

Incap

Extensive report

06/24/2024 9:25 EEST



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✓ Inderes corporate customer

This report is a summary translation of the report “Läpäisty painekoe takana, kasvu-ura edessä” published on 6/24/2024 at 9:26 am EEST

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Pressure test passed, growth path lies ahead

We reiterate our Accumulate recommendation for Incap and raise our target price to EUR 13.50 (was EUR 12.50). Since the rocket-like growth at the start of the decade, the company has faced a pressure test in the past quarters due to the destocking of the largest customer, but we feel Incap is passing the test with flying colors. We estimate that the company's demand picture is starting to look slightly brighter and expect Incap's key strength, i.e. cost efficiency, to carry the company also in growth mode. We still find Incap's valuation reasonable (2025e: EV/EBIT 9x) considering the earnings turnaround budding in H2 and the earnings growth potential of the next few years.

High-performance contract manufacturer

Incap is an electronics industry contract manufacturer that primarily specializes in high mix / low volume applications. The company creates added value for its customers 1) by allowing more efficient resource allocation for OEMs core business activities such as product development, sales and marketing, and 2) by bringing flexibility to OEMs through outsourced production both to capacity and cost management. Incap's organization model is decentralized, which in turn has resulted in a light organization structure, low overhead expenses, swift operational responsiveness, and a cost-conscious culture. In addition, a significant share of the company's production is in low-cost countries (particularly India). We believe that these factors are the key strengths of the company. The main risks are still a single large customer (in 2023 the largest customer generated 47% of the company's revenue), the inherent variations in investment-driven demand, as well as possibly tightening competition.

We expect the company to return to earnings growth soon

Incap's customer risk partly realized last year and in Q1, when the company's largest customer lowered its inventory levels due to slowing growth. In practice, Incap's sales have stalled in the past 3 quarters, but the company's strengths still enabled it to maintain an excellent double-digit margin in every quarter. In Q1, revenue also turned to quarterly growth. However, the electrification of the world and the resulting increase in electronics, as well as growing outsourcing rates and shares of industrial OEMs also drive the demand for contract manufacturers upward in the longer term faster than GDP growth. In addition, the fragmented structure of the industry, together with Incap's current strong balance sheet position, provides a solid foundation for inorganic growth. Considering the backgrounds of the company and the industry, we find Incap's value creation opportunities to be good (incl. successes in AWS and Pennatronics acquisitions). In our neutral scenario, we now expect Incap to return to sales and earnings growth already this year, which is a more optimistic estimate than the company's guidance. We expect growth in the coming years to be clearly slower than in 2021-2022. We expect profitability to remain very strong relative to the industry at 13% adjusted EBIT level, based on the strengths mentioned above.

The valuation picture is still cautiously attractive as long as the performance starts to improve

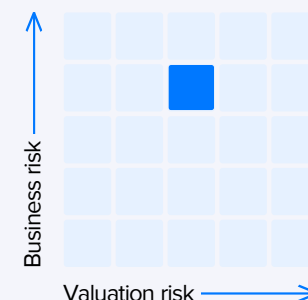
Incap's P/E ratios for 2024 and 2025 based on our estimates are 16x and 13x, while the corresponding EV/EBIT ratios are 11x and 9x. Absolute multiples are justifiably higher than historical levels but they are also at the lower end of our neutral multiple range for next year that is cleaner. We, therefore, consider the valuation of Incap, which has convincing quality features, attractive, and the expected return is still good, as long as the company's earnings growth expected to start in H2 is roughly in line with our estimates. We slightly lowered Incap's required return that increased last year as the outlook continues to brighten.

Recommendation

Accumulate
(previous Accumulate)

EUR 13.50
(previous EUR 12.50)

Share price:
EUR 12.12



Key figures

	2023	2024e	2025e	2026e
Revenue	221.6	235.9	271.3	298.4
growth-%	-16%	6%	15%	10%
EBIT adj.	30.6	30.5	35.2	39.2
EBIT-% adj.	13.8 %	12.9 %	13.0 %	13.1 %
Net Income	19.8	22.2	25.9	29.2
EPS (adj.)	0.75	0.77	0.90	1.01
P/E (adj.)	10.4	15.7	13.4	12.0
P/B	2.1	2.8	2.3	1.9
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	7.2	10.9	8.9	7.4
EV/EBITDA	6.7	9.4	7.9	6.6
EV/S	1.0	1.4	1.2	1.0

Source: Inderes

Guidance

(Unchanged)

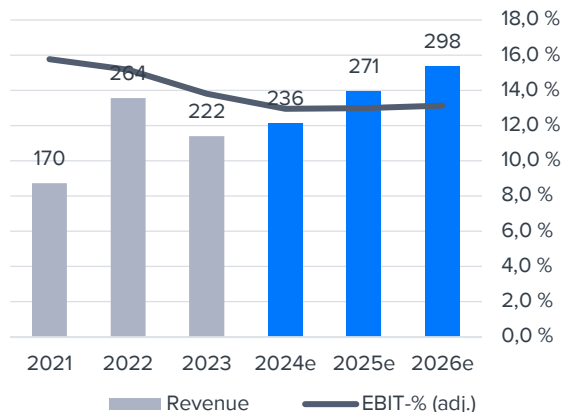
Incap estimates that its revenue and EBIT for 2024 will be lower than in 2023

Share price



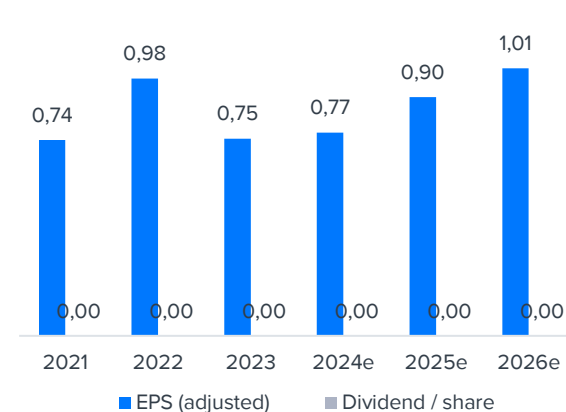
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth in the electronics market, supported by global megatrends and increased outsourcing rate
- Light organization and cost structure enable a high profitability level
- Quick decision-making supports new customer procurement
- Accelerating growth with acquisitions
- Cross-selling potential created by the Pennatronics acquisition



