

# MESSAGE FROM THE GENERAL MANAGER

## 1. Who are we, who is Roc1

Roca Industries HoldingRock1 is an **operational holding** that implements an **active management model** in its portfolio companies. The position of Active Management provides that:

- **We undertake and contribute to the portfolio companies' objectives**, we understand and approve the tactics for achieving the objectives, together with the management teams of each subsidiary;
- We ensure or facilitate **centralized expertise**, where it does not yet exist at company level or its specificity does not justify the need for a position in the company;
- **We share responsibility** for the result and enjoy together the success of the path we believe in as a team;
- **We are building a culture of partnership**, where the values are part of the company's foundation and guide our strategic and execution approach.



**The holding adds value** to each company both through its own expertise, through the facilitation of expertise, through the sharing of best practices, as well as through the synergies created between subsidiaries. The company's management proposes the business plans, tactics and related budgets, while the holding team contributes with specific expertise in order to approve them - in the holding and through the Board of Directors. During the execution, the Holding team is involved directly, through reporting processes, but also ad hoc , if necessary, in fixing the plans, identifying alternative solutions or replacing non-productive tactics.

**The management teams of the companies** are validated in the recruitment process by the members of the Holding team and all core functions are developed at the level of the companies. For positions with strategic value for which the expertise does not bring an immediate return on investment, or the volume of activity does not justify the establishment of a department, such positions will exist at the level of the holding or will be outsourced until the moment of transfer to subsidiaries is identified.

In Roca Industries we pay attention to **the process**. In our culture, in the absence of a coherent and correct process of analysis, decision-making, in the absence of a strategy, results may come from luck, but they are unlikely in the long run. On the other hand, if the process is good, if the strategy is coherent, even if syncope may occur along the way, the long-term results will be positive. For this reason, in all companies we pursue a series of qualitative objectives, which lay the foundations for future results and complement the common objectives of meeting the budget.

### **What we promised at the listing. What we delivered. What do we undertake next?**

We listed with a promise of **transparency**. I think we've achieved this goal through all of our previous communications so far. We issued comprehensive and explicit quarterly reports. We issued current reports including for events that were not required by the mandatory conditions. We are concerned with showing that we do things the right way and conveying confidence. Below I want to take it one step further and try to present the year 2022 as it was, detailed, free of changes, presenting both the good and the bad highlights.

We also promised that **we will build a holding** that will have a number of 8-10 companies that, in turn, will be able to carry out M&A projects. We fulfilled our estimate of 2 new deals per year and

we intend to maintain that pace. After another year in this market, we estimate that we will stop at a maximum number of 8 companies in the construction materials production area. This decision depends on the particularities of the market, development opportunities, competition and the maturity of the sectors. We will put much more emphasis on growing the subsidiaries, while having a higher appetite for accelerated development through M&A. The Bico Industries model is the one we want replicated in as many cases as possible. We have built a regional champion (Bico Industries is #1 in central and eastern Europe, #4 in Europe and we are aiming for #3), and we want to continue this effort. More regional champions, to put Romania's industry on the European map. Because that's what we promised to do, to contribute to the development of Romanian industry.

We promised **to be profitable** and **generate** shareholder value. All of our companies are profitable, and the way projects are positioned today sets the stage for even more value. However, we have shown from the outset that there will be start-up costs that will erode profits in the short term. I'll elaborate below, but I'm referring to transaction costs, initial investments, or non-cash accounting issues that affect the first year of investment. I hope that this message manages to convey the confidence that we have in Roca Industry, beyond the "bottom -line".

## 2. What was in 2022, what are we preparing for 2023

The year 2022 was the first full year in the life of Roca Industry and, like all beginnings, it was both difficult and beautiful. Basically, the holding company started its activity in the most inflationary environment in Europe in the last 40 years and with the first border war in the last 80 years.

