



Envipco Holding N.V.

Interim Financial Report | Fourth Quarter & Twelve Months 2019

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2019 TWELVE MONTHS RESULTS UNAUDITED

Highlights

in EUR millions	FY 2019 Unaudited	% Change	FY 2018
Revenues	36.25	2.46	35.38
Gross Profit	13.55	-2.80	13.94
Gross profit %	37.4%	-200bps	39.4%
Operating profit/(loss)	(2.58)	-217.81	2.19
Net profit/(loss) after taxes after minority	(1.88)	-201.62	1.85
EBITDA*	1.61	-70.62	5.48
Earnings/(loss) per share in €	(0.46)	-197.87	0.47
Shareholders' equity	24.35	-6.24	25.97

*EBITDA-Earnings before interest, taxes, depreciation and amortisation

2019 Twelve Months Highlights – Consolidated Results:

- Revenues for the full year 2019 increased 2.5% to €36.25m from €35.38m in 2018. The North American business growth was 1.0% for the year 2019. On a constant currency basis, the North American business revenue was down 4.1% for the year ended 2019 compared to 2018. The reduced North American business revenue in constant currency is attributable to lower RVM machine sales and lower commodity prices on our container throughput business. The European revenue growth was 17.6% for the year ended 2019 compared to 2018. The European growth for the year was attributable to strong growth in our Sweden market.
- Gross profit for the full year 2019 decreased to €13.55m from €13.94m for 2018. After adjustment for the favourable USD to EUR currency rate the gross profit declined €1.07m or 7.3% for 2019 compared to 2018.
- Gross profit margin was 37.4% for the year 2019 compared to 39.4% in 2018. The gross margin was negatively impacted by lower manufacturing overhead cost absorption in North America and by the mix of RVM machine sales in Europe where Quantum represented a greater percentage of sales.
- The operating profit/(loss) for the year 2019 was a loss of (€2.58m) compared to a profit of €2.19m for 2018.

The North American operating profit was €2.89m for 2019 compared to €5.22m for 2018. After adjusting for the Q4 2019 financial charge of €1.0m for the separation agreement with the former CEO and adjusting for the favourable one-time legal settlement of €0.62m realised in 2018, the North American operating profit declined by €0.71m. This decline was attributable to lower RVM machine sales and €0.30m of operating expense increases.

The European business operating profit/(loss) was a loss of (€2.79m) for the year 2019 compared to a loss of (€1.03m) in 2018. The European new market development expenses increased by €0.93m to €1.40m for 2019 from €0.48m in 2018. These costs principally relate to our UK/Scotland organisation in anticipation of the new Scotland DRS legislation and establishment of our Greece European showroom and assembly facility. The operating profit of the European business for 2019 was also negatively impacted by €0.47m of increased R&D expense in support of new DRS opportunities and some reduction in gross margin due to the mix of RVM machine sales.

The Holding company expenses increased to €2.68m for the year ended 2019 compared to €2.00m for 2018. The 2019 increase is principally attributed to increased IP litigation cost of €0.30m, new CEO recruitment cost of €0.18m and increased R&D amortisation of €0.14m.

- Net profit/(loss) after taxes was a loss of (€1.88m) for the year ended 2019 compared to a profit of €1.85m for 2018. The 2019 net loss was favourably impacted by an additional adjustment of €1.11m to recognize the deferred tax asset tied to North America net operating losses.

- EBITDA decreased to €1.61m for the year of 2019 compared to €5.48m for 2018. After adjusting the 2018 results for the €0.62m one-time legal settlement and after allowing for the 2019 increases of €0.93m in DRS new market development costs, €1.00m separation agreement cost, increased R&D expense of €0.52m and increased Holding company cost of €0.48m related to IP litigation and CEO recruitment; the 2019 full year EBITDA results and the 2018 full year EBITDA results are €4.54m and €4.86m respectively.

Financial Position:

- The Company generated a positive €0.72m cash from its operating activities for the year 2019 versus €4.64m in 2018. Cash generated was negatively impacted by increased market development investments and one-time financial charges along with planned inventory increases of €2.00m tied to completed RVMs and long lead-time components in anticipation of Greece and Scotland market requirements.
- The Company's bank financing drawn was €4.15m on 31/12/2019 versus €4.43m on 31/12/2018. Subsequent to year end, the Company has negotiated a new \$6.00m term loan agreement with its' US banking relationship. The loan proceeds can be utilized for European DRS market development expenses and associated inventory requirements. The Company has adequate bank facilities to fund its current requirements.
- Shareholders' equity at 31/12/2019 of €24.35m decreased by €1.62m from year end 31/12/2018 based on the 2019 net loss offset by a positive translation reserve impact of €0.26m.

