

Due Diligence and Valuation Report

Arrowhead Code: 75-04-03
 Coverage initiated: August 17, 2021
 This document: June 13, 2022
 Fair share value bracket:
 (Blended Valuation) EUR 7.2 and EUR 7.5
 Share price (June 10, 2022): EUR 5.2ⁱ

Analysts

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Market Data

52-Week Range: EUR 4.5 – EUR 5.9ⁱⁱ
 Average Daily Volume (3M Avg.): 2,712.0ⁱⁱⁱ
 Market Cap (June 10, 2022): EUR 170.5 million (mn)^{iv}

Financial Forecast (in EUR) (FY Ending – Dec)

EUR	'22E	'23E	'24E	'25E	'26E
High NI (mn)	7.8	11.6	13.3	15.8	18.6
High EPS	0.2	0.4	0.4	0.5	0.6
Low NI (mn)	5.9	9.8	10.3	12.4	14.8
Low EPS	0.2	0.3	0.3	0.4	0.5

Company Overview: Hybrid Software Group (HYSG), headquartered in England and Wales, is a developer of integrated electronics, software, and services for digital printing and industrial inkjet applications. The company operates through its five subsidiaries – Global Graphics Software, HYBRID Software (HYBRID), Meteor Inkjet (Meteor), Xitron and ColorLogic (acquired in Q4 2021). It is listed on Euronext Brussels under the symbol "HYSG".

HYSG's traditional customers are original equipment manufacturers (OEMs) of digital printing equipment and end users, primarily printers, packaging converters, and trade shops which serve the labels & packaging industry. The company is at the forefront of technology developments relevant for printing and manufacturing an increasingly diverse range of goods, from product labelling and packaging, to textiles, floor tiles and wall coverings, and even additive manufacturing and 3-D printing applications.

FY 2021 Financial Overview: Revenue grew significantly by 115.9% Year-over-Year (YoY) to EUR 48.5 mn in FY 2021 owing to the acquisition of HYBRID Software which contributed EUR 20.7 mn in FY 2021. Gross profit increased by 132.4% YoY to EUR 40.1 mn, with gross margin increasing to 82.5% from 76.7% in FY 2020, as software sales by HYBRID Software increased. Consequently, EBITDA grew by 159.2% YoY as it amounted to EUR 12.2 mn, with the EBITDA margin increasing to 25.1% from 20.9%. Cash position improved by EUR 2.4 mn despite the acquisitions.



**HYBRID
SOFTWARE
GROUP**

Company: Hybrid Software Group
 Ticker: HYSG
 Headquarters: Cambridge, United Kingdom
 CEO: Mike Rottenborn
 CFO: Graeme Huttley
 Website: <https://www.hybridsoftware.group/>

Key Highlights: (1) The company changed its name from "Global Graphics PLC" to "Hybrid Software Group" in October 2021 to represent the changed outlook of the company in-line with its new acquisitions and offerings; (2) Acquired iC3D, an all-in-one package design software, from Creative Edge Software for USD 4.0 mn; (3) Acquired ColorLogic, a developer of color profiling and conversion software, to upgrade its own color management tools; (4) HYBRID Software partnered with Digimarc to use its digital watermarking techniques to offer superior solutions for sustainable packaging and brand integrity; (5) It appointed Bob Zhang as its manager of OEM sales for Asia Pacific with plans to expand in Asia-Pacific; (6) HYSG acquired a regional reseller to open an office in Barcelona; (7) It was granted a US patent for the technology behind the PrintFlat™ software; (8) HYSG's strategic focus is to a) provide all critical core technologies for industrial print manufacturing, b) be the go-to supplier of choice for OEMs for their turnkey solutions or for individual components to enable them to build their own solutions; (9) HYBRID Software contributed EUR 20.7 mn to the total revenue in FY 2021; (10) HYSG aims to maintain legacy revenue streams while collaborating as a group to deliver turnkey digital front end (DFE) and enterprise workflow automation to digital print OEMs; (11) HYSG is the only vertically integrated supplier to the market and can derive captive margins for group products by integrating them into end-user products

Key Risks: (1) HYSG's chairman has indirect ownership of 82.12%, which poses the risk of shareholder influence on the company's business operations and illiquidity for trading in its shares, and (2) HYSG's revenue is driven by its proprietary technology and business performance is dependent on its intellectual property (IP) protection

Valuation and Assumptions: Based on its due diligence and valuation estimates, Arrowhead believes that HYSG's fair share value lies in the EUR 7.2 to EUR 7.5 bracket, calculated using a blended valuation method, with 90% weighting to the discounted cash flow (DCF) method and 10% weighting to valuation based on an EV/EBITDA multiple. Our DCF model HYSG suggests a fair value bracket of EUR 6.8 to EUR 7.2, while a relative valuation provides a fair value of EUR 10.4.

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1. Investment Thesis

Arrowhead is updating coverage of HYSG with a fair value of EUR 7.2 per share in the low bracket scenario and EUR 7.5 per share in the high bracket scenario, using DCF and relative valuation methodologies.

HYSG is the only vertically integrated supplier to the market, and it aims to capitalize on the opportunity created by the shift from analogue methods to digital printing. The company plans to capture new geographies and cross-sell its products, powered by the acquisition of HYBRID and backed by its accelerated innovation focus...

Strong focus on innovation to develop new technologies and products to fulfill the new and emerging demands of the industry; efforts recognized with various awards and accolades

HYSG states that it is the only full-stack supplier and one-stop shop for all critical core technologies for the industrial inkjet industry. It plans to capitalize on opportunities in the emerging fields of turnkey DFE solutions and enterprise workflow automation. The company continuously invests in innovation to devise new technologies and products with c. 30% of revenue directed toward R&D expenditure, and c. 30% of the workforce are developers (latest head count at 258). The company has 80 developers and at least 10 of them hold Ph.D. degrees.

The company has won various awards, including a) the 2021 Buyers Lab (BLI) Outstanding Innovation Award in Production Print from Keypoint Intelligence for its Direct range, b) the 2020 Queen's Award for Enterprise, recognizing innovation in developing ScreenPro™, c) the Printing Industries of America InterTech™ Technology Award for PrintFlat™, d) the Printing Industries of America InterTech™ Technology Award for ScreenPro™, e) the 2021 FTA Award for Intelligent Flexo, a breakthrough module in CLOUDFLOW, f) the 2020 FTA Technical Innovation Award for CLOUDFLOW Patchplanner and g) the 2020 InterTech™ Technology Award for the Navigator DFE.

HYSG plans to capture the market in the growing packaging segment, sustainable textiles segment and emerging additive manufacturing, and has set a revenue growth target of 2x in five years

The global packaging industry is expected to grow from USD 876 bn in 2020 to USD 1.1 tn in revenue by 2030, which is likely to be c. two thirds of the global print market. Ceramics is currently the largest user of industrial inkjet equipment and components in the world, where 90% of manufacturing has converted to inkjet over a 10-year period. The global ceramic tiles market is projected to increase to USD 91.1 bn by 2027. Adoption of single-pass inkjet is rising for textiles, where global digital production has increased from 6% to 10% in just one year (2020), driven by the pandemic. Additive manufacturing is expected to rise at a rate of 14.4% to reach USD 26.7 bn by 2027.

HYSG has set a revenue target of EUR 45-50 mn for FY 2021 and plans to increase it to EUR 100 mn by FY 2026. Additionally, the company has set an EBITDA target of EUR 35 mn by FY 2026. The plan is to achieve the growth target through a contribution of c. 75% from organic growth and 25% from future acquisitions.

The company is actively looking for institutional shareholders for private placement followed by a capital increase to fuel its plan of accelerated innovation and revenue growth.

HYSG acquired HYBRID in January 2021 to capture the opportunity created by automated production in the packaging segment

The onboarding of HYBRID has added capabilities such as a) a larger base of end-user customers in the growing labels & packaging segment, b) entry into the ES space with powerful workflow automation integrated with manufacturing systems, c) captive margins for group products, such as Harlequin®, which are integrated into end-user products, d) revenue models for end users and OEMs, including subscriptions, Software-as-a-Service (SaaS), and software rental and e) development experience in turnkey products to augment HYSG's OEM technology development.

Before the acquisition, HYSG's customer base was mainly OEMs, i.e., customers who manufacture package, ceramics, textiles, and 3D printing. However, HYBRID's customers are predominantly end users, i.e., companies creating packaging files and packaging converting companies. After the acquisition of HYBRID, HYSG has become the only vertically integrated supplier to the market and its group companies are technology leaders in their respective market segments.

Tapping new markets and adding new customers through its geographically widespread sales team while reducing its dependency on a few prominent customers

The HYBRID acquisition has doubled HYSG's headcount and revenue and allows the company to further develop its digital print strategy with a complete offering of products and solutions targeted across markets and geographies. HYBRID has added the key asset of specially trained employees who have been selling directly to end users in all major markets worldwide by providing support, training, and integration services. The local sales and support teams with application-specific knowledge of labels & packaging represented a key value driver for the acquisition. The company has 45 salespeople and 85 support personnel and plans to add to the team as needed for opportunistic growth.

HYBRID's customers are worldwide, with 40-50% of revenue share accounted for by the European Union (EU). The acquisition is strategically important for HYSG as HYBRID has a large end-user customer base in the growing labels & packaging market and brings ES technology and solutions to the company.

HYBRID's top 10 customers contribute 30% to its top line, thus helping HYSG to reduce its dependency on a few significant customers for its revenue. Moreover, the higher mix of the high-margin software revenue contribution of HYBRID is expected to improve the company's gross margins.

HYSG to focus on developing and growing a sustainable business

The company is equally committed to sustainability. Inkjet is inherently sustainable and environment-friendly due to its wide compatibility, while focus industries cause minimal waste. Textiles offer the benefit of saving on water and electricity in comparison to pigmented dyes and weaving, and packaging offers just-in-time production of materials, thus minimizing inventory-related wastage. Additionally, Global Graphics Software and Meteor have switched to renewable energy sources. HYSG aims to be carbon neutral by the end of 2021 as its Board of Directors (BoD) has approved a carbon-offset scheme based on tree plantation, with an objective to neutralize the impact created by business activity and related travel.

...however, certain risks could impede its growth plans

Concentration of substantial percentage of ownership with one shareholder

HYSG's chairman, Guido Van der Schueren, has obtained 82.12% of the company's voting rights through his controlling stake in Congra Software (Congra) after the acquisition of HYBRID. Thus, the stake for other shareholders, who had a voting right of 49.9% prior to the transaction, was reduced to just 17.84% after the issuance of new shares. Mr. Van der Schueren's indirect holding provides him with the ability to exercise significant influence over matters such as a) decisions requiring shareholder approval, b) management and corporate policies such as strategies, dividend policy and capital expenditure plans, c) trading volume and the market price of shares creating an impact on the value of investments and d) business decisions such as acquisition, merger, consolidation, takeover and change in control. However, as a mitigation effort, the company has three independent directors.

Business performance is contingent on security of company's network and systems

HYSG's operations are dependent on information technology systems, which include internet-based systems and thus are prone to breakdowns, intrusions, breaches, and attacks. This creates a risk of losing important information belonging to both the company and its related third parties. Exposure of HYSG's IP-related information may result in the company losing its competitive advantage, as its product development is based on its IP technological know-how.

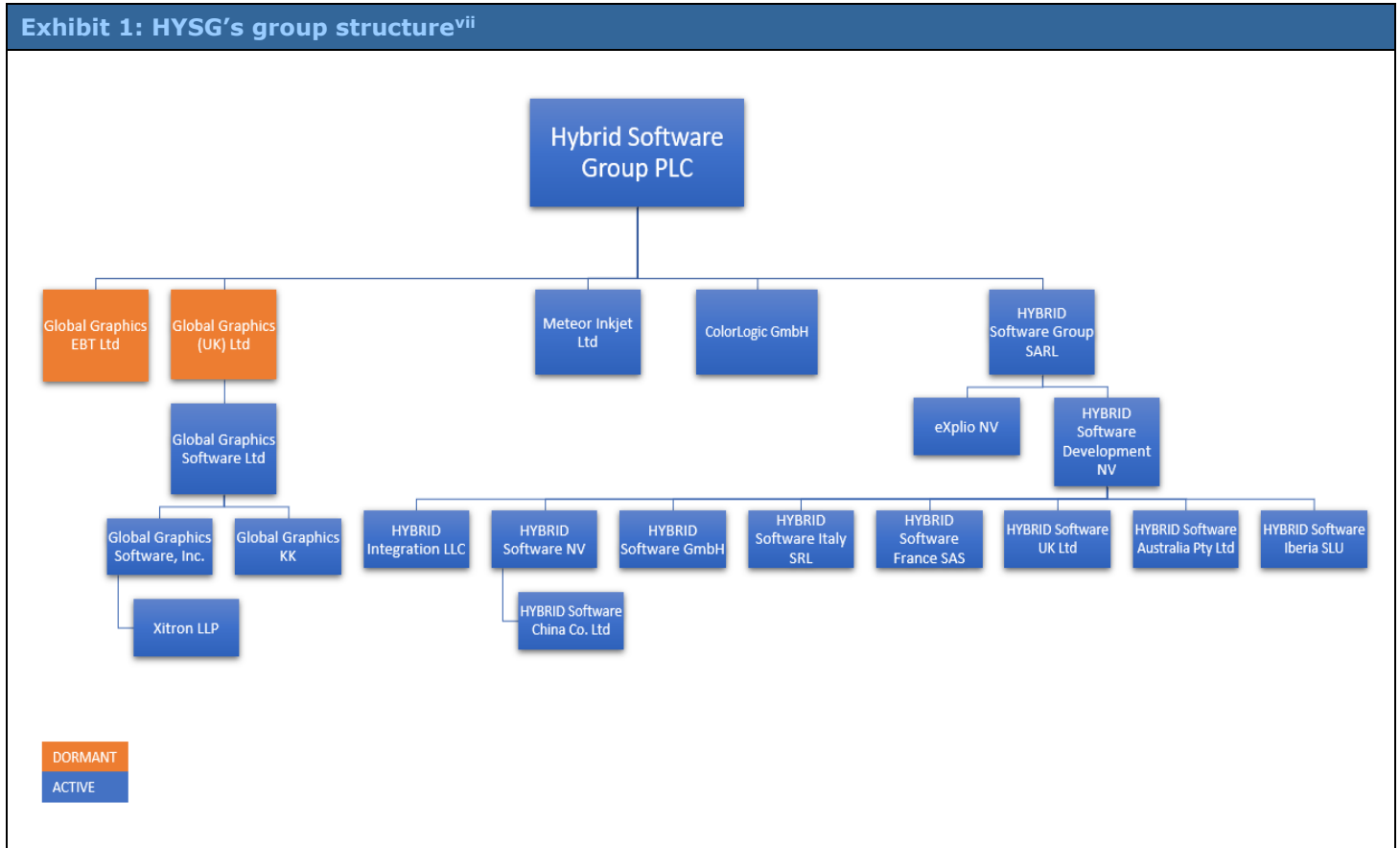
Investment thesis conclusion

HYSG has a lucrative opportunity to cater to new and emerging demands in a developing and growing digital printing and graphic arts industry. It has identified the focus industry of labels & packaging and is working toward integrated solutions to fulfill the need of its customers while also capturing new markets. Its ambitious revenue and EBITDA targets are to be driven by a combination of organic and acquisition strategies, and it is also focusing on continued innovation to differentiate itself from competitors. However, such efforts have capital raising requirements; the company is actively looking for institutional shareholders but is faced by the hindrance of a concentration of ownership in the company's shares. Additionally, it needs to protect its technological know-how while overcoming the barriers related to supply chain restraints caused by disruptive trade agreements.