Risk factors

- Mutually challenging value chain position upholds a brutal competitive situation
- Cyclical or volatile nature of customer industries
- Tightening competitive situation
- Company's cost efficiency deteriorating
- Supply chain disruptions
- Risk related to individual customers still elevated

Valuation	2024e	2025e	2026e
Share price	12.1	12.1	12.1
Number of shares, millions	29.4	29.4	29.4
Market cap	356	356	356
EV	332	314	291
P/E (adj.)	15.7	13.4	12.0
P/E	16.1	13.7	12.2
P/B	2.8	2.3	1.9
P/S	1.5	1.3	1.2
EV/Sales	1.4	1.2	1.0
EV/EBITDA	9.4	7.9	6.6
EV/EBIT (adj.)	10.9	8.9	7.4
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

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Incap in brief

Incap is a contract manufacturer for the electronics industry, which acts as a strategic partner for global OEM companies with focus on high-tech.

1985

Year of establishment

1997

IPO

222 MEUR (-16% vs. 2022)

Revenue 2023

30.6 MEUR (13.8% of revenue)

Adjusted EBIT 2023

38%

Average ROIC in 2017-2023

1,784

Personnel at the end of 2023

67%

Revenue share of products that meet the criteria for green funding 2023 examined based on EU's taxonomy eligibility

Change in business model 2012-2015

Large structural arrangements create the base for a sustainable profitability turnaround

The organizational model is based on decentralized decision-making and the strategy is sharpened

A kind of business reboot and finding a profitable growth path

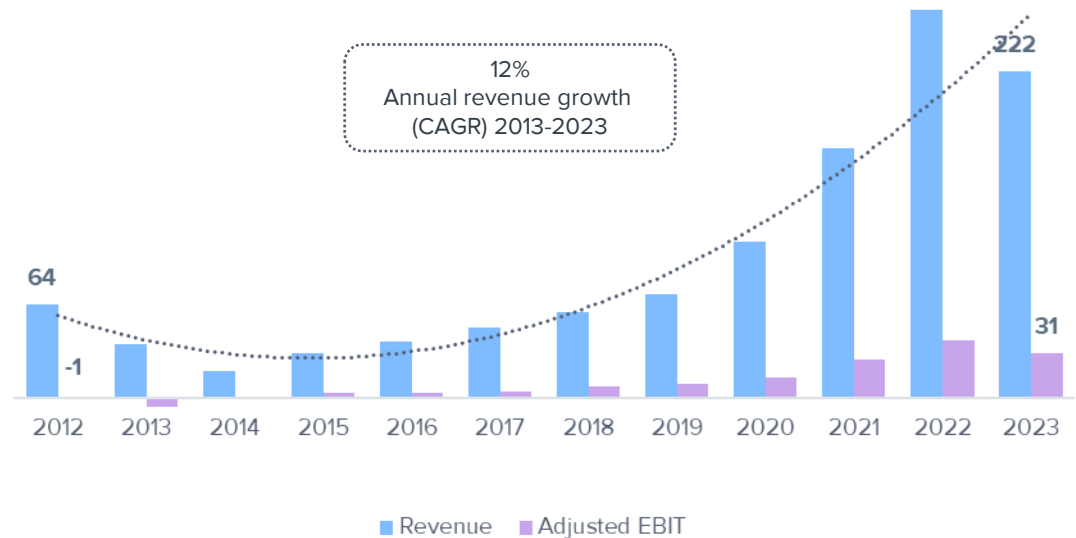
Dramatic revenue growth 2016-2023

Organic growth rate remains excellent on the wing of the largest customer and profitability level rises to the top of the industry

Organic and inorganic investments in growth

Growth and earnings growth stagnate unexpectedly due to the biggest customer's inventory problem in 2023

Incap's revenue and adjusted EBIT 2012-2023



Company description and business model 1/8

Contract manufacturer in industrial electronics

Incap is a contract manufacturer in the electronics industry, specializing in the production of high mix/low volume industrial electronics applications with high technical requirements and a significant emphasis on the production of green transition technologies. For example, taxonomy-eligible products accounted for 67% of revenue in 2023 in the EU taxonomy classification for green transition. At operations level, this means that Incap has the necessary ability to manufacture the entire product or sub-assembly for the customer, typically OEM companies. Therefore, Incap in practice creates value for its customers through two routes: 1) by allowing more efficient resource allocation for OEMs to core business activities such as product development, sales and marketing, and 2) by bringing flexibility points (incl. responsiveness) through outsourced production to manage both capacity and costs.

Incap's end products include inverters, various control systems and measuring instruments. Although Incap's strategic focus is fundamentally on industrial electronics, we believe that the company is not overlooking the potential of small batch consumer electronics, as long as they are sufficiently attractive. As a concrete example of such opportunities, we see light vehicles such as electric scooters and their charging infrastructure, which we believe has provided the company with excellent business paths in recent years. However, mass-produced consumer products (e.g. phones and computers) are not Incap's focus area.

Europe and large customers

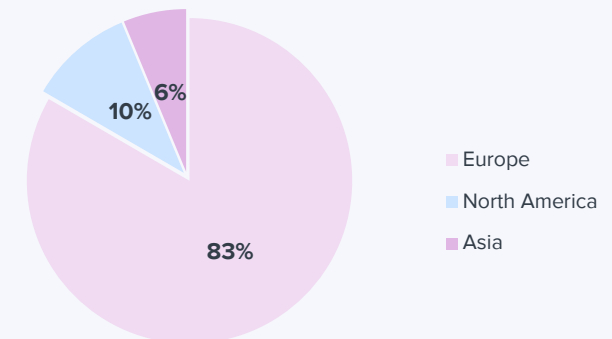
In 2023, Incap's revenue was 222 MEUR and operating profitability (adj. EBIT %), was at an excellent level of 14% when lined with the industry context. Geographically, the company's business is dominated by Europe, with around 83% of its business coming from the region last year, based on the end customer locations. The second most significant market is North America with a 10% revenue share, while Asia's share of revenue is 6%. Although the equipment manufacturers we assess as Incap customers are global players, their main markets are primarily within Europe. Based on Incap's production, the revenue mix would be different, as the Indian plants are by far the company's largest production unit. In other words, Incap operates with a strong export-driven business model.