Operational Developments:

- The Company is continuing its' extensive preparations for the Scottish DRS legislation. It is expected that the DRS regulations will be announced shortly in support of implementation of the law in 2021. Our UK and Scottish management team based out of our Edinburgh showroom is highly engaged in vendor qualifications and planning with major UK grocery chains and independent grocers. The Company has demonstrated the attractiveness and strength of our RVM technology through a number of successful pilots completed and currently operating. Envipco's management team is well positioned to succeed in this important market.
- In early December 2019, Envipco grand opened our 15,000 square foot facility in Pallini, Greece. This facility includes a complete showroom and demonstration centre along with an RVM manufacturing assembly line. Envipco's demonstrated commitment to the Greek market along with our strong distribution partner well positions the Company for success in this promising market in 2021.
- The Company substantially increased its IP litigation costs to €0.80m during the year 2019 as part of several court proceedings. The company previously received an unfavourable ruling on our patent being litigated. We have since reviewed the German courts report and have now filed an appeal of the court decision. We believe our appeal grounds are well founded and will be successful; accordingly, the Company expects to continue these proceedings.
- As previously reported, the new CEO recruitment process has been concluded with Mr. Simon Bolton joining the company with effect from 17 February 2020. Mr. Bolton will be based in Europe and will lead establishment of a strong European team to execute on the exciting growth potential tied to new DRS legislation.

Gregory Garvey, Chairman of Envipco Holding N.V.: "In 2019 we have further increased our readiness to expand our market activities in Europe. We are making the necessary investments by building the right teams and developing the right relationships with key retailers to ensure our participation in the new DRS markets. Our strong technology platform, demonstrated service leadership and DRS experience well positions the company for growth. I am confident that our new CEO, Mr. Simon Bolton has the right background and leadership for Envipco's future."

Business Review – Segments

	4 th Quarter		Full Year	
	2019 Unaudited	2018 Unaudited	2019 Unaudited	2018
in EUR millions				
Revenues	8.69	8.36	36.25	35.38
North America	7.71	7.81	32.65	32.32
Europe	0.98	0.55	3.60	3.06
ROW	-	-	-	-
Gross Profit	2.98	3.37	13.55	13.94
Gross Profit in %	34%	40%	37%	39%
Operating expenses excluding new market development costs	4.91	3.36	14.76	11.93
New market development costs	0.52	0.18	1.40	0.48
Operating expenses	5.43	3.54	16.16	12.41
Net profit/(loss) after taxes	(1.19)	(0.19)	(1.88)	1.85
EBITDA*	(0.90)	0.96	1.61	5.48
EBITDA Margin	(10%)	11%	4%	15%
Earnings per share (EPS) in €	(0.29)	(0.05)	(0.46)	0.47

*Earnings before interest, taxes, depreciation and amortisation

2019 Fourth Quarter and Full Year:

North American revenues for the year 2019 increased to €32.65m from €32.32m in 2018. On a constant currency basis, North America revenues declined 4.1% for the year 2019. The 2019 decline in revenue was attributable to lower RVM machine sales of €3.65m in 2019 compared to €4.31m in 2018. The RVM sales decline is a result of lower new store construction and renovation during the year compared to 2018. The container throughput business volume was stable for the year with revenues of €29.01m compared to €29.52m in 2018 excluding any currency impact. The 2019 container throughput revenue declined as a result of lower commodity prices compared to 2018. For Q4 of 2019, North America revenues were €7.71m compared to €7.81m in Q4 2018. For Q4 2019, both RVM machine sales and container throughput volumes were relatively the same as 2018.