2. Business Overview^{vi}

HYSG, a public limited-liability company, is registered in England and Wales and is traded on Euronext Brussels under the stock code "HYSG." HYSG's traditional customers are OEMs, through which the company delivers technological developments used for printing and manufacturing a diverse range of goods. It manufactures food labels & packaging, textiles, floor tiles, wall coverings, additive manufacturing, and 3-D printing applications, among other goods.

The company currently holds interests in 16 entities on a consolidated level.



HYSG states that it is the only full-stack supplier and one-stop shop for all critical core technologies for the industrial inkjet industry. The company continuously invests in innovation to devise new technologies and products with c. 30% of revenue directed toward R&D expenditure, and c. 30% of the total workforce are developers. The company has 80 developers and at least 10 of them hold Ph.D. degrees, emphasizing HYSG's focus on R&D and developing improvised product. Additionally, the company plays an active role on industry standards committees and has a portfolio of patents across various areas of printing technology.

HYSG has major, large OEMs as customers. In FY 2021, 42.3% of its revenue was contributed by 10 customers. The company's single largest customer in Printhead Solutions represented 48.2% of its revenue, contributing EUR 6.7 mn to the total revenue. However, the acquisition of HYBRID partially mitigates the risk of dependency on a relatively small number of significant customers. HYBRID has predominantly end users as customers, and its top 10 customers are accountable for only 30% of its revenue. This resulted in improvement in revenue concentration in FY 2021 with top 5 customers for 35.1%. The single-largest customer contributed 13.9% of revenue in FY 2021 vs 22.4% in FY 2020.

Guido Van der Schueren, the company's chairman, is also a controlling shareholder of Congra, with a 70.00% holding. This translates to his indirect holding of 82.40% in HYSG after the acquisition of HYBRID through his controlling stake in Congra. Previously, Congra was a holding company for the set of companies trading under the name HYBRID.

2.1 Operating Subsidiaries^{viii}

HYSG develops integrated electronics and software platforms for digital printing and industrial inkjet through its existing five operating subsidiaries:

1) Global Graphics Software

- Developers of software for high-speed digital printing, used by press manufacturers (OEMs)
- 70 employees; four locations worldwide; 200+ customers, mainly OEMs; EUR 10 mn revenue in 2020
- Trusted partner for largest industry OEMs for more than 30 years
- Efficient software to lower the hardware cost even for high-speed printers
- Deep technical expertise to help partners adopt new technology and launch new products faster
- Continuous innovation to improve speed and quality of all digital printing devices
- Key products – Harlequin®, Mako, ScreenPro, PrintFlat and Direc

Its awards include:

- 2021 BLI Outstanding Innovation Award in Production Print from Keypoint Intelligence for Direct range (announced on October 5, 2020)
- Queen’s Award for Enterprise, recognizing innovation in developing ScreenPro™ (announced on April 21, 2020)
- Printing Industries of America InterTech™ Technology Award for PrintFlat™ (announced on July 26, 2019)
- Printing Industries of America InterTech™ Technology Award for ScreenPro™ (announced on August 1, 2018)
- Pinnacle InterTech Award from PRINTING United Alliance for Direct™ software (announced on September 27, 2021)

2) HYBRID (acquired in January 2021)

- Developers of editing and workflow automation software for labels & packaging, used by brand service companies and packaging printers & converters
- 115 employees; nine locations worldwide; 1,000+ customers, mainly end users; EUR 16.8 mn pro forma revenue in 2020
- Long-term partnerships with loyal end-user customer base
- Local packaging experts handling sales, training, and support in major global markets
- Specialized products for labels & packaging production based on open standards
- Enterprise focus with growing recurring revenue component
- Key products – PACKZ, Stepz and CLOUDFLOW

Its awards include:

- 2021 FTA Award for Intelligent Flexo, a breakthrough module in CLOUDFLOW (announced on November 5, 2021)
- FLAG Vendor Partner of the Year, awarded by Flexo Label Advantage Group (announced on October 22, 2020)
- 2020 FTA Technical Innovation Award for CLOUDFLOW Patchplanner (announced on April 23, 2020)
- Printing Industries of America InterTech™ Technology Award for VDP (announced on July 24, 2019)

3) Meteor (acquired in December 2016)

- Specialists in industrial printhead driver solutions, used by inkjet press manufacturers (OEMs)
- 40 employees; three locations worldwide; 175+ customers, mainly OEMs; EUR 10 mn revenue in 2020
- Dynamic and growing company in the heart of the inkjet industry
- Close partnerships with major industry printhead manufacturers and equipment vendors

- Tightly integrated electronics and software eases adoption by OEMs
- Common software foundation makes printhead changes easy as technology evolves
- Key products – printhead drive electronics, data path software development kits, development kits for new inkjet OEMs containing hardware and software, integrated print engine controllers, DropWatcher™ and waveform development tools and purpose-built DFEs for various printing applications

Its awards include:

- Queen's Award for Enterprise (announced on April 23, 2019)

4) Xitron (acquired in November 2019)

- Largest distribution channel for Global Graphics Software's Harlequin® RIP (raster image processor) and developer of production DFEs and workflow solutions
- 25 employees; two locations worldwide; 8,000+ customers, mainly end users; EUR 4 mn revenue in 2020
- Oldest group company, established in 1977
- Worldwide partner network for sales and end-user support
- Experienced engineering resources for in-line print manufacturing installations
- Mix of end-user and OEM sales, which complements Meteor's OEM footprint
- Key products – Navigator RIP, Navigator DFE and Navigator Workflow

Its awards include:

- 2020 InterTech™ Technology Award for DFE (announced on September 22, 2020)
- Awarded Patent for Innovative USB-SCSI Interface (announced on November 5, 2018)

5) ColorLogic (acquired in October 2021)

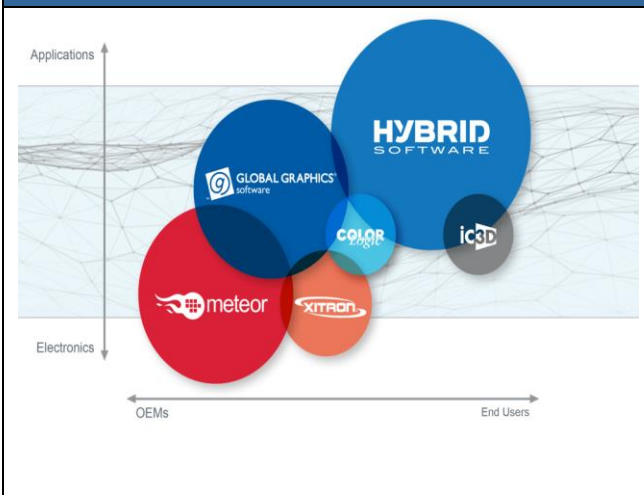
- Leading developers of high-end color management technologies
- Perfect fit for Harlequin® RIP as the products of ColorLogic provide extended gamut color management
- Its tools provide the perfect combination of speed and quality for the demanding applications of digital printing
- Products and technology will enhance the existing offerings of HYSG
- Existing customers include both OEMs and end users

Its awards include:

- 2021 Pinnacle Product Award from the PRINTING United

2.2 Business Model^{ix}

Exhibit 2: Market positioning of subsidiaries^x



The needs of customers are evolving as the inkjet industry matures, where OEMs require solutions to help them launch products faster, instead of individual hardware and software components that must be integrated.

HYSG’s business model focuses on directly licensing software technology to OEMs and system integrators of digital printing equipment, to developers of applications that create, manipulate, and manage electronic documents, and to end users who print and convert labels and packaging materials.

Meteor’s printhead driver solutions can drive all leading inkjet heads and are sold directly to the manufacturers of the printing devices. Finally, Xitron’s RIPs and DFE solutions are sold both to OEMs and directly to end users through their worldwide partner network.

Consequently, the company’s printing technology is used by industry-leading brands of digital pre-press systems, high-speed digital production presses, professional colour proofing

devices, wide-format colour printers and industrial inkjet systems for ceramic tiles, packaging, product decoration, textiles, and 3-D printing.

HYSG has traditionally been focused on its RIP software business. Harlequin® RIP represents a significant portion of the company’s revenue. However, the RIP market has now matured. Most of the OEMs have already chosen a supplier and market needs are changing rapidly. Therefore, to broaden its business model, the company acquired HYBRID in January 2021.

HYBRID has acted as an additive to HYSG’s existing business model through additional capabilities and no adverse effects on the products, channels or markets already served by Global Graphics Software, Meteor and Xitron.

There is synergy between the end-user sales made by HYBRID and Xitron and the OEM sales made by Global Graphics Software and Meteor where the products are properly designed and integrated and each sale channel supports the other. HYSG is a collection of five inter-related businesses and plans to deliver turnkey products to unlock more value. For example, SmartDFE launched in Q2 2021 is the first product co-developed by all four companies.

The scope of the business model has broadened through inclusion of the following capabilities:

- Larger base of end-user customers, especially in the growing labels & packaging segment
- Entry into the ES space with powerful workflow automation integrated with manufacturing systems
- Captive margins for group products, such as Harlequin®, which are integrated into end-user products
- New revenue models for end users and OEMs, including subscriptions, SaaS, and software rental
- Development experience in turnkey products to augment HYSG’s OEM technology development

2.2.1 Segments^{xi}

The company’s segments include:

- Printing Software – graphic processing engines for fast and high-quality digital output
- Printhead Solutions – electronics and software for industrial inkjet devices
- Enterprise Software – file preparation and workflow automation for print manufacturing

In May 2020, HYSG sold its entire Fonts segment following a strategic decision to focus on the industrial printing market and focus on the company’s core competencies of printing software and device electronics.

Printing Software

Graphic designs need to be broken down into vector data (mathematical drawing algorithms), raster data (image pixels) and/or screened data (calibrated areas of ink or pigment representing image data) before being printed or displayed. HYSG develops software components and workflow solutions for high-speed digital printing for a variety of applications, such as photo books, labels & packaging, interior decor, textiles, and ceramics. Solutions are typically licensed under technology agreements and reseller agreements. It additionally provides full set of colour management applications for digital printing as inks provided by printer may have the required quality to ensure exact matching of brand specific colours used for packaging and corporate branding. It also provides a Software Development Kit (SDK) which enables OEMs to produce their own set of colour management tools.

The product range includes Harlequin® Host Renderer (HHR), ScreenPro™, Colour management software, Mako™ software development kit (SDK), Direct, Fundamentals™, Navigator Harlequin® RIP and Workflow, and Navigator DFE. Customers include Hewlett Packard, Mimaki, Mutoh, Canon, Durst, Roland, Agfa, Kodak, Kirk-Rudy, Postmark, Ryobi, Mitsubishi, Memjet, Presstek, Printware and Neopost.

Printhead Solutions

Meteor develops and supplies driver electronics, software, tools, and services for industrial inkjet systems. The industrial inkjet market includes ceramic tiles, packaging, functional & 3-D printing, product decoration and textiles. HYSG's software and proprietary driver electronics send data to printheads inside inkjet devices to control the printing process. Printheads are a component of an inkjet press and generally contain multiple nozzles for jetting ink or other fluids onto substrates.

HYSG identifies inkjet printer development projects through major industrial printhead manufacturers, which include vendors such as Xaar, FUJIFILM Dimatix, Kyocera, Konica Minolta, Toshiba TEC, SII, Ricoh, Epson, and Xerox. The company develops electronics and software drivers for new printhead models and partners with printhead manufacturers and OEMs to accelerate their route to production.

HYSG states that its solutions reduce development risk and time to market for manufacturers building new industrial inkjet presses. Its customers include Mark Andy, a leading label equipment manufacturer in the US, Hymmen, a leading printed laminate equipment manufacturer in Germany, and China's leading ceramic tile decoration equipment manufacturer.

The products comprise a) electronics to drive industrial printheads, b) application-tuned Meteor DFE or bespoke software using a Meteor Software Development Kit and c) tools and services such as DropWatcher™.

Enterprise Software

This segment has been added in FY 2021 due to addition of HYBRID, a software development company focused on innovative productivity tools for the graphic arts industry, predominantly print service providers and converters in the labels and packaging segments. HYBRID's workflow software, editing software and integration products offer a unique set of advantages that include native PDF workflows, vendor-independent solutions based on industry standards, scalable technology, and low total cost of ownership. Its products are used worldwide by customers in all areas of pre-press and printing, including labels & packaging, folding cartons, corrugated, wide-format and digital printing.

This acquisition is strategically important for HYSG because HYBRID has a large end-user customer base supported by a worldwide sales-and-service organization in the growing labels & packaging market and brings enterprise software technology and solutions to HYSG. The acquisition allows HYSG to further develop its digital print strategy with a more complete offering of products to access new markets and potential customers.

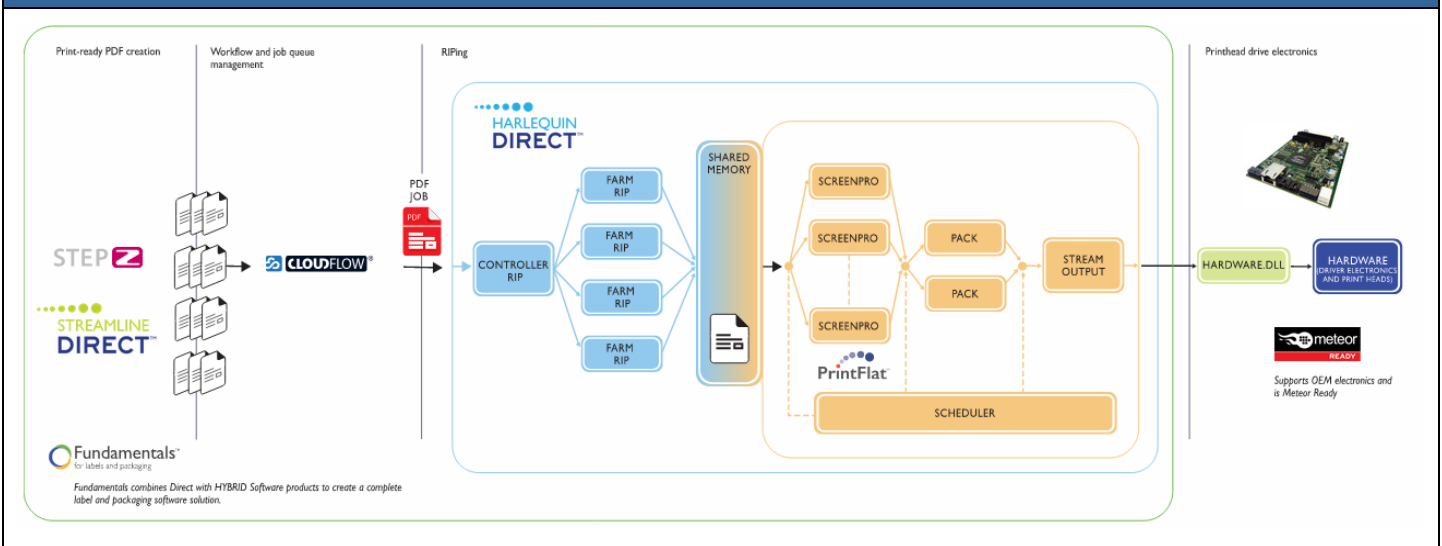
2.2.2 Key Products^{xii}

HYSG's key products and technologies are:

- HHR: Software that converts text and image data from many file formats including PDF, TIFF™ or JPEG into a format that a printing device such as an inkjet printhead, toner marking engine or laser plate-setter can understand
- ScreenPro™: Software that converts continuous tone image data into ready-to-print halftone (dots of varying size and spacing) in real time

- Mako™ SDK: Software that creates, RIPs, converts, analyses, and optimizes many different page description languages. It allows print software developers full control over colour, fonts, text, images, vector content and metadata
- Direct: Software that drives print data directly to the printer electronics instead of buffering them on mass storage devices
- Fundamentals™: A bundle of PDF creation and workflow software for labels & packaging
- Printhead electronics: Electronics to drive industrial inkjet heads accompanied by software to provide a toolset for building industrial printing devices
- DropWatcher™: Turnkey tools for analysing and tuning ink drops in flight, with associated waveform services for ink characterization and waveform optimization
- Navigator Harlequin® RIP and Workflow: Software that provides prepress environments with interpretation of PostScript, PDF, and EPS format files
- Navigator DFE: Software that helps prepare jobs, manage colour and the workflow to drive electronics
- CLOUDFLOW: A modular production workflow suite for file processing, asset management, soft proofing, and workflow automation
- PACKZ: A professional PDF editor for labels & packaging workflows

Exhibit 3: Products offered^{xiii}



2.2.3 Acquisition of HYBRID^{xiv}

The businesses of HYSG’s OEM customers were adversely affected in 2020; however, the labels & packaging segment flourished in the fields of run length and stock-keeping unit (SKU) count. HYSG plans to capture the opportunity created by rapid transition to automated production, and hence acquired HYBRID on January 12, 2021 for a consideration price of EUR 80 mn fulfilled by issuing 21.1 mn shares of HYSG to Congra.