2022 was primarily about **the team**, about its formation and cohesion, about the construction of a way of working. I am proud to have some of the best people in the market with me. We are in almost complete form, covering the commercial, financial, marketing and project implementation areas. In 2023, 2 more colleagues will join us, one to coordinate the operations and production area and one to manage the human resources part.

I've praised the team above, but I can't take credit for finding and recruiting these exceptional people. These merits belong to Liviu Stoleru, the first CEO of Roca Industry. I started the year in the position of President of the Board of Directors, teaming up with Liviu, a professional CEO with a very good track record. Unfortunately, our methods of operation, visions of how we act were divergent, and, as a result, in the middle of 2022 we decided to go on separate ways. From the phrase "the right man, in the right place, at the right time", he was definitely an excellent solution, but in a different culture than ours. I don't want to formally end the year without thanking him once again for his hard work. Many of our projects were started by him.

Also, 2022 was about **transactions**. Two transactions in Roca Industry and two others in Bico meant a special effort. Identification, negotiation, structuring, due diligence, closing, acquisition and then integration are all activities that require extensive resources. Four such processes in a single year, in addition to the current activity, meant a test that the team passed with flying colors.

We believe that 2023 will be the year of consolidation for Roca Industry. After a 2022 in which we grew primarily through M&A, 2023 must be **the year of "emerge stronger"**. We expect an unfavorable environment, at least in the first 2-3 quarters, and our main plans are focused in such respect. How to navigate troubled waters and emerge from the storm stronger than we entered. How to be agile and resilient, attentive to market opportunities, ready to strengthen our position. After all, we 100% agree that "a crisis is a terrible thing to waste".

Separate from day-by-day operations there are two special elements that we take into account. The first concerns the reconstruction of Ukraine, when appropriate. We are very well positioned geographically, our products meet the quality standards necessary to participate in this process, we just have to find the best way to enter this market.

The second concerns the situation in Turkey, although it is still too early to say whether it is an opportunity or a threat. We can talk about a threat because Turkey is an important player in the market of raw materials (although only one company in the group has imports from Turkey) and there is a risk that such raw materials will be directed to the domestic market, which may entail price increases or difficulties in acquisition. However, the situation can also represent an opportunity if we manage to find a way to join the reconstruction effort.

Another strategic direction for the next period is sustainability (ESG). During the Board of Directors meeting in August we decided two things: first, that we will implement ESG policies and, second, that we will implement them accordingly, namely, we will not limit ourselves to producing papers, but will embrace ESG principles with all our might. For us, ESG is not about immediate profit, it is about long-term strategy and above all about a correct manner of doing things. Respect for the environment, social responsibility and corporate governance actually mean respect for future generations, respect for our employees, respect for the communities in which we operate and respect for you, our shareholders.

Also regarding the social responsibility, we decided that it is important to have an impact in the less favored areas as well. Thus, through the deductibility offered by the tax code, part of the profit of the holding companies will be redirected to a CSR project at the Holding level.

Separate from these general portfolio objectives, for 2023 we also have several objectives at the holding level:

- **Three transactions**, either directly in the holding or in group companies, with a total value of at least EUR 20 million, companies that add at least EUR 3 million/year to the cumulative EBITDA;
- **The transfer to the main market of Bucharest Stock Exchange, alongside an increase in share capital** - we consider that Roca Industry, as a holding that will total at least 5 companies, with at least 10 factories, present in 3 countries, with a cumulative turnover of almost EUR 150 million and an EBITDA of at least EUR 15 million is a company that must be present on the main market. Moreover, we want to become a benchmark for companies in the industrial sector, listed on the BSE.

### 3. Portfolio

Usually, in most reports of this kind, the detailed presentation of the portfolio is placed in the body of the report, and the CEO's message is about vision, strategy and the general image. This time I decided to be different, I decided that I want all the relevant elements to be transmitted directly here, by me, both the good news and the bad. It is the way I understand to come before you, to undertake and explain what you will find in the content of the report. It's also the manner in which I want to explain the process we are going through, the actions behind the resulting numbers, but also our plans. The details below are the pieces that built this puzzle called financial results.

