but not least also customers throughout Europe, were therefore worse than for the rest of the economy. Based on a DEHOGA survey, 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.

### **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.

The POS Security Ordinance (Kassensicherungsverordnung – KassenSichV) in effect since the beginning of 2020 stipulates that all electronic cash reg-

isters must be fitted with a technical security device, amongst other things. Even the last extension of the deadline by which almost all of the POS systems must be fitted with a technical security device expired at the end of March 2021. Simple cash registers have to be changed by 31 December 2022. In 2021, many POS systems were replaced or updated, which positively impacted Vectron's sales. Specialist retail partners also increased their inventories. This showed in the inability to complete the large number of orders for replacing POS systems in 2021.

Surveys by the DFKA (German Association for POS and Invoicing System Technology) in the first quarter of 2022 suggest that around 15 % of companies have still not retrofitted their POS systems. Subsequent retrofitting can therefore also be expected in 2022 and maybe even in 2023.

The trend toward digitisation in the gastronomy sector continued in the first half of 2022. 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.

## 1.4. Sales and order development

In the first half of 2022, the sales of Vectron Systems AG amounted to EUR 12,556 thousand, a considerable drop compared with sales in the previous year's period, which amounted to EUR 21,364 thousand. The reasons for this development are effects from the fiscalisation as well as the continuing uncertainties in the gastronomy sector caused by the Coronavirus pandemic.

- The decision of numerous gastronomy businesses to invest in new POS systems in 2021 led to an order boom amongst the specialist retail partners. Both indications of global supply bottlenecks and the number of orders to be completed resulted in the specialist retail partners increasing their inventories. Consequently, the number of new orders received by Vectron was below par in the first quarter of 2022 and beyond.
- The contact restrictions and access regulations imposed due to the Coronavirus pandemic placed a burden on the entire gastronomy sector as staff had to be tasked with activities that do not increase sales. A large number of service employees who could not be employed in the gastronomy sector during the first lockdowns changed to alternative careers. This placed even more pressure on the industry.

Unless otherwise stated, the following figures were determined in accordance with the International Financial Reporting Standards (IFRS).

In the first quarter of 2022, sales amounted to EUR 6,566 thousand and to EUR 5,990 thousand in the second quarter. EUR 10,758 thousand of sales were generated in Germany (previous year's period: EUR 19,286 thousand), EUR 1,295 thousand in other European countries (previous year's period: EUR 1,740 thousand) and EUR 503 thousand in third countries (previous year's period: EUR 338 thousand).

	30/06/2022	30/06/2021
Germany	85.7 %	90.3 %
Other European countries	10.3 %	8.1 %
Third countries	4.0 %	1.6 %

One-off sales contributed EUR 8,359 thousand (previous year's period: EUR 18,576 thousand) to total sales and recurring revenues amounted to EUR 4,197 thousand (previous year's period: EUR 2,788 thousand).

It must be pointed out that the recurring revenue is increasing continuously, albeit slightly below expectations for the budget of the affected period due to the general conditions explained above.

Vectron Systems AG provides its end customers with a financing model for new POS systems. This sales promotion model is offered by the specialist trade partners. In the reporting period until June 2022, new contracts accounted for 4.8 %, or EUR 605 thousand, of sales (previous year's period: 3.7 % or EUR 797 thousand). Particularly the general economic situation resulted in subdued demand for the sales promotion model in the first half of 2022.

Vectron's business model is geared towards short delivery times and corresponding short production lead times, from which the specialist trade partners profit in particular. There were no outstanding order volumes worth mentioning as of the balance sheet date.

## 1.5. Production and procurement

Vectron uses the same application software in most of its POS systems. It can also be used in other sectors than the actual target sectors. Differ-

ent models and/or model changes and diverse target industries therefore cause comparatively little development, maintenance and support costs.

The production process consists primarily of the assembly of modules and pre-fabricated components as well as quality controls. Device variants in great demand are manufactured and kept in stock. Sometimes complete devices manufactured to order are also supplied. Stocks are dispatched as soon as an order is received, meaning that delivery periods are usually very short. Less frequently demanded products are made specifically to order.

