5.2. Business performance outlook for the Cherry Group

In the 2024 fiscal year, the Management Board still expects the implementation of the restructuring, cost-cutting, and transformation measures that have already been announced and initiated to lead to an improvement in the Cherry Group's financial situation. Against this backdrop, the Management Board forecasts Group revenue in the region of EUR 140 to 150 million and an adjusted EBITDA margin within the range of 7% to 8%. This represents a year-on-year increase of around 11% to 19% for Group revenue (2023: EUR 126.5 million) and approximately 5% to 6% for the adjusted EBITDA margin (2023: 1.6%).

The outlook for the 2024 fiscal year was announced on February 27, 2024, at which stage an outlook for the first quarter was also provided. Group revenue of around EUR 29.0 million was forecast for the three-month period, which is roughly at the same level as one year earlier (EUR 28.7 million). Based on this projected level of quarterly revenue, the adjusted EBITDA margin is expected to break even and thus reach a profitability level that is significantly higher than the corresponding figure reported for the previous year (January–March 2023: -4.6%).

The preliminary figures for the first quarter were announced on April 26. With Group revenue of EUR 30.3 million and an adjusted EBITDA margin of 2.8%, Cherry exceeded its own expectations.

The Management Board sees 2024 as a year of revitalization for Cherry SE. In the COMPONENTS segment, Cherry intends to return to the path of revenue growth through market-driven technology and price points for the MX2 and ULP generations of switches. A renewed improvement in the utilization of production capacities will also help drive the return to profitability. In its largest segment, GAMING & OFFICE PERIPHERALS, Cherry intends to further consolidate its sales approach in its core European markets. Moreover, office and gaming activities will be gradually expanded in the USA, Canada, and China. For these purposes, the intention is to secure profitability by entering into multi-level sales partnerships. The DIGITAL HEALTH & SOLUTIONS segment is expected to receive a strong boost from both the e-prescription (of which more 52 million have already been issued according to Gematik) and the electronic patient record (which is to be made available to everyone with public health insurance as of January 1, 2025). In addition, demand for hygiene-related products in the medical sector continues to grow.

The Management Board remains firmly committed to achieving the target of an adjusted EBITDA margin of at least 20% in the medium term. The recovering momentum of revenue growth driven by innovation and market relevance as well as the perceptible impact of comprehensive cost management should enable us to achieve our profitability target within the next two to four years. Even after the successful restructuring of the components business, the Cherry Group will continue with its policy of strict cost and cash management. In order to further optimize performance management, reporting has been converted to product-based segmentation.

The Cherry Group is also working to significantly improve its cash performance. The focus here is on proactive working capital management, which concentrates on reducing inventories and optimizing trade receivables. Cherry intends to use part of the resulting improved liquidity to invest in strategic and innovative projects.

6. OTHER DISCLOSURES

6.1. Takeover-relevant disclosures (Section 289a, Section 315a (1) HGB)

1. As of December 31, 2023, Cherry SE's subscribed capital comprised the following: Cherry's share capital amounted to EUR 24,300,000.00 divided into 24,300,000 no par value bearer shares. All shares carry the same rights and obligations. The rights and obligations of the shareholders are set out in detail in the provisions of the German Stock Corporation Act (AktG), particularly Sections 12, 53a et seq., 118 et seq., and 186.
2. Any Cherry SE shares held either directly or indirectly by members of the Management Board are subject to a restriction on sale during the term of the respective employment contract. The Cherry SE shares that were transferred to the owners of Xtrfy Gaming AB (Landskrona, Sweden) with value date January 17, 2023 are subject to a lock-up period until January 16, 2025. The Management Board is not aware of any further limitations affecting voting rights or the transfer of shares.
3. According to a voting rights notification received by Cherry SE on July 30, 2021 as well as internal notifications to Cherry SE from individual investors that are not subject to disclosure requirements, the following direct shareholding exceeds 10% of the voting rights: Cherry TopCo S.à.r.l. (Argand Partners Fund GP-GP, Ltd.): 30.79%.

