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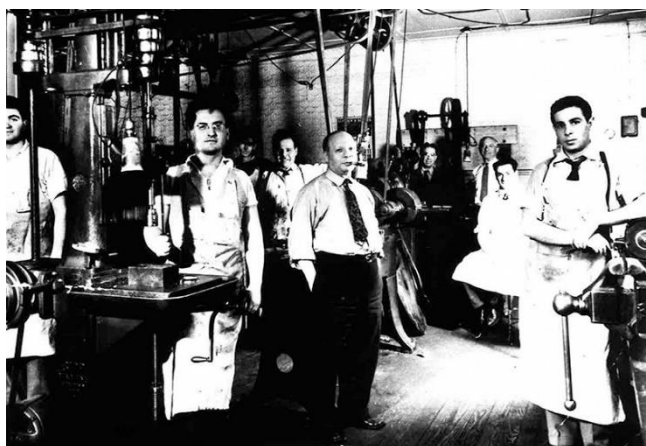
## ***IEHC Corporation (IEHC) - Electronic Components -10/19/2020***

### **EXECUTIVE SUMMARY**

IEH corp. (IEHC) is an American micro-cap (\$ 36m market capitalization) specialized in hyperboloid electrical connectors, mainly for the military and aerospace industry. It operates in a market niche with a single competitor, has technological leadership, manufactures, and sells a product with high added value. Their connectors provide high switching costs and attractive returns on invested capital. It is a family business, net cash, and no analyst coverage. **The stock is trading at \$ 15, but we think it is worth more than double, with upside potential greater than + 100%. If IEHC were to go public on the Nasdaq, the value could go as high as \$ 40 (+ 166% potential upside).**

### **INTRODUCTION**

The history of IEHC begins in 1941 when its founder, Luis Offerman, and his two sons Bernard and Seymour, started to manufacture tools and dies in support of the Second World War. After the war, they went on to manufacture tube and transistor connectors for the fledgling consumer electronics industry and, in the 1960s, became the world's largest manufacturer of CRT connectors. In that same decade, they purchased a Mil-DTL-55302 license to manufacture hyperboloid connectors and become what the company is today.



*Chart 1: Louis Offerman in IEH's original factory, 1941*



*Chart 2: Louis Offerman and his two sons at IEH, 1965*

IEHC designs, develop, and manufactures connectors for printed circuit boards (PCBs) and custom connectors to demand high-performance applications. IEHC markets its products directly to OEMs and authorized distributors for military, aerospace, medical, automotive, industrial, and commercial sectors. Company based in NY and sells mainly in the United States. Their business has more than 200 employees, and it's in their fourth generation, where its current CEO is David Offerman.

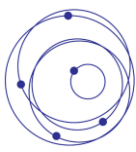
## WHY DO WE LIKE IEHC?

### 1) Attractive sector structure:

COVID-19 has had a significant impact on the sector, disrupting supply chains, cooling demand, and affecting almost all segments equally. Suppose we analyze the two previous crises, the dot-com bubble, and the great recession. In that case, we observe how, on average, sales fell between -18% and -22% annually, and it took between 4 and 6 quarters to recover the previous level. As of June 20, the electrical connectors sector fell by -9% in sales and -35% in operating profit, but the key is as always to have a medium and long-term vision.

According to *ResearchAndMarkets.com*, **the global market for electrical connectors will reach \$ 85bn by 2024, with a compound growth rate (CAGR) of 4.7%**. Most of the connectors are of the PCB type and are used mainly in the transport sector, industry, and automotive sectors. The industry's largest companies are TE Connectivity, Amphenol Corporation, Molex Incorporated, Hon Hai Precision, and Delphi Connection. In essence, it is a relatively concentrated industry, where the top ten companies control more than 60% of the market.

According to *ConnectorSupplier.com*, **electrical connectors for the military industry accounted for \$ 3.8tn in 2019**, and the US accounted for more than 50% of demand. In terms of manufacturing, the US represented 75%, and the primary customer was the American government, with more than 50%. With the current increase in military spending, demand remains strong, and there is no reason to worry. The 10-year CAGR is +2% / + 3%, and although the military sector is growing less than the sector average, its demand is more stable and less sensitive to the economic cycle. The top ten military players represent more than 80% of the sector, with Amphenol and TE Connectivity accounting more than 30% and 20% of the market share. The gross margin is higher than the rest of the industries because the unit sale price is much higher.



