

Letter of the President

Dear Shareholders,

the year just ended has been a year of transition in terms of financial results: we have seen a recovery in gross profit and a significant improvement in gross operating profit at constant revenues, although we are not yet back to profit.

But I would like to give visibility to what has been done and that the numbers still don't show. Using the metaphor that compares knowledge to potential energy and results to kinetic energy, I would say that in 2015 we still continued to accumulate a lot of potential energy, which is ready to be transformed into kinetic energy as soon as the market demand will begin to show its effects.

Like never before, in the first three months of 2016 we announced agreements, partnerships, awards, all related to the building of an ecosystem around our hardware, software and services offering for the Internet of Things (IoT), and in particular for the Industrial IoT. By leveraging our hardware technologies we have developed a very competitive family of IoT gateways that allow to make the first transformation of the signals coming from the machines or from the real world into internet streams, which are sent by these IoT gateways to a platform in the Cloud, very innovative easy to use, which will allow our customers to address the digital transformation of processes and business models in a smooth way, without forcing them to acquire specific knowledge or allocate large investments. This digital transformation is known as the fourth industrial revolution and is based on the real-time availability of data produced by all the different departments of a company and by the products once installed and in use.

Given the variety and abundance of case studies that Industrial IoT may address, during 2015 we reorganized our development and support activities so that we can complement the standard offering with a whole range of complementary professional services that allow us to accompany our clients during this digital transformation in a personalized way.

The Internet of Things, from our point of view, is the manner in which our vision of pervasive computers, that has been our distinctive mark since our inception in 1992, is finally becoming real and tangible. The IoT for Eurotech is nothing but the right mix of embedded computers – which continue to be the major source of our revenues – wireless data networks, secure and fast connection to the Cloud and a software platform (an orchestration software that acts as the IoT operating system) that allows to manage all these components. We could also say that the IoT is nothing more than a simple and cheap way to connect a large number of embedded computers (that are into things) to the Cloud. If the apex of the third industrial revolution was the Personal Computer, which made it easy to develop software and ensured its compatibility with the hardware evolution, the beginning of the fourth industrial revolution is linked to the App economy and thus revolves around platforms which enable a further acceleration of software development and a wider compatibility with different kinds of hardware. This phase, which at first glance might seem not so revolutionary, will actually generate so many data and so much ability to extract knowledge from them that this, in turn, will significantly change the efficiency of business processes, the products, the interaction between the product and its user and the business models.

In the last seven years, Eurotech has worked with passion and dedication on the creation of the key elements to enable this revolution, and everything has been fine-tuned to capture the advent of the digital transformation that will involve almost all businesses.

What is happening at CeBIT in Hanover – the global exhibition of the new digital economy – as this letter comes to you, is a clear and tangible example of what we are building: representatives of the open source community, technology partners, business partners on vertical markets, will be with us at our booth to show how an ecosystem of complementary players is growing around our horizontal platform to build IoT projects. All these players share the same vision and can mutually benefit from working together. The demonstrated applications range from retrofit of existing systems to reduce downtime with predictive maintenance, to new products improving the customer experience as well as enabling the transformation of the business model from selling the product to selling the service provided by the same product.

I often hear the question: “who will win the battle for the IoT market?”. The answer is that there will be many winners in various ways, but surely all of them will be united by having created around them an ecosystem capable of self-sustaining and able to function as a market in the market, such as a solar system within a galaxy. The impact on production processes and on the global economy of the fourth industrial revolution will be unprecedented, and also the debate at the World Economic Forum this year has focused on this issue. No organization can neglect the change taking place and this will create a very wide market space for the IoT over the next ten years: according to a recent study by McKinsey, in 2025 the IoT market will reach an estimated size between 3.9 and 11.1 trillion dollars, that is 4 to 11 times the current size of the IT services market.

After doing a bit of math, considering the most conservative forecast of 3.9 trillion dollars for the IoT market size, there will be room for approximately 10 Google, 10 Microsoft, 10 Cisco, 10 Intel, 10 IBM, 10 Oracle and 10 SAP. And this is only the pessimistic estimate.

Today all these great players are not there yet: lining up all the great names of ICT you don't count 50 of them, so even assuming that all the great players that have been dominating the ICT market since here will remain major player in the future IoT market – which is actually something not obvious – there will be room for many other new players.

It will not be necessary to be big to have a place in the market. It will not be needed to have large market shares in order to have a solid and defensible position. But as I said, it will be essential to be part of an ecosystem, and the engines of these ecosystems will become in fact the small and large market leaders.

Today we are in a first mover position that gives us two advantages: on competitors in terms of technology offerings, and for the ecosystem creation in terms of chances of attracting players with a complementary offer but a common vision of a possible future.

Several market researches highlight that one of the key issues to overcome resistance in the adoption of IoT technologies, and thus enable the transition from euphoria on a new idea to true business, is security: security on the identity of devices that generate data, security on the integrity of the device that is generating the data, safe transport of data, security of the remote access to products, systems, equipment. We do believe that the security is a key node and this is why we have invested heavily in the security of our software platform for the IoT and we are now at the forefront on this topic.

Another key aspect of our action is closely linked to the role of open standards and communities. The Linux case teaches that a freemium model – consisting of providing on the one hand free open source software and on the other hand paid premium versions, tested and guaranteed for industrial applications by enterprise vendors – is worthwhile to accelerate the adoption of a technology or a platform. This is because the removal of the adoption costs and the lock-in constraint with a producer allow free and voluntary participation to the evolution of the open platform of an entire community of experts, supporters and researchers. When companies have access to free open source solutions they are encouraged to try them, and this is why over one year ago we started with the Eclipse Foundation the open source project Kura, compared to which our Everyware Software Framework (ESF) is the freemium version. KURA and ESF provide the necessary software modules for the realization of an IoT gateway from any hardware as long as suitably dimensioned in speed and memory. In this manner an innovative Software Defined Gateway for the IoT has been made and the working group that has been created around the open-source project Kura is the one that last year has had the highest growth rate. Moreover, Kura is the most successful IoT project within Eclipse in terms of contributions received by the developers community.

As we work to build the ecosystem, we continue to work to maintain a leadership position also in embedded high performance systems, the so-called HPEC (High Performance Embedded Computer) for which demand begins to be felt in areas such as the management and processing of high-definition images, both in civil and medical; the processing of large amounts of data in cybersecurity; the high-speed processing in fields such as artificial intelligence and deep learning. As in the nineties the PC has replaced the microcomputer, so now in the era of smartphones and tablets the Personal Supercomputer will replace the PC. Given that these new promising scenarios are increasingly materializing, we have decided to increase the focus of the Group and thus the management buyout of the security, surveillance and traffic business line should be seen in this perspective.

With this spin-off, in addition to a capital gain of 1.7 million Euros, we obtain a focusing on embedded PC and embedded HPC with a neutral stance on the offer of horizontal platforms. We continue to vigorously pursue our initial mission, which is to provide components and technology solutions that enable our customers to reduce time to market and total cost of ownership. With the latest technologies developed these advantages are much more obvious than in the past and this will then also give us a greater competitive advantage.

To conclude, we are well equipped to face in the best possible way an organic growth path and we are determined to reap the fruit of our labour.

14 March 2016

signed
Roberto Siagri
President & CEO