

SPEECH

on the occasion of the Annual Shareholders' Meeting
of INDUS Holding AG on May 17, 2023

Chairman of the Board of Management Dr. Johannes Schmidt

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The spoken word shall be binding.

Dear shareholders,
friends of INDUS and
members of the Supervisory Board,

Welcome to Cologne. We promised that we would organize an in-person event as soon as possible, so we are delighted that we are able to keep this promise today. Walking through the exhibition and sitting here in this hall, you could be forgiven for thinking that nothing has changed. But it has. A lot has changed over the last three years. Including at INDUS.

The terrible war in Ukraine is still ongoing. We are seeing destruction and immeasurable suffering right in the heart of Europe. People are seeking safety – many of them here with us. In light of this, things that are not directly existential seem quite trivial. The coronavirus pandemic seems long ago.

Our political and economic environments are in permanent crisis mode. We have to deal with it. And we can deal with it.

What are the big topics we're focusing on?

Materials and energy prices have risen sharply. We have high rates of inflation. Interest rates are following suit at a rapid pace. Companies are more cautious about making investments. There's a shortage of labor. Mr. Abromeit has already touched on the technological changes.

How are our companies dealing with this?

They are looking for solutions. They are finding new products. Products that save on materials and energy. They are switching to renewable energies. And to technologies that conserve resources. They're training personnel. They're making the most of automation. Or they're focusing on solutions that involve a combination of people and machines.

When we look at our portfolio, the situation is much better than the mood. I don't want to sugarcoat anything. But we should acknowledge that, despite the difficult conditions, there are plenty of positives to report.

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Ladies and Gentlemen,

We have used the times of crisis to have a clear-out. We have identified opportunities and realigned ourselves. We have refined our strategy.

With our three new segments, we are focusing on what we do best – highly specialized industrial technology. We have a broad range of expertise in this area. We know how we can make money here. Everything else we won't be touching from now on. We want to invest our energy in the future. We're focused on looking forward – and making a fresh start.

So far, we were primarily a broadly positioned long-term financial investor – with five segments. Now, we are operating as a holding company with a clearly defined technological focus – with three segments.

We will develop our portfolio companies. We will acquire two to three companies a year. We will draw on the future fields we have identified for ourselves to provide direction. There are attractive and innovative market niches to be tapped. And that in turns means plenty of potential.

We had to create the right foundation for this fresh start, particularly in 2022 – and so have decided to sell the automotive technology series suppliers. We dissolve the segment. It reported heavy losses again last year.

1. Accountability Report (2022)

The signs can be seen in our 2022 consolidated financial statements. We have split our portfolio into continuing operations and discontinued operations. The companies SMA, SELZER and SCHÄFER have been allocated to discontinued operations. This necessitated considerable non-cash impairments. The earnings after taxes from the discontinued operations are now presented under a separate item in the statement of income under earnings after taxes from continuing operations. This means we can make a fresh start from the 2022 consolidated financial statements onward.

If we look at the continuing operations, it becomes clear just how strong our portfolio already was in 2022 without the long-standing problematic companies.

The 45 portfolio companies increased sales by more than 10 percent. Organic growth amounted to around 8 percent. Operating income before impairment rose to more than 176 million euros.

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The corresponding EBIT margin was almost 10 percent, despite the higher costs. Our operational performance was strong.

The less positive news:

Following impairment testing, we had to recognize impairment of 42 million euros in continuing operations. The reason for this was the high cost of capital as a result of a sharp increase in interest rates and budget reductions in some areas. EBIT after impairment therefore declined to 134 million euros.

Continuing operations generated earnings after taxes of approximately 73 million euros. Discontinued operations recorded a high loss of around 124 million euros. In total this led to a loss of 51 million euros.

We have no intention of repeating this result.

The deconsolidation of SMA in October 2022 means an end to losses from that company. Following the sale of SELZER and SCHÄFER, planned in the coming months, we also won't be subject to any negative impacts from those companies either. We are aiming to be done with the sales by the end of 2023 at the latest. But I'm very confident that we won't need that long.