There is a market niche within this large group with a single competitor, Smiths Group, that, together with IEHC, manufacture Hyperboloid connectors only for the most demanding and extreme environments, such as in the military industry. When operating in a small market, large companies (Amphenol, TE Connectivity, etc.) are not interested because they cannot generate economies of scale. Some of the companies mentioned above are IEHC clients. A significant advantage of IEHC over Smith Group is that being a family business. Its customer service is superior to that of a multinational firm like Smith, which has different business lines and hyperboloid connectors being a small segment (less than 5 % about the sales).

2) **Unique product:**

IEHC has been designing hyperboloid connectors of the highest standard for more than 40 years. Although there is **no active patent, its product quality, proprietary technology, and market niche give it a substantial barrier to entry against the competition.** The hyperboloid connector (female connector) is the most mechanically demanding and efficient design available, making it suitable for applications where the electronic signal's integrity ensures severe shock and vibration without allowing system failures. IEHC management always makes the analogy of "Ferrari" and comments that there are not many Ferraris on the road but that those who buy them do not accept them to save money. They buy them for their unique performance and because they are the best of the best.

The PCB connectors sold by IEHC and Smith Group have a much higher selling price than the rest and designs to the specifications of an OEM main project.



Chart 3: Hyperboloid Connector.

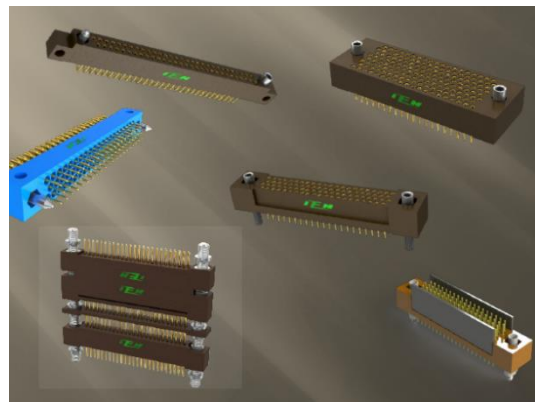
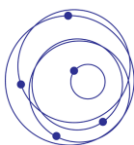
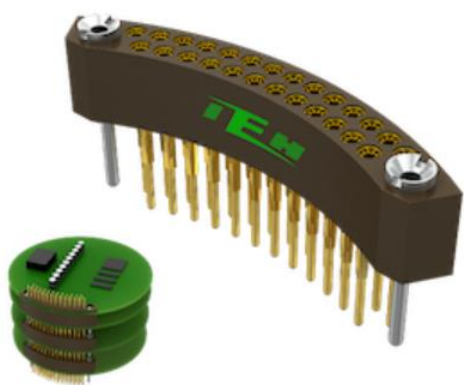


Chart 4: Hyperboloid Connector advantage



### 3) Switching cost:

Apart from the more standard line of PCB and M55302 connectors, IEHC specializes mainly in custom applications (60% of sales and growing). Over the past 40 years, IEHC has forged long-term relationships with its clients, **with a customer retention rate close to 100%**. Given the product's complexity, customization, and limited offer, customers are partially captive of IEHC connectors. Its low unit price to the product's final cost that your customer sells means a high switching cost. IEHC's business model is to reach exclusive franchise agreements that guarantee connectors' supply, such as with NYK Component Solutions.



*Chart 5: Semi-circular, stacking connector for parallel boards*



*Chart 6: 1,200 pin connectors for an interface board on military rotary-winged military vehicles*

The real competitive advantage lies in customizing the product according to each client's specification, while the rest of the industry manufactures based on a standard catalog.

### HOW DOES IEHC EARN MONEY?

IEHC generally receives work orders after submitting bids by customer-issued specifications. These offers are for new items operating in a harsh environment and less frequently for standard catalog items. It also offers engineering services to its clients for specialized products and specific applications.