4. There are no shareholders with special rights conferring powers of control.
5. There are no controls over voting rights relating to shares held by employees.
6. The appointment and dismissal of members of the Management Board is governed by Sections 84 and 85 of the German Stock Corporation Act (AktG) and Article 7 of the Articles of Association of Cherry SE. The Management Board consists of one or more members. The Supervisory Board determines the number of members on the Management Board. The Supervisory Board may appoint a Chairman of the Management Board and also a Deputy Chairman. The Supervisory Board appoints members of the Management Board, concludes employment contracts, revokes appointments, and also amends and terminates employment contracts. The Supervisory Board may issue rules of procedure for the Management Board. The members of the Management Board are appointed by the Supervisory Board for a maximum period of five (5) years. Reappointments are permissible.
7. In accordance with the resolution of the Annual General Meeting held on June 11, 2021, the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital of Cherry SE by up to EUR 10,000,000.00 by issuing up to 10,000,000 new no par value bearer shares in return for cash contributions and/or contributions in kind (Authorized Capital) on or before June 10, 2026. The authorization may be exercised either once or several times in partial amounts, but only up to EUR 10,000,000.00 in total. Shareholders are fully entitled to subscription rights. If capital increases are made against cash contributions, the shares may also be underwritten by banks or companies designated by the Management Board as defined in Section 186 (5) sentence 1 of the German Stock Corporation Act (AktG), subject to the obligation to offer them to the shareholders for subscription.

   In accordance with the resolution of the Annual General Meeting on June 23, 2021, the Management Board is authorized, with the approval of the Supervisory Board, to acquire treasury shares in the Company until June 22, 2026 up to a total of 10% of the Company's share capital existing at the time the resolution is adopted or – if one of these values is lower – at the time this authorization takes effect or at the time this authorization is exercised. The authorization may be exercised for any legally permissible purpose. The Management Board is required to inform the Annual General Meeting in each case of the use of the authorization, stating in particular the reasons for and purpose of the acquisition of treasury shares, the number of shares acquired, and the amount of share capital attributable to them, the proportion of share capital, and the equivalent value of the shares. On June 9, 2022, the Management Board resolved, with the approval of the Supervisory Board, to launch a share buyback program using this authorization ("Share Buyback Program 2022"). Under the above share buyback program, up to 2,000,000 Cherry shares (corresponding to up to approximately 8.2% of the Company's current share capital) were authorized for repurchase in the period from June 13, 2022 to June 30, 2023 at a total purchase price not exceeding EUR 25.0 million (excluding incidental acquisition costs). As of December 31, 2023, Cherry had repurchased a total of 1,344,422 of its own shares under the terms of the "Share Buyback Program 2022", 437,305 of which were repurchased during the 2023 fiscal year. 234,138 Cherry shares were used as a purchase price component during the acquisition of Xtrfy. As of December 31, 2023, Cherry held 1,110,284 treasury shares, equivalent to approximately 4.6% of its share capital.

   By resolution of the Annual General Meeting held on June 23, 2021, Cherry SE's share capital was conditionally increased by up to EUR 10,000,000.00, divided into up to 10,000,000 no par value bearer shares (Conditional Capital 2021/1). The Conditional Capital increase may only be executed if the holders or creditors of option or conversion rights – or those required to convert/exercise options arising from bonds with warrants and/or convertible bonds, profit participation rights and/or participating bonds issued against cash or non-cash contributions (or combinations of these instruments) that have been issued or guaranteed by Cherry SE or by a subsidiary of Cherry SE by June 22, 2026, based on the authorization given to the Management Board by resolution of the Annual General Meeting held on June 23, 2021 – exercise their option or conversion rights or, if they are required to convert/exercise options, actually fulfill their obligation, or if Cherry SE exercises an option to grant shares in the Company in whole or in part instead of payment of the cash amount due. The Conditional Capital increase will not be executed if a cash settlement is granted or treasury shares, shares from authorized capital, or shares in another listed company are used to service the issue. The new shares shall be issued at the option or conversion price, which is to be determined in each case in accordance with the above authorization resolution. The new shares shall participate in profits from the beginning of the fiscal year in which they are created. To the extent legally permissible, the Management Board may, with the approval of the Supervisory Board, determine the profit participation of new shares in deviation from this and from section 60 (2) sentence 3 AktG, including for a fiscal year which has already expired.