Ladies and Gentlemen,

We didn't take these decisions lightly. We are an investment company dedicated to buying and holding hidden champions among SMEs in the industrial sector – in order to develop them in a way that adds to their value. We put great effort into guiding companies that are facing difficulties back onto the right path. This is part of our DNA and what we do. It is what our employees expect of us. It is everything we stand for. That's why we hesitated. But it was clear that we couldn't carry on like this. For your sake and for ours.

However, it wasn't just about getting rid of the loss-making companies. Our focus was on finding out where the best opportunities for INDUS' future lie. And how we could make the most of them. The result is our strategy update PARKOUR perform.

The substance carried over into the new positioning can be seen by looking at the segments in the last year.

I'll be looking at the figures before impairment. This will give you a clear picture of the operating performance of the continuing operations.

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The Construction/Infrastructure segment recorded a double-digit increase in sales. With the acquisition of WIRUS in 2021 we did exactly the right thing. Operating income rose slightly in comparison with the previous year. Despite the increase in the cost of materials, the EBIT margin came to 14%.

The Automotive Technology segment also grew organically. We have to offset the loss in sales from the sale of WIESAUPLAST in 2021. The portfolio companies SMA, SELZER and SCHÄFER are no longer included in this segment as a result of their reclassification to discontinued operations. The remaining companies generated an operating loss of 8 million euros. Why is that? We are still facing bottlenecks in the supply of semi-conductors. The Russian business has broken away permanently. And a customer's series production start-up in the field of electric buses has been delayed. We anticipate clear improvements here in 2023. The Automotive Technology segment was dissolved at the beginning of 2023. We have assigned companies active in the future fields of climate and measuring technology to the new segments of Infrastructure and Engineering. Two portfolio companies with a high level of expertise in metals have been assigned to the Materials segment.

Engineering – the segment with the strongest sales – recorded the highest increase in sales with growth of more than 21%. Four new acquisitions since 2021 contributed to this result. The EBIT margin reached a very encouraging level.

Sales increased slightly in the Medical Engineering/Life Science segment. The EBIT margin declined, however. Our portfolio companies were not able to fully pass on the increase in the cost of materials. The EU Medical Device Regulation resulted in more red tape. And a product relocation initially resulted in extra costs. The portfolio companies have now been assigned to the new Materials segment. With their high levels of materials expertise in medical aids and consumables, they are a perfect fit for the segment.

The Metals Technology segment was also able to increase sales. The EBIT margin rose to 11%. In 2021 we reacted to a false development with this segment. We have discontinued the former problematic company BACHER. This is now reflected in improved figures.

Ladies and Gentlemen,

In 2022, business activities throughout the INDUS Group picked up. The portfolio companies countered materials shortages and steeply rising materials prices with higher inventory levels.

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This led to an increase in working capital and lower operating cash flow. Nevertheless, free cash flow, which I'll come back to, amounted to around 102 million euros.

We have invested approximately 113 million euros in the portfolio. This includes the purchases of HEIBER + SCHRÖDER and the HELD Group. Both will boost the new Engineering segment.

As of the reporting date, total assets amounted to 1.89 billion euros.

The equity ratio came in below our target of 40%. This is due primarily to impairment in discontinued operations – as well as impairment resulting from impairment testing in continuing operations.

At around 128 million euros at the end of the year, cash and cash equivalents are again at a robust level.

The repayment term, which is the rate of net debt to EBITDA, is again within the target range.

We do business sustainably: In the past financial year, our portfolio companies were able to reduce their greenhouse gas emissions intensity by around 19%. The companies are optimizing processes in order to lower energy consumption. And – wherever possible – replacing fossil fuels with renewable energy sources. We are providing support with our sustainability development bank. Last year we approved six projects. These included the installation of PV plants, the installation of energy-efficient cooling systems and the conversion of a steam generator to non-fossil energy sources.