Incap's customer portfolio is concentrated, since the largest customer accounted for 47% of revenue in 2023 (2022: 67%). According to Inderes' estimate based on public sources, the largest customer is Victron Energy, but Incap has not published its customers. The largest customer has also grown significantly faster than the rest of the Group before the stalling due to the overgrowth in inventories in 2023. The four largest customers accounted for 58% of revenue (74% in 2022), so the other large customers are not particularly significant relative to the size of the group. Last year, the company had 26 (22 in 2022) customers who brought in more than 1 MEUR. Overall, we estimate that the number of



- More than 30 years of operational history and high-level technology expertise
- Strategic focus on high mix / low volume applications for industrial electronics
- Production plants mainly in countries with low cost structures and a light organizational structure increase competitiveness
- In addition to efficient PCB assembly, also capabilities for larger comprehensive deliveries

Geographical revenue distribution 2023



Company description and business model 2/8

customers is several dozen. We estimate that Incap's key accounts are long-term and, in many cases, strategic partnerships. Thus, in principle, there is little customer turnover in the portfolio.

Incap's focused customer structure raises Incap's risk profile relative to its peers, although the customer portfolio clearly leveled out during 2023, customer concentrations are not that unusual in the industry and the loss of large customers is rare due to high switching costs. Especially the direction of the biggest customer's (i.e. Victron Energy's) operations has a significant impact on Incap's short-term direction, and especially a rapid recovery of revenue is not possible without the largest customer returning to growth. Thus, the risk of fluctuations is still present, even though the partial realization of customer risk and other measures in 2023 balanced the scales in this respect from the stock and the business perspective.

We believe that Victron Energy is the largest customer

We estimate that Victron Energy, a Dutch power electronics manufacturer is Incap's largest customer. Incap does not report its customers. The company designs and sells inverters, chargers and other power transmission related products. The company has over 100 employees, of whom a significant share are R&D engineers. The company has grown into a major player in its field and its products are sold globally.

Victron Energy's goal is to provide its customers with reliable and sustainable solutions that enable them to generate and use electricity in the most efficient and environmentally friendly way possible. The products are widely used in a variety of applications and are popular with boaters, recreational vehicle owners, industry, and households. The company's products include inverters, chargers, batteries, solar panels, charge controllers and accessories.

One of Victron Energy's main growth platforms in recent years has been renewable energy solutions, particularly solar panels and photovoltaic power plants. The company has developed several new products, such as smart charge controllers and solar panel optimizers, to help customers get the most out of solar power. Thus, the green transition is likely to continue to be a significant demand driver for Victron Energy. However, we estimate that rising interest rates and falling energy prices were significant reasons for Victron Energy's growth falling short of expectations in 2023, which in turn revealed the company's oversized inventories.

Victron Energy's growth has been spectacular

The company's revenue has grown significantly in recent years and it has expanded into several new markets around the world. Victron Energy's revenue has increased from 55 MEUR in 2013-2022 to 566 MEUR, or some 29% per year (CAGR), while EBIT has increased by about 36% per year (CAGR) during the same period. Victron Energy seems to be a very competitive player in its industry as its profitability has been at an excellent level despite strong growth.

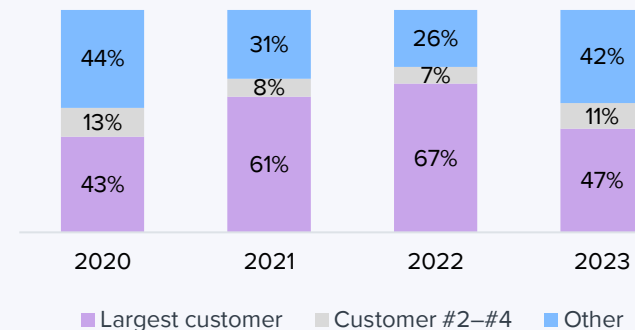
Potential customers*



*Based on Inderes' estimate of potential customers. Incap does not report its customers.

Customer structure

Share of revenue in 2020-2023



Company description and business model 3/8

Operational efficiency has been excellent, as the average EBIT margin has been 23-25% in 2013-2022. According to our assessment, the company also has a strong financial position. At the end of the year, the company has on average had just under 40% of the previous year's revenue in inventories in 2013-2022.

Victron Energy's 2023 financial statement figures are not available to us. We believe, however, that the company continued to grow, but the pace has been clearly slower than in previous years. We estimate that inventory levels have already fallen quite clearly at least in absolute terms in late 2023.

We are confident that Victron Energy's business is on a solid footing in the big picture

Victron Energy's good positioning in the green trend and the company's mainly forcible recent financial history increase confidence in Victron Energy's ability to grow profitably also in the future. Of course, this is also important from the perspective of Incap's growth and profitability. However, as an unlisted company, the transparency of Victron Energy's business development and long-term objectives is very weak and surprises may continue to occur, both good and bad.

Another positive aspect for Incap is that the companies seem to be genuine strategic partners, as while Victron Energy is by far Incap's largest customer, we also believe Incap is Victron Energy's largest manufacturing partner. We do not believe Incap has lost its share of Victron deliveries last year. Therefore, we feel the interest to develop

cooperation should be mutual (cf. we believe Victron and Incap have developed, e.g., the forecasting process after the 2023 problems). Of course, this does not remove the fact that contract manufacturers primarily offer their customers flexibility and efficiency, and ensuring these basic conditions may also require unpleasant actions from Incap's point of view in the short term (cf. the clear reduction of production at least in H2'23-H1'24 to reduce Victron Energy's inventories).