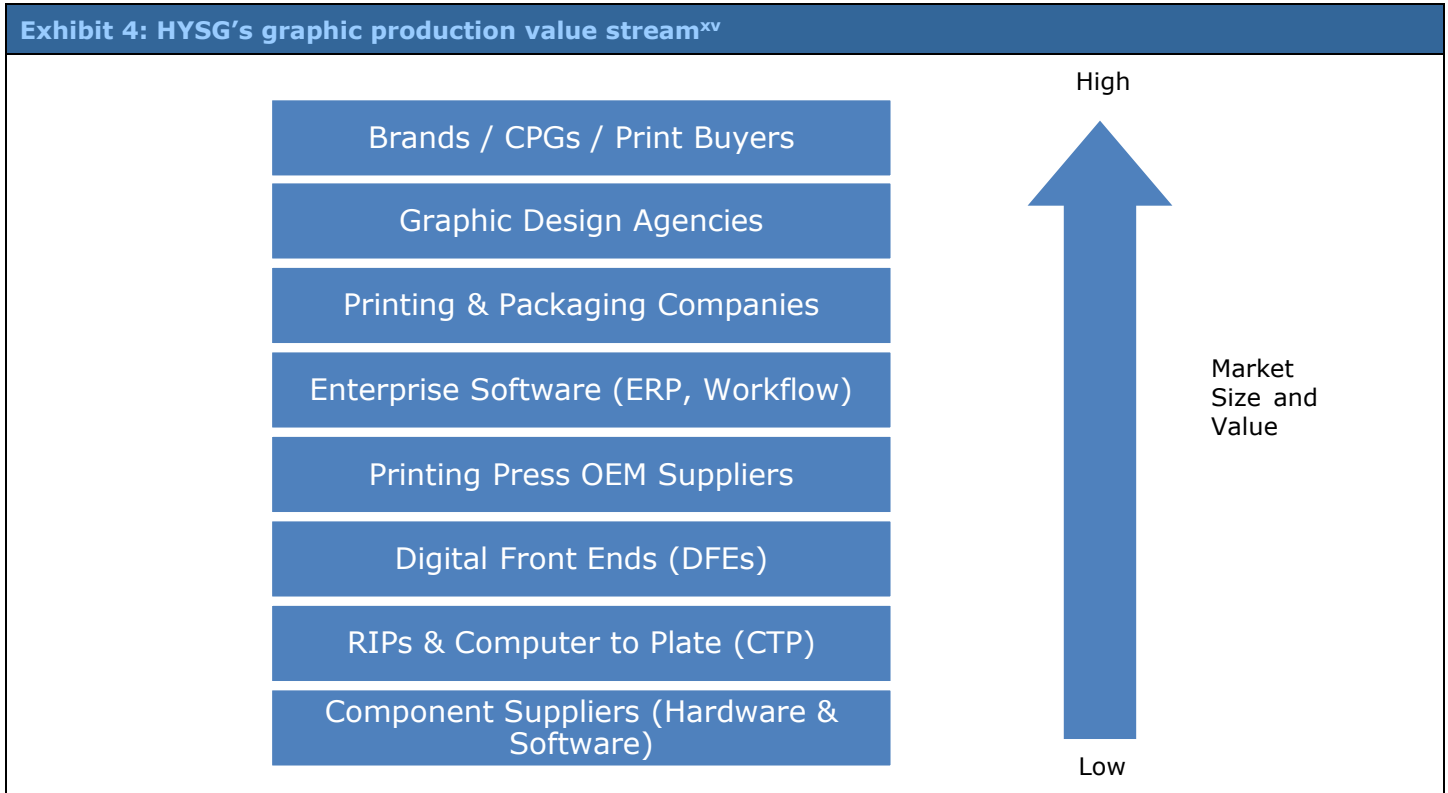
HYBRID, a group of software development and marketing companies, offers ES for the graphic arts industry, and has a strong focus on labels & packaging. Congra was a holding company for this set of companies, in which the operating subsidiaries used to trade under the name of HYBRID.

The acquisition of HYBRID has made HYSG a single provider of all core technologies, both electronics and software, required to drive digital printing equipment. The acquisition of HYBRID Software brought extensive expertise in labels and packaging, a worldwide sales and technical organization, a growing recurring revenue component, and most importantly, a very profitable end-user sales presence to the group.

Before the acquisition, HYSG’s customer base was mainly OEMs, i.e., customers who manufacture package, ceramics, textiles, and 3D printing, while HYBRID’s customers are predominantly end users, i.e., companies creating packaging files and packaging converting companies. HYBRID’s top 10 customers contribute 30% to its top line, thus helping HYSG to reduce its dependency on a few significant customers for the company’s revenue. Moreover, the higher mix of the high-margin software revenue contribution of HYBRID is expected to improve the company’s gross margins.

HYBRID’s customers are worldwide, with 40-50% of revenue share contributed by the EU. The acquisition is strategically important for HYSG because HYBRID brings ES technology and solutions to the company along with a large end-user customer base. The acquisition allows HYSG to further develop its digital print strategy with a more comprehensive product offering, which will help the company to tap new geographies.

Exhibit 4: HYSG’s graphic production value stream^{xv}



In addition, HYBRID’s acquisition has addressed the following challenges:

- Harlequin® faced stiff competition and price pressure from other RIP suppliers. The acquisition provides HYSG with access to products and segments that relied on Harlequin® but added significant additional value and delivered higher prices and margins
- HYSG previously was a technology supplier and not a product manufacturer, thus it missed out on the higher margins. After the acquisition, HYSG has developed the capability of supplying turnkey solutions to end-user customers
- Labels & packaging comprise a fast-growing segment for digital printing that requires specialized knowledge and advanced software solutions. HYBRID has the required expertise, offered related products and enhanced HYSG’s technology portfolio
- HYSG was finding it difficult to accommodate the demand by OEMs and end users for new business models, which included SaaS and subscriptions in addition to perpetual licensing agreements, as the segment was already under price and margin pressure. The addition of HYBRID has enabled HYSG to grow the breadth and value of its own products and derive benefits from the sales models and SaaS-based licensing practices owned by HYBRID

- Onboarding HYBRID added the key asset of specially trained employees who were selling directly to end users in all major markets worldwide by providing support, training, and integration services. The local sales and support teams with application-specific knowledge of labels & packaging represented a key value driver for the acquisition. The company has 45 salespeople and 85 support personnel and plans to add to the team as needed for opportunistic growth

2.3 Financial Overview^{xvi}

Q1 2022

HYSG reported a revenue of EUR 12.5 mn in Q1 2022, up 1.7%, as the Printing Software and Enterprise Software segment grew, even while the Printhead Solutions segment saw a decline owing to a supply chain issues.

Overall EBITDA for the company declined by 14.9% to EUR 2.7 mn in Q1 2022 as an increase in hiring and resumption of travel led to higher personnel costs and marketing expenses.

FY 2021

HYSG reported a revenue of EUR 48.6 mn in FY 2021, registering a YoY growth of 115.9%. The growth was largely driven by the acquisition of HYBRID Software, which contributed EUR 20.7 mn to the revenue. Gross profit amounted to EUR 40.1 mn, 132.4% higher on a YoY basis as the software sales increased leading to a better product mix. EBITDA increased to EUR 12.2 mn by 159.2% YoY in FY 2021. In addition to YoY growth, the gross and EBITDA margins increased to 82.5% and 25.1% from 76.7% and 20.9% in FY 2020 respectively. As a result, net profit from continuing operations grew by 180.6% YoY to EUR 4.9 mn, with EPS remaining constant (at EUR 0.15 per share) despite issuance of shares.

Despite the acquisitions and repayment of loans, the cash position improved to EUR 9.2 mn from EUR 6.9 mn in FY 2020 as the strong operating performance led to cash inflows from operating activities of EUR 9.5 mn as compared to EUR 1.5 mn in FY 2020.

Customer dependence on limited customers improved in FY 2021. The 10 largest customers of the group contributed 42.3% of total revenue in FY 2021 which was 52.5% in FY 2020. The 5 largest customers in FY 2021 contributed 35.1% of groups revenue which was 45.4% in FY 2020.

Xitron reported a sales growth of 28% in FY 2021 as compared to FY 2020, as it topped its revenue targets each month with digital inkjet OEMs segment reporting the highest growth while the traditional printing customers segment also reported a strong performance.

Global Graphics Software saw the sales grow by 5% in FY 2021 as compared to FY 2020. The transition to a customer-driven approach from a technology-driven approach helped in bringing several significant contracts in FY 2021 and build a prospective pipeline for FY 2022.

Meteor Inkjet saw a growth of 42% in FY 2021 as compared to FY 2020, driven by the demand in the Chinese ceramics market, increased production of new inkjet devices in the market and new customers on boarded in the 3D printing and additive manufacturing segment.

1H 2021

Revenue, at EUR 23.8 mn, doubled from EUR 11.9 mn in H1 2020 mainly because of the acquisition of HYBRID. Gross profit, at EUR 19.7 mn, improved from EUR 9.5 mn in H1 2020 with gross margin at 82.6% in H1 2021 vs 79.8% a year earlier because of the higher mix of software-related sales during H1 2021, particularly higher-margin sales to end-users by HYBRID. EBITDA reported at EUR 5.8 m vs EUR 3.9 mn a year earlier. Cash stood at EUR 13.6 mn vs EUR 6.9 mn a year earlier.

The company started 2021 with acquisition of HYBRID where it brought a key OEM customer to the group and that helped HYSG to retain all HYBRID sales rather than just royalties from Harlequin RIP licensed to HYBRID. Its consolidation resulted in group revenue of EUR 23.8 mn in H1 2021 with HYBRID's contribution at EUR 10.4 mn and EBITDA margin at 35%, thus improving the overall position of the group. Further, cashflow from operations improved from EUR -0.2 mn in H1 2020 to EUR 7.5 mn in H1 2021.

Meteor continued to register strong sales in the Chinese ceramics market. Additionally, its sales outside of China continued to grow, driven by increased orders from existing customers worldwide and new customers in 3D-printing and additive manufacturing segment.

Xitron's sales benefitted from increased OEM business and end users upgrading older Navigator RIPs to the newest version built on Harlequin V13.

Global Graphics Software has an uptick in royalties from key OEM customers, however, royalties are not reported until printing devices are installed and signed off by customers. There is no major contract renewal due in 2021 and cancellation of Drupa trade show has postponed some new product announcements by OEM customers.

FY 2020

HYSG reported revenue of EUR 22.5 mn in FY 2020, an increase of 21.7% from EUR 18.5 mn in FY 2019. Its gross profit stood at EUR 17.3 mn in comparison to EUR 15.0 mn in FY 2019. EBITDA in FY 2020 increased from EUR 2.3 mn in FY 2019 to EUR 4.7 mn in FY 2020. Net profit from continuing operations reported at EUR 1.8 mn with one-time gain of EUR 4.2 mn in FY 2020 due to disposal of Fonts business, in comparison with net loss of EUR 0.4 mn in FY 2019.

The subsidiaries' contribution of revenue in FY 2020 was EUR 10 mn for Global Graphics Software, EUR 10 mn for Meteor and EUR 4 mn for Xitron.

Pro forma revenue for HYBRID stood at EUR 16.8 mn in FY 2020 with gross profit at EUR 16.3 mn. Operating profit was EUR 3.8 mn and net profit totaled EUR 3.2 mn. The addition of HYBRID to the company has almost doubled its top line and headcount, with pro forma revenue at EUR 39.1 mn and gross profit at 33.5 mn. Operating profit stood at EUR 3.1 mn and net profit at EUR 7.0 mn.

2.3.1 By Segment^{xvii}

Q1 2022

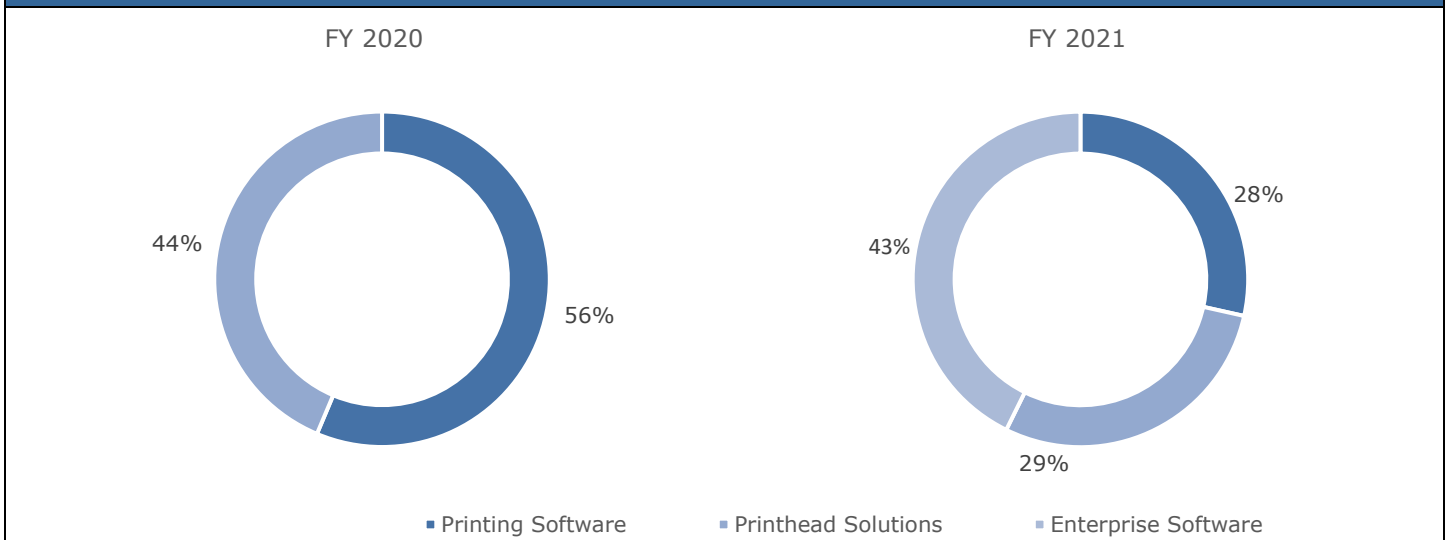
Printing Software reported a revenue EUR 4.9 mn in Q1 2022, up 111.2%. Enterprise Software showed a YoY growth of 8.7% to EUR 5.9 mn in Q1 2022.