I'd like to take this opportunity to sincerely thank all employees in the portfolio companies and the holding company on behalf of the Board of Management. They generated these good operating figures. They have always ensured that INDUS stands tall, no matter what the circumstances. Almost all managing directors of our portfolio companies are here today, too. I'd also like to thank them for their commitment.

2. Strategy Update

Ladies and Gentlemen,

Last year we laid the foundations. And now we will carry on along this path.

[*\(link\) strategy film*](#)

How exactly do we intend to reach our targets?

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Allow me to elaborate on the core elements of our strategy update:

With the new segment management we have redistributed responsibilities in the Board of Management. From now on, one member of the Board of Management will be responsible for one segment. This not only means closer support, but also that one member of the Board of Management is responsible for the results in their segment. At the same time, the entire Board of Management will be responsible for the success of the Group.

It goes without saying that we will:

... update the M&A strategy to include future fields together,

... consistently pursue the strategic initiatives together,

... and finance the performance of our portfolio companies together.

We will continue to push innovation forward – both for products and for processes.

We will improve performance by maintaining operational and market excellence.

And we will continually strive for sustainability.

Our motto in the future will remain “buy, hold & develop”. However, we will react faster in the future when we cannot help a portfolio company to develop further. That is a promise. What happened in 2022 should never happen again.

Axel Meyer is responsible for the Engineering segment. He is currently responsible for 16 portfolio companies in the fields of automation and robotics, sensor technology, measuring technology and control engineering, and specialized mechanical engineering and equipment manufacturing. These companies’ sales amounted to 581 million euros last year. In addition to automation, sensor and measuring technology, future growth drivers will also be energy technology and logistics.

Dr. Jörn Großmann is responsible for the Infrastructure segment. This segment includes companies from the fields of construction and building technology, telecommunications infrastructure, and air-conditioning technology. The 14 portfolio companies’ sales amounted to 586 million euros. Future fields are infrastructure networks, infrastructure buildings, and technology for higher energy efficiency.

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In addition to my role as CEO, I am currently also responsible for the Materials segment. The 15 companies currently in the segment generated sales of 637 million euros. The segment includes companies with a high level of expertise in processing materials. This includes metal forming and processing, as well as the manufacture of carbides and blasting agents, for instance, in addition to medical consumables and aids. Here, the future fields include the circular economy and waste management, along with agriculture and the food industry.

As Mr. Abromeit has already mentioned, I won't be covering two roles for much longer. With the growing number of portfolio companies, the Materials segment will require its own Board of Management member.

Speaking of growth drivers, I'd like to highlight the many positive aspects of our portfolio: It brings together hidden champions that are already enjoying great success in the defined future fields. I'd now like to invite two managing directors to the stage that exemplify these strong areas.

I'd like to ask Mr. Fuhrmann from GSR and Mr. Ruoff from WIRUS to come to the stage. You've already had the opportunity to marvel at GSR's work in the exhibition downstairs.

Live-Talk

Thank you, gentlemen, for the overview. Almost every company in the INDUS Group has examples of innovation like this. We will continue to actively support innovative work with our new segment management.

Ladies and Gentlemen,

Separated from segment management, we have the central functions that Mr. Weichert and I are responsible for. Mr. Weichert will focus solely on financing from now on. The work in this area is becoming increasingly complex. My core tasks will range from the systematic implementation of the strategy to managing M&A activities and the Group's external communications.

Starting immediately, free cash flow is an important additional key control variable. It will provide our shareholders with a high level of transparency regarding our ability to generate cash. Free cash flow is what enables us to pay dividends. It also gives us the flexibility to make acquisitions. It finances interest payments and the repayment of net debt.