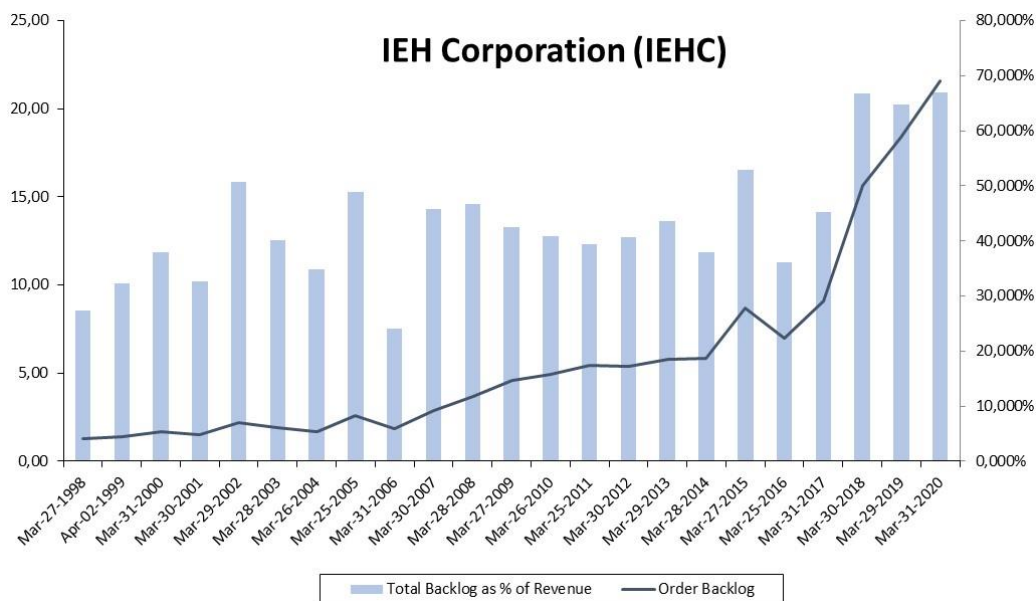
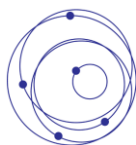


Chart 7: Historical Backlog. Source: S&P

In graph 7, we see how historically IEHC has reached an average backlog of 50% on sales. However, in recent years, its visibility has skyrocketed due to the receipt of much larger orders. Still, they do not have to be recurring. As of March 20, its order book (Backlog) represented 70% of published sales, offering us visibility in the medium term.

### INFORMATION CONTRAST

At DRACO GLOBAL, we like to contrast the information we obtain directly from the company's management, and for this, we contact its customers, suppliers, or distributors. On this occasion, we have spoken with **Ramon Arenosa, RC Micro Product Manager**, and IEH official distributor in Spain. Ramón explained that before starting to distribute IEH parts in 2017, he worked with his only competitor (Smith Group). This situation helped us to understand the competitive environment better. We confirmed the exceptional quality of the hyperboloid connector, created in the '50s and how these two companies have preserved their know-how over time. **This hyperboloid connector has a range of use (durability) of 100k maneuvers, while a standard is only 50 or 100.** The product specifications are different by customers; therefore, If a customer uses the IEH connector, they cannot use Smith. High customer retention rates create because of customer captivity. Another

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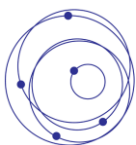
Characteristic that reaffirms the connector's exclusivity is that it sells under a catalog. **Its unit sale price can reach \$ 500 vs. a standard connector that costs no more than a dollar on average.**

In terms of applications, **its primary use is in the military and aerospace sectors.** However, it is beginning to enter electromedicine, an industry that, according to *BCC Research*, will reach \$ 59bn and will grow at a compound rate of + 7.3% in 2023. IEHC has a strategic expansion plan in Europe and is present in France, Spain, and the United Kingdom through local distributors such as RCMicro. The volume of annual units sold in Spain is close to 12,000 connectors, 85% Smith Group and 15% IEH. This yearly volume implies a turnover of approximately 900,000 EUR; therefore, we could estimate an average unit sales price of 75 EUR, although we know that there is much dispersion in the sale price depending on each connector's specificities. It is not easy to extrapolate these data to the rest of the markets and, above all, the company does not detail the annual volumes or the sales unit prices. Although we have asked Dave Offerman (CEO) several times, the company does not want to provide more details.