Revenue for Printhead Solutions declined considerably by 62.6% to EUR 1.7 mn in Q1 2022 owing to shortage of supply of electrical components. The company has redesigned one of the key products with more readily available parts which will allow it offset the decline in Q1 2022 throughout the rest of the year.

FY 2021

Printing Software segment reported a revenue of EUR 13.8 mn, growing by 9.2% YoY, and included revenue from the newly acquired ColorLogic. Printhead Solutions segment exhibited a growth of 42.4% with the top 10 customers contributing 76.7% of the total revenue. The new segment as a result of the HYBRID Software acquisition, Enterprise Software contributed EUR 20.7 mn to the revenue of FY 2021.

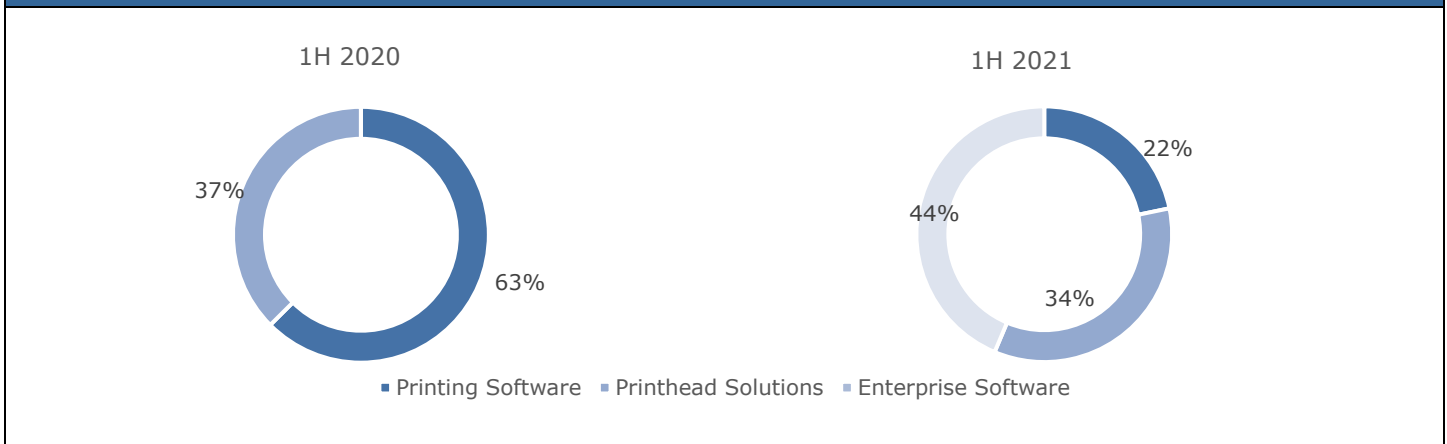
Exhibit 5: Revenue contribution by segment^{xviii}



1H 2021

Printing Software contributed revenue of EUR 5.2 mn for H1 2021 vs EUR 7.4 mn for H1 2020 as a customer exercised an option in their contract which extended the contact and resulted in recognition of EUR 2.3 mn in H1 2020. Printhead Solutions’ revenue stood at EUR 8.2 mn for H1 2021 vs EUR 4.5 mn for H1 2020. Revenue from Enterprise Software was reported at EUR 10.4 mn in H1 2021.

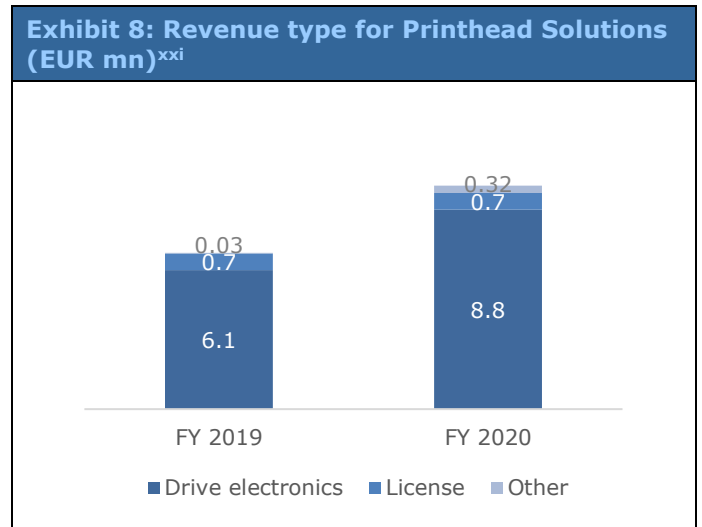
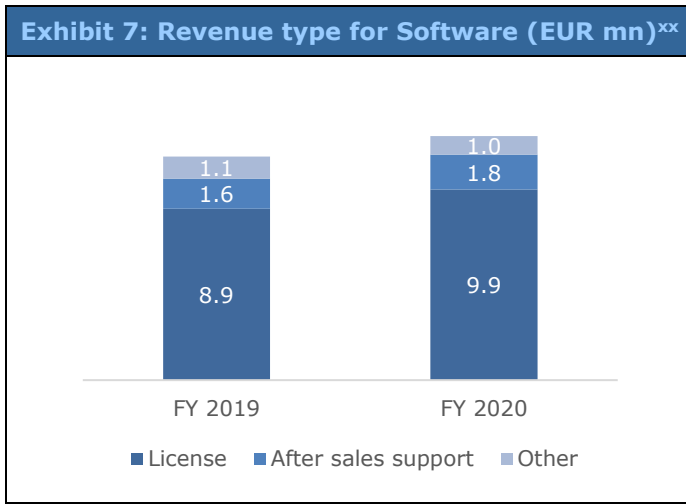
Exhibit 6: Revenue contribution by segment^{xix}



Note: The above chart does not include revenue contribution from the Fonts segment as it has been discontinued.

FY 2020

Printing Software contributed revenue of EUR 12.7 mn for FY 2020 vs EUR 11.6 mn for FY 2019, while Printhead Solutions revenue stood at EUR 9.8 mn for FY 2020 vs EUR 6.9 mn for FY 2019. The Fonts segment was discontinued toward the end of FY 2020, contributing revenue of EUR 0.6 mn in FY 2020 and EUR 4.0 mn in FY 2019.



2.3.2 By Source^{xxii}

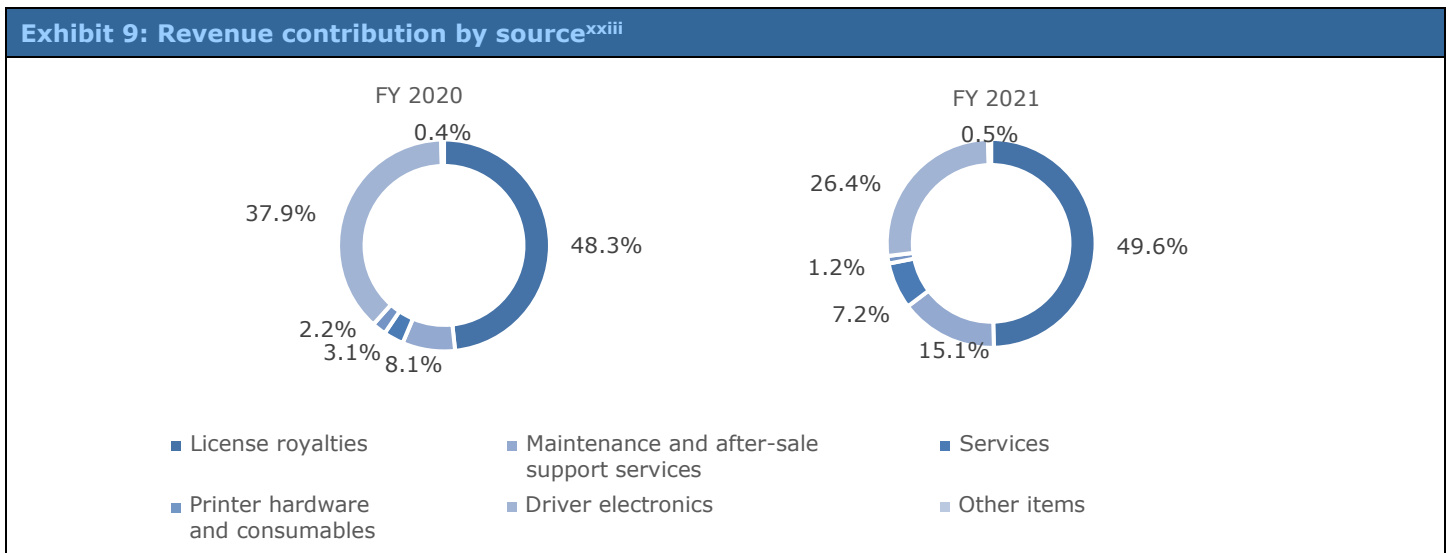
FY 2021

License royalties was the major contributor to the revenue in FY 2021 with EUR 24.1 mn, growing by 115.6% as compared to FY 2020. Out of the total, the Enterprise Software segment contributed EUR 12.2 mn, while the Printing Software segment contributed to EUR 11.0 mn and Printhead Solutions contributed to EUR 0.9 mn.

Maintenance and after sales service contributed EUR 7.3 mn to the revenue in FY 2021 vs EUR 1.9 mn in FY 2020. Out of the total, Printing Software segment contributed EUR 1.9 mn, Enterprise Software segment contributed EUR 5.4 mn and Printhead Solutions contributed EUR 0.1 mn.

The Driver Electronics offerings of the Printhead Solutions contributed EUR 12.8 mn, 46.5% higher on a YoY basis.

Other services contributed EUR 0.2 mn to the total revenue, with 71.7% coming from the Printing Software segment and 28.3% coming from the Enterprise Software segment.



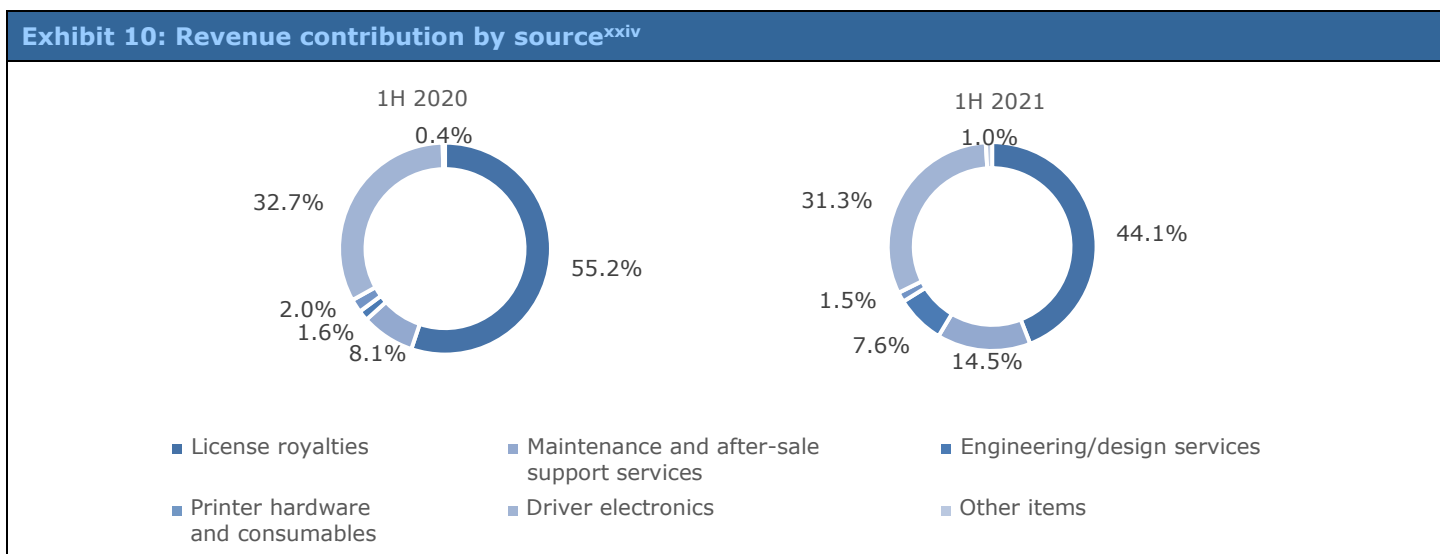
1H 2021

The revenue contribution from license royalties stood at EUR 10.5 mn for H1 2021 (EUR 6.4 mn for H1 2020), of which Printing Software contributed EUR 3.8 mn in H1 2021 vs EUR 6.0 mn in H1 2020; Printhead Solutions contributed EUR 0.5 mn in H1 2021 vs EUR 0.3 mn in H1 2020; Enterprise Software contributed EUR 6.2 mn in H1 2021.

Maintenance and after-sale support services reported revenue of EUR 3.5 mn in H1 2021 vs EUR 1.0 mn in H1 2020, of which Printing Software contributed EUR 0.8 mn in H1 2021 vs EUR 1.0 mn in H1 2020 and Enterprise Software contributed the majority portion at EUR 2.6 mn in H1 2021.

Engineering/design services contributed revenue of EUR 1.8 mn in H1 2021 vs EUR 0.1 mn in H1 2020, of which Printing Software contributed EUR 0.2 mn in H1 2021 vs EUR 0.1 mn in H1 2020; Printhead Solutions contributed EUR 0.2 mn in H1 2021; Enterprise Software contributed EUR 1.5 mn in H1 2021.

Printer hardware and consumables in the Printing Software segment reported revenue of EUR 0.3 mn in H1 2021 vs EUR 0.3 mn in H1 2020. Driver electronics in the Printhead Solutions segment reported revenue at EUR 7.4 mn in H1 2021 vs EUR 4.1 mn in H1 2020.



Note: The above chart does not include revenue contribution from the Fonts segment as it has been discontinued.

FY 2020

The revenue contribution from license royalties stood at EUR 10.6 mn for FY 2020 (EUR 9.6 mn for FY 2019), of which Printing Software contributed EUR 9.9 mn in FY 2020 vs EUR 8.9 mn in FY 2019; Printhead Solutions contributed EUR 0.7 mn in FY 2020 vs EUR 0.7 mn in FY 2019.

Maintenance and after-sale support services reported revenue of EUR 1.8 mn in FY 2020 vs EUR 1.6 mn in FY 2019, of which Printing Software contributed the majority portion in both FY 2020 and FY 2019.

Engineering/design services contributed revenue of EUR 0.7 mn for FY 2020 vs EUR 0.6 mn for FY 2019, of which Printing Software contributed EUR 0.4 mn in FY 2020 vs EUR 0.6 mn in FY 2019; Printhead Solutions contributed EUR 0.3 mn in FY 2020.

Printer hardware and consumables in the Printing Software segment reported revenue of EUR 0.5 mn in FY 2020 vs EUR 0.5 mn in FY 2019. Driver electronics in the Printhead Solutions segment reported revenue at EUR 8.8 mn in FY 2020 vs EUR 6.1 mn in FY 2019.

2.3.3 By Geography^{xxv}

FY 2021

HYSG is well-diversified in terms of its customers' geographical locations.