European revenues for the year 2019 increased 17.6% to €3.60m from €3.06m in 2018. For Q4 2019, European revenues increased 78.1% to €0.98m compared to €0.55m in Q4 2018. For the year 2019, Sweden has performed very well with Quantum sales and service revenue increasing 141% to €3.05m compared to 2018. The 2019 Sweden improvements are a direct result of the success of the Quantum modular concept completed in 2018. The Greece and France markets had minimal RVM machine and parts sales in year 2019 compared to sales of €1.40m in 2018. Leveraging our recently completed Greece facility investments and overall increased market activities, we expect meaningful RVM sales to Greece in 2020. Overall, we see strong growth potential in Europe with sustained Sweden momentum, Greece market expansion, renewed France opportunities and especially considerate of the Scotland DRS market potential.

Operating expenses excluding new market development costs for 2019 increased to €14.76m compared to €11.93m for 2018. The majority of this increase relates to former CEO separation agreement of €1.00m, North America constant currency impact of €0.33m, increased R&D expense of €0.52m and increased Holding expense for IP litigation and CEO recruitment of €0.48m.

Substantial new market development costs of €1.40m were incurred during 2019 compared to €0.48m in 2018. The majority of this cost was surrounding the impending Scottish DRS law and UK market development activities along with cost to establish facilities in Greece. The Company expects to continue to incur new market development costs in Europe around developing DRS opportunities.

Market Outlook

The Company maintains a positive outlook for the business considerate of sustained performance in North America, momentum in the Sweden market, organizational investments underway in Europe, market expansion opportunities in Greece and most importantly the impact of our new market business development investments towards European DRS legislation.

Extraordinary Meeting of Shareholders

An extraordinary meeting of shareholders was held on 20 December 2019 in Amersfoort, The Netherlands. The minutes of meeting are available on our website at: www.envipco.com

Risks and Uncertainties

- Legislation driven growth: If deposit laws are repealed or curtailed significantly, this can have a significant negative impact on our RVM business, which is mainly dependent on these laws.
- Major RVM customers going out of business may also have a significant negative impact, although unlikely due to the diversity of our customer base.
- The Group may be at risk from competition.
- At present, the majority of the Group revenue is generated in USD, which can be subject to significant fluctuations that may have a negative or positive impact on the Group results depending upon whether it is a favourable or an unfavourable change.
- Non-availability of lines of credit or cash to continue to fund projects under development stage may impact long term viability of the Group.

Capital & Shareholding

Authorised and Issued Share Capital

The Company's authorised capital is €4,000,000 divided into 8,000,000 shares, each having a nominal value of €0.50. The issued share capital of the Company currently amounts to €2,048,803.50 divided into 4,097,607 shares, each having a nominal value of €0.50.

Substantial Shareholders

The Group has been notified of or is aware of the following 3% or more interest as at 31 December 2019.

	Number of Shares	Shareholding %	Voting Rights %
Alexandre Bouri/Megatrade International SA	2,168,068	52.91	52.91
Gregory Garvey/EV Knot LLC	521,513	12.73	12.73
Douglas Poling/GD Env LLC	200,000	4.88	4.88
B. Santchurn/Univest Portfolio Inc.	155,480	3.79	3.79
Otus Capital Management Ltd	247,727	6.05	6.05
Lazard Freres Gestion SAS	222,532	5.43	5.43

Amersfoort, 28 February 2020
Board of Directors
Envipco Holding N.V.