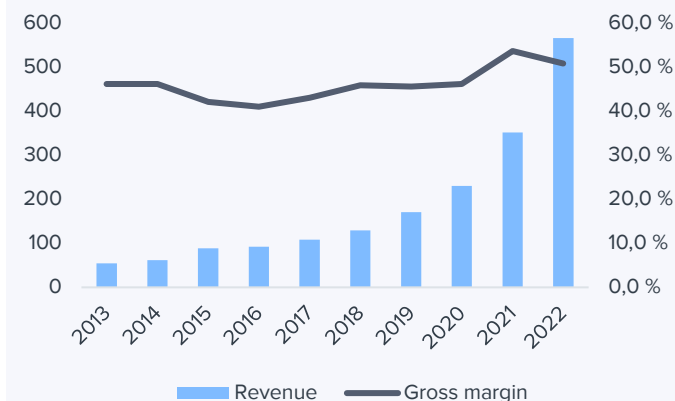
Acquisitions would diversify the customer risk

The Pennatronics acquisition at the beginning of H2'23 slightly diversified the customer risk, as the initial transaction generated some 30 MUSD of new revenue for the Group. Given Incap's prevailing customer structure, we believe that further diversification of the risk remains high on the company's list of priorities. The quickest way to reduce customer risk would naturally be to continue acquisitions. However, we believe that investors should be prepared to tolerate somewhat higher than average customer risk in Incap for the time being, as it is difficult to anticipate the timetable for finding good acquisitions.

Long-term cooperation

According to our estimates, the company aims at long-term strategic cooperation with its most significant customers, which will enable Incap to exploit its own strengths and increasing order intake, both on volume and value basis. One of the key factors in creating such cooperation is, in our opinion, the customer's trust in the contract manufacturer.

Development of Victron Energy's revenue and profitability



Company description and business model 4/8

The contract manufacturer is responsible for the production activities that are critical for the customer's success. Thus, we believe that trust must be earned through high-quality and secure supply. In addition to strengthened customer relationships, we believe success in these elements will also increase the switching costs that the customer faces and thus create a certain competitive advantage for the contract manufacturer. On the other side of the coin, the same factors also slow down the acquisition of new customers.

We feel Incap has succeeded in building strategic partnerships, as customer relationships with key customers have been long-lived and we estimate that in the past few years the company has also managed to win over significant customer-specific market shares. We also believe the newer customer portfolio that came with AWS has developed similarly, and through Pennatronics' customers, the company probably has opportunities for growth in different factories. This, together with the enlarged geographical footprint and range of industries, provides Incap with a good basis for strengthening existing customer relationships and establishing new strategic partnerships with competitive operators and realizing the longer-term growth take-offs these generate.

The factories are responsible for the whole

Incap only reports revenue at group level and broken down into geographical areas. Examined by production plants, we believe that Estonia and

Slovakia supply mainly to Europe, while the Indian, UK and US units supply the majority of North American and Asian deliveries.

However, the production and service selection of all units have, in our opinion, next to actual volume production the ability to manufacture pre-series and prototype products, design support and after-sales services. There are, however, normal differences in the customer and production mix of the units, since we believe that, for example, portfolios in Estonia and Great Britain have many start-ups as customers next to established customers. In India and Slovakia, customers are mostly more mature in their life cycle. The US has both. Of course, due to the specific characteristics of certain applications and the local manufacturing clusters in certain sectors, such as the certificates required to manufacture medical instruments and the automotive cluster in Eastern Europe, there are natural differences of focus between production units also when examined by industry.

Factories that operate as independent cost centers are responsible for their production planning, customer acquisition, offer calculation, actual production processes and pricing, as set out in the Group Guidelines. In turn, component procurement is mainly organized through local teams within the production operations, although procurement is also coordinated at group level through the Hong Kong supply unit as well. The procurement model also worked very well during the component shortages of



Production plant network 1/2



India

- There are currently three units in Tumkur, with a total floor area of 26,500 square meters
- At the end of 2023, the factories had a total of 1,001 employees
- Focus on highly cost-effective volume production, but also capabilities for pre-series and other support functions
- Extensive production portfolio, including inverters, UPS and electronics for fuel dispensing systems



Estonia

- The production plant in Kuressaare serves both established and start-up companies whose primary target market is in Europe
- Efficient ramp-up of new products through special competence in a wide range of services
- The total floor area of the plant is about 7,300 square meters
- At the end of 2023, the factory had 132 employees
- The production portfolio focuses on technologically advanced partial or turnkey deliveries

Company description and business model 5/8

2021-2022, as Incap did not experience any visible disruption in revenue and profit from component shortages. Support functions concentrated to the top level are largely limited to IT and financial administration services.

As a result of these choices, Incap's organizational structure has become very thin (cf. approximately 5 people work in the headquarters). This in turn has led to very low overheads, fast operational responsiveness and excellent cost awareness. We consider these elements, and thus the overall highly efficient operating model, to be Incap's key competitive assets, which together with the very low personnel costs of Indian production enable the company to achieve industry-leading profitability. Noteworthy is, however, that the company managed to maintain strong profitability both in the growth period of 2020-H1'23 and when revenue stagnated in H2'23. In our view, this is a good indication that the model has a degree of sustainability, although we do not consider it justified to talk about a sustainable source of competitive advantage, given the replicable elements of the model. We also believe that the performance in H2'23 shows that even in factories outside India, profitability is very strong relative to the context of the industry.

PCB assembly is the core competence

Incap's business model consists of a few core processes and functions with which the company aims to both create and establish its position in the

customer's value chain. As typical for contract manufacturers, the core competence of Incap's operations is PCB assembly (PCBA). In PCBA, various electronic components are set up and attached to a circuit board, as the name suggests, to achieve a whole that matches the requirements of the end product. We believe that the current lines of Incap's production plants are quite modern, reflecting which we also believe the actual PCB know-how is competitive.