To ensure continuous delivery capability and fast reaction times, defined minimum amounts are stocked for all important components. New product lines or expected peak demand may thus result in temporarily increased stock levels. In the past financial years, stocks were deliberately managed to remain able to deliver goods at all times. This is the reason why all orders could be processed and delivered on time in the reporting period as well.

The effects of supply chain disruptions were felt in the procurement situation. They turned out to be manageable overall.

## **1.6. Research and development**

Around 30 % of the staff remain involved in the new and further development of Vectron products – either in research or product management. A material share of total personnel costs therefore relates to development services. This figure was not capitalised in the past reporting period as the conditions for capitalisation were not met. Applications were made for research funding grants for two projects in accordance with the German Research Funding Grant Act (Forschungszulagengesetz).

## **1.7. HR and social affairs**

As of 30 June 2022, Vectron Systems AG employed 191 persons (31 December 2021: 195). The workforce consisted of four members of the executive board, 179 employees and 8 trainees.

The employee remuneration system provides fixed remuneration based on the scope of tasks and responsibilities as well as a variable component that is based on the company's annual performance for the majority of employees and contractually agreed targets for some individuals.

Managers can participate in a share option programme.

No special occupational health and safety incidents (e.g. accident prevention, accidents at work, etc.) occurred during the reporting period.

Reduced working hours were used to a small extent in the first six months of 2022.

## **1.8. Remuneration system for executive bodies**

The remuneration of the members of the executive board consists of fixed and variable components. The variable components of two of the members contain a capped performance-related component of 3 % of operative profit (EBITDA / earnings before interest, taxes, depreciation and amortisation). One member's variable component consists of a capped target bonus based on EBITDA. One member's variable component consists of virtual shares, a capped target achievement bonus based on EBITDA and a capped bonus for increasing certain sales. All members of the executive board are entitled to a company car.

The supervisory board receives fixed annual remuneration, the details of which are explained in the notes to the 2021 annual report.

## **2. Actual assets, financial position and profit position**

### **2.1. Actual assets (IFRS)**

As of the balance sheet date on 30 June 2022, total assets decreased by EUR 4,890 thousand, from EUR 47,713 thousand to EUR 42,823 thousand.

On the asset side, this was primarily due to cash and cash equivalents, which decreased from EUR 19,868 thousand to EUR 15,470 thousand. The right-of-use assets, the majority of which were capitalised for the use of the office building, decreased from EUR 8,427 thousand to EUR 8,068 thousand, as planned. The current and non-current lease receivables decreased by EUR -397 thousand to EUR 3,654 thousand. Trade receivables increased marginally by EUR 63 thousand to EUR 3,621 thousand. Receivables are comprised of numerous individual receivables from various customer groups and/or customers. Individual payment targets are agreed with each customer, which generally do not exceed 60 days. The percentage of doubtful receivables increased slightly in the past half-year due to the Coronavirus-related lockdowns.

Regular monitoring and prompt reminders (plus mitigation measures) ensure that the number of actual bad debts remains low. Potential risks are addressed through the formation of individual and general value adjustments.

Deferred tax assets increased by EUR 413 thousand to EUR 2,782 thousand.

On the liabilities side, the subscribed capital consists of 8,056,514 (31 December 2021: 8,056,514) no-par value bearer shares with one vote each. Total equity amounts to EUR 24,575 thousand (31 December 2021: EUR 25,552 thousand).

Liabilities decreased from EUR 22,161 thousand to EUR 18,248 thousand.

The current liabilities of EUR 8,321 thousand (31 December 2021: EUR 12,060 thousand) are offset by current assets of EUR 26,159 thousand (31 December 2021: EUR 30,566 thousand). The year-on-year decrease in current liabilities primarily resulted from the variable remuneration to employees paid out in April 2022 (EUR -1,392 thousand), reversal of provisions for holiday entitlements as well as the settlement of outstanding trade invoices (EUR -1,443 thousand).