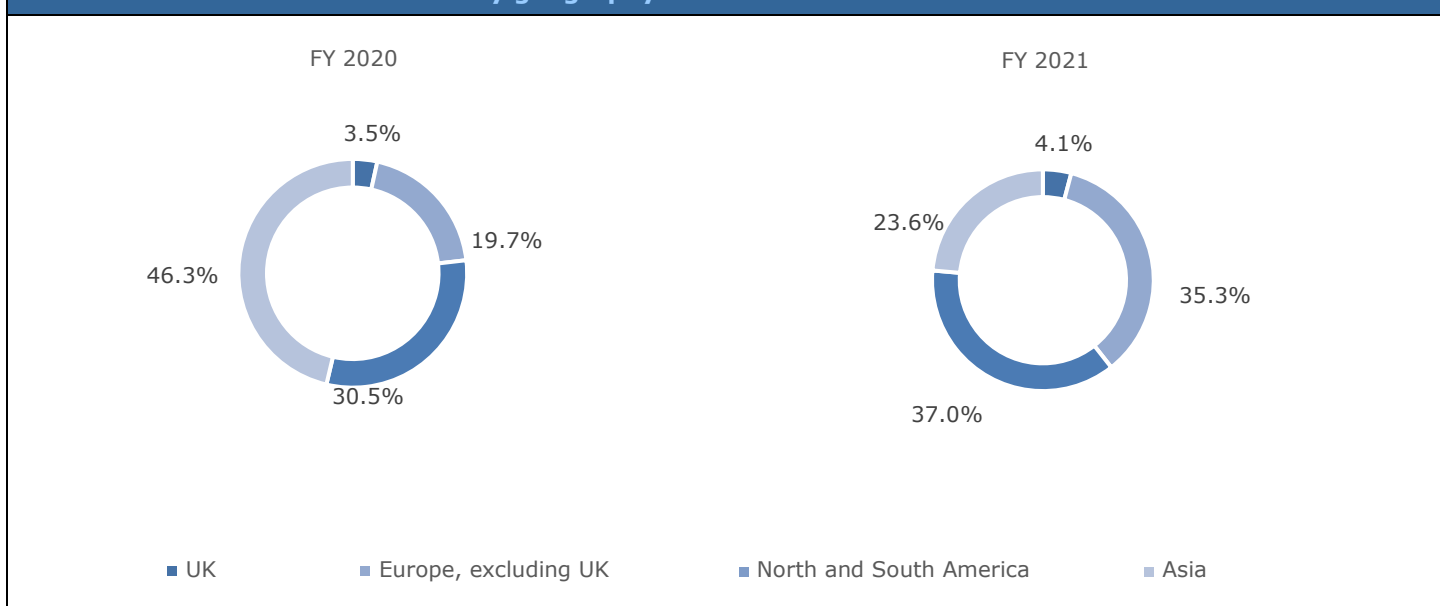
Revenue from the UK region amounted to EUR 2.0 mn in FY 2021, up 151.8% from FY 2020, of which Printing Software contributed EUR 0.5 mn, Printhead Solutions contributed EUR 0.4 mn and Enterprise Software contributed EUR 1.2 mn in FY 2021.

Revenue from Europe (excluding the UK) market grew by a huge 275.8% YoY to EUR 17.1 mn in FY 2021. Out of the total, Printing Software segment's contribution to the revenue was EUR 6.2 mn in FY 2021, while Printhead Software segment contributed EUR 2.0 mn and Enterprise Software segment contributed EUR 9.0 mn to FY 2021's revenue.

North and South America market reported a revenue of EUR 18.0 mn in FY 2021, up 154.7% YoY. Printing Software segment reported EUR 5.9 mn, Printhead Software segment contributed EUR 2.7 mn and Enterprise Software segment contributed EUR 9.4 mn to the revenue in FY 2021.

Asian market's contribution to revenue in FY 2021 was EUR 11.5 mn, up 7.1% YoY. Out of the total, Printing Software segment's contribution was EUR 1.3 mn, Printhead Solutions contribution was EUR 9.0 mn and Enterprise Software's contribution was EUR 1.2 mn to FY 2021's revenue.

Exhibit 11: Revenue contribution by geography^{xxvi}



1H 2021

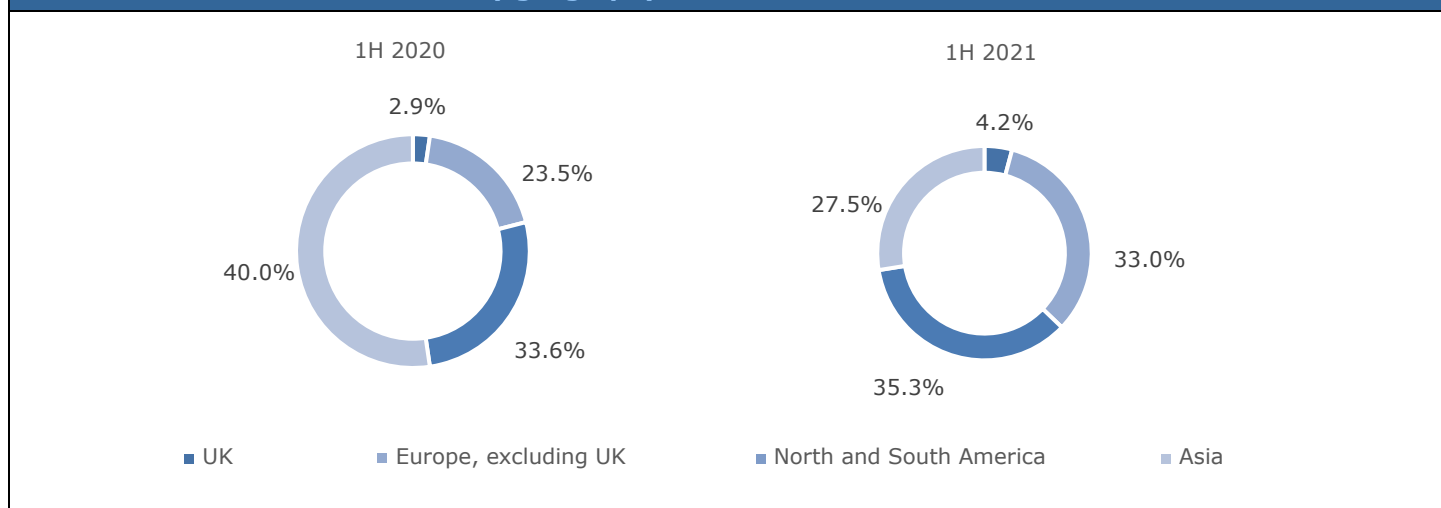
The revenue contribution from the UK stood at EUR 1.0 mn in H1 2021 (EUR 0.3 mn in H1 2020), of which Printing Software contributed EUR 0.2 mn in H1 2021 vs EUR 0.2 mn in H1 2020; Printhead Solutions contributed EUR 0.2 mn in H1 2021 vs EUR 0.1 mn in H1 2020; Enterprise Software contributed EUR 0.6 mn in H1 2021.

Europe, excluding the UK, reported revenue of EUR 7.8 mn in H1 2021 vs EUR 2.2 mn in H1 2020, of which Printing Software contributed EUR 1.6 mn in H1 2021 vs EUR 1.4 mn in H1 2020; Printhead Solutions contributed EUR 1.3 mn in H1 2021 vs EUR 0.8 mn in H1 2020; Enterprise Software contributed EUR 5.0 mn in H1 2021.

North and South America contributed revenue of EUR 8.4 mn in H1 2021 vs EUR 3.2 mn in H1 2020, of which Printing Software contributed EUR 2.7 mn in H1 2021 vs EUR 2.6 mn in H1 2020; Printhead Solutions contributed EUR 1.4 mn in H1 2021 vs EUR 0.5 mn in H1 2020; Enterprise Software contributed EUR 4.3 mn in H1 2021.

Revenue from Asia, which includes Japan, stood at EUR 6.5 mn in H1 2021 vs EUR 3.8 mn in H1 2020, of which Printing Software contributed EUR 0.7 mn in H1 2021 vs EUR 0.7 mn in H1 2020; Printhead Solutions contributed EUR 5.3 mn in H1 2021 vs EUR 3.1 mn in H1 2020; Enterprise Software contributed EUR 0.5 mn in H1 2021.

Exhibit 12: Revenue contribution by geography^{xxvii}



Note: The above chart does not include revenue contribution from the Fonts segment as it has been discontinued.

FY 2020

HYSG is well diversified in terms of its customers’ geographical location. The revenue contribution from the UK stood at EUR 0.8 mn for FY 2020 (EUR 0.8 mn for FY 2019), of which Printing Software contributed EUR 0.6 mn in FY 2020 vs EUR 0.6 mn in FY 2019; Printhead Solutions contributed EUR 0.1 mn in FY 2020 vs EUR 0.2 mn in FY 2019.

Europe, excluding the UK, reported revenue of EUR 4.4 mn for FY 2020 vs EUR 5.0 mn for FY 2019, of which Printing Software contributed EUR 2.9 mn in FY 2020 vs EUR 3.5 mn in FY 2019; Printhead Solutions contributed EUR 1.4 mn in FY 2020 vs EUR 1.5 mn in FY 2019.

North and South America contributed revenue of EUR 6.7 mn for FY 2020 vs EUR 5.3 mn for FY 2019, of which Printing Software contributed EUR 5.2 mn in FY 2020 vs EUR 4.3 mn in FY 2019; Printhead Solutions contributed EUR 1.5 mn in FY 2020 vs EUR 1.0 mn in FY 2019.

Asia revenue, which includes Japan, stood at EUR 10.6 mn for FY 2020 vs EUR 7.4 mn for FY 2019, of which Printing Software contributed EUR 3.9 mn in FY 2020 vs EUR 3.2 mn in FY 2019; Printhead Solutions contributed EUR 6.7 mn in FY 2020 vs EUR 4.2 mn in FY 2019.

2.4 Company Milestones ^{xxviii}

Exhibit 13: FGR milestones	
Year/Period	Event
1986	<ul style="list-style-type: none"> • Harlequin Ltd (UK) and Harlequin Inc. (US) established
1996	<ul style="list-style-type: none"> • Incorporated as Global Graphics SA in Pompey, France because of the acquisition of a privately owned group of companies, including Photomeca, a leading manufacturer of flexographic printing process pre-press equipment
1998	<ul style="list-style-type: none"> • Listed on NASDAQ Europe
1999	<ul style="list-style-type: none"> • Acquired UK-based Heights and Technigraph, providing HYSG with a leading position in the manufacturing of lithographic printing process pre-press equipment • Acquired Harlequin Ltd in the UK and Harlequin Inc in the USA, through which the Company gains a strong foothold in the fast-growing digital printing industry
2000	<ul style="list-style-type: none"> • Created Xanalys, to group together Harlequin's Information Management expertise • Acquired 5D Solutions, to penetrate the rapidly growing middle market segment (Jaws RIP and PDF) • Acquired assets of the MaxWorkFlow product line to support the company's strategy in document management and workflow
2001	<ul style="list-style-type: none"> • Listed on Euronext Brussels under the symbol "GLOG"
2002	<ul style="list-style-type: none"> • Disposed of the non-core Xanalys segment of business to focus on software • Became part of Euronext Next Economy segment • Divested the hardware segment and emerged as a pure software business
2003	<ul style="list-style-type: none"> • De-listed from NASDAQ Europe
2005	<ul style="list-style-type: none"> • Kelleigh Corp sold to its original founder, Leigh Jezorek
2009	<ul style="list-style-type: none"> • Launched the new gDoc Range • Signed two production print contracts • Signed an agreement with Conexant to market office printer controller solutions
2010	<ul style="list-style-type: none"> • Incorporated Global Graphics EBT Limited, the company's UK-based subsidiary • Closed Global Graphics Software (India) Pvt. Limited, the company's Indian subsidiary
2012	<ul style="list-style-type: none"> • Released version 3 of Harlequin® 'Digital' RIP (HHR) • Released Jaws 3 RIP technology • gDoc platform adopted by the company's channel partners
2013	<ul style="list-style-type: none"> • Completed legal reorganization from French Société Anonyme to a European Societas Europaea (SE) • Changed place of registration from France to the UK
2014	<ul style="list-style-type: none"> • Licensed Harlequin® technology to a manufacturer of office printing devices • Launched Harlequin® Direct Print for the light production (in-house) printing market • Launched Harlequin® Partner Network • Jointly developed new hybrid screens for the labels & packaging market with ThermoFlexX

2015	<ul style="list-style-type: none"> Acquired trade and assets of RTI Global Inc. and RIPMall Technologies Inc. Acquired entire issued share capital of URW++ Design & Development GmbH, a font manufacturer
2016	<ul style="list-style-type: none"> Acquired the entire issued share capital of Meteor Signed a strategic agreement with Roland DG Corporation, a leading manufacturer of wide-format inkjet printers
2017	<ul style="list-style-type: none"> Acquired the entire issued share capital of Cambridge Grey Bit Limited, a R&D company of software for industrial inkjet printers Converted from SE status to a Public Limited Company registered in England and Wales (PLC)
2018	<ul style="list-style-type: none"> Transferred the sales and support of Harlequin® business to Xitron, the company's long-standing partner Listed on Financial Times (FT) Future100 UK companies Featured in London Stock Exchange (LSE) top 1,000 inspirational UK companies Won the Printing Industries of America InterTech™ technology award Dissolved Cambridge Grey Bit Limited
2019	<ul style="list-style-type: none"> Congra became the largest shareholder of the company Acquired the entire membership interest of Xitron
2020	<ul style="list-style-type: none"> Sold its Font business - URW Type Foundry GmbH to Monotype
2021	<ul style="list-style-type: none"> Completed the acquisition of HYBRID Updated the name to "Hybrid Software Group" Acquisition of entire issued share capital of ColorLogic for its extensive portfolio of color profiling and conversion software; plan to run it as fifth operating company of the group Partnership with Ecologi to reduce carbon footprint
2022	<ul style="list-style-type: none"> Opened a new office in Barcelona, Spain to increase the sales in Iberian Region Received US patent for PrintFlat™ technology Acquired iC3D, all-in-one package design software which allows for 3D virtual mockups on-the-fly, from Creative Edge Software LLC

2.5 Corporate Strategy and Future Outlook

2.5.1 Strategy^{xxix}

HYSG's strategic focus is to maintain legacy revenue streams while collaborating as a group to deliver turnkey DFEs and enterprise workflow automation to digital print OEMs.