Despite the fundamental nature of PCBA, the added value it creates is not, according to our estimates, that large as an individual or independent function. Considering this, we believe that competitive PCB skills should be seen more as a hygiene factor than an ability that brings a relative advantage, and thus as a basic requirement for operations with higher added value, such as Box Build assembly, lifecycle services for the whole product portfolio and other tailored sub-processes. In Box Build assembly, in particular, Incap's share in the value chain of the end application is wide, as the company is responsible for manufacturing the entire product (incl. materials acquisition, wiring and harness works, and product testing) and delivering it to the OEMs' distribution channel. Managing a wide value chain segment in turn means not only higher value added but also better customer retention than in PCBA alone and a stronger customer relationship.



Production plant network 2/2



Great Britain

- The unit in Newcastle has extensive resources to provide total deliveries
- The total floor area of the production plant is about 4,400 square meters
- The factory had 172 employees at the end of 2023
- Long experience, especially in defense, security and aerospace customers



Slovakia

- The Namestovo plant is in practice a mirror image of the British unit
- The total floor area of the plant is about 5,200 square meters and Europe is the final destination of the supply flows
- The factory had 320 employees at the end of 2023
- A special feature is a hall fully dedicated to serving the automotive industry



USA

- The production facility was taken over in connection with the 2023 Pennatronics acquisition
- The total floor area of the plant is some 6,000 square meters
- The factory had 172 employees at the end of 2023
- The plant serves mostly North American customers in several industries

Company description and business model 6/8

Lifecycle and other tailored services include, e.g., support functions for product and production planning, various test operations, and, according to our estimates, repair work on a small scale. Although the actual manufacturing activity is at the core of Incap's business model and the current revenue share of services is estimated to be small, it is logical to have service capability when considering longer-term overall offering. Through services, the company will be able to help both small operators in the early stages of their life cycle and offer larger equipment manufacturers packages that complement manufacturing operations, thereby providing sensible growth paths from early-stage support functions and prototypes to later stage volume production.

The production lines of contract manufacturers are typically standardized and we do not believe that it is possible to improve relative competitiveness nor

obtain a competitive lead through mere equipment investments. Despite reasonable automation levels, Incap's production processes still have a lot of personnel-intensive phases and the people who control these phases are variable pieces. High personnel intensity and the importance of seamless process flow thus set quite high standards for expertise among the personnel. Thus, recruiting and retaining staff are important elements in building long-term competitiveness.

Hard order book is short

Fluctuations in contract manufacturer demand can be strong, as customers typically use contract manufacturers as buffers for variations in their own end-use demand. We estimate that Incap received both actual orders and non-binding demand forecasts for a period of approximately 3-6 months

under normal conditions that prevailed before the COVID pandemic (i.e. typical component delivery times). In the component shortage, the window stretched to 12-24 months, but since the component shortage alleviated in 2023, visibility has, in our view, reduced to a horizon of some 6 months.

However, the range of so-called hard orders in this pile is only a few weeks, which makes the order backlog structurally relatively short. As a result, Incap's visibility on business trends is relatively short, although we estimate that, especially for customers at the more mature end of the customer portfolio, business trends are reasonably predictable, barring exceptional circumstances such as in recent years. Regardless of the structure of the hard order backlog, required components are acquired in a frontloaded manner before the forecasts are converted to orders.



Customer process

Planning and development

- Prototypes of new products manufactured through planning and validation work and low volume are at the heart of customer ramp-ups
- A powerful New Product Introduction (NPI) process is an essential service for OEMs, as it accelerates the introduction of a new product into the market
- Small and responsive NPI teams provide the basis for an effective ramp-up process

Production

- The greater the customer value created, the larger share of the value chain of the entire product is handled by the contract manufacturer
- The time from prototypes to actual volume production is always customer-specific

After sales

- The aftermarket capability in high tech is a logical part of the service portfolio covering the entire life cycle of electronic products
- As with other operations, maintenance operations free up the OEM's own resources
- The financial role of these services is small, but the strategic importance of them is greater due to the deepening impact on customer relationships (including continuity)



Company description and business model 7/8

However, Incap does not take any real risk in its component procurement, as customers are in principle committed to buying the components purchased at cost price if they cancel the product order after the component order has been placed. Due to occasional problems in the availability of components (e.g. the situation in 2022), their market prices can fluctuate sharply. However, the cost-based pricing model applied by Incap and typical for contract manufacturers enables fast transfer of increased material costs to customers. This should not, however, be classified as actual pricing power, since, as the pricing model works both ways, drops in material costs are also transferred to benefit the customers. For Incap, it is therefore important to have a sufficient and preferably stable margin after materials, so that after reducing the costs that are purely in the company's own hands, a margin in line with the targets can be reached. However, the level of working capital may be affected by fluctuations in component prices in the short term.

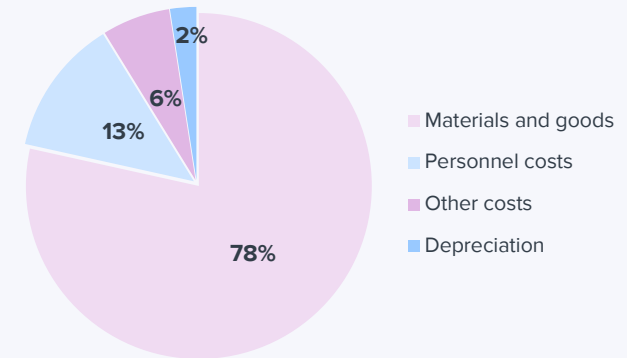
In addition, the short structure of the order backlog may to some extent make it difficult to manage the order/supply chain in circumstances where confirmed hard orders deviate significantly from the demand forecasts given. This is based on the fact that in the short term, capacity flexibility is limited, especially when hard orders are below demand forecasts. In the opposite situation, we believe that the flexibility of capacity is under certain conditions

quite good, as it is possible, e.g., to increase production shifts. It is therefore important to maintain and create operational flexibility points within the current business model.