Gregory S. Garvey
Executive Director

Consolidated Statement of Profit or Loss and Comprehensive Income

in EUR thousands	Note	Q4 2019 Unaudited	Q4 2018 Unaudited	FY 2019 Unaudited	FY 2018
Revenues		8,692	8,364	36,251	35,380
Cost of revenue		(5,707)	(4,990)	(22,699)	(21,441)
Gross Profit		2,985	3,374	13,552	13,939
Selling and distribution expenses		(170)	(311)	(1,074)	(1,118)
General and administrative expenses		(4,795)	(3,061)	(13,762)	(10,486)
Research and development expenses		(470)	(164)	(1,323)	(801)
Other income	(4)	7	12	26	651
Operating Results		(2,443)	(150)	(2,581)	2,185
Financial expense		(121)	(50)	(273)	(269)
Financial income		140	34	93	3
Net finance (cost) and or income		19	(16)	(180)	(266)
Results before tax		(2,424)	(166)	(2,761)	1,919
Income taxes		1,239	(20)	882	(65)
Net Results		(1,185)	(186)	(1,879)	1,854
Other comprehensive income					
Items that will be reclassified subsequently to profit and loss					
Exchange differences on translating foreign operations		(813)	205	264	819
Other movements		1	(8)	1	(10)
Total other comprehensive income		(812)	197	265	809
Total comprehensive income		(1,997)	11	(1,614)	2,663
Profit attributable to:					
Owners of the parent					
Profit/(loss) for the period		(1,186)	(186)	(1,883)	1,848
Non-controlling interests					
Profit/(loss) for the period		1	-	4	6
Total					
Profit/(loss) for the period		(1,185)	(186)	(1,879)	1,854
Total comprehensive income attributable to:					
Owners of the parent		(1,998)	11	(1,618)	2,657
Non-controlling interests		1	-	4	6
		(1,997)	11	(1,614)	2,663
Number of weighted average (exclude treasury shares) shares used for calculations of EPS		4,097,607	3,981,744	4,097,607	3,981,744
Earnings/(loss) per share for profit attributable to the ordinary equity holders of the parent during the period					
- Basic (euro)		(0.29)	(0.05)	(0.46)	0.47
- Fully diluted (euro)		(0.29)	(0.05)	(0.46)	0.47

Consolidated Statement of Financial Position

in EUR thousands	Note	FY 2019 Unaudited	FY 2018
ASSETS			
Non-current assets			
Intangible assets		6,160	6,016
Property, plant and equipment		9,668	9,165
Financial assets		208	349
Deferred tax assets	(7)	2,934	1,819
Total non-current assets		18,970	17,349
Current assets			
Inventory		10,341	8,525
Trade and other receivables		9,960	10,021
Cash and cash equivalents		675	4,107
Total current assets		20,976	22,653
Total assets		39,946	40,002
EQUITY			
Share capital		2,049	2,049
Share premium		51,703	51,874
Legal reserves		5,700	5,529
Retained earnings		(39,201)	(37,318)
Translation reserves		4,102	3,838
Equity attributable to owners of the parent		24,353	25,972
Non-controlling interests		32	27
Total equity		24,385	25,999
Liabilities			
Non-current liabilities			
Borrowings	(8)	2,975	3,014
Lease commitments		373	-
Other liabilities		120	220
Total non-current liabilities		3,468	3,234
Current liabilities			
Borrowings	(8)	1,171	1,420
Trade creditors		6,569	6,406
Accrued expenses		3,440	2,554
Provisions		314	77
Lease commitments		381	-
Tax and social security		218	312
Total current liabilities		12,093	10,769
Total liabilities		15,561	14,003
Total equity and liabilities		39,946	40,002

Consolidated Statement of Cash Flows

in EUR thousands	Note	FY 2019 Unaudited	FY 2018
Cashflow from operating activities			
Operating results		(2,581)	2,185
Adjustment for:			
Depreciation and amortisation		3,675	3,364
Interest received		16	3
Interest paid		(273)	(226)
Changes in trade and other receivables		351	(269)
Changes in inventories		(1,418)	(583)
Changes in provisions		-	94
Changes in trade and other payables		1,253	135
Changes in other liabilities		(100)	-
Cash generated from operations		923	4,703
Income taxes (payment)/refund		(199)	(65)
Net cash flow from operating activities	(9)	724	4,638
Investing activities			
Investment in intangible fixed assets		(1,388)	(1,488)
Investments in property, plant & equipment		(2,426)	(2,307)
Net cash flow used in investing activities	(9)	(3,814)	(3,795)
Financial activities			
Proceeds from sale of shares		-	2,711
Changes in borrowings – proceeds		1,072	-
Changes in borrowings – repayments		(1,450)	(1,298)
Net cash flow from financing activities	(9)	(378)	1,413
Net increase/(decrease) in cash and cash equivalents			
		(3,468)	2,256
Opening position		4,107	1,788
Foreign currency differences on cash and cash equivalents		36	63
Closing position		675	4,107
The closing position consists of:			
Cash and cash equivalents		675	4,107
Total closing balance in cash and cash equivalents		675	4,107