#### ➤ Bico Industries

Bico Industries had an extremely intense year, full of challenges, which it managed to overcome in a successful manner. First of all, as a context, I must mention that we started 2022 with a new CEO, Adrian Butuc, a 31-year-old in whom we have great confidence. Adrian had previously been the company's COO and had overseen the implementation of the Turbotex project, an investment of over EUR 2 million through which Bico launched into the market of technical textiles, other than mesh for thermal insulation systems.

For us, Bico Industries represents a benchmark, from an organizational point of view. It is the company that entered the Roca Investments portfolio in 2020, so we had a period of 2 years to

implement some improvements. Bico 's current operational capacity shows us the level the other three companies can also reach and also validates our operating model.

The main success of the company is, from our point of view, the fact that it has reached the level where it can initiate its own M&A processes. In the course of a single year, Bico bought 100% of the Terra group (Moldova and Romania), 55% of Europlas Lux (Moldova) and started negotiations for the acquisition of Iranga (Lithuania), a transaction that we hope to complete during Q1 2023 The 2 transactions from the Republic of Moldova are extremely important because they come with a series of strategic advantages:

- The import of fiberglass yarn into the EU is subject to anti-dumping duties of up to 40%. By processing in the Republic of Moldova, where this tax does not apply, the cost of the raw material is greatly reduced;
- Both companies are located in Free Zones, which generate important tax advantages. Additionally, a number of costs such as salaries are much lower in the Republic of Moldova;
- By increasing the capacity by over 50% in the context of facilities with different technical level, but also varied cost structures, Bico can build a diversified commercial policy, being able to address all the market's needs.

Also, an extremely relevant element in understanding the value brought by these companies is the transaction price. Thus, both companies were acquired at approximately 3xEBITDA 2022, which represents an upside of at least 100% to which is added the plus resulting from intragroup synergies.

In addition to those advantages, the main elements that had a negative impact were:

- A contraction of the market in H2, which led to a decrease in sold volumes, but also to a wider reduction in prices, implicitly in margins;
- An internal security incident, notified to the market in October, namely the discovery of thefts worth approximately RON 700 thousand, from a warehouse rented by the company. Although we consider the chances of recovery of the damage to be high, this amount is considered a loss until the date of recovery.

Other relevant aspects for the activity of Bico Industries in 2022 would be the following:

- Completion of an investment project at the factory in Vaslui in the amount of EUR 2 mn;
- Completion of an investment project in the installation of solar panels at the factory in Vaslui;
- Starting an investment project at the factory in Vulcănești, Moldova, in the amount of EUR 1 mn.

We envisioned the following plans for 2023:

- Completion of the transaction for the acquisition of Iranga Lithuania;
- Completing the integration of the 3 newly acquired companies both from an operational and commercial point of view;
- New investments of at least EUR 500 thousand in order to increase efficiency and production capacity at the factory in Vulcănești;
- Implementation of a commercial policy which will take into account the flexibility that the 5 factories offer, different products and different cost structures, strategy based on increasing exports and entering at least 2 new major markets;
- Initiation of a process of Romanian brand building, valid internationally, to support the company's expansion into multiple markets.

## ➤ **Sarcom**

Sarcom is a company acquired by Roca Industry in December 2021. Given that it was a 100% share purchase transaction and the company was run exclusively by the founding shareholders, the takeover process was quite steep, with a first semester where we had to take everything on the go. Or as we like to say, we fixed the plane during flight. For this reason, the first part of the year was below expectations, but we managed to recover a large part in H2.

The first months of 2022 were primarily characterized by a major difficulty in transferring the production costs to customers. Our presence in Dedeman and Leroy Merlin was very important and ensured continuity until a coherent commercial strategy was developed. Additionally, the first peak of the season (April) meant a missed opportunity due to the lack of stock, a consequence of a managerial error in forecasting and organization.

