



Letter from the Chief Executive Officer

Dear Shareholders,

2020 began with a surge of uncertainty on the economic front due to the Covid-19-related pandemic outbreak. Unfortunately, everything we hoped would not happen eventually materialized, including a second wave in the fall that nipped in the bud the world economy's first attempt at rearing its head. Because of the events that bedeviled 2020, it was for Eurotech a forced sabbatical from the growth that had characterized 2018 and 2019.

Even in this crisis, the fabless model adopted and therefore the possibility of having a lot of operating leverage has helped us to be agile and lean and to close the financial statements without losses. All in all, it is a positive result that allows us to start 2021 with a sound financial situation.

In late 2019, prior to the pandemic outbreak, we expected to maintain an acceleration in IoT business growth well into 2020, with more and more customers expected to move from the POC (Proof Of Concept) or pilot deployment phase to the mass production phase, which would benefit revenue and margin growth in this line of business. This prediction has unfortunately been profoundly changed by the economic crisis triggered by the healthcare crisis: the pandemic has forced companies to rapidly change tactics, with short term budget shifts to items such as Cloud and Mobile functional to the activation of smart working and working from home. In other words, budgets have been taken away from the digitalization of machines and assets and have been used for the digitalization of people's work.

Revenue pertaining to the Internet of Things (IoT) business in 2020, however, has demonstrated much more resilience than the traditional embedded computer business, remaining roughly constant compared to 2019; however, the potential of the design-wins achieved in past years has not been expressed and remains to be expressed.

Our competitive positioning remains strong, and this is also supported by the confirmation of our presence in Gartner's 2020 Magic Quadrant for IoT platforms. Being there means we've been able to demonstrate that we have customers using our IoT technologies, willing to be a reference for us, and this is an important element to look forward to the challenges of the near future. There aren't many of us in the Magic Quadrant for IoT platforms, and we can draw two conclusions from that: first, many people talk about IoT but few have real customers and real applications; second, there are still few companies that are truly on the path to digitizing all things.

In this historical phase where most of the industrial IoT market is about projects connecting existing machinery and assets (in jargon brownfield), our hybrid positioning between the real world of machinery and assets (Operational Technology) and the IT world where data is managed and translated into information and knowledge (Information Technology), our integrated hardware and software offering gives us a leg up over players offering only hardware or only software.

The attention paid to cybersecurity issues in the development of our technological components for the IoT is one of the added values of our offer that is highly appreciated by the market, and that positions us among the most advanced and innovative companies in addressing cybersecurity issues in the real world of connected assets, i.e. at the Edge.

To keep Eurotech among the leaders in the technologies we oversee, we made investments in 2020 as well, focusing on the Edge Computing paradigm and postponing or minimizing all other investments that were not essential for implementing our strategy.

Edge Computing was born from the convergence of Operational Technology (OT) and Information Technology (IT) and is the natural evolution of embedded computers, driven by the pervasive availability of Internet connectivity, the demand for cybersecurity typical of always-on devices and the paradigm of distributing intelligence on multiple levels, both at the center and at the periphery.

Edge Computing enables field systems to process data close to its source: this reduces latency issues in communications between the periphery and the data center, lowers data transmission costs and introduces redundancy in connected systems, thus ensuring the reliability and fault tolerance needed in industrial-grade applications. It is no coincidence that ARM recently activated the Cassini Project, which we have joined with commitment, with the aim of fully leveraging innovation at the Edge and accelerating the development of optimized Edge Computing platforms. In particular, the program with ARM will allow us to bring out even more, in the industrial field, the security features of our IoT Gateways and our IoT Edge framework ESF.

Within the Edge Computing strand comes the activation of the partnership with NVIDIA, which will allow us privileged access to leading-edge technologies in the field of accelerators (GPUs) for Artificial Intelligence (AI), thanks to which we will be able to bring to market high-performance and reliable edge computers for industrial, railway, automotive and 5G infrastructure applications.

The partnerships with ARM and NVIDIA are elements of a broader strategy: in this new era, the winner is the one who finds a way to collaborate, not the one who isolates himself, that's why we have invested heavily in a logic of open innovation that by definition is ecosystemic.

In order to become more and more technology and market leaders in the digital transformation underway, we continue to expand our ecosystem of both technology partners and system integrators.

Eurotech's entire portfolio of technological components for Industry 4.0 has been designed to be modular precisely 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 a catalyst for the ecosystem approach. We have thus moved from competition to coopetition, with greater benefits for all.

During 2020, we forged important relationships: we were chosen as a founding partner of the IBM Edge Ecosystem, our Everyware Software Framework (ESF) received AWS IoT Core certification from Amazon, we integrated our Edge technologies with Orange's IoT platform, and – as I mentioned

earlier when talking about Edge Computing – we joined ARM's Cassini Project and we became NVIDIA's Preferred OEM Partner.

The 2020 Global Competitive Strategy Leadership Award earned in February this year by Frost & Sullivan is the best recognition for all the work done in building an ecosystem for IT and OT integration. In fact, Dilip Sarangan, Sr. Director of Research, IoT, and Digital Transformation at Frost & Sullivan, said: "its ability to continue expanding its ecosystem, compete effectively with significantly larger competitors, and capture emerging growth opportunities sets it apart from competitors in the IoT market."

Beyond what the financial results may show, in 2020 we continued to make progress in the implementation of the strategy, in order to be able to best seize the opportunities that the inevitable Fourth Industrial Revolution, based on digital transformation, will bring as soon as the pandemic lets up.

Digitization will be unavoidable, because it not only enables more efficient and less wasteful processes to be put in place but is also the basis for the transformation of companies' production 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. Digitization enables business model change and business model change automatically leads into circular economy.

Moreover, the digitalization of all things requires IoT, and the data produced by IoT feeds Artificial Intelligence. Certainly, Eurotech today has the right hardware and software technologies to meet the demand for digitization of assets that the industrial market will require in the coming years to enable new industrial models, not based on the transfer of ownership of goods but on the provision of services or on the use, in which producer and consumer find a common advantage in the reduction of waste.

The digital revolution can transform this economic crisis into a sort of post-war renaissance, a New Deal focused on creating a new paradigm of economic progress, one that allows us to move from a limit on growth to virtually limitless growth.

At the time I am writing this letter, visibility on the medium-term trend of our business is still low. In February we recorded some first signs of improvement in the order intake in the United States, but it is still early to be able to talk about trends and the coming months will be crucial to have the confirmations we all hope for.

With cash and cash equivalents of around €41 million, we continue to consider growth through external lines, in particular with the aim of facilitating business development in geographical areas where our IoT and HPEC technologies are proving very successful.

To conclude, 2020 was a race with the safety car on the track, but the competitive potential of the Eurotech machine remains unchanged and our desire to express it is even stronger than before.

In the year just ended we have been able to resist while continuing to invest in the future, now it's time to start growing again.

16 March 2021

signed
Roberto Siagri
Chief Executive Officer