### **ANNUAL RESULTS 2020 (Fiscal year March)**

On October 7, IEHC published the annual results for 2020 with a sales growth of + 13%, mainly due to the military sector's good evolution. That revenue growth has required a significant increase in the cost of sales, indirect production costs, expenses for improving inventory management, spending on central services, and the cost of compensation in options to the direction. Because of all these things, margins and net income goes down a double-digit. The positive news is that the order book is at all-time highs and represents almost 70% of current sales. **\*The historical conversion rate from backlog to revenue is 100%, and remember that the year 2019 was positively affected by a large customer order (\$ 3.7m).**

On 10/15, Dave told us that, although IEHC's business is considered essential for the products it supplies to its customers (Military), the aerospace sector will take time to recover and could penalize in the short term the excellent evolution of the company. The aerospace sector represents 23% of sales, and we are convinced of its recovery over the next year, probably more in 2H than in 1H.



## ANY POSSIBLE ACCOUNTING RED FLAG?

### 1) Inventories:

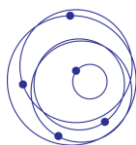
The most relevant item on the balance sheet inventories and, to a lesser extent, accounts receivable factoring, although today they are not factoring accounts. Regarding inventories, in recent years, IEHC has received large manufacturing orders from customers, and the company thinks that these will continue in the future. Therefore, it maintains high levels of inventory to deliver unforeseen orders and power offer better prices.

We observe how raw materials represent 60% -70% if we analyze the historical mix of inventories. The raw material is a copper and zinc compound, with high resistance to oxidation and corrosion. Often, changes in the inventory mix suggest changes in the underlying business, but they are NOT increases in the finished product that could indicate a slowdown in demand.

**The percentage of raw material inventory over sales is between 25% -35%; therefore, we could estimate sales for the current year of about US \$ 30-35 million.** In the last three years, the inventory of raw materials has almost doubled, not so in finished products; therefore, it seems clear that the increase is a consequence of higher production. Until 2016, IEHC valued the inventory of raw materials using FIFO, but in 2017 it changed the accounting criteria to the weighted average price. This change, although necessary, does not concern us. We would be worried if it had been the other way around because the company obtains a more significant profit with the FIFO method during price increases. After all, it is selling products at a lower cost when it bought the raw material.

Finally, IEHC could profit at its gross profit level to purchase raw material better for management know-how.

As a result of COVID-19 and the subsequent forty, IEHC could not carry out its inventory's physical observation due to not having the required personnel to do so. This event generated a deficiency in internal control, although 2Q20 steps take to correct it. The necessary technical staff hire, they have adopted monthly and quarterly inventory counting controls and, above all, they have acquired SAP as their inventory management software. On August 27, IEHC announced the hiring of a new CFO, Bill Craig, very knowledgeable about improving working capital management, among other things.



## 2) Stock compensation to management.

On July 29, 2019, the board members granted Dave Offerman 225,000 call options with a strike price of \$ 20, maturity of ten years, and total value at the grant date of \$ 2.4m. Of these 225k options, only 150k are pending conversion, although today there are OTMs (out of the money).

### Outstanding Equity Awards as of March 31, 2020

The following table sets forth certain information regarding outstanding equity awards granted to our named executive officers that remain outstanding as of March 31, 2020.

| Name         | Option Awards   |  |                       |                        |
|--------------|---|--|-----------------------|------------------------|
|              | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Un-exercisable | Option Exercise Price | Option Expiration Date |
|              | David Offerman  | 46,217   | -                     | \$6.00                 |
|              | 75,000  | 150,000  | \$20.00               | 7/31/2029              |
| Robert Knoth | 45,000  | -  | \$6.00                | 7/1/2025               |

Chart 8: Number of options pending conversion - 2020 10-K.

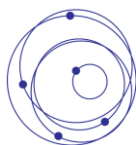
## MANAGEMENT

In micro-caps like IEHC, it is essential to know who runs the company and align interests (Skinning the game) with shareholders. The company has a very long history with one single-family, the Offermans, owners, and operators. They directly control 37% of the shares and 8% through options awarded to Dave Offerman. Three years ago, the fourth generation of the family took with Dave Offerman at the helm (CEO). Dave has implemented several improvements in a short time: 1) Improved corporate governance, 2) Change of auditor to Marcum LLP vs. one too local, and 3) hiring a new CFO (Bill Craig) to improve the financial structure of the company and especially the management of working capital, mainly inventories.