The non-current liabilities of EUR 9,927 thousand (31 December 2021: EUR 10,101 thousand) are offset by non-current assets of EUR 16,664 thousand (31 December 2021: EUR 17,147 thousand). The non-current liabilities decreased due to the shortened remaining term of the lease agreement, as planned.

As of the balance sheet date, the equity ratio was 57.4 % (31 December 2021: 53.6 %). This increase primarily resulted from the decrease in liabilities.

Cash flow from investing activities amounted to EUR -172 thousand (31 December 2021: EUR +561 thousand) and comprised investments in property, plant and equipment and intangible assets.

## 2.2. Financial position (IFRS)

All cash payments in the past half of the year were paid from existing cash and cash equivalents. The credit facilities did not have to be drawn down.

All financial liabilities were repaid on time, if necessary by utilising cash-back income. Vectron Systems AG remained able to pay its liabilities at all times.

As of the balance sheet date on 30 June 2022, Vectron's cash and cash equivalents amounted to EUR 15,470 thousand. This corresponds to a year-on-year decrease of EUR 4,398 thousand. In the reporting period, cash flow from operating activities amounted to EUR -3,645 thousand (previous year's period: EUR +6,752 thousand), primarily due to the decrease in liabilities caused by the settlement of outstanding invoices and/or payment of the variable remuneration for the previous year.

Cash flow from investing activities has been described above.

Cash flow from financing activities amounted to EUR -569 thousand (previous year's period: EUR +1,926 thousand), which is primarily due to the repayment of financial / lease liabilities plus interest.

The financing strategy remains geared towards long-term stability.

### **2.3. Profit position (IFRS)**

Vectron increased its margins in the first half of 2022. The gross margin (calculated by dividing gross earnings by revenue) increased from 70.3 % to 74.8 % year-on-year in the reporting period. The cause of this development was a general slight decrease in the cost of materials. The IFRS-specific adjustments as part of the sales promotion model (elimination of current sales and approximately equally high current expenses) resulted in a relative increase, which was particularly due to the decreased revenue benchmark.

In the first six months of 2022, two thirds of revenue pertained to one-off sales and one third to recurring income. Successes from the strategic endeavours to no longer be dependent on one-off sales and investment cycles showed once again in this respect. Compared with the previous year's period, recurring revenue increased by EUR 1,409 thousand, from EUR 2,788 thousand to EUR 4,197 thousand.

Personnel expenses include wages and salaries as well as employee entitlements for holidays and overtime. Compared with 30 June 2021, personnel expenses decreased by EUR 476 thousand as fewer provisions were recognised for variable remuneration due to the business trend. In the first half of the year 2022, reduced working hours was registered for small parts of the staff.

The average number of employees (excluding members of the executive board and trainees) in the first half of 2022, converted to full-time equivalents, was approximately 173 (31 December 2021: 173).

Other expenses increased by 7.4 %, which was caused by the increase in commission paid to special retailers based on the growth in digital service sales.

The EBITDA amounted to EUR -542 thousand compared with EUR 4,880 thousand in the previous year's period.

Depreciation and amortisation amounted to EUR 783 thousand (previous year's period: EUR 678 thousand). Almost half of this figure related to amortisation of the right-of-use assets for the office building in the reporting period. Amortisations was also applied to the right-of-use assets for vehicles, operational and business equipment as well as capitalised POS that were provided to customers for a limited period of use.

The financial result is negative at EUR -67 thousand (previous year's period: EUR +12 thousand). The majority of interest income was generated by finance lease agreements for the sales promotion model as well as bonVito Comfort agreements. Interest expenses were incurred for various refinancing activities such as the loan that was taken out and sale-and-lease-back transactions.