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Ladies and Gentlemen,

With PARKOUR perform we have our sights firmly set on our medium-term goals. By 2025 we intend to achieve sales of well over 2 billion euros – despite the fact that we have or will have parted ways with three companies. The EBIT margin should once again be reliably over 10%. We aim to make continual dividend payments to ensure shareholder satisfaction. 2025 is not far away. Our targets are ambitious, but we are on the right track.

3. Forecast

Speaking of targets ... you're probably interested in how the year started for the Group. In short: somewhat better than expected.

Sales rose by a good 8% in the first quarter. The EBIT margin came in at 9.9%. We will have to keep a close eye on developments in the Infrastructure segment. The economy in the construction sector has slowed noticeably. The Engineering and Materials segments are both performing well. That covers the continuing operations.

The discontinued operations have had a negative impact on the results for the quarter with an after-tax loss of around 9 million euros. The Group's earnings after taxes totaled 16 million euros.

In addition to first-level growth acquisitions, we are also constantly on the lookout for complementary additions. A good example is the purchase of QUICK Bauprodukte at the beginning of the year. QUICK perfectly complements the product range of our portfolio company BETOMAX in the field of bridge construction and will be a great asset.

All in all, a pleasing start to the 2023 financial year.

Despite all this, we mustn't forget the general conditions: The global situation has not improved. The war is ongoing. Capital procurement costs are high. We are still living with the risk of a recession.

SMEs in particular, however, are displaying their great ability to adapt and overcome. This also applies to us. With the strategy update we have a clear plan to follow. And a clear view of the earnings prospects. In the future, the focus will be less on the range of the portfolio and more on the momentum in the fields of expertise. It is about making the most of opportunities and making our strengths clearly visible.

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We anticipate a sales increase to between 1.9 billion and 2.0 billion euros for the 2023 financial year. We are cautiously optimistic about the operating income due to the general conditions. We are aiming for 145 million to 165 million euros.

We intend to invest around 85 million to 95 million euros in the Group in 2023. Plus another 40 million euros for acquisitions.

Ladies and Gentlemen,

Our confidence is reflected in our dividend proposal: The work undertaken to clear out the portfolio and the rise in the cost of capital led to considerable negative non-cash impacts in 2022. Nevertheless, we intend to let our shareholders participate in our solid operating performance. Especially as we are optimistic about the future. We have the earnings power and can afford to pay a dividend. That is why the Board of Management and the Supervisory Board recommend a dividend of 80 cents per share. This equates to a dividend yield of 3.6%.

Dear shareholders,

I'd like to say a few words about agenda item eight. This item on the agenda deals with the authorization of the Board of Management to issue bonds with warrants, convertible and profit-participating bonds as well as profit-sharing rights or combinations of these instruments with the option of excluding subscription rights.

Why is this necessary? Should the right capital market conditions occur, we want to be able to take out financing flexibly and quickly and tap into new investor groups.

In our invitation, we described the details of the authorization in detail, including the three possible cases for an exclusion of subscription rights – and we explained the details of the related new Contingent Capital 2023.

Before I wrap up here, I'd like to thank the entire Supervisory Board most sincerely for their cooperation over the last year. We had difficult decisions to make. The Supervisory Board supported the Board of Management in intensive discussions and with their critical advice.

I'd especially like to thank Dr. Allerkamp and Mr. Späth, who will be leaving the INDUS Supervisory Board. They have been a part of my journey with INDUS for a long time. I was always happy to have them by my side – especially in the difficult years.

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I'd also like to say a heartfelt thank you to Mr. Trinogga, one of the first employee representatives on INDUS' Supervisory Board.

And welcome to the new, already elected, employee representative, Mr. Müller. Here's to some successful collaboration.

Dear Mr. Abromeit, dear Supervisory Board members – together we have created the framework for picking up and continuing the successes of the last decade. We will show you, our valued shareholders, that we can lead INDUS to new strengths from this turning point.

I'd like to thank everyone who has remained with us for their loyalty. And thank you for joining INDUS on its onward journey.

I'll now hand the stage over to you, Mr. Abromeit.