It plans to achieve the following:

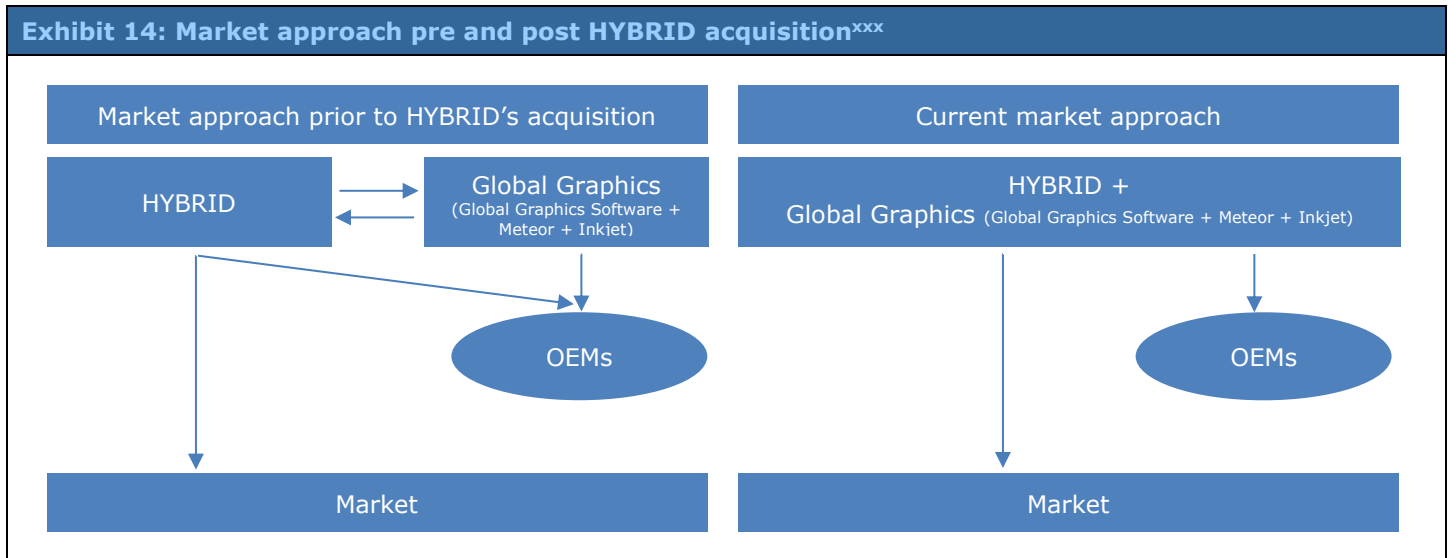
- Provide the technology to offer OEMs more integrated solutions for their production digital presses
- Increase market share in the fast-growing inkjet market
- Provide efficient and innovative ES tools for packaging production
- Expand the geographical reach of its solutions and enter new vertical markets

The company's focus is on high-speed digital printing, which includes various applications such as labels & packaging, ceramics, interior decor and 3-D printing and additive manufacturing. Labels & packaging is a growing segment and management expects it to contribute to c. 66% of printing by 2030. The acquisition of HYBRID has resulted in an increased focus on labels & packaging, along with an end-user sales channel for HYSG.

HYSG plans to capture the opportunity created in two new fields:

- Turnkey DFE – solutions which are direct plugins into a digital press
- Enterprise workflow automation – migrating printing to a manufacturing process

The company has an opportunity in these new segments that will lead to an increase in its market share and profitability without any detrimental impact to its existing lines of business.



2.5.2 Outlook^{xxxi}

The company believes that the new name of the company as “Hybrid Software Group Solution” serves the best interests of itself and its shareholders because:

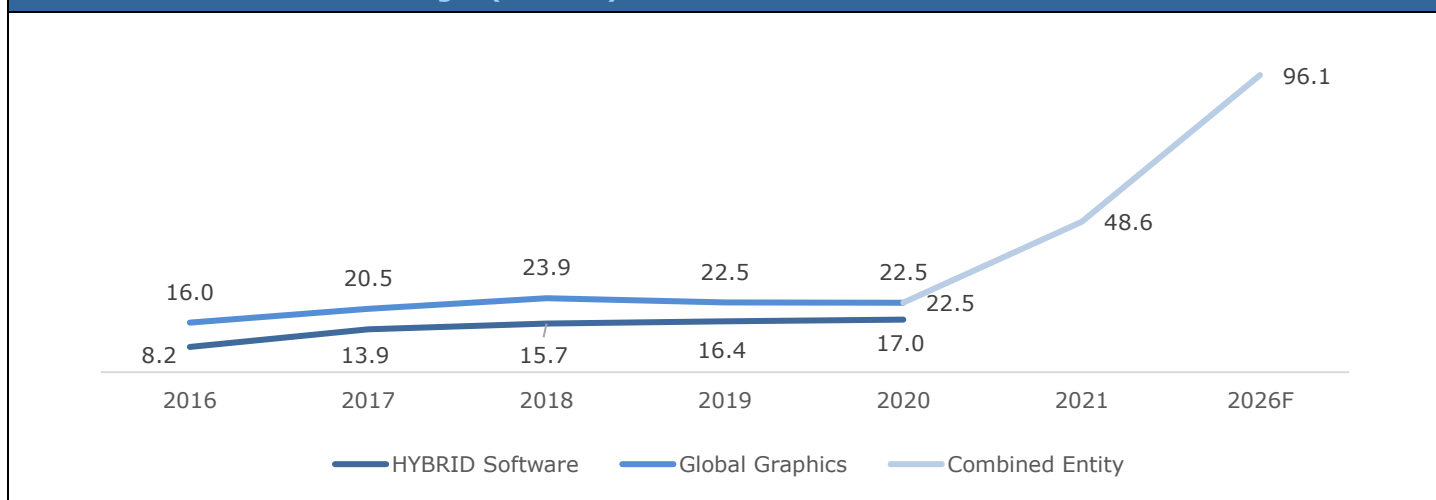
- 1.The composition of the group and its products and offering have changed
- 2.The target industries have changed and not limited to the graphics or printing segment
- 3.Majority of the revenue contribution is through sales of software and related products and services

Additionally, the company believed it would be a good decision to leverage the brand recognition of HYBRID software. HYSG plans to bring digital-aided transformational changes in the printing and labelling industry and improve final user’s efficiency.

HYSG’s plan is to capture the market arising from the opportunities of a) fast growth in the inkjet market across multiple sectors and b) growth potential arising as analog markets convert to digital. After the acquisition of HYBRID, HYSG has become the only vertically integrated supplier to the industrial inkjet industry, and its group companies are technology leaders in their respective market segments. The company’s target is to derive synergies between end-user and OEM businesses and accelerate innovation and revenue growth.

HYSG achieved its revenue target of EUR 45 mn – EUR 50 mn with EUR 48.6 mn in FY 2021 and looks set to achieve the target of EUR 100 mn by FY 2026. Additionally, the company has set an EBITDA target of EUR 35 mn by FY 2026. The plan is to achieve the growth target through a contribution of c. 75% from organic growth and 25% from future acquisitions. The company’s expansion and target growth strategy would require funding, which it plans to raise from institutional shareholders via private placement followed by a capital increase to fuel its strategy of accelerated innovation and revenue growth.

Exhibit 15: HYSG's revenue target (EUR mn)^{xxxii}



2.6 Company Premiums

a) Only vertically integrated supplier to the market for industrial inkjet

The company states that it is the only full-stack supplier of all critical core technologies for inkjet, where its group companies are technology leaders in respective markets. HYSG has the capability of OEM software and electronic components for inkjet along with end-user software for labels & packaging and is poised to fulfill the demand of high-functionality solutions rather than just components.

b) HYBRID's acquisition has created a ripple effect in value addition

HYBRID's acquisition has added capabilities to HYSG's portfolio. The company has entered the ES space and has access to HYBRID's development experience, sales and support team and end-user customers. This has opened new revenue models for HYSG and enabled captive margins for the company's products such as Harlequin®, which are integrated into end-user products.

c) Technology development at the core in a competitive market

HYSG has a huge and experienced development team with 80 developers, and at least 10 of them hold Ph.D. degrees. The company keeps its products updated with new and current evolutions in design and functionality to gain advantage over its competitors. HYSG regularly releases updates to its existing products and launches new products to fulfill emerging demands. The company's work field is such that technology is embedded in a solution around which software and hardware are designed. This acts as a barrier for competition but also makes it difficult for HYSG to unseat the incumbent.

d) Continued focus on innovation

HYSG's growth target is based on the backbone of an accelerated innovation plan, and the company heavily invests in R&D with c. 30% revenue directed toward it. HYSG has been recognized by its customers and has won various awards and accolades, such as the prestigious 2021 FTA Award.

e) Sustainability

HYSG, while on its growth path, is committed to sustainability. Inkjet is inherently sustainable and environment-friendly due to its wide compatibility, while focus industries cause minimal waste. Textiles offer the benefit of saving on water and electricity in comparison to pigmented dyes and weaving, and packaging offers just-in-time production of materials. HYSG's rapid production techniques help with the requirement of minimal printed inventory.

2.7 Company Risks

a) Concentration of substantial percentage of ownership

HYSG is indirectly owned and controlled by its chairman, Guido Van der Schueren. He currently controls 82.12% of the company's voting rights through his interests in Congra and can potentially exercise significant influence over any matter requiring shareholder approval. Additionally, illiquidity in the trading of the shares of the company can adversely impact the value of an investment.

b) Credit risk, especially owing to the pandemic

HYSG's software segment receives payments over an extended period for certain licensing arrangements, which may be up to five years in some instances. In FY 2020, 32.1% of the company's total accounts receivable was owed to the 10 largest accounts, where 9.1% of the total amount was owed by the single largest account. For the 10 largest accounts, 93% of receivables are due in 2021 with the remainder in 2022, and the single largest account receivable is due in 2021, for EUR 631,200. Pandemic-related consequences increase the chances of liquidity crunch for HYSG's customers, thus heightening the possibility of a delay of default on the receipt of receivables.

c) Need to protect IP

HYSG's revenue is driven by its proprietary technology, and the group protects its IP through patent, copyright, trade secret and trademark laws, and other applicable restrictions. Attainment and maintenance of such necessary measures is both costly and crucial to sustain as the business performance is dependent on it.

2.8 Shareholding Pattern^{xxxiii}

On June 13, 2022, the company's issued share capital consists of 32,909,737 ordinary shares outstanding. On January 12, Congra was issued 21,074,030 shares as a consideration for the acquisition of HYBRID by HYSG from Congra, the former holding company for HYBRID and its subsidiaries. Guido Van der Schueren, the company's chairman, together with his wife and children, own approximately 70.00% of the shares of Congra. The company has 73,996 treasury shares.

Exhibit 16: Capital structure (as of June 13, 2022)

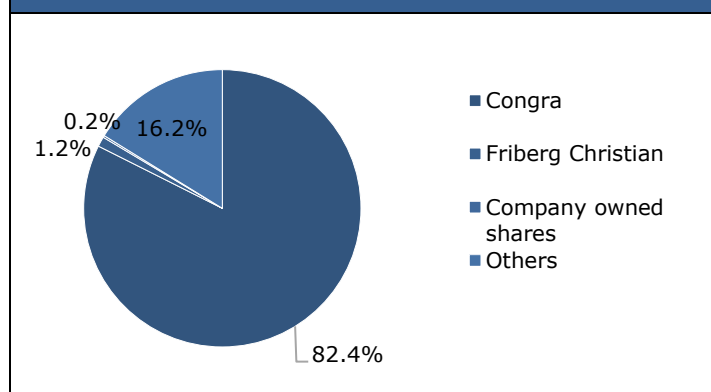


Exhibit 17: Top shareholding pattern

Shareholders	Shares outstanding
Congra	2,117,020
Friberg Christian	381,732
Company owned shares	73,996
Others	5,336,989
Total	32,909,737

2.9 Listing and Contact Details^{xxxiv}

HYSG is publicly listed on Euronext Brussels and is traded under the symbol 'HYSG.'

Company Contacts

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Email: investor-relations@hybridsoftware.group

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Global Graphics Software

2030 Cambourne Business Park
Cambourne, Cambridge
CB23 6DW
UK

Website: <https://www.globalgraphics.com/>

Meteor Inkjet

Harston Mill
Royston Road
Cambridge, CB22 7HYSG
UK

Website: <https://www.meteorinkjet.com/>

ColorLogic GmbH

Landersumer Weg 40
48431 Rheine
Germany

Website: <https://colorlogic.de/>

HYBRID Software

Guldensporenpark 18, Block B
9820 Merelbeke
Belgium

Website: <https://www.hybridsoftware.com/>

Xitron

4750 Venture Drive
Suite 200A
Ann Arbor, MI 48108
US

Website: <https://www.xitron.com/>

iC3D

729 N Washington Ave
Suite 600
Minneapolis, MN 55403
US

3. News^{xxxv}

- **Hybrid Software Group will showcase its digital inkjet solutions at FESPA:** On May 12, 2022 Hybrid Software announced that it will be exhibiting its solutions for digital production of textiles, packaging, décor, wide format and specialty graphics at FESPA between 31 May 2022 and 3 June 2022 in Berlin. It will Showcase its SmartDFE, a full software and hardware stack capable of delivering mass customization at mass production prices.
- **ColorLogic GmbH releases its ZePrA 10 Smart Color Server:** On May 05, 2022 ColorLogic GmbH announced release of ZePrA 10 Smart Color Server, the updated version of ZePrA 9 which won the 2021 Pinnacle Product Award. ZePrA 10 has a much-improved Command Line Interface (CLI) and more flexibility with the addition of ZePrA Job Control Files.
- **HYBRID Software releases Q1 2022 revenue:** On May 03, 2022 HYBRID Software released its revenue numbers for Q1 2022. Despite ongoing challenges with rising inflation, supply challenges and Russia-Ukraine crises company reported a revenue of EUR 12.5 mn in Q1 2022 a YoY growth of 1.7% over Q1 2021. Enterprise software contributed EUR 5.7 mn, Printhead Solutions contributed EUR 1.7 mn and Printing Software contributed EUR 4.9 mn to the revenue in Q1 2022. However, EBITDA for Q1 2022 declined by 14.9% to EUR 2.7 mn from EUR 3.2 mn in Q1 2021 owing to additional hiring and personnel costs as well as increase in sales and marketing expenses during the period.
- **HYBRID Software acquires iC3D:** On March 14, 2022 HYBRID Software acquired the business and assets of iC3D from Creative Edge. iC3D's product portfolio includes a software used for generating photorealistic 3D virtual mock-ups for the design verification and e-commerce applications.
- **Global Graphics Software granted US patent for PrintFlat technology:** On February 10, Global Graphics Software was granted a patent for its innovative software PrintFlat technology for "Systems and methods for printer density compensation and stability" by the United States Patent and Trademark Office.
- **HYBRID Software opened a new office in Barcelona, Spain:** On February 1, 2022, HYBRID Software announced that it has opened a new branch in Barcelona, Spain. Through this branch the company will expand its foothold over the Iberian region. The team will be headed by David Morales who is the MD of HYBRID Software in Iberia since 2016.
- **Appointed manager of OEM sales for the Asia-Pacific region:** On January 20, 2022, Global Graphics Software announced that it had appointed Bob Zhang as manager of OEM sales for Asia Pacific as company plans to expand further into this region. Mr Zhang brings over 20 years of valuable experience.
- **HYBRID Software announces release of Version 7.5 of PACKZ PDF Editor for labels and packaging:** On January 13, 2022, HYBRID Software announced the launch of its Version 7.5 PACKZ, their native PDF editor. Version 7.5 delivers next generation of prepress software for labels and packaging. Simultaneously STEPZ 7.5 is also being released for digital printing applications. Both the tools will provide customized solutions to customers who require high efficiency, quality and performance in developing packaging files for conventional or digital printing.
- **Partnership with Ecologi to reduce Carbon Footprint:** On December 21, 2021, Hybrid Software group announced its partnership with Ecologi. Ecologi Facilitates the funding of carbon offset projects and facilitates tree planting around the world. Through this partnership Hybrid Software Group aims to offset the carbon footprints of all the employees whether at home or at work.
- **Partnership with Digimarc:** On December 9, 2021, HYBRID Software announced its partnership with Digimarc Corporation. This partnership enhances HYBRID Software for driving sustainability and efficiency in the packaging pricing market.
- **ColorLogic releases ColorAnt 8, an advanced tool for color measurement:** ColorLogic, a wholly-owned subsidiary of Hybrid Software Group announced on December 9, 2021 about the release of its advanced color measurement and correction tool, ColorAnt 8. ColorAnt 8 strengthens ColorLogic's product portfolio as it brings overall new capabilities to the features used every day.
- **Thorsten Braun Wins the 2021 Joe Clarke Innovator Award for Software Technology:** On November 10, 2021, ColorLogic's CTO Thorsten Braun won the 2021 Joe Clarke Innovator Award for Software Technology. This prestigious award is given to an individual who showcases the Joe Clarke spirit of innovation by inventing or renovating existing products, processes, or methodologies that have improved the print industry.
- **Acquisition of Germany based ColorLogic:** On October 29, 2021, the company announced that it has acquired ColorLogic for its extensive portfolio of color profiling and conversion software. The company has customers

worldwide which include OEMs of printing equipment and end users with demanding requirements of color quality. ColorLogic is expected to enhance the current offerings of HYSG and will operate as fifth company under the group's umbrella.