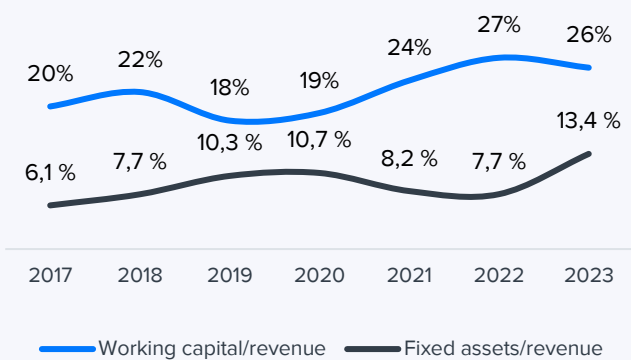
Cost structure limits the scaling of growth, but enables a high margin

The share of fixed costs in Incap's expense structure is very small, as due to the basic nature of electronics manufacturing and also the company's operating culture, most costs are variable material costs. We estimate that about 85-90% of total company costs are variable, while fixed costs account for about 10-15%. The low level of fixed costs is explained by two factors in particular: 1) the company does not have a conventional matrix organization, but a very light organization structure based on local decision-making, and 2) contrary to OEMs, the operating model of contract manufacturers does not require large R&D resources, fixed-salary personnel they tie up nor other fixed cost clusters. Because the company's operating culture is highly cost-conscious and this has been maintained even at high growth rates, we believe that the cost structure can remain similar for a relatively long time. As a result of the light cost structure, Incap's realizable economies of scale are limited, and revenue growth does not scale much after reaching a certain basic level. The product mix can fluctuate quarterly profitability by 1-2%.

Cost structure 2023



Capital commitment



Company description and business model 8/8

With a light cost structure and fast responsiveness, the company has flexibility against declining volume levels, as seen in H2'23. We feel the light cost structure and sensible flexibility points create an excellent base for Incap to reach a high margin level even in a declining revenue environment. This, in turn, is favorable for the overall risk profile.

Limited capital requirements

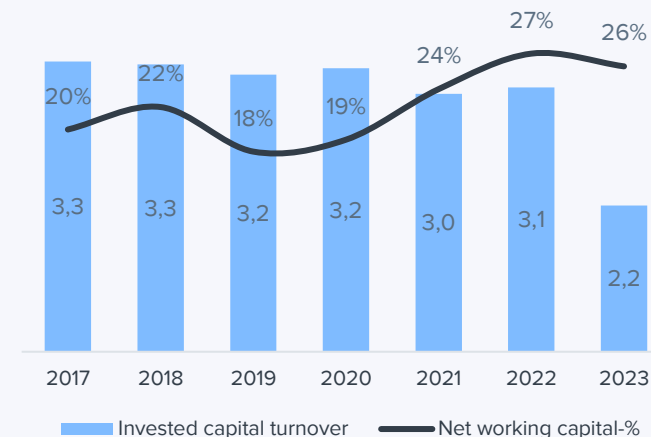
In 2023, fixed capital (incl. IFRS 16 assets) accounted for approximately 13% of revenue, which can be considered a moderate level (incl. the total assets of Pennatronics and only H2's revenue). Relative to the balance sheet total, the share of fixed capital is, in turn, 12%. This also indicates the capital requirement of the business that can be classified as low. The low fixed capital requirement is explained in particular by the nature of contract manufacturing, which is personnel intensive and clearly lighter in terms of equipment than, e.g., process industry. Reflecting this, fixed investment in equipment in the industry has typically been able to keep pace with growing demand in a fairly linear fashion, if only the wall and floor space of the factories allow for this. Correspondingly, this gives contract manufacturers certain leeway in capacity investments relative to the relevant demand outlook (cf. front-loaded investments in the process industry). The dynamics have therefore both improved the use of capital by contract manufacturers and helped companies to avoid unfortunate and margin-hurting overcapacity situations.

The net working capital typically committed to Incap's operations is 20-25%. During the past year, the term of maturity of the company's trade receivables and trade payables were optimal (trade receivables < trade payables). This is an excellent performance given the overall challenging value chain position of contract manufacturers. Overall, however, the working capital ratio has been on the rise (cf. component shortage 2021-2022), although the acquisition of Pennatronics weakened the indicator technically in 2023. We estimate that the increase in the Indian plant's share of revenue over time may have a slight working capital bias as large volumes are shipped from India to Europe.

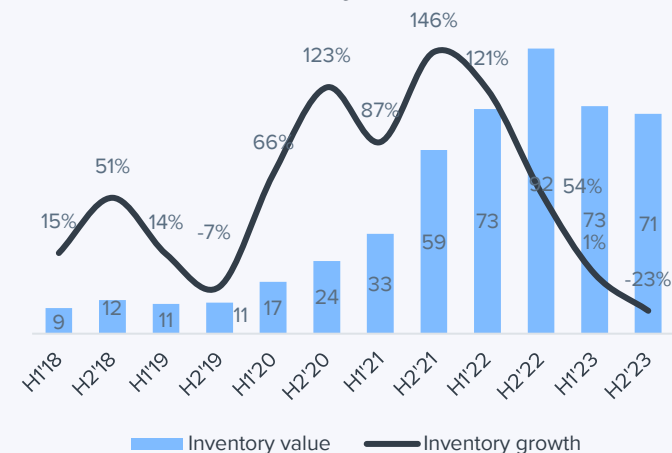
Incap's operations are working capital intensive because with the actual figures of the last few years, Incap has in a simplified calculation gained an EBITDA of around 0.15 MEUR from 1 MEUR revenue growth and the corresponding working capital commitment has been some 0.25 MEUR. Thus, during Incap's particularly strong organic growth in 2021-2022, the company has not generated much cash flow from operations, despite a very strong result as the result has been tied up in inventories. However, the silver lining of last year's volume drop was that cash flow improved and turned abundant especially in Q4. In the short term, earnings and cash flow can continue to tell different stories, but we would not be too worried about this.

Overall, in a normal growth environment, moderate capital commitment is a positive factor, as capital efficiency provides an excellent basis for a high return on invested capital and hence for creating shareholder value.