In the first half of 2022, the share of the goods purchased in foreign currency in the cost of materials was just under 93 % (previous year's period: approximately 28 %). The increase of the relative share was also caused by the volatile development of the EUR/USD exchange rate. The currency hedges concluded were unable to fully compensate the dramatic deterioration of the euro exchange rate. On the sales side, exchange rate fluctuations did not have any impact worth mentioning as invoices are also primarily denominated in euros in foreign currency regions. In individual cases, invoices are also issued in British pounds or US dollars. Supply bottlenecks and general inflationary trends resulted in a further increase in purchasing prices, which in turn resulted in an increase in sales prices.

Earnings before income taxes amounted to EUR -1,392 thousand (previous year's period: EUR +4,214 thousand) and income for the period to EUR -980 thousand (previous year's period: EUR +3,047 thousand).

### 3. Subsequent events after 30 June 2022

Subsequent events include the continuation of the Coronavirus pandemic and the war in Ukraine. The management report discusses this in detail in the forecast report.

Jens Reckendorf, co-founder and CTO of Vectron Systems AG, informed the company's supervisory board that he wishes to retire as a member of the company's executive board on health grounds. Mr Reckendorf and the supervisory board agreed to terminate his employment contract as of 30 September 2022. Jens Reckendorf will continue to advise the company in the future. Mr Reckendorf renounced his shares in Vectron Systems AG as well as his position on the executive board. The 1.53 million shares in total were acquired by Tosho Capital GmbH, a company wholly owned by his colleague on the executive board and co-founder, Thomas Stümmler. Following this acquisition, Thomas Stümmler now directly and indirectly holds 41.4 % in Vectron Systems AG.

In August 2022, the executive board of Vectron Systems AG resolved to launch the "Fit for Future" cost reduction programme. This aims to gradually increase the company's profitability over the next 12 months, despite the challenging economic environment, without stopping growth in the digital services business. The main ways of achieving this are going to be outsourcing of hardware production steps, focussing on core markets and products as well as consistent process optimisation and automation. These measures are expected to create substantial cost savings. No savings are to be implemented in central strategic areas of product development, on the other hand.

## **4. 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.

### **4.1. Business risks**

The long-standing pricing pressure in the industry may result in a narrowing of the margins for the sale of POS systems, which could not be compensated with other means under the previous income model (one-off income). 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 one-off income and general pricing pressure. The internal project for increasing recurring revenue, which was specifically initiated for this purpose, is 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. In the first half of 2022, the Coronavirus pandemic and related restrictions in the gastronomy sector as well as the decrease in demand following the fiscalisation in the core market, Germany, once again resulted in considerable unwillingness to invest, which was particularly reflected in the decrease in one-off sales. 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 one-off income.

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 for Vectron will decrease 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. The deliberate further development of retailers will therefore continue to play a central role in Vectron's sales strategy.

## **4.2. 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 these products. Peripheral products, in particular, cannot be delivered by some manufacturers at present. Supply issues are discernible at present and the further worsening of supply bottlenecks in the future cannot be ruled out. This risk was, and is being, counteracted by increasing stocks of materials and finished products 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.

### **4.3. 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 just under 3 % of total sales in the first half of 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 mitigation 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 had 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. Due to the sometimes high volatilities, these securities are, however, not always available at financially acceptable conditions. In addition, it is almost impossible to hedge against long-term effects of exchange rate changes on cash and cash equivalents.

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.

Tax audits always bear a potential revenue and/or liquidity risk. Up to now, financial years 2008 to 2015 have been audited without resulting in any material back payments. A tax audit for the periods from 2016 to 2019 is currently being performed.

#### **4.4. 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 record high in Germany in 2020 and 2021 according to a Bitkom study, 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.

#### **4.5. 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. The largest single supplier contributed a share of around 21.1 % of the total acquisition volume in the first half of 2022. To avoid shortages, minimum amounts of all critical components are stocked so that a sufficient lead time for a reaction to downtimes is ensured. Replacement suppliers are on stand-by if technically and economically feasible.

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.

#### **4.6. 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 a share options programme.

## 4.7. 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. Software tests are automated as much as possible. The risk is further limited through product liability insurance.