Consolidated Statement of Changes in Equity

in EUR thousands	Share Capital	Share Premium	Legal Reserve	Retained Earnings	Translation Reserve	Total	Non-Controlling Interests	Total Equity
Balance at 1 January 2019	2,049	51,874	5,529	(37,318)	3,838	25,972	27	25,999
Net profit/(loss) for the period	-	-	-	(1,883)	-	(1,883)	4	(1,879)
Other comprehensive income								
- Currency translation adjustment	-	-	-	-	264	264	-	264
- Other movements	-	-	-	-	-	-	1	1
Total recognised movements for the period ended 31 Dec. 2019	-	-	-	(1,883)	264	(1,619)	5	(1,614)
Legal reserve	-	(171)	171	-	-	-	-	-
Balance at 31 December 2019	2,049	51,703	5,700	(39,201)	4,102	24,353	32	24,385

	Q4 2019 Unaudited	Q4 2018 Unaudited	FY 2019 Unaudited	FY 2018
Opening Balance	26,382	23,277	25,999	20,625
Net profit/(loss) for the period	(1,185)	(186)	(1,879)	1,854
Other comprehensive income:				
- Currency translation adjustment	(813)	205	264	819
- Other movements	1	(8)	1	(10)
Total recognised movements for the period	(1,997)	11	(1,614)	2,663
Sale of shares	-	2,711	-	2,711
Closing Balance	24,385	25,999	24,385	25,999

1. General

Activities

Envipco Holding N.V. is a public limited liability company incorporated in accordance with the laws of The Netherlands, with its registered address at Arnhemseweg 10, 3817 CH Amersfoort, The Netherlands (Chamber of Commerce number: 33304225).

Envipco Holding N.V. and Subsidiaries (“the Company” or “Envipco”) are engaged principally in Recycling in which it develops, manufactures, assembles, leases, sells, markets and services a line of “reverse vending machines” (RVMs) in the USA, Europe, Australia, Middle East and the Far East.

Basis of Preparation

The interim consolidated financial information for the twelve months ended 31 December 2019 has been prepared in accordance with IAS 34 “interim financial reporting.” The consolidated interim financial information should always be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS as endorsed by the European Union.

All financial information is reported in thousands of euros unless stated otherwise.

2. Accounting Policies

Except as set out below, the accounting policies of these interim financial statements are consistent with the annual financial statements for the year ended 31 December 2018.

- Taxes on income in the period are accrued using the tax rate that would be applicable to expected total annual earnings.
- The annual impairment tests on goodwill and intangible assets with indefinite life will be carried out at the end of fiscal year 2019. Consequently, any impairment losses will only be recognised in the annual financial statements over the fiscal year 2019.

These unaudited interim financial statements have not been reviewed by our auditors.

The company has implemented the new standard IFRS 16 Leases with effect from 1 January 2019. See Note 5 for details.

3. Segment Reporting

In accordance with the provisions of IFRS 8, the segments are identified based on internal reporting. The senior management board has been identified as the chief operating decision-maker. The senior management board reviews internal reporting on a periodical basis. The Group’s two segments are the RVM and Holding company functions.

- RVM Segment: The deposit market activities under this segment include operation of systems to redeem, collect, account for and processing of post-consumer beverage containers in the legislated environment including other related activities like sale and lease of RVMs, container data handling, management and deposit clearing functions. The non-deposit market activities under this segment include sales and market development activities for the automated recovery of used beverage containers in non-legislated environments. All of the Group’s RVM related research and development activities are also included under this segment.
- Holding Segment: This comprises of all Holding company activities including head office and corporate expenses.

in EUR thousands	RVM Segment	Holding Segment	Total
Segment Results – 31 December 2019 (Unaudited)			
Revenue from external customers	36,251	-	36,251
Other income /(expenses)	26	-	26
Depreciation & amortization	2,506	1,169	3,675
Net profit attributable to owners of the parent	739	(2,622)	(1,883)
Segment Assets – 31 December 2019 (Unaudited)	33,086	6,860	39,946
Segment Results – 31 December 2018			
Revenue from external customers	35,380	-	35,380
Other income/(expenses)	651	-	651
Depreciation & amortization	2,336	1,028	3,364
Net profit attributable to owners of the parent	3,852	(2,004)	1,848
Segment Assets – 31 December 2018	31,917	8,085	40,002

4. Other Income / (Expenses)

Other income in 2019 was €0.03m compared to 2018 of €0.62m which resulted from a one-time contract settlement.