## OPPORTUNITIES AND RISKS.

- + Greater digitization, high connectivity, and technological advance: Increased data transfer speed, greater power required, and intelligent devices and systems.
- + Increased mobility and globalization: opportunities in telemedicine and electromedicine, space exploration and satellites, increased bandwidth, big data, and 5G.





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- + Increased geopolitical risk: The large developed countries will increase their spending on the military sector as a defense against emerging economies that want to take their preferred place in decision-making.
  - + **IEHC's management is suspecting the possibility of an “uplisting” on the Nasdaq, a situation that would significantly increase the visibility and interest in this company.**
  - + M&A possibility: Large companies such as Amphenol or Smith Group have approached the Offerman family multiple times, but the response has always been the same, "**want to remain as a family-controlled business.**" The door may open to a sale in the future, but it isn't straightforward in the medium term.
  - The irruption of alternative technology.
  - A worsening of the commercial relationship with clients.
  - General adverse economic conditions.
  - COVID-19 adverse effects in the aerospace and industrial sector.
  - Low trading volume and high bid/ask spread.
  - Bad press is associated with companies listed on the US OTC Pink Sheets exchange.
  - Risk of deficiencies in terms of internal audit and control and costs associated with the requirements of the Sarbanes-Oxley Act approved in 2002.

## VALUATION

We always try to estimate the turnover figure based on their fundamental variables, but it is a complicated exercise because it does not publish it. We have data on volumes and average unit sales prices, although only as a reference and for the Spanish market.

○ **Sales:**

1) We estimate an average multiple of **revenue/backlog**. The historical was 2.4x (range 4.14x to 1.5x). We know from our conversations with Dave that the company will not sustain the current backlog because the aerospace industry is experiencing scheduled delays. Although the backlog to March 20 is \$ 21.5m, we prefer to be conservative and use only \$ 16.3m, reaching sales of \$ 40m in the medium term.

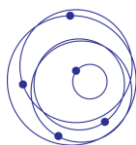
2) The 10-year CAGR for sales is + 9.8%, and its internal objective is to grow between + 10% and + 15% annually. We also know that the year 2021 will be penalized by the aerospace industry's current situation and that 2019 was an abnormally good year. Therefore, we estimate a growth of + 4% for 2021, a recovery of + 12% in 2022, and +8 % onwards.

3) The TAM (potential market) could reach \$ 0.75bn, and today IEH and Smith Group control less than 50%.

○ **Gross margin (GM):** We calculate a GM of 35-36.5%, in line with its average GM and well below the + 42% of 2019. The company's management is very good at obtaining attractive prices for the supply of raw materials, mainly copper and zinc. The cost of copper is likely to continue its upward trend, but since IEHC manufactures a high value-added product, it manages to pass the entire increase on to its end customer. This margin is in line with comparables such as Amphenol or Smith Group.

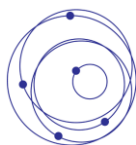
○ **Operating margin (Ebit margin):** We estimate an operating margin of + 12% for 2021 and an improvement to 16% in 2023, well below the margin of 27% in 2019. The main reasons are: 1) the Greater weight of hyperboloid connectors on the product mix, 2) higher unit sale price vs. standard connector, 3) heavier weight in military vs. aerospace, and 4) possibility of reducing the cost of EMS as the company grows.

○ **Working Capital:** Management has set out to improve the management of working capital and has undertaken different measures to reduce the number of cash conversion days (CCD): 1) Hiring a new CFO, Bill Craig, 2) reducing the number of days of inventory (DIO) via investment in qualified personnel and a new SAP management software, 3) Elimination of accounts receivable



Factoring, 4) improvements in internal control and 5) changes in inventory accounting. The big difference compared to its competitors is that its DIO is double; therefore, future improvement is possible. We have incorporated some improvements to our estimates, going from 210 DIO in 2021 to 180 in 2023.

