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 21/12/2023 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. (GDS or the Group) is the parent company of the Group of the same name, established in 2001 through the merger of Vicenza-based company CA & G ELETTRONICA with the London-based company EMCO ELECTRONICS, companies operating in the field of electronics since the end of the 1970s. GDS S.p.A. has subscribed and paid-up Share Capital of EUR 10 million, and is fully controlled by GDS HOLDING S.r.l., the latter 50% owned by the Chair of the Board of Directors Giovanni CARIOLATO (through the holding company CARFIN). The Group, currently present at global level both with production hubs (Italy, Romania, China and Tunisia) and with various sales branches (a legal entity was recently established in Australia), designs and manufactures displays for industrial applications (OEM), digital advertising and digital signage, as well as transactional printers and digital scanners for the banking/post office sector and LED lighting systems.

RATING FACTORS

The confirmation of the rating reflects: (i) GDS' ability to operate successfully in the reference sector, with a brand and *know-how* appreciated and recognised on a global scale; (ii) the preparation of structured governance capable of effectively managing the growth path mapped out, with a growing focus on the sustainability of the business both from a social and environmental point of view (ESG factor); (iii) the resilience in the last three years to the changed macro-sector conditions, also favoured by a strategic repositioning on markets and customers characterised by greater profitability; (iv) the maintenance of a sustainable level of leverage despite the contingent growth in working capital and the significant investments implemented. The Plan outlines a path of organic growth for the medium term, aimed at improving income results. A gradual reabsorption of financial debt is expected based on inventory management realigned to the track record.

Economic results in the two-year period 2022/2023 - The Group closed FY22 with a net profit of EUR 3.1 million against a Value of Production (VoP) up to EUR 148.3 million (+16.0% YoY), an adjusted EBITDA margin of 9.7% (-0.4% YoY) and a largely positive “non-recurring” balance (EUR +2.0 million), connected above all to the positive closure of an old legal dispute with a long-standing customer. The business performance: (i) benefitted from the positive performance of the “Digital Signage” (+ 15.9%) and “LED Lighting” BUs (+73.1%) against the recovery of post-Covid demand; (ii) it was, on the other hand, adversely impacted by the decrease in the “Smart Interfaces” BU (-4.8%) due to both the contingent components shortage that led to production delays, and the drop in demand for products intended for the consumer discretionary sector. The slight decrease in margins was affected by the higher procurement costs, a dynamic offset, however, by the growing weight assumed by BUs such as “Digital Signage” and “LED lighting”, characterised by higher profitability. The forecast for the end of 2023 predicts a Value of Production of roughly EUR 155 million, with a potential improvement in margins (approximately +1% YoY) in respect of: (i) the gradual easing of inflationary trends; (ii) a greater

transfer to customers of the increases incurred (price list review only took place at the end of 2022); (iii) a more favourable trend in the euro/dollar exchange rate in the procurement phase. The actual results for the first 9 months of 2023 (+10.9% of revenues compared to 9M22) appear to be in line with the objectives outlined above.

Sustainable leverage at the end of 2023 - Operations in the two-year period 2021/2022 were characterised by a significant absorption of cash in relation: (i) to the investments made (total capex, considering the capitalisation of R&D costs, exceeding EUR 21 million), relating in particular to the implementation of the new hub in Tunisia and strengthening of the production capacity in Romania; (ii) to the anomalous growth in inventories related to temporary market situations. Specifically, to overcome the growing problem of shortages as well as the delays in deliveries by some strategic suppliers, GDS had to implement a genuine strategic investment in raw materials by arranging advance purchases of the most critical materials based on customer forecasts. On the other hand, FY23 appears to be characterised, especially starting from the second half of the year, by a normalisation of the distorting dynamics impacting procurement, with inventories that, after peaking in September 2022, first stabilised and then showed an initial reabsorption. This would result in a more favourable flow trend, despite capex that remains significant (EUR 9.4 million). The adjusted Net Financial Position (adj. NFP) at the end of 2023 should not show significant deviations compared to the value as at 31 December 2022 (EUR 41.2 million), with an improved leverage ratio (≈2.5x) in line with the current risk profile.

Development strategies and expected results: The assumptions of the 2023/2026 Plan outline a path of organic growth with strategies geared towards: (i) rationalisation/streamlining of the structure, with the consolidation of production in Romania and in the new hub in Tunisia and an increasingly globalised commercial presence; *(ii)* growth in "digital signage" (with a focus on the transportation segment and development of smart cities,) in "LED lighting" and in "printing" (focus on digital scanners); (iii) a growing strategic positioning on markets and customers with higher margins, with a greater focus on the end user and a reduced dependence on a few individual large OEMs. The BP expects conservative business growth (CAGR for the period of more than 3%), accompanied by a progressive improvement in margins (with a double-digit EBITDA margin starting from FY24) favoured: (i) by the normalisation of inflation dynamics; (ii) the growing weight of BUs characterised by greater profitability; (iii) the conclusion of a contract with reduced margins; (iv) increasing coverage of structural fixed costs. At the financial level, the BP assumes more robust cash flows against the normalisation of inventories, while the capex is expected to remain stable at significant values (EUR 28 million in the three-year period 2024/2026 divided evenly over the three years). Consequently, a gradual reduction in financial debt is indicated, with a NFP/EBITDA *ratio* below 2.0x at the end of 2024. The NFP will also benefit from the availability of significant tax credits already certified (EUR 5.9 million as at 30 September 2023) which will be offset against future tax payments.

RATING SENSITIVITY

- The GDS rating could be upgraded due to: (i) the full achievement of the economic targets for FY24, with a double-digit adjusted EBITDA margin; (ii) the achievement of a leverage ratio of less than 2.0x.
- GDS' rating may be downgraded in the event of: (i) a deterioration in margins and cash flows; (ii) a burdening of the financial structure (Adj. NFP/*adj.* EBITDA ≥3.0x).

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

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