5. IFRS 16

On 1 January 2019, the Company adopted IFRS 16 leases. The Company applied the modified retrospective transition method. Applying this method, the comparative information for 2018 has not been restated. The Company has also elected to a transition practical expedient that permits the entity not to reassess if a contract is, or contains, a lease at the date of initial application. In addition, the Company applies the recognition exemptions for short-term leases for which the underlying asset is of low value. Right-of-use assets with a value of €0.77m have been included in tangible assets.

The impact of IFRS 16 adjustments is given below:

Income Statement in EUR thousands	FULL YEAR 2019 (Unaudited)		
	Before	IFRS 16	After
Revenues	36,251	-	36,251
Cost of goods/services	(22,783)	84	(22,699)
Gross profit	13,468	84	13,552
Operating expenses	(16,135)	2	(16,133)
EBITDA	1,094	518	1,612
Depreciation/amortisation costs	3,242	433	3,675
EBIT	(2,148)	85	(2,063)
Net finance	(205)	(68)	(273)
Profit/(loss) before tax	(2,778)	17	(2,761)
Taxes	882	-	882
Net profit	(1,896)	17	(1,879)
Details of impact on COGS/op. exp.:			
Lease expenses under COGS	516	(516)	-
Depreciation under COGS	3,242	433	3,675
Total COGS effect	3,758	(83)	3,675
Lease expenses under op. exp.	10	(10)	-
Depreciation under op. exp.	199	8	207
Total op. exp. Effect	209	(2)	207
EBITDA	1,094	518	1,612

Balance Sheet in EUR thousands	FULL YEAR 2019 (Unaudited)		
	Before	IFRS 16	After
Intangible assets	6,160	-	6,160
Tangible fixed assets	8,897	771	9,668
Non-current assets	3,142	-	3,142
Current assets	20,976	-	20,976
Total assets	39,175	771	39,946
Current liabilities	11,712	381	12,093
Long-term liabilities	3,095	373	3,468
Equity	24,336	17	24,353
Minority	32	-	32
Total equity and liabilities	39,175	771	39,946
Details of impact on right-of-use assets:			
Office Space	304	-	304
Plant & Machinery	170	-	170
Office equipment	55	-	55
Motor vehicles	242	-	242
Total	771	-	771

Cash Flow in EUR thousands	FULL YEAR 2019 (Unaudited)		
	Before	IFRS 16	After
Operating profit/(loss)	(2,666)	85	(2,581)
Finance Charges	(205)	(68)	(273)
Change in working capital	186	-	186
Other operating changes	2,882	510	3,392
Total cashflow from operations	197	527	724
Cashflow from investments	(3,814)	-	(3,814)
Cashflow from financing	132	(510)	(378)
Total cashflow for the period	(3,485)	17	(3,468)
Details of impact on cash flow items:			
Profit before tax	17	-	17
Other operating charges	(17)	-	(17)
Net profit impact	-	-	-
Lease payments	510	-	510
Effect on cashflow from operations	510	-	510
Effect on cashflow from investments	-	-	-
Lease payments	(510)	-	(510)
Effect on cashflow from financing	(510)	-	(510)

6. Transactions with Related Parties

There is a loan receivable of €0.68m due from an affiliate under common control of the majority shareholder. The loan has an interest rate of Euribor plus 2.5% and is repayable on 31 December 2020.

7. Deferred Tax Asset

The deferred tax asset at 31 December 2019 amounted to €2.93m (2018: €1.82m) after recognising €1.11m of deferred tax asset based on the available net operating losses.

8. Borrowings – Third Parties

<i>in EUR thousands</i>	12 months to 31 Dec 2019	12 months to 31 Dec 2018
At beginning of period	4,434	5,498
Additions	1,072	-
Repayments	(1,450)	(1,359)
Translation effect	90	295
At end of period	4,146	4,434

9. Consolidated Cash Flow

Group generated a €0.72m cash from its operating activities for the year 2019 versus €4.64m in 2018. Investments in tangible and intangible assets were €3.81m for 2019 (2018: €3.80m). The debt increased during the year by €1.07m (2018: €0.00) under the line of credit facility and repayments amounted to €1.45m for 2019 compared to €1.36m in 2018.

10. Post balance sheet events

Subsequent to year end, the Company has negotiated a new \$6.00m term loan agreement with its' US banking relationship. The loan proceeds can be utilized for European DRS market development expenses and associated inventory requirements.