- **Capex:** Capital investment is low, around 2.5%, with maintenance Capex being 1.5% in line with its peers.
- **Cash flow:** We calculate an adjusted FCF of \$ 2.7m for 2021 and \$ 4.6m for 2023.
- **Net cash:** We estimate \$ 10m in 2021 and \$ 16m in 2023. On April 13, IEHC signed a loan without collateral for \$ 2.1m from federal government aid (“Cares Act”) due to the COVID crisis -19. The interest rate is fixed at 2% and matures in two years. Most likely, the company will repay the loan before maturity.
- **Shares outstanding:** We adjust outstanding shares for the number of in-the-money (ITM) options, and to be conservative, we also include those that are not ITM. Although Dave has told us on several occasions that he has no intention of converting these options into shares (strike at \$ 20), we think that he will play in the long term.
- **Valuation multiple:** **We apply an average multiple of 15x PER and 9x Ebit, reaching a theoretical value of \$ 30 or an annualized IRR greater than 25% in 2023.** This price target represents a potential upside of + 95% from the current price. **If the company were to go public on the Nasdaq, the market would assign it a higher multiple.** Amphenol and Smith Group trade at 30x and 19x forward earnings; therefore, **if we value IEHC at 21x earnings, the target price shoots to \$ 40 with an upside potential of + 166%.**



Annexes:

1. Income statement.

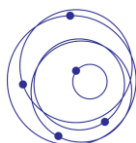
**IEH CORPORATION**

|                              | 2017       | 2018       | 2019       | 2020       | mar.-20    | 2021       | 2022       | 2023       | 2024       | 2025       |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total Revenue                | 20,1       | 23,5       | 28,4       | 32,2       | 32,2       | 33,4       | 37,5       | 40,4       | 43,7       | 47,2       |
|                              | 4,0%       | 16,6%      | 21,0%      | 13,2%      | 13,2%      | 4,0%       | 12,0%      | 8,0%       | 8,0%       | 8,0%       |
| Cost of Revenue              | 13,1       | 14,7       | 16,4       | 21,9       | 21,9       | 21,7       | 24,0       | 25,9       | 27,7       | 29,7       |
| Gross Profit                 | 7,0        | 8,7        | 12,0       | 10,2       | 10,2       | 11,7       | 13,5       | 14,6       | 15,9       | 17,5       |
|                              | 34,9%      | 37,2%      | 42,3%      | 31,9%      | 31,9%      | 35,0%      | 36,0%      | 36,0%      | 36,5%      | 37,0%      |
| SG&A, Total                  | 3,8        | 4,0        | 4,0        | 6,0        | 6,0        | 6,7        | 6,6        | 6,9        | 7,4        | 7,8        |
| R&D Expenses                 | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        |
| D & A, Total                 | 0,4        | 0,3        | 0,3        | 1,0        | 1,0        | 1,0        | 1,1        | 1,2        | 1,3        | 1,4        |
| Other Operating Expenses     | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        |
| Operating Expenses adj.      | -          | -          | -          | -          | -          | 0          | 0          | 0          | 0          | 0          |
| <b>EBIT</b>                  | <b>2,8</b> | <b>4,4</b> | <b>7,7</b> | <b>3,3</b> | <b>3,3</b> | <b>4,0</b> | <b>5,8</b> | <b>6,5</b> | <b>7,2</b> | <b>8,3</b> |
| Ebit Margin                  | 14,1%      | 18,8%      | 27,0%      | 10,2%      | 10,2%      | 12,0%      | 15,5%      | 16,0%      | 16,5%      | 17,5%      |
| Minority Interest            | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        | 0,0        |
| Net Income to Parent         | 1,5        | 2,6        | 5,2        | 2,6        | 2,6        | 2,6        | 3,7        | 4,2        | 4,7        | 5,4        |
| Net income margin            |            |            |            |            |            | 7,8%       | 10,0%      | 10,4%      | 10,7%      | 11,4%      |
| Diluted EPS Excl Extra Items | 0,64       | 1,11       | 2,22       | 1,09       | 1,09       | 0,939      | 1,349      | 1,515      | 1,688      | 1,933      |
|                              | (12,8%)    | 74,0%      | 99,6%      | (50,9%)    |            | (14,0%)    | 43,7%      | 12,3%      | 11,4%      | 14,5%      |