During the middle of the year, we managed to complete the management team. In addition to a CFO brought in the company since last winter, in May the new CEO started his mandate, while the Commercial Director started in July. As a result, looking back at the achievements of 2022, we can mention at least the following:

- Implementation of an ERP system;
- Renegotiation of contracts with the main customers and recovery to a large extent of the profitability margins lost at the beginning of the year;
- Starting an expansion strategy in traditional trade, in the area of local and regional distributors - at this moment we are already present in more than half of the country's counties;
- Listing in Brico Depot - expected in March-April;
- Investments to stabilize the production flow, in preparation for a large-scale investment project;
- Preparation of an investment project that includes the relocation of the factory to a new location that meets our standards, the expansion of production capacity and the launch of new production lines. We have already managed to identify the new location, we have rented it as a warehouse and we are in negotiations for the purchase,

and we will consider 2023 a good year if, looking back, we have the following checked:

- The acquisition of the assets where we will relocate the factory and the start of investments;
- Commercial policy, based on strengthening the presence in the three DIY chains and increasing the presence in traditional trade;
- Initiation of marketing and sales support activities, including repositioning of commercial brands and addressing the consumer target groups, re-packaging, development of digital tools and communication channels with both business partners and end consumers.

## ➤ **Eco Euro Doors**

Eco Euro Doors is a company entered into the portfolio in June 2022, at that moment 70% of the shares being acquired, the difference being purchased in December. As in the case of Sarcom, the company started the year with certain difficulties in transferring costs to customers, which was fixed starting in Q2 and completed after the acquisition date. For this reason, the beginning of the year was a difficult one, with quarters 2-4 being focused on trying to recover the results.

In the case of Eco Euro Doors, we inherited a management structure based on an entrepreneurial model, extremely reduced, based almost exclusively on the founding shareholder. Likewise, a simplistic business model, focused on a quasi-total dependence on a single customer and a production structure dedicated to the products required by that customer. All of these have put

pressure on profitability and the fact such issues are still being resolved is part of the unsuccessful chapter.

Regarding the achievements of the company, in the 7 months we succeeded:

- Completion of two production halls, with an area of 5,000 square meters, started before the transaction and which will be the basis of the increase in production capacity;
- Commissioning of a new painting line, including a modern painting robot with paint recovery capability;
- Completion of an investment project in solar panels;
- Development of a partnership for a new sales channel, namely the area of residential real estate projects;
- Starting an investment in two new equipment, totaling more than EUR 700 thousand that will eliminate a series of bottlenecks and increase the flexibility and efficiency of production;
- Production efficiency by adapting the planning procedure according to the order structure (standard doors vs atypical doors).

In 2023 we aim to:

- Complete the commercial policy based on the expansion of distribution channels, without affecting the partnership with the main current client;
- Increasing production capacity and making it more efficient;
- Entering at least two more DIY chains;
- Completing the management team;
- Diversification of the product portfolio depending on sales channels and on the needs of different client segments. Building brand positioning, introducing the brand concept in annual collections, aiming to be relevant on each sales channel.

#### ➤ **Dial**

Dial is the last company entered into the Roca Industry portfolio, in September 2022. Considering the short time since the acquisition, there are extremely few relevant details that we can mention, being still in the process of taking over and building the management team.

However, some highly relevant aspects have already been identified, namely:

- Dial has a very good production structure, with high-performance equipment and solid know-how. Furthermore, a 5,000 square meter production hall is being completed, which will give us the possibility of exponential production growth, but also access to new business lines;
- Significant growth opportunities as a result of the lack of a commercial department;
- The Company produces a truly "do it yourself" fence model, but such model is currently sold only on the French market. At this moment we are studying the method of introducing it also on the Romanian market and we expect it to become a reference product;

As general issues that negatively impacted Dial's results, we summarize the following:

- Major fluctuations, in both directions, of the prices of the main raw materials;
- Lack of a commercial department, this activity being carried out by the founding shareholder.