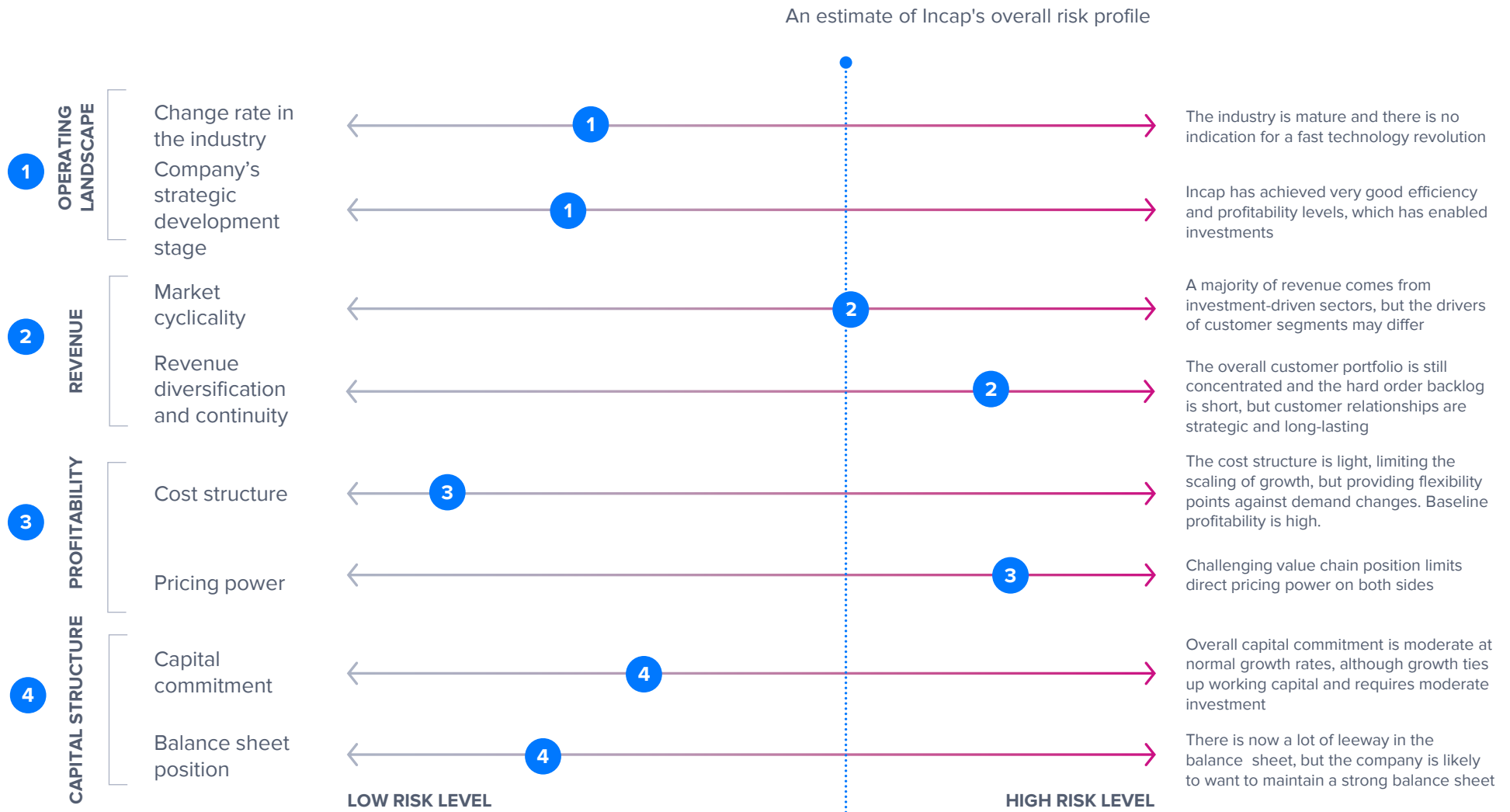
Development of capital commitment



Inventory development



Risk profile of the business model



Industry and competitive landscape 1/6

Huge overall market

According to estimates by various research companies, the combined revenue of the global electronics industry in 2022 will be around 2,200 BNUSD. The whole market can be divided into four parts based on the business models of the companies operating in it: equipment manufacturers (OEMs), outsourced design and manufacturing (ODMs), contract manufacturers (EMSs) and component distributors (technical wholesalers and resellers). These operating models differ in the types of underlying value chains and who owns the intellectual property rights of the end product. Since Incap itself is a contract manufacturer, the company does not have independent and fully customer-independent product development. Thus, the company does not own the rights to the products it manufactures. However, different operating models, excluding distributors, compete to some extent with each other (e.g., manufacture / buy decision), which is why we believe that it makes sense to look at the entire electronics market as the relevant starting point for Incap's target market.

The contract manufacturing market is estimated to be worth good 550 BNUSD. Even though Incap is not present in all market segments, the playing field is huge relative to Incap's own size. Therefore, we do not believe it limits the company's growth potential.

Asia reigns supreme in size

Geographically, Asia is the number one market. The largest Asian companies in the industry, such as

Hon Hai (Foxconn), Pegatron and Compal, account for around half of the global industry's revenue. The market for European electronics manufacturers is much smaller and more fragmented, with the 30 largest European companies accounting for only around 2%-3% of total industry revenue. Asia's dominant share is driven by the historically lower cost level of the region than in developed economies which has attracted equipment manufacturers and their subcontracting chains to the region to maintain their cost competitiveness. Within Asia, however, the cost dynamic has been shifting over the last decade, since strong cost increases, particularly in China, have resulted in new production and relocation of old production to more advantageous regions, like India and Vietnam. In addition to rising cost levels, this shift has been fueled by trade and geopolitical tensions in China, the risks of concentration in supply chains brought to the surface by the COVID pandemic, and increased awareness among equipment manufacturers of the total cost of supply chains. In Eastern Europe, labor costs are roughly 30-40% less than in Western regions, although wage inflation has also been high there.

With the personnel intensity of operations and constant price pressure, we believe that actual volume production will continue to focus on low-cost areas. In line with this, we believe the primary role of Western production plants is to focus on narrower and higher requirement level niche segments, fast deliveries and product development series.