## 5. Forecast report

### 5.1. Future sector development

In the gastronomy sector, the keyword "digital transformation" refers to the use of an increasing number of digital services, such as a company website, online portals, online orders, online table reservations, digitisation of internal business processes of the operators, kitchen monitoring, staff deployment planning, customers' self-service orders at a kiosk or via smartphone, issuance and redemption of voucher cards, point collection systems, e-payment types, guests' online ratings and much more.

At present, gastronomy businesses usually have to conclude various individual contracts, which means numerous invoices, additional devices in addition to the POS and extremely high costs per functionality. In addition, each system works differently and the lack of integration in the POS means that all data has to be entered twice, which costs time and is also prone to errors.

Gastronomy business owners' expectations of future digital products are therefore to have just one solution that covers all aspects and all of whose functions are integrated in the POS and/or seamlessly and automatically correspond with the POS. Gastronomy business owners do not wish to run any additional hardware and wish to have only one contract and invoice, if possible.

To meet these market expectations, business models are changing toward Software as a Service (SaaS). A market of (fully) integrated solutions with POS and services from one source is developing. The digitisation described above has since been advanced. Numerous gastronomy businesses have

sped up the development of their systems for participation in click and buy services, either in connection with customer collection or delivery services. Although digital services such as online delivery services and ordering systems have generally been available for years, they have as yet been unable to penetrate all of the market.

Online orders have become increasingly attractive in connection with the Coronavirus-related lockdowns and restrictions in the gastronomy sector. Payment habits have also seen a strong trend toward e-payments. The digital transformation of the industry therefore provides attractive medium to long-term growth and earnings potentials, among other things through the new SaaS business models that are currently establishing. These enable growing recurring revenues from the customer base and significantly increase customer dwell times and customer lifetime value.

The service personnel shortage resulting from the pandemic, which has affected the entire sector, is expected to become another driver for the efforts of gastronomy businesses to become digitised. Functionalities such as inhouse ordering, self-checkout, etc., provide growth potential for digital services, particularly of providers that offer integration in POS systems. This can generate additional revenue opportunities.

An important change in recent years is the establishment of new pricing models in various sectors, based on recurring instead of non-recurring payments. By developing new digital business fields with recurring revenues, established and new providers fight against the pricing pressure that has been ongoing for years, which primarily and increasingly affects non-recurring revenues.

The development and expansion of the various technical developments has lowered the market entry barriers for new providers, particularly of solutions for sub-processes such as reservations, ordering, payment, etc. and lead to a continuous change in products and business models.

Organic company developments will (assumedly) be supplemented with increasing speed by inorganic scenarios. Missing a new trend could otherwise damage companies' profitability in the long-term. Ongoing market and competition monitoring is gaining in importance in this respect and must cover the global market. Neighbouring sectors must also be closely monitored. Not just individual software, but whole company developments require increasingly fast response times and are based on agile methods. In view of these developments, Vectron will carefully investigate inorganic growth and technical development options in the future.

## 5.2. Future product development

The core product of the current product portfolio is a stationary and/or cloud-based POS solution that is being sold under the brand names, Vectron and Duratec. An alternative, cloud-based POS solution is also being marketed under the Posmatic brand name, which was specifically developed for iPads. The POS solutions are complemented with numerous additional digital services. The focus of future product development remains on the development of the digital products and services. The focus is on further developing the Vectron Cloud online platform. This platform integrates customer retention, ordering, reservation, payment and other services, both on the basis of inhouse developments and cooperations. These services are marketed in various combinations under different product names.

The existing POS system software is being continuously improved and also a comprehensive generation update is likely to be implemented in the medium to long term, which will be realised either through in-house development or acquisition. POS systems are also regarded as the bedrock of the service portfolio in the long term. Both hardware and software are continuously developed and modernised further.

## 5.3. Future business development

The restrictive measures during the Coronavirus pandemic as well as the effects of the war between Russia and Ukraine on the overall economy had a significant impact in the willingness to invest among the core segments of Vectron Systems AG. Vectron generates approximately 60 % of sales from the gastronomy sector, around 30 % from bakeries and roughly 10 % from other industries. Due to the indirect sales through specialist trade partners, these figures are estimates. The original budget for financial year 2022 was adjusted twice during the course of the year and communicated to the capital market in ad-hoc reports on 20 June and 22 August 2022.