- **Hybrid Software Group celebrates name change with the Euronext bell ceremony:** On October 20, 2021, the company changed its corporate identity by updating its name to "Hybrid Software Group" from "Global Graphics PLC". The company mentioned that the Group's solutions are "hybrid" because they meet the needs of analogue and digital productions that also integrate both software and printhead drive electronics
- **2021 Inclusive Company Award:** On October 20, 2021, the company received an award from Divergent for being an "Inclusive Company". Divergent is a government funded organization that works with differently abled people to overcome employment challenges
- **Global Graphics Software honored with 2021 Pinnacle InterTech Award:** On September 23, 2021 the Global Graphics Software was awarded 2021 Pinnacle InterTech Award from PRINTING United Alliance for developing Direct™ software
- **Global Graphics Software connects label printing to the smart factory at Label Congress:** On September 21, 2021, the HYSG as a group of companies showcased their full range of solutions for digital label printing along with their new SMARTDFE™ at Label Congress. Global Graphics Software presented Harlequin® & ScreenPro™; the Meteor Inkjet presented their range of industrial inkjet tools and services; HYBRID software showcased products with PACKZ, STEPZ and CLOUDFLOW and Xitron presented Navigator Flexo Suite and Navigator Digital Front End
- **Xaar and Meteor Inkjet Partner with Dyndrite on integrated industrial inkjet solutions for binder jet additive manufacturing:** On September 12, 2021, Dyndrite partnered with Xaar and Meteor Inkjet to enhance the industrial inkjet adaptability for innovative binder jet additive manufacturing applications. According to Knowledge Sourcing Intelligence, the binder jetting market is expected grow from USD 300 mn in 2018 to USD 1.3 bn in 2024
- **Ricoh thin-film printhead launched in market:** On July 8, 2021, Meteor announced that it had expanded its product portfolio with the launch of TH5241, Ricoh's first SiMEMs thin-film piezo printhead, aimed primarily at entry-level scanning applications, including sign graphics, textiles and labels
- **iMS built global business with agile solution from HYBRID:** On June 2, 2021, the company announced that iMSGlobal, providing integrated marketing solutions in partnership of five years with HYBRID, had a global reach. Creative design, prepress and artwork production agency iMSGlobal had chosen CLOUDFLOW to ensure full production workflow flexibility across its multi-site operation
- **Canon partnered with HYBRID:** On May 25, 2021, the company announced that Canon had partnered with HYBRID to offer label converters an advanced front-end solution for the LabelStream 4000 series. The LabelStream front end builds on the fundamentals of CLOUDFLOW and is a tailored solution to enable a cost-efficient, standalone operation with a high-performance workflow based on PDF input
- **Creative Labels of Vermont (CLOV) helped by collaboration:** On May 17, 2021, HYSG announced that CLOV, operating four conventional flexo presses and two HP Indigo WS6800 digital presses, had streamlined its prepress processes to drive efficiency with collaboration of FLAG, HYBRID and Label Traxx
- **Agfa in partnership with HYBRID:** On May 12, 2021, the company announced that the OEM partnership would provide Agfa's Offset Solution division with access to the group's specialized technological know-how and full product portfolio, focused on ES for the packaging printing industry
- **PACKZ helped prepress efficiency of Colorman Ireland:** On May 11, 2021, the company announced that the leading print service provider had partnered with HYBRID to speed up operations in the prepress department and had achieved substantial time and cost savings since introducing PACKZ into its workflow
- **HYSG launched SmartDFE for labels & packaging:** On April 19, 2021, the company announced its first product co-developed by all group companies. The collaboration created a smart DFE designed to be part of a fully automated manufacturing solution supporting Industry 4.0 telematics and MIS integration
- **Completed acquisition of HYBRID:** On January 12, 2021, the group announced that it had completed the acquisition of HYBRID from Congra. The group paid EUR 80 mn to Congra for the acquisition by issuing 21,074,030 shares

4. Management and Governance^{xxxvi}

Exhibit 18: Management and governance		
Name	Position	Experience
Guido Van der Schueren	Executive Chairman	<ul style="list-style-type: none"> Represents HYBRID on HYSG’s executive team Current Chairman of Congra, the majority stakeholder in HYSG Runs Powergraph BV, a private equity vehicle that invests mainly in graphic arts software
Mike Rottenborn	Chief Executive Officer (CEO)	<ul style="list-style-type: none"> CEO at HYSG since January 2020 Founder and former President and CEO of HYBRID Over 30 years of experience in the graphic arts industry, working for companies such as PCC Artwork Systems, focusing on prepress workflow software for packaging and commercial printing customers
Graeme Huttley	Chief Financial Officer (CFO)	<ul style="list-style-type: none"> A Chartered Management Accountant associated with HYSG since 1999 and promoted to CFO in 2014 Leads and manages the company’s Finance, IT and Manufacturing teams from the UK head office Actively participates in various strategic projects of HYSG
Jill Taylor	Corporate Communications Director	<ul style="list-style-type: none"> Leads the marketing communications team and has been associated with HYSG since 2001 Works with the CFO on HYSG’s financial and investor relations programs
Neil Wylie	Operations Director	<ul style="list-style-type: none"> Manages all aspects of operations including commercial, contractual, patent, legal and HR matters and building infrastructure Joined HYSG (formerly Harlequin®) in 1994
Clive Ayling	Managing Director at Meteor	<ul style="list-style-type: none"> Co-founded Meteor in 2006 Appointed in December 2016 upon Meteor’s acquisition by HYSG
Justin Bailey	Managing Director at Global Graphics Software	<ul style="list-style-type: none"> Joined HYSG in 2013 Over 25 years of experience in the document imaging and print markets Worked for 17 years at Canon and founder of eCopy’s EMEA business
Karen Crews	President of Xitron	<ul style="list-style-type: none"> Joined HYSG’s executive team on Xitron’s acquisition by HYSG in 2019 Former CFO of VGI, acquired Xitron and been associated with it since 1986, playing a key role in developing Xitron’s DFE development Worked as Vice President, Finance and Operations until 2013
Barbara Braun-Metz	CEO, ColorLogic	<ul style="list-style-type: none"> Founded ColorLogic in 2002 Extensive experience in software development, color management, printing and prepress, graphic arts and print production, which she leveraged to develop several ways of optimizing color reproduction Worked for 6 years for various graphic art agencies and held several positions for 7 years at Dalim GmbH, Quark Inc. and GretagMacbeth AG
Clare Findlay	Non-executive Director	<ul style="list-style-type: none"> Over 20 years of experience in senior roles in computer software industry Former Managing Director of Concentrix Corporation’s UK operations Served as the non-executive director at the company from 2011 to 2014
Luc De Vos	Non-executive Director	<ul style="list-style-type: none"> An angel investor in the media and internet industry in companies such as KPNQwest, Stepstone, Starlab and CarsOnTheWeb Experience as a non-executive director at Sofico and an advisor at AXSGUARD and Geckomatics

5. Industry Overview^{xxxvii}

The printing industry can be classified based on method types such as offset lithography, flexography, digital printing, large format, screen printing, 3-D printing and light emitting diode using ultraviolet rays (LED-UV).

Digital printing is a modern method that uses various techniques, including inkjet and laser. The process involves printing digital-based images directly onto a variety of media substrates and eliminates the need for a printing plate, which is mandatory for offset printing. Digital files such as pdf or desktop publishing files can be directly put to print on paper, canvas, fabric, synthetics, and other substrates.

Industrial inkjet printing is larger in scale in terms of machine size and speed; a product on the production line is manufactured using inkjet technology by depositing material. Additionally, it can be used in other applications such as applying coatings, depositing precise amounts of functional materials, and building micro- or macro-structures.

Potential benefits of using inkjet technology include:

- conversion of processes from analogue to digital
- reduction of manufacturing costs, wastage and inventory
- provision of higher-quality output
- printing on a variety of substrates
- mass customization
- faster prototyping
- implementation of just-in-time manufacture

Exhibit 19: Benefits offered by industrial inkjet vs offset printing^{xxxviii}

Benefit	Offset	Industrial Inkjet
Quickest turnaround	-	Yes
Cost-effectiveness for shorter runs	-	Yes
Cost-effectiveness for longer runs	Yes	-
Most accurate colour matching	Yes	-
Substrate compatibility	-	Yes
Ease of proofing	-	Yes
Mass customization	-	Yes
Cost of ownership	-	Yes

Industrial printing remains a very promising area of growth for inkjet technology in various applications, and it has high potential in industries such as labels & packaging, textiles, ceramics, textiles and additive manufacturing.

5.1 Labels & Packaging^{xxxix}

The global labels & packaging market is expected to grow to USD 1.1 tn in 2030 from USD 876 bn in 2020, accounting for c. 66% of the global print market.

Companies have two types of printing methods to choose from for labels & packaging:

- 1) Conventional – Analog printing involves creating a printing plate for every design, SKU or offering. Generally, it is the preferred method of printing for large runs and high inventory. Examples include offset, gravure, and flexography

- 2) Digital – A digital-based image is directly converted to a variety of media (or packaging substrates). It offers a solution for small companies with the requirement of shorter runs, or larger businesses with the need of digital for campaigns and promotions and short time-to-market

There is a shift of preference for digital print over analog methods driven by the following trends:

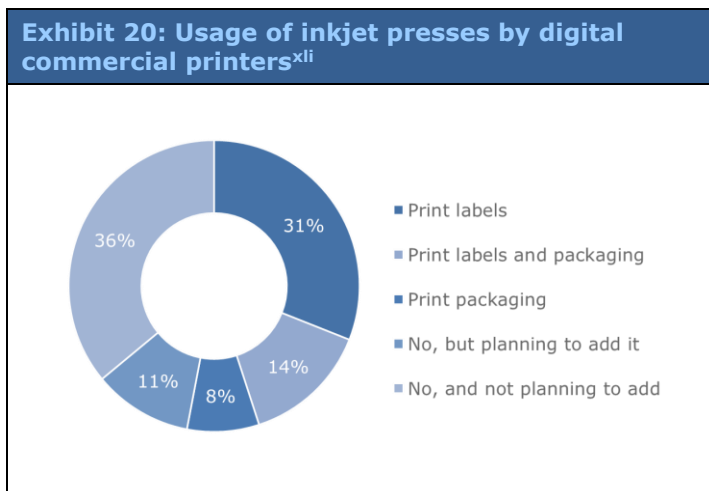
- Changing consumer behavior – The COVID-19 pandemic has led to an evolved mindset among consumers and has resulted in an opportunity to develop solutions that provide a safe shopping experience with minimal human touchpoints
- Preference of e-commerce – Labels & packaging must be designed such that they are resistant to misuse and enhance the safety and hygiene of the product
- Push for private labels – Factors such as budget constraints, panic buying and bulk buying to avoid store visits have resulted in consumers’ inclination toward trying private label products
- Changing food preferences – Packaging must be both rigid and flexible, and it requires tailor-made solutions to suit various requirements of changing food habits, such as alternatives to meat or adoption of a healthier lifestyle
- Sustainability becoming the real imperative – Sustainability regulations have become a global phenomenon across industries along with rising awareness among consumers about the impact on the environment

Digital print technology for labels & packaging is gaining momentum and offers advantages such as no set-up fees, better quality, customization, quicker turnaround, sustainability and environmental-friendliness and cost advantage. Some of the other benefits include printing multiple versions in a single print run, no inventory and wastage, elimination of plate and tooling costs and rapid job changeover.

Top deterrents for printing on digital presses could be a) an inability to price competitively, b) high technology costs, c) the need for future developments and d) not fitting the product mix.

5.1.1 Inkjet as an Enabler of Digital Printing of Labels & Packaging^{xi}

Inkjet is one of the technologies being used to expand the use of digital printing. A major reason is that it is relatively less complex in comparison to alternatives, due to its ability to print directly on various substrates such as corrugated material, folding cartons, and flexible films. Inkjet technology offers benefits such as competitive cost structures, faster printing speeds, enhanced image quality and the ability to print on a wider variety of substrates.



A survey conducted by NAPCO Research of respondents that consist mainly of digital printers of labels & packaging indicates that inkjet is expected to be a key technology in digital printing. The survey shows the preference of its respondents, with inkjet being used by 45% of digital printers of labels and 22% of digital printers of packaging.

The benefits offered by usage of inkjet presses to print labels & packaging include a) the ability to print variable images/data, b) high quality and resolution, c) ease of use, d) faster print speeds, e) low capital costs and f) substrate flexibility. However, factors such as high start-up costs, low return on investment (ROI) and a preference for toner technology act as inhibitors to inkjet’s usage.

5.2 Additive Manufacturing^{xliii}

Additive manufacturing is the industrial production name for 3-D printing. It is an additive process of joining materials to create objects based on digital models that connect multiple disciplines, including design, manufacturing, and simulation. Traditional manufacturing often requires machining or other techniques to remove surplus material; however, additive manufacturing enables creation of objects with precise geometric shapes.

Over the last decade, additive manufacturing has gained importance as one of the most revolutionary technology applications in manufacturing. Initially used primarily for prototyping, it is now employed increasingly for spare parts, small series production and tooling. The industry is expected to grow from USD 12 bn in 2020 to USD 51 bn by 2030 at a CAGR of 15%, with the largest part of the growth coming in end-user parts (23% of the market in 2020, expected to contribute to 38% of market by 2030).

The advantages offered by additive manufacturing over traditional manufacturing methods include the following:

- Creation of complex objects with more ease at no additional cost
- Less wastage as manufacturing is done layer by layer
- All aspects of creation are handled by a single device, and thus less labour is required
- Increased automation and reduced need for oversight
- Reduced need for a full-fledged factory with a complex supply chain, thus providing the benefit of a setup much closer to the market
- Customization benefit for small batch sizes
- Consistent unit cost of production is beneficial on a small scale



Additive manufacturing provides usage benefits for industries such as medical and pharmaceutical, energy and consumer products, but also offers highly relevant applications for automotive and aerospace.

- **Aerospace:** Aerospace companies must abide by the manufacturing industry’s most stringent standards, and its parts and components require the highest-performance materials. Additive manufacturing helps to design complex, high-strength parts while also reducing the weight of aerospace components. This is achieved through printing of more efficient geometries and elimination of a significant amount of unnecessary material, thus offering the benefit of lower fuel consumption, reduced CO₂ emissions and lower costs.
- **Automotive:** Stricter regulations regarding vehicle emission and fuel efficiency standards in the automotive industry are necessitating a change toward low-weight vehicles, which in turn are likely to fuel the demand for lightweight components. Additive manufacturing allows for development of complex, high-quality parts with improved safety. Rapid prototyping enables automobile manufacturers to test properties such as water resistance and high temperatures. In addition, 3-D printing allows for parts consolidation, reducing inventory and enabling easy repair or maintenance with the use of a single part.

5.3 Digital Printing of Ceramics^{xliii}

Digital printing provides the ability to fabricate ceramic components of arbitrarily complex shapes using advanced technology of inkjet printing, a 3-D printing technology type. Inkjet fulfils the requirements in the ceramics industry for a shorter life cycle of products, unique aesthetic appearances, quick turnaround times and cost advantages. Moreover, it provides the benefits of no liquid wastage and of sustainability.

The global market for ceramics printing was estimated to be worth USD 267.7 bn in 2020 and is expected to grow to USD 407.7 bn by 2025 at a CAGR of 8.6%.