2. Balance sheet.

**Annual Balance Sheet**

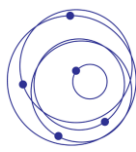
|  | 2017        | 2018        | 2019        | 2020        | mar.-20     | 2021        | 2022        | 2023        | 2024        | 2025        |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Cash   | 1,2         | 1,4         | 7,1         | 7,8         | 7,8         | 11,9        | 12,3        | 16,3        | 20,3        | 24,9        |
| Short-Term Investments                           | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| Total Receivables                                | 3,1         | 4,5         | 3,8         | 5,4         | 5,4         | 5,6         | 6,2         | 6,5         | 6,9         | 7,4         |
| Inventory  | 8,7         | 10,8        | 12,0        | 12,6        | 12,6        | 12,5        | 13,1        | 12,8        | 12,9        | 13,0        |
| Prepaid Expenses                                 | 1,3         | 0,5         | 0,5         | 0,2         | 0,2         | 0,2         | 0,2         | 0,2         | 0,2         | 0,3         |
| Other Current Assets                             | 0,2         | 0,2         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| <b>Total Current Assets</b>                      | <b>14,5</b> | <b>17,3</b> | <b>23,5</b> | <b>25,9</b> | <b>25,9</b> | <b>30,2</b> | <b>31,8</b> | <b>35,9</b> | <b>40,4</b> | <b>45,6</b> |
| Net PP&E   | 2,0         | 2,1         | 2,6         | 2,7         | 2,7         | 3,0         | 3,4         | 3,8         | 4,2         | 4,7         |
| Long-Term Investments                            | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| Goodwill   | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| Other Intangibles                                | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| Other Assets                                     | 0,1         | 0,1         | 0,1         | 0,3         | 0,3         | 0,3         | 0,4         | 0,4         | 0,4         | 0,5         |
| <b>Total Assets</b>                              | <b>16,6</b> | <b>19,4</b> | <b>26,1</b> | <b>28,9</b> | <b>28,9</b> | <b>33,5</b> | <b>35,6</b> | <b>40,1</b> | <b>45,1</b> | <b>50,8</b> |
| Accounts Payable                                 | 0,2         | 0,6         | 0,5         | 0,5         | 0,5         | 0,5         | 0,7         | 0,8         | 0,9         | 1,1         |
| Accrued Expenses                                 | 0,7         | 0,7         | 0,9         | 0,7         | 0,7         | 0,7         | 0,8         | 0,8         | 0,9         | 1,0         |
| Other Current Liabilities                        | 0,6         | 1,0         | 1,6         | 1,1         | 1,1         | 1,2         | 1,3         | 1,4         | 1,5         | 1,6         |
| <b>Total Current Liabilities (excl. ST Debt)</b> | <b>1,5</b>  | <b>2,3</b>  | <b>3,0</b>  | <b>2,3</b>  | <b>2,3</b>  | <b>2,3</b>  | <b>2,7</b>  | <b>3,0</b>  | <b>3,3</b>  | <b>3,7</b>  |
| Total Debt                                       | 0,0         | 0,0         | 0,0         | 0,1         | 0,1         | 2,1         | 0,0         | 0,0         | 0,0         | 0,0         |
| Other Liabilities                                | 0,0         | 0,0         | 0,5         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| <b>Total Liabilities</b>                         | <b>1,5</b>  | <b>2,3</b>  | <b>3,8</b>  | <b>2,4</b>  | <b>2,4</b>  | <b>4,4</b>  | <b>2,7</b>  | <b>3,0</b>  | <b>3,3</b>  | <b>3,7</b>  |
| Preferred Equity/Capitalized Assets              | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| Common Stock                                     | 15,1        | 17,1        | 22,3        | 26,5        | 26,5        | 29,1        | 32,9        | 37,1        | 41,8        | 47,1        |
| Minority Interest                                | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         | 0,0         |
| Total Equity                                     | 15,1        | 17,1        | 22,3        | 26,5        | 26,5        | 29,1        | 32,9        | 37,1        | 41,8        | 47,1        |
| <b>Total Liabilities &amp; Equity</b>            | <b>16,6</b> | <b>19,4</b> | <b>26,1</b> | <b>28,9</b> | <b>28,9</b> | <b>33,5</b> | <b>35,6</b> | <b>40,1</b> | <b>45,1</b> | <b>50,8</b> |