In the adjusted budget on 20 June 2022, the EBITDA range was reduced to EUR -0.8 million to EUR +0.8 million due to sales being expected to decrease to EUR 27 million to EUR 30 million. The reason for this development were the existing uncertainties caused by the Coronavirus pandemic, inflation and economic effects of the war between Russia and Ukraine.

The budget adjustments mainly affected one-off sales, whilst the recurring revenue volume is expected to be EUR 9.0 million to EUR 9.5 million (previously: just short of EUR 10 million).

The adjustment of the EBITDA range on 22 August 2022 to EUR -2.05 million to EUR -0.45 million resulted from the expected costs for the “Fit for Future” project in the amount of around EUR 1.25 million. Once the “Fit for Future” programme has been completed, monthly savings are expected in the amount of EUR 150,000 to EUR 180,000. The majority of restructuring costs, particularly for severance payments, will be incurred in the current financial year 2022 and/or reflected in provisions for costs in the following year.

Product developments and marketing initiatives will have to still be pursued in an ordered and stringent manner. In addition to new developments, Vectron relies on

- the modernisation of the tried-and-tested “bonVito” platform, which generates stable income and has a robust customer base.
- the Vectron Cloud platform as a hub and anchor for all digital products and services. In addition to the established solutions such as the link to DATEV POS Archive Online, cloud backups, vouchers and reporting apps, further solutions such as mobile POS and interfaces are to be offered during the course of the year.
- the development of existing payment solutions. In addition to attractive packages, all-in-one terminals, which can be used for serving, payment and invoice printing, are gaining in importance.

At the same time as looking outward, Vectron has also focussed its attention inward and initiated measures for further optimising its business processes to reduce costs and also accelerate key business processes.

Vectron continues to regard itself as well-positioned to directly meet increasing demand. Vectron also has sufficient cash and cash equivalents for responding directly to crisis situations that could endanger the company's existence as a going concern. The initiated cost reduction programme is to return Vectron System AG to permanent profitability.

Münster, 31 August 2022

Vectron Systems AG  
The executive board



Thomas Stümmler  
CEO



Jens Reckendorf  
CTO



Dr. Ralf-Peter Simon  
CSO



Silvia Ostermann  
COO



**Digital-Bon**  
Einfach scannen  
& Papier sparen



## Balance sheet

in EUR thousand		
ASSETS	30/06/2022	31/12/2021
<b>Non-current assets</b>		
Intangible assets	1,152	1,193
Property, plant and equipment	1,015	1,144
Right-of-use assets	8,068	8,427
Participations	404	404
Non-current lease receivables	2,036	2,270
Non-current trade receivables	303	428
Other non-current financial assets	904	912
Deferred tax assets	2,782	2,369
<b>Total non-current assets</b>	<b>16,664</b>	<b>17,147</b>
<b>Current assets</b>		
Inventories	4,923	4,943
Trade receivables	3,318	3,130
Receivables from affiliated companies	7	20
Current lease receivables	1,618	1,781
Other current financial assets	611	609
Other current assets	212	215
Cash and cash equivalents	15,470	19,868
<b>Total current assets</b>	<b>26,159</b>	<b>30,566</b>
<b>Total assets</b>	<b>42,823</b>	<b>47,713</b>