The traditional ceramics market (59.6% of the total market in 2018) consists of tiles, bricks, and sanitary ware. Digital printing of ceramic tiles has gained preference over the traditional methods in the past decade due to benefits offered such as a) improvement in aesthetic appeal on account of production of intricate designs, b) maintenance of uniformity in designs, c) customization, d) smaller lot sizes, e) faster cycle times implying faster time-to-market, f) reduction in waste and production costs and g) a smaller environmental footprint.

The advanced ceramics market, which consists of a wide range of applications, including within the chemical industry, machinery, electronics, aerospace, and biomedical engineering, is expected to grow in terms of share contribution of the market. Market drivers include a) advancements in 3-D technology, b) increasing application in dental implants and smartphones, c) higher government spending on infrastructure, and d) a rise in construction activities.

Ceramics are widely used in the additive manufacturing industry, where a variety of materials such as zirconia, alumina and tricalcium phosphate are used in making biomedical products. Additionally, new classes of glass products can be created by baking together alternate layers of powdered glass and adhesive.

Applications of digital printing of ceramics include:

- Housing – Demand for digital ceramic printing to be driven by ceramic tiles used in housing and commercial offices
- Healthcare – Dental implant companies can manufacture customized dental implants, which require complex geometries and lattice and honeycomb structures
- Energy and Electronics – Digital printing allows for development of ceramic-based small and unique parts with insulative properties
- Automotive – Various parts, from brakes and spark plugs to filters, can be manufactured at a reduced cost
- Aerospace – Helps to manufacture parts requiring intricate custom designs
- Defense – Used to produce lightweight, customized and resilient equipment parts such as jet turbines, brake pads on tanks and armour plating

5.4 Digital Textile Printing^{xliv}

Digital textile printing is an inkjet-based method of printing colorants on fabric that is used for the purpose of printing smaller designs on garments and printing large designs on large format rolls of textile. The digital textile printing market was estimated to be worth USD 2.2 bn in 2019 and is projected to increase to USD 8.8 bn by 2027, growing at a CAGR of 19.1%.

The conventional textile printing method presses pre-mixed dye colours on fabric through rotary screens, which have their own engraved pattern. However, the digital textile printer uses a printable image (design) of a graphical data file, reads the right colour information by using a Red-Green-Blue (RGB) system and then prints the desired colour on the fabric using miniscule droplets of ink.

Advantages offered by digital methods of textile printing over conventional methods include:

- High resolution of output – Offers unlimited color combinations, flexibility and accuracy of color choice and provides a clean, tidy and fine print
- Fast sampling and delivery – It is a fast process that allows adjustments to be done on the spot. This helps to reduce sampling and production times

- Flexibility of size – Allows for printing on smaller fabrics, as compared to conventional methods that have a restraint in terms of the minimum amount of fabric required
- Environment-friendly – Requires less energy and water, uses less ink and minimizes wastage
- Customization – RGB system provides a wide array of options for color and design
- Cost saving – Saves operational space as machine space required is not large

Growth drivers for the industry include the following:

- Rise in per capita disposable income in emerging nations coupled with rapid change in fashion trends
- Sustainability benefits derived from digital printing such as lower electricity consumption, lower labor costs, longer life span of printheads, shorter turnaround times, decrease in ink usage and no water usage
- Growing application of textile printing in the automotive sector, such as vehicle wrapping and interior decoration

6. Valuation

The fair market value for one of HYSG's publicly traded shares stands between EUR 7.2 and EUR 7.5 on June 13, 2022 using a blended valuation (DCF and EV/EBITDA multiple).

6.1 Discounted Cash Flow Method

Valuation	
Risk-free Rate (Rf) ^{xlv}	1.8%
Beta ^{xlvi}	1.0
Country Risk Premium ^{xlvii}	11.5%
Cost of Equity	11.5%
Terminal Growth Rate	1.0%
WACC (Discount Rate)	11.5%

Year Ending – Dec	2022E	2023E	2024E	2025E	2026E
FCFF (Low)					
Free Cash Flow to Firm	17.5	18.7	19.5	21.2	23.1
Discount Factor	0.9	0.8	0.8	0.7	0.6
Present Value of FCFF	16.5	15.8	14.8	14.4	14.1
FCFF (High)					
Free Cash Flow to Firm	17.5	18.6	20.3	22.4	24.8
Discount Factor	0.9	0.8	0.8	0.7	0.6
Present Value of FCFF	16.5	15.7	15.4	15.2	15.1

Arrowhead fair value bracket	Low	High
Terminal Value (TV)	222.3	238.1
Present Value of TV	135.4	145.1
Present Value of FCFF	75.6	77.8
Net Debt ^{xlviii}	-14.1	-14.1
Shares O/S (mn)	32.9	32.9
Fair Share Value Bracket (EUR)	6.8	7.2
Current Market Price (EUR) ^{xlix}	5.2	5.2
Upside/(Downside)	31.6%	38.7%
Current Market Cap.	171.1	171.1
Target Market Cap. Bracket	225.1	237.3

All figures in EUR mn, unless stated differently

6.2 Relative Valuation

The fair market value of one of HYSG's publicly traded regular shares stood at EUR 10.4 on June 13, 2022.

Company name	Market Cap	Current Enterprise Value	EBITDA -FY 2021E	EV/EBITDA
Lime Technologies AB (LIME SS Equity)	300.2	469.5	13.1	35.8x
Asure Software Inc (ASUR US Equity)	113.9	148.9	7.1	21.0x
GK Software SE (GKS GY Equity)	293.6	245.1	24.8	9.9x
Median				21.0x

All figures in EUR mn, unless stated differently

Particulars	
HYSG's FY 2022E EBITDA	22.5
Peer EV/EBITDA (After Arrowhead Premium/Discount)	14.7
Enterprise value	329.6
Net debt	-14
Implied equity value	343.7
Shares o/s (mn)	32.9
Intrinsic value per share (EUR)	10.4
Current market price (EUR)	5.2
Upside/(Downside)	100.8%

6.3 Blended Valuation

The fair market value of one of HYSG's publicly traded regular shares stood between EUR 7.2 and EUR 7.5 on June 13, 2022, according to the blended valuation method.

Blended valuation		
	High	Low
DCF	7.21	6.84
Relative valuation	10.44	10.44
Weighted average	7.53	7.20

Sensitivity Analysis for DCF

Sensitivity Table - High		WACC (%)				
		10.5%	11.0%	11.5%	12.0%	12.5%
GROWTH RATE (%)	0.0%	7.4	7.1	6.8	6.5	6.3
	0.5%	7.7	7.3	7.0	6.7	6.4
	1.0%	7.9	7.6	7.2	6.9	6.6
	1.5%	8.2	7.8	7.5	7.1	6.8
	2.0%	8.6	8.1	7.7	7.4	7.0

Sensitivity Table - Low		WACC (%)				
		10.5%	11.0%	11.5%	12.0%	12.5%
GROWTH RATE (%)	0.0%	7.0	6.7	6.4	6.2	6.0
	0.5%	7.3	6.9	6.6	6.4	6.1
	1.0%	7.5	7.2	6.8	6.5	6.3
	1.5%	7.8	7.4	7.1	6.8	6.5
	2.0%	8.1	7.7	7.3	7.0	6.7

Approach for DCF Valuation

Time Horizon: The time period chosen for the valuation is 56 months (2022E-2026E).

Terminal Value: This is estimated using a terminal growth rate of 1.0%.

Prudential nature of valuation: It should be noted that Arrowhead's fair value bracket estimate is a relatively prudent estimate, as it discounts the eventuality of any new products being launched in the market or any significant change in the strategy.

Important information on Arrowhead methodology

The principles of the valuation methodology employed by Arrowhead BID are variable to a certain extent depending on the subsectors in which the research is conducted, but all Arrowhead valuation research possesses an underlying set of common principles and a generally common quantitative process.

With Arrowhead Commercial and Technical Due Diligence, Arrowhead extensively researches the fundamentals, assets, and liabilities of a company, and builds solid estimates for revenue and expenditure over a coherently determined forecast period.

Elements of past performance, such as price/earnings ratios, indicated as applicable, are present mainly for reference purposes. Still, elements of real-world past performance enter the valuation through their impact on the commercial and technical due diligence.

Elements of comparison, such as multiple analyses, may be to some limited extent integrated in the valuation on a project-by-project or asset-by-asset basis. In the case of this Hybrid Software Group report, there are no multiple analyses integrated in the valuation.

Arrowhead BID Fair Market Value Bracket

The Arrowhead Fair Market Value is given as a bracket. This is based on quantitative key variable analysis, such as key price analysis for revenue and cost drivers or analysis and discounts on revenue estimates for projects, and is especially relevant to those projects estimated to provide revenue near the end of the chosen forecast period. Low and high estimates for key variables are produced as a tool for valuation. The high bracket DCF valuation is derived from the high bracket key variables, while the low bracket DCF valuation is based on the low bracket key variables.

In principle, an investor who is comfortable with the high brackets of our key variable analysis will align with the high bracket in the Arrowhead Fair Value Bracket, and likewise in terms of low estimates. The investor will also take into account the company intangibles, as presented in the first few pages of this document in the analysis on strengths and weaknesses and other essential company information. These intangibles serve as supplementary decision factors for adding or subtracting a premium in the investor's own analysis.

The bracket should be understood as a tool provided by Arrowhead BID for the reader of this report, and the reader should not solely rely on this information to make a decision on any particular security. The reader must also understand that, on the one hand, global capital markets contain inefficiencies, especially in terms of information, and that on the other hand, corporations and their commercial and technical positions evolve rapidly: this present edition of the Arrowhead valuation is for a short- to medium-term alignment analysis (1-12 months). The reader should refer to important disclosures on page 39 of this report.

7. Appendix

7.1 HYSG's Financial Summary

Exhibit 19: Financial Summary		<i>Low Bracket Estimates</i>				
<i>Year Ending Dec</i>	2022E	2023E	2024E	2025E	2026E	
Revenue (EUR mn)	54.8	64.2	72.8	81.8	92.3	
Operating Profit (EUR mn)	7.3	11.3	11.5	13.5	16.0	
Net Income (EUR mn)	5.9	9.8	10.3	12.4	14.8	
EPS	0.2	0.3	0.3	0.4	0.5	
Growth rates (%)						
Revenue	12.9%	17.2%	13.3%	12.4%	12.8%	
Operating Profit	53.8%	54.5%	2.1%	17.2%	18.9%	
Net Income	20.1%	66.6%	5.0%	19.9%	20.0%	
EPS	20.1%	66.6%	5.0%	19.9%	20.0%	
EBITDA	79.8%	13.4%	5.1%	8.5%	10.5%	
Margins (%)						
Gross Margins	85.3%	85.1%	82.8%	83.0%	83.0%	
Operating Profit Margin	13.3%	17.5%	15.8%	16.5%	17.4%	
Net Profit Margin	10.8%	15.3%	14.2%	15.1%	16.1%	
EBITDA Margins	39.1%	37.8%	35.1%	33.9%	33.2%	
Ratios (%)						
ROA	365.9%	627.5%	667.4%	845.0%	1140.8%	
ROE	5.2%	8.1%	7.9%	8.7%	9.5%	
Debt/Equity	0.0x	0.0x	0.0x	0.0x	0.0x	

Exhibit 20: Financial Summary		<i>High Bracket Estimates</i>				
<i>Year Ending Dec</i>	2022E	2023E	2024E	2025E	2026E	
Revenue	58.2	68.2	78.1	88.6	100.0	
Operating Profit	9.4	13.1	14.6	17.1	20.1	
Net Income	7.8	11.6	13.3	15.8	18.6	
EPS (EUR)	0.2	0.4	0.4	0.5	0.6	
Growth rates (%)						
Revenue	19.9%	17.2%	14.5%	13.5%	12.8%	
Operating Profit	97.6%	39.9%	11.3%	17.1%	17.5%	
Net Income	59.4%	48.0%	14.5%	18.7%	17.8%	
EPS	59.4%	48.0%	14.5%	18.7%	17.8%	
EBITDA	97.3%	11.9%	10.3%	10.1%	11.4%	
Margins (%)						
Gross Margins	86.1%	86.1%	84.0%	84.2%	84.0%	
Operating Profit Margin	16.1%	19.2%	18.7%	19.3%	20.1%	
Net Profit Margin	13.5%	17.0%	17.0%	17.8%	18.6%	
EBITDA Margins	40.4%	38.6%	37.1%	36.0%	35.6%	
Ratios (%)						
ROA	481.6%	718.4%	811.7%	983.4%	1245.3%	
ROE	6.9%	9.4%	9.8%	10.5%	11.1%	
Debt/Equity	0.0x	0.0x	0.0x	0.0x	0.0x	

Note: All figures in EUR mn, unless stated differently

7.2 HYSG's Balance Sheet Forecast

Exhibit 21: Consolidated Balance Sheet

All figures in EUR mn, unless stated differently

Low Bracket Estimates

Year Ending Dec	2022E	2023E	2024E	2025E	2026E
Total current assets	39.0	56.1	74.5	95.2	119.8
Total non-current assets	110.4	100.5	89.8	79.2	68.6
TOTAL ASSETS	149.5	156.6	164.3	174.3	188.4
Total current liabilities	14.3	14.1	13.9	13.4	12.9
Total non-current liabilities	19.3	16.8	14.4	12.5	12.3
TOTAL LIABILITIES	33.6	30.9	28.3	25.9	25.2
Total shareholder's equity	115.9	125.7	136.0	148.4	163.2
TOTAL LIABILITIES & EQUITY	149.4	156.6	164.3	174.3	188.4

Exhibit 22: Consolidated Balance Sheet

All figures in EUR mn, unless stated differently

High Bracket Estimates

Year Ending Dec	2022E	2023E	2024E	2025E	2026E
Total current assets	39.0	55.6	74.7	98.2	124.7
Total non-current assets	111.7	103.5	94.6	85.8	77.1
TOTAL ASSETS	150.7	159.1	169.2	184.0	201.8
Total current liabilities	14.1	13.8	13.6	13.1	12.5
Total non-current liabilities	18.9	15.9	13.0	12.5	12.3
TOTAL LIABILITIES	32.9	29.7	26.6	25.6	24.8
Total shareholder's equity	117.8	129.4	142.6	158.4	177.0
TOTAL LIABILITIES & EQUITY	150.7	159.1	169.2	184.0	201.8

8. Analyst Certifications

I, Ayushi Saraswat, certify that all the views expressed in this research report accurately reflect my personal views about the subject security and the subject Company, based on the collection and analysis of public information and public Company disclosures.

I, Natasha Agarwal, certify that all the views expressed in this research report accurately reflect my personal views about the subject security and the subject Company, based on the collection and analysis of public information and public Company disclosures.

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Investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary.

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Bracket integrate alongside the rest of their stream of information and within their decision-making process.

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9. Notes and References

- i. Source: Bloomberg, retrieved on June 13, 2022
- ii. Source: Bloomberg: 52 weeks to June 13, 2022
- iii. Source: Bloomberg: 3 months to June 13, 2022
- iv. Source: Bloomberg
- v. Source: Arrowhead Business and Investment Decisions Fair Value Bracket-AFVBTM. See information on valuation on pages 31-34 of this report and important disclosure on page 38 of this report
- vi. Source: Company website, Annual Report 2020, Investor Presentation April 2021, Listing Prospectus – HYBRID Acquisition
- vii. Source: Company website, Annual Report 2020, Investor Presentation April 2021, Listing Prospectus – HYBRID Acquisition
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- xxviii. Source: Investor Presentation April 2021
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- xlvi. Source: Bloomberg