In the case of Dial, all projects are about the future:

- Completing the management team;
- Implementation of the commercial policy that will truly bring the company's potential to fruition;
- Marketing policy implementation to support the development of sales channels and the launch of new products on the local market, positioning on export markets.
- Finalizing the investment plan, securing the financial resources so that it can exceed EUR 4 million and starting its implementation.

#### 4. Financial results

We have chosen in this financial report to keep the way of presenting the financial results through three methods. It's how we understand helping investors get a clearer picture of some highly atypical reporting.

We are a holding company without our own operating income, which sums up the financials of some subsidiaries, but in accordance with the date of acquisition and the percentage of ownership, affected by some non-monetary accounting adjustments that do not exist in IFRS (so you do not find them in the case of companies listed on the main market of the BSE) and which allocates a major expense, in full, to Roca Industry and not proportionally to the holding (ie we weight the pluses, but not the minuses). We own four companies, three in full and one in proportion of 70% of the share capital, all of them recorded a net profit, the result related to the minority shareholders being a net profit, while the net result related to Roca Industry being a loss. I don't intend to blame accounting regulations, but I think it's important to show several ways to read these numbers and explain what may not be intuitive. Furthermore, each of you will be able to judge the financial performance of Roc1 based on such financial results.

As we mentioned above and you will find in detail in the final part of the report, we present the financial results through 3 sets of figures:

- **Consolidated results** - are the "official" results, prepared according to the applicable accounting rules, respectively the Romanian standards (RAS, OMFP). They present the following particularities:
  - The results of the acquired companies are taken into account starting from the month following the transaction. It is important to state that in all transactions, Roca Industry kept the entire profit related to the year 2022, regardless of the date of the transaction. This means that, although in the case of Dial we "bought" a profit of approximately RON 3.5 million, the consolidated results only record the loss related to Q4, a quarter which in this market is off - season.
  - The consolidated results are affected by the amortization of goodwill, an operation that does not appear in the individual statements of any entity (not even Roca Industry), but only in the consolidated ones. This amortizable goodwill represents the difference between the purchase price of the shares and the net asset value of the acquired companies at the acquisition date. Thus, since the evaluation of the purchases is made by us using the Discounted Cash- Flow method or multiple of EBITDA, even in the case of transactions made at 3-5xEBITDA (i.e. well below the market average) we record this expense because the net asset was lower. In total, the amortization of goodwill has an impact of RON 10.4 million, being by far the element that affects the results mostly. Another relevant aspect is that this operation is performed only in the financial statements drawn up according to Romanian standards, not being recognized by the international IFRS standards.
- **Normalized results** – the normalization performed is the one through which we recognized the results related to the entire year 2022, regardless of the date of the transaction, respectively we

recognized the profit in accordance with the structure of the transaction. These are the results most appropriate to be used by investors in the calculation of P/E or other ratios. However, it should be borne in mind that in order to be comparable with the results of some companies abroad or listed on the BSE main market (which have the obligation to apply IFRS), the impact of the goodwill amortization of RON 10.4 million must be added.

- **Combined results** – are the results obtained by adding up the individual results of the companies, regardless of the date of acquisition or percentage of ownership and without the impact of goodwill amortization. These are the figures that show only the operating performance of the companies, independent of transaction aspects or transitory accounting adjustments. Since the combined results are the mirror of the operating activity of the companies, they are the ones that the management of the holding mainly track.

Details of the unaudited financial results, together with a brief analysis thereof, can be found in the respective chapter at the end of the report. A wider analysis will be provided during the annual report in which the audited results will be presented, as well as in the annual conference with investors dated 28.03.2023.

**Ioan-Adrian Bindea**

**Chief Executive Officer**