8. The loan agreements of Cherry SE do not contain any change-of-control clauses that grant the lenders an extraordinary right of termination. However, there is a change-of-control clause in the credit agreement with UniCredit Bank GmbH, which provides for the possibility of early repayment of the outstanding loan amount (EUR 45.0 million as of December 31, 2023).
9. Cherry SE has not entered into any compensation agreements, either with members of the Management Board or with employees, regarding termination of employment in the event of a takeover offer.

6.2. Remuneration Report pursuant to Section 162 of the German Stock Corporation Act (AktG)

The Remuneration Report for the 2023 fiscal year is published on the Cherry website at https://ir.cherry.de/home/corporate-governance/.

6.3. Corporate Governance Statement and Non-financial Report pursuant to Sections 289f, 315b (3), 315c and 315d of the German Commercial Code (HGB)

The Corporate Governance Statement and the Non-financial Report for the 2023 fiscal year are published on the Cherry website at https://ir.cherry.de/home/corporate-governance/.

6.4. Internal control system and risk management system relating to the Group financial reporting process

Pursuant to Sections 289 (4) and 315 (4) of the German Commercial Code (HGB), Cherry SE is required to describe the main features of its financial reporting-related internal control and risk management system in the Management Report. At the time of the IPO on June 29, 2021, Cherry SE was still in the process of setting up a comprehensive internal control system (ICS) and risk management system (RMS). By the end of the 2023 fiscal year, significant progress had been made in this respect, particularly with regard to the risk management system. Significant improvements were also made to the internal control system in 2023.

The internal control and risk management system is not statutorily defined with regard to the financial reporting process. We understand the ICS and RMS as a comprehensive system and follow the definitions set out by the Institute of Public Auditors in Germany (IDW), based in Düsseldorf, for the financial reporting-related ICS and RMS. Accordingly, the ICS is understood to comprise the principles, procedures, and measures introduced by the management team throughout the Group and aimed at the organizational implementation of management decisions:

- To ensure the effectiveness and efficiency of business activities (this also includes the protection of assets, including the prevention and detection of asset misappropriation)
- To ensure the propriety and reliability of internal and external financial reporting processes
- To ensure compliance with the legal provisions applicable to the Group

The RMS comprises the entirety of all organizational regulations and measures for identifying risks and dealing with the risks that corporate activity entails.

The following structures and processes have been put in place across the Group with regard to the financial reporting processes of consolidated companies:

The Management Board bears overall responsibility for the ICS and RMS with regard to the Group's financial reporting process.

The basis of data used to prepare the consolidated financial statements is the financial information reported by Cherry SE and its subsidiaries, which in turn is based on the transactions recorded in the respective entities. The subsidiaries' financial information is prepared either on a localized basis by the respective subsidiary itself or by external third parties. Moreover, we rely on the support of external service providers for certain topics that require specialist knowledge (for example, the valuation of pension obligations). The consolidated financial statements are prepared on the basis of information reported by the subsidiaries. The consolidated financial statements are prepared using certified consolidation software. Furthermore, the required steps are carried out using the dual control principle. For this reason, the Consolidation department has been strengthened with additional personnel.

The principles, structural and procedural organization, and processes of the financial reporting-related ICS and RCS are set out in a manual and adapted in line with current external and internal developments at regular intervals.