RATING COMMUNICATION

Cerved Rating Agency S.p.A. affirms at

A3.1

the public rating assigned to **GLOBAL DISPLAY SOLUTIONS S.p.A.**

Cornedo Vicentino (VI) – Via Tezze, n° 20

Cerved Rating Agency on 23/12/2021 has confirmed the public rating A3.1 to GLOBAL DISPLAY SOLUTIONS S.p.A.

Date of first issuance of the rating: 30/12/2020

GLOBAL DISPLAY SOLUTIONS S.p.A. (hereinafter referred to as GDS, the Group) is the parent company of the same-name Group, which was formed in 2001 by the merger of CA & G ELETTRONICA, based in the province of Vicenza, and EMCO ELECTRONICS, based in London, two companies active in the field of electronics since the end of the 1970s. GDS S.p.A. has a share capital of 10 million Euro, which is managed wholly by GDS Holding S.r.l., with 50 percent of the latter attributed to the President of c.d.a. Giovanni CARIOLATO (through the financial CARFIN). The Group, now present globally with production hubs (Romania, China, and Tunisia) and with several commercial subsidiaries, is responsible for the design and production of displays for industrial applications (OEM), digital advertising and digital signage, as well as transactional printers for the banking/postal sector and LED lighting systems.

Key rating factors

The confirmation of the rating reflects the good resilience to the changed macro-sectoral conditions highlighted by the Group during 2020/2021, with the achievement of more than discrete economic results and operational cash flows that ensure the maintenance of an adequate financial balance. The same trend is expected for FY22 and the following years, also in relation to the favourable competitive position consolidated by GDS over the years, supported by a continuously evolving proprietary know-how due to the constant investments in R&D.

Positive economic results in 2020/2021 - GDS has had a considerable growth trend in recent years (revenue CAGR close to 20% in the period 2017-2020) as well as positive income results. These dynamics continued in FY20, which ended with a consolidated net profit of 2,5 million Euros on Production Value (PV) of 141,4 million Euros (+3,1% YoY) and an EBITDA margin adj of 10,8% (9,9% in FY19). The Group was able to mitigate the impact of the healthcare emergency on business volumes by diversifying its business lines and growing its geographical presence. A multinational OEM's increasing demand for control screens for intensive care and anaesthesia machines used to support Covid-19 care boosted 2020 revenues. With regards to FY21, management's forecast indicates that business will likely decrease (-8% YoY), owing to the loss of the above-mentioned extraordinary 2020 order from the healthcare sector. Margins are also expected to fall as a result of the lack of savings in FY20 (i.e., redundancy payments, trade fairs, travel expenses) and the rise in the cost of raw materials, freight, and energy commodities, which will only be partially passed on to end customers, EBITDA margins are expected to fall, with an EBITDA margin that will in any case remain at fair values (≈10%). Cerved Rating Agency believes that these outcomes are attainable, even in light of the interim data that will be released in 3Q21.

Maintaining a good financial balance - GDS is able to generate significant cash flows through operations (average Net Operating Cash Flow in the three-year period 2018/2020 of over €9 million), thanks to healthy margins and, most importantly, a working capital management strategy that is not penalized by a sufficiently balanced monetary cycle. As a result, despite the customary significant capex (mainly attributed to R&D operations, which resulted in the capitalization of expenditures totalling 17.1 million euros over the last three years), the Group continues to be characterized by an adequate financial balance. The adjusted Net Financial Position (NFP adj) at the end of 2020 of 22 million euros (22.1 million euros at the end of 2019), which includes 253 thousand euros in lease payables and 2.1 million euros in payables to the holding company. The NFP adj/EBITDA adj=1.4x (1.6x at the end of 2019) and NFP adj/PN adj=0.6x (0.6x at the end of 2019) ratios indicate that leverage is broadly sustainable. A NFP of roughly €25 million is expected by the end of 2021, a higher value than previously predicted due to the necessity for increased raw material stockpiles, with overall debt being in line with the current risk profile. GDS has consolidated its financial obligations on an M/L basis in recent years, both through the issuance of a new bond for a total of €10 million and through other means ("Euro 10,000,000.00 4.55 % Fixed Rate Notes due 31 December 2024" - ISIN: IT0005394447), replacing the existing one repaid in December 2020, and thanks to the use of secured bank loans as provided for by the post-Covid Government Decrees (a total of €6 million in 2020 and a further €15 million in FY21). Important contributions were also made by institutional investors such as MCC, SIMEST and FINEST (the latter two supporting the internationalization of the Group's business).

Development strategies and expected results - The assumptions underlying the 21-25 Plan outline a path of organic growth for the Group. More specifically, the strategies envisage: (i) a progressive rationalization and streamlining of the structure, with the consolidation of production in Romania, China and the new hub in Tunisia (operational from FY22); (ii) growth in strategic sectors such as digital signage and digital advertising (with a focus on the "transport", "quick service restaurants" and "smart cities" markets) and development of the LED lighting business, areas penalized in the two-year period 2020/2021 by the mobility restrictions imposed by the health emergency; (iii) consolidation in the core-business Smart Interfaces & OEMs also through the expansion of the OEM customers served; (iv) a strengthening of exports, also thanks to the adoption of resources intended to research and develop business opportunities in new foreign markets. Based on these assumptions, a progressive improvement in economic outcomes is projected over the reference period, with a notable business recovery (revenues of ≈ €130 million euros) and margin growth beginning in FY22. However, in the short/medium term, the real impact of a shortage of some raw materials (i.e., semiconductors), which GDS has managed so far by preparing higher preventive stocks, as well as the increased trend in procurement costs, must be assessed. From a financial standpoint, no changes are foreseen in DSO and DPO, with an NFP trending downward (especially in relation to stock re-absorption beginning in late 2022) despite capex (R&D and expansion/maintenance of the production structure) that will remain significant.

RATING SENSITIVITY

- No positive rating actions are expected in the short term.
- Il rating di GDS potrebbe registrare un downgrade a fronte di: *(i)* deterioramento delle marginalità e dei flussi di cassa; *(ii)* appesantimento dell'assetto finanziario (PFN adj/EBITDA adj≥2,5x e/o PFN adj/PN adj≥1,0x).

The applied methodology is published on Cerved Rating Agency's website: www.ratingagency.cerved.com

Lead analyst: Tiziano Caimi – tiziano.caimi@cerved.com
Rating Committee Vice Chairperson: Elena Saporiti – elena.saporiti@cerved.com