

Letter from the Chief Executive Officer

Dear Shareholders,

2019 closed with excellent results, of which we can be proud. All the economic and financial parameters reached record values: turnover exceeded the threshold of 100 million euros, Ebitda more than doubled compared to 2018, reaching an incidence on revenues of 20%, and - thanks also to the positive tax effects due to previous losses - we reached a net profit of 19.2 million euros. The excellent margins achieved in the period are the result of the fables model adopted and therefore of the possibility of having a lot of operating leverage, which had already been seen in 2018 and which, as turnover increases, allows the first margin to be transformed into Ebitda with a minimum increase in operating costs.

The cash generation from operating activities net of investments also more than doubled in 2019 compared to 2018 and allowed us to bring the financial position to a net positive cash of €12.2 million, which without the effects of the new IFRS16 accounting principle would be €16.2 million. Moreover, we grew by reducing the ratio of net working capital to turnover, which fell from 20% in 2018 to 15%.

Although we have not imagined the recent evolution of the economic environment, in the year just ended we have in fact prepared ourselves on the financial side to better face both the opportunities and the threats that may arise this year on our route.

The year 2020 starts with many uncertainties on the world economy because of the fears of the Covid-19 pandemic. It is too early to draw any conclusions about how the year will develop and much will depend on the length of the restrictions on activities and on movement of people. As I write this letter to you, I can just assume that there will be negative impacts in the first and second quarters of the year. If we can't do anything to change the scenario, we can still be agile and proactive in taking actions that can increase our resilience, and so this situation pushes us to look for customers with fast Time-To-Market. In this regard, the HPeC (High Performance edge Computer) product line lends itself well to the case as the type of early-adopter customers to whom it addresses feel the need to use these products as soon as possible to test their potential in research projects and pilot projects; in the Age of Autonomy to compete more there will be a need to compute more and the most visionary companies are already moving in that direction.

HPeC are therefore a product line on which we are focusing in this historical phase in which the Artificial Intelligence paradigm at the periphery is emerging strongly, creating the demand for a category of edge computers that is the mobile Data Center (the one we have renamed "nanoDC"). In this category Eurotech has a family of cutting-edge products: these are liquid-cooled miniaturized super computers that replicate the capabilities of a Data Center in a tenth of space and that can operate under stressful conditions. These nanoDCs are used for example to run demanding Artificial Intelligence algorithms (known as deep-learning algorithms) in the research for the fully autonomous level 5 car. In addition to applications in autonomous driving these HPeCs are now being evaluated for applications in the field of collaborative robotics for the factory of the future, where robots will need to be context-aware and work in symbiosis with humans.

Revenues pertaining to the Internet of Things (IoT) sector continued to grow in 2019, but above all we secured important new references from clients who chose our IoT platform and our IoT gateways to digitize their assets. At this stage, when the majority of the industrial IoT market concerns projects to connect existing assets – the so-called brownfield - our hybrid positioning between Operational Technology (OT) and Information Technology (IT) and our offer of integrated hardware and software give us an edge over players offering only hardware or only software.

Our position among the technology leaders in the Industrial IoT landscape is increasingly visible, as evidenced by the recent award given by Frost&Sullivan to our IoT platform Everywhere Cloud. Eurotech

is among the 30 of the more than 400 analyzed companies admitted to the "Growth, Innovation & Leadership Frost Radar" for their ability to "consistently develop new growth strategies based on a visionary understanding of the future".

We expect to continue to accelerate growth in IoT in 2020, with more and more customers starting to move from the POC (Proof Of Concept) or pilot implementation phase to the mass production phase, all to the benefit of the growth in sales and margins of this business line.

During 2019, the Group continued its strategy of investing in product portfolio innovation, both in hardware and software. The investments aim to give continuous improvements to the three product lines: the traditional Embedded PC line, the High Performance edge Computers line and the Industrial IoT line. These investments serve to keep Eurotech among the technological leaders within the Edge Computing paradigm, which is born from the convergence between OT and IT and is the natural evolution of embedded computers driven by the pervasive availability of internet connectivity, the demand for cybersecurity typical of always online devices and the paradigm of distribution of intelligence on multiple levels, both at the centre and at the periphery. This new category of computers includes IoT gateways and high-performance edge computers, while software platforms for IoT are the bridge to exchange data from the periphery to the centre and vice versa. All these developments are taking us fully into the new era of digital transformation and more precisely into the Age of Autonomy, in which investment in Industry 4.0 will flourish.

The current trend is clear and demonstrates the need for companies to invest in digitalisation. Digitalisation not only enables more efficient and less wasteful processes, but it is also the basis for the transformation of companies' business models from linear to circular. This transformation is the basis of a new phase of capitalism that is highly sustainable and will also mark the transition from the product economy to the service economy. The digitization of all things requires IoT, and the data produced by IoT feeds Artificial Intelligence. Eurotech has in its portfolio the basic HW and SW components that allow to face the ongoing transformation with low initial investments and strong and credible responses on cybersecurity, which according to many studies is the first blocking factor for Industrial IoT projects.

Despite the short-term negative effects of Covid-19, I expect companies to continue to invest in their digital transformation in 2020. Incidentally, it is precisely in times of crisis such as those we are experiencing in this period that it is digitalisation that can support remote working and if factories were more digitalised and automated, the Covid-19 crisis would have been even easier to deal with.

In order to become more and more technology and market leaders in the ongoing transformation we continue to expand our ecosystem of both technology partners and system integrators. In this way it will be easier to reach a wider base of customers and give them an increasingly complete offering, keeping both our focus and that of our partners. Eurotech's portfolio of technology components for Industry 4.0 has been designed to be modular in order to enable the activation of these ecosystems, even with companies that in the past were only direct competitors. In this regard, the open-source model adopted in building the software components for IoT is highly appreciated and is a catalyst for the ecosystem approach. We have thus moved from competition to co-opetition, with greater benefits for all.

In summary, 2019 continued to demonstrate that the efforts made in innovating our product portfolio have not only begun to bear fruit, but are also positioning Eurotech among the market leaders in

Industry 4.0 and digital business transformation. The IoT and AI markets in the industrial sector are only just beginning to emerge and we are only seeing the tip of a very large iceberg in economic terms.

To conclude, having adopted an open innovation model for software components and a mostly fables production model for hardware components makes us lean and allows us to have an organization that can scale the size of the business in a more agile way. Many challenges remain to be overcome, which are those I mentioned last year as well, namely the full activation of new service models with recurring revenues, the expansion of the ecosystem of partners and the search for new human resources with the appropriate technical skills.

I am convinced that Eurotech has what it takes to face the coming years with optimism, now more than ever, given the important customers who have chosen our technologies and who are confirming the validity of the investments made and the comeback on cash generation at the expected levels.

2020 will be a year of transition due to the current events, which are likely to slow down our pace in the short term but should also create more opportunities in the medium and long term since digital transformation is the best antidote for companies to recover profitability: with a metaphor we can say that the safety car has appeared on the track of the world economy, but the competitive potential of the Eurotech machine remains unchanged.

13 March 2020

signed
Roberto Siagri
President & CEO