in EUR thousand		
EQUITY AND LIABILITIES	30/06/2022	31/12/2021
<b>Equity</b>		
Subscribed capital	8,057	8,057
Capital reserve	20,242	20,239
Balance sheet loss	-3,724	-2,744
<b>Equity</b>	<b>24,575</b>	<b>25,552</b>
<b>Non-current liabilities</b>		
Non-current financial liabilities	2,375	2,272
Non-current lease liabilities	7,329	7,633
Non-current provisions	217	196
Non-current employee benefits	6	-
<b>Total non-current liabilities</b>	<b>9,927</b>	<b>10,101</b>
<b>Current liabilities</b>		
Trade payables	1,708	3,151
Liabilities to affiliated companies	-	308
Current lease liabilities	786	810
Current financial liabilities	5,048	5,125
Income tax liabilities	338	338
Current employee benefits	135	1,733
Other current financial liabilities	288	250
Other current liabilities	18	345
<b>Total current liabilities</b>	<b>8,321</b>	<b>12,060</b>
<b>Total liabilities</b>	<b>18,248</b>	<b>22,161</b>
<b>Total equity and liabilities</b>	<b>42,823</b>	<b>47,713</b>

## Statement of comprehensive income

in EUR thousand	01/01– 30/06/2022	01/01– 30/06/2021
Revenue	12,556	21,364
Change in work in progress and finished products	-866	-566
Cost of materials and purchased services	-2,303	-5,885
Other own work capitalised	-	97
<b>Gross profit / loss</b>	<b>9,387</b>	<b>15,010</b>
Other operating income	61	25
Personnel costs	-5,176	-5,652
Other operating expenses	-4,561	-4,246
Expenses/income from the impairment of financial assets	-248	-255
Other taxes	-5	-2
<b>EBITDA*</b>	<b>-542</b>	<b>4,880</b>
Depreciations and amortisations	-783	-678
<b>Earnings before interest and taxes (EBIT)</b>	<b>-1,325</b>	<b>4,202</b>
Financial income	116	130
Financing expenses	-183	-118
<b>Financial income/expenses</b>	<b>-67</b>	<b>12</b>
<b>Earnings before taxes (EBT)</b>	<b>-1,392</b>	<b>4,214</b>
Income tax expenses	412	-1,167
<b>Profit / loss for the period = Total comprehensive income</b>	<b>-980</b>	<b>3,047</b>
<b>Earnings per share</b>		
Undiluted earnings per share	-0.12	0.38
Diluted earnings per share	-0.12	0.38

\*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
<b>Balance as of 1 January 2021</b>	8,038	20,181	-5,049	23,170
Annual profit/loss	-	-	2,437	2,437
<b>Total comprehensive income for the period</b>	-	-	<b>2,437</b>	<b>2,437</b>
Merger effect	-	-	-132	-132
Capital increase	19	29	-	48
Share-based payment	-	29	-	29
<b>Balance as of 31 December 2021 / 1 January 2022</b>	<b>8,057</b>	<b>20,239</b>	<b>-2,744</b>	<b>25,552</b>
Profit / loss for the period	-	-	-980	-980
<b>Total comprehensive income for the period</b>	-	-	<b>-980</b>	<b>-980</b>
Share-based payment	-	3	-	3
<b>Balance as of 30 June 2022</b>	<b>8,057</b>	<b>20,242</b>	<b>-3,724</b>	<b>24,575</b>

## Cash flow statement

in EUR thousand	01/01– 30/06/2022	01/01– 30/06/2021
<b>1. Cash flow from operating activities</b>		
<b>Earnings before taxes</b>	<b>-1,392</b>	<b>4,214</b>
+ Depreciation, amortisation and impairments	+783	+678
+/- Increase/decrease in provisions	+21	+37
+/- Other non-cash expenses/income	+19	+19
+/- Decrease/increase in inventories, trade receivables as well as other assets not allocated to investment or financing activities	+373	+1,662
+/- Increase/decrease in trade payables as well as other liabilities not allocated to investment or financing activities	-3,632	+24
+/- Financial result (interest expenses and income)	+67	-12
+ Interest received	+116	+130
<b>Cash flow from operating activities</b>	<b>-3,645</b>	<b>+6,752</b>
<b>2. Cash flow from investing activities</b>		
- Cash payments made for investments in intangible assets	-122	-44
- Cash payments made for investments in property, plant and equipment	-50	-333
+ Cash payments received from the disposal of financial assets	-	+938
<b>Cash flow from investing activities</b>	<b>-172</b>	<b>+561</b>
<b>3. Cash flow from financing activities</b>		
+ Cash payments received from equity injections	-	+48
+ Cash payments received from financial liabilities	+1,296	+3,630
- Cash payments made from the redemption of financial liabilities	-1,270	-1,150
- Cash payments made from the redemption of lease liabilities	-412	-484
- Interest paid	-183	-118
<b>Cash flow from financing activities</b>	<b>-569</b>	<b>1,926</b>
<b>Net increase in cash and cash equivalents</b>	<b>-4,386</b>	<b>9,239</b>
Cash and cash equivalents as of 1 January	19,868	8,305
Effects of exchange rate changes on cash and cash equivalents	-12	-13
<b>Cash and cash equivalents as of 30 June</b>	<b>15,470</b>	<b>17,531</b>