### 3. Statement of Cash Flow.

#### Annual Cash Flow Statement

|   | 2017         | 2018         | 2019         | 2020         | mar.-20      | 2021         | 2022         | 2023         | 2024         | 2025         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Income                                | 1,5          | 2,6          | 5,2          | 2,6          | 2,6          | 2,6          | 3,7          | 4,2          | 4,7          | 5,4          |
| D&A                                       | 0,4          | 0,3          | 0,3          | 1,0          | 1,0          | 1,0          | 1,1          | 1,2          | 1,3          | 1,4          |
| Amortization of Goodwill & Intangibles    | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Other Non-Cash Items, Total               | 0,0          | 0,2          | 0,9          | 0,9          | 0,9          | (0,0)        | (0,0)        | (0,0)        | (0,0)        | (0,0)        |
| Change in Net Operating Assets            | (1,9)        | (2,0)        | (0,4)        | (2,8)        | (2,8)        | (0,1)        | (0,8)        | 0,3          | (0,3)        | (0,2)        |
| <b>Cash Flow from Operations</b>          | <b>0,1</b>   | <b>1,1</b>   | <b>6,0</b>   | <b>1,7</b>   | <b>1,7</b>   | <b>3,5</b>   | <b>4,0</b>   | <b>5,6</b>   | <b>5,7</b>   | <b>6,5</b>   |
| Capital Expenditure                       | (0,6)        | (0,4)        | (0,8)        | (1,0)        | (1,0)        | (0,8)        | (0,9)        | (1,0)        | (1,1)        | (1,2)        |
| Sale of PP&E                              | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Cash Acquisitions                         | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Divestitures                              | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Invest. in Marketable & Equity Sec.       | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Other Investing Activities                | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| <b>Cash Flow from Investing</b>           | <b>(0,6)</b> | <b>(0,4)</b> | <b>(0,8)</b> | <b>(1,0)</b> | <b>(1,0)</b> | <b>(0,8)</b> | <b>(0,9)</b> | <b>(1,0)</b> | <b>(1,1)</b> | <b>(1,2)</b> |
| Total Cash Dividends Paid                 | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Issue/(Retire) of Debt                    | 0,0          | 0,0          | 0,5          | (0,3)        | (0,3)        | 2,1          | 0,0          | 0,0          | 0,0          | 0,0          |
| Bank Revolver (Paydown)/Draw              |              |              |              |              |              | (0,0)        | 0,0          | 0,0          | 0,0          | 0,0          |
| LT Debt (Paydown)                         |              |              |              |              |              | (0,1)        | (2,1)        | 0,0          | 0,0          | 0,0          |
| Issue/(Retire) of Common Equity           | 0,0          | 0,0          | 0,0          | 0,3          | 0,3          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Issue/(Retire) of Pref Equity             | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Other Financing Activities                | 0,0          | (0,6)        | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| <b>Cash Flow from Financing Activitie</b> | <b>0,0</b>   | <b>(0,6)</b> | <b>0,5</b>   | <b>(0,0)</b> | <b>(0,0)</b> | <b>1,9</b>   | <b>(2,1)</b> | <b>0,0</b>   | <b>0,0</b>   | <b>0,0</b>   |
| <b>Adjusted Free cash flow</b>            |              |              |              |              |              | <b>2,7</b>   | <b>3,1</b>   | <b>4,6</b>   | <b>4,6</b>   | <b>5,4</b>   |
| <b>Change in Cash</b>                     | <b>(0,5)</b> | <b>0,2</b>   | <b>5,7</b>   | <b>0,7</b>   | <b>0,7</b>   | <b>4,6</b>   | <b>0,9</b>   | <b>4,6</b>   | <b>4,6</b>   | <b>5,4</b>   |



**Legal warning**

*DRACO GLOBAL SICAV register in the Registry of Variable Capital Investment Companies with number 1321 and CIF A-95105227. The management entity of GESIURIS ASSET MANAGEMENT SGIIC, SA registered in the registry of the National Securities Market Commission's entities under number 37. The depositary company, BNP PARIBAS SECURITIES. DRACO GLOBAL records in the Official Register of Banks and Bankers with number 206.*