## Notes

### General disclosures

Vectron Systems AG, Münster, prepared interim financial statements for the first half of 2022 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 24 "Interim Financial Reporting". These interim financial statements therefore should be read in conjunction with the single financial statements of Vectron Systems AG for the financial year ended on 31 December 2021. Vectron Systems AG prepares and publishes its financial statements in euros.

The abbreviated interim financial statements and management report as of 30 June 2022 were neither checked nor audited by an auditor.

### Summary of key accounting policies

The accounting policies applied in the interim financial statements as of 30 June 2022 primarily correspond with those applied in the single financial statements at the end of the past financial year, except the accounting policies that are relevant to be applied for the first time in financial year 2022 as well as the addendum stated in the section on share-based payments. As reported in the single financial statements at the end of the past financial year, the accounting policies to be applied for the first time in financial year 2022 do not have any material effects on the financial statements of Vectron Systems AG.

### Material estimates and accounting estimates and judgements

When preparing the interim financial statements, a certain amount of assumptions have been made as well as estimates. These assumptions and estimates are based on premisses originating from the currently available information. The actual figures may differ. Any material uncertainties arising from the COVID-19 pandemic and the war in Ukraine were taken into consideration in estimates and discretionary decisions. There are currently no risks of major adjustments to the measurements of the recognised assets and liabilities in the second half of financial year 2022.

## Share-based payment

Employee option plans were discussed in detail in the single financial statements of Vectron Systems AG as of 31 December 2021. In addition to share-based payments that are settled with equity instruments, share-based payments with cash compensation also exist for one member of the executive board since financial year 2022. Under this programme, virtual shares are issued each year at a fixed amount, which are paid out after four years. The liabilities from this remuneration programme are recognised in employee benefits and remeasured at fair value on each balance sheet date. The expenses are recognised in personnel expenses over the vesting period. In the first half of 2022, personnel expenses amounted to EUR 6 thousand.

## Subsequent events

Subsequent events include the continuation of the Coronavirus pandemic and the war in Ukraine. The management report discusses this in detail in the forecast report.

Jens Reckendorf, co-founder and CTO of Vectron Systems AG, informed the company's supervisory board that he wishes to retire as a member of the company's executive board on health grounds. Mr Reckendorf and the supervisory board agreed to terminate his employment contract as of 30 September 2022. Jens Reckendorf will continue to advise the company in the future. Mr Reckendorf renounced his shares in Vectron Systems AG as well as his position on the executive board. The 1.53 million shares in total were acquired by Tosho Capital GmbH, a company wholly owned by his colleague on the executive board and co-founder, Thomas Stümmler. Following this acquisition, Thomas Stümmler now directly and indirectly holds 41.4 % in Vectron Systems AG.

In August 2022, the executive board of Vectron Systems AG resolved to launch the "Fit for Future" cost reduction programme. This aims to gradually increase the company's profitability over the next 12 months, despite the challenging economic environment, without stopping growth in the digital services business. The main ways of achieving this are going to be outsourcing of hardware production steps, focussing on core markets and products as well as consistent process optimisation and automation. These measures are expected to create substantial cost savings. No savings are to be implemented in central strategic areas of product development, on the other hand.

# VECTRON

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