Industry's earnings models

OEM

- OEMs who own the brand and intellectual property rights of the end products
- Core operations include product development, design and sales
- Good value chain position and pricing capacity
- EMS customers

ODM

- OEMs whose end products are re-branded under the OEM
- Own the intellectual property rights themselves
- Core operations include product development, design and manufacturing
- Can utilize the resources of EMS companies

EMS

- Contract manufacturers who do not own the intellectual property rights of the products they manufacture
- Core activities include manufacturing and related support activities (e.g. material procurement)
- Provide OEM companies with direct cost and capacity benefits

Distributors

- Wholesalers or retailers who focus on selling components and technical support
- No own design/manufacturing, competition is driven by the principal portfolio
- At global level, the number of distributors is massive

Industry and competitive landscape 2/6

On the other hand, production chains moving progressively closer to equipment manufacturers' product development and end markets, the need for decentralization of production chains and the continuous development of production technologies (e.g. automation) should support the strategic roles and competitiveness of Western units, also in view of volume production.

Four segments on the market

The market can be divided into four segments: consumer electronics, industrial electronics, electronic components, and public sector electronics (e.g. defense). In consumer electronics, the technical requirements for applications are generally not very high, but the delivery volumes are large (low mix / high volume). The successful contract manufacturers in this segment are huge in size and have vast production resources. In consumer electronics, the product cycles are also short – about 2-3 years – and competition is price-driven and harrowing.

Incap is positioned in the industrial electronics sector, where product specifications are generally high and delivery volumes are on average much smaller than in consumer electronics (high mix / low volume). In industrial electronics, product cycles can be up to 20-30 years, making the contract manufacturer a strategically important partner for the OEM and highlighting the role of own product development expertise and after-sales customer service. This in turn makes the competition in industrial electronics healthier and creates attractive business opportunities also for smaller players.

Although volumes are mainly lower in industrial electronics and higher in consumer electronics, there are exceptions within segments. Incap also has some consumer products in its portfolio and their potential should not be overlooked.

The growth picture is excellent

The growth of the market is driven particularly by the electrification of the world. This in turn will be driven by rising living standards, digitalization, an aging population, and the green transition. Supported by these factors, the total market has grown by some 4-5% per year according to different research companies. The growth rate is expected to remain healthy in the coming years, although in the short term the deteriorating economic situation, inflation, and highish interest rate levels still depress the 2024 outlook. The green transition, and thus the longer-term growth in investments, can be a potential driver after a temporary leveling off. Geographically, growth is estimated to be fastest in Asia, which is expected to reach 4-6% annual growth. In Europe and North America, however, market growth is estimated to remain at 2-3%, in line with the slower development of the general economy.

In addition to global drivers, another market driver in recent years has been increasing outsourcing among OEMs. The industrial logic of this is very clear, as outsourcing of production frees up OEMs' resources for their core operations, while generating direct cost savings. Outsourced production also enables OEM companies to better manage their capacity and cash flow as investments can be transferred and growing

demand can be met by utilizing contract manufactures' resources. In addition, reflecting this dynamic, OEMs can achieve certain cost-related flexibility in their typically rather fixed cost structures. As a result, the aggregate level growth of contract manufacturers has increased in recent years more rapidly than in the electronics market as a whole. We believe that the situation will continue as is, reflecting the overall benefits mentioned above.

In industrial electronics, the outsourcing rate has been clearly lower than in consumer electronics, as smaller and more demanding delivery batches raise the threshold for large-scale outsourcing. However, we estimate that, with the benefits offered by contract manufacturers, reducing own manufacturing resources will become more popular among industrial electronics OEMs and especially among new companies entering the market (i.e. unwilling to make large-scale production investments). Considering this we believe that growing demand will increasingly be directed toward contracting manufacturers that have demonstrated both their quality level and delivery reliability. This evolution creates preconditions for capable contract manufacturers to strengthen their own value chain positions, as we estimate that the focus of demand will gradually shift from pure PCBA to total deliveries with higher added value. Currently, we understand that the outsourcing rate for Industrial electronics is around 35%, so even a small increase in the outsourcing rate would provide contract manufacturers with many new business opportunities in a large market.

Industry and competitive landscape 3/6

Incap has a strong position

Considering the long-term growth and profitability potential of industrial electronics, we consider Incap's positioning sensible. In addition, Incap is a small player relative to the total market and is, therefore, not dependent on the growth rate at market level, although the company does not operate in a vacuum either. Thus, as the overall market grows, larger players than Incap may leave very attractive niche segments in their fringe areas. Of course, a slowdown in market growth would most likely result from hiccups in the general economy and would have some effect on Incap's own production volumes and thus on the result lines through the business challenges faced by customers.

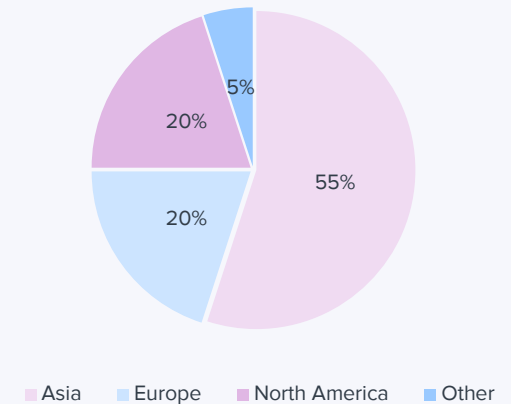
We believe that Incap's production plant network is well structured, as it can provide its global and potential global customers with a logical route from prototypes produced close to product development, to cost-effective volume production located next to the end market on several continents. In particular, the Indian production plants, located in the world's largest democracy, are a major asset for the company, thanks to the massive size of the local market, the favorable location (i.e. benefiting from higher China risks) and the admirable performance, although the 2023 challenges did hit India. In view of these factors, the existing ability to invest and the operating model that allows for comprehensive deliveries, we feel Incap's position relative to the target market and the forces that shape it can justifiably be seen as strong.

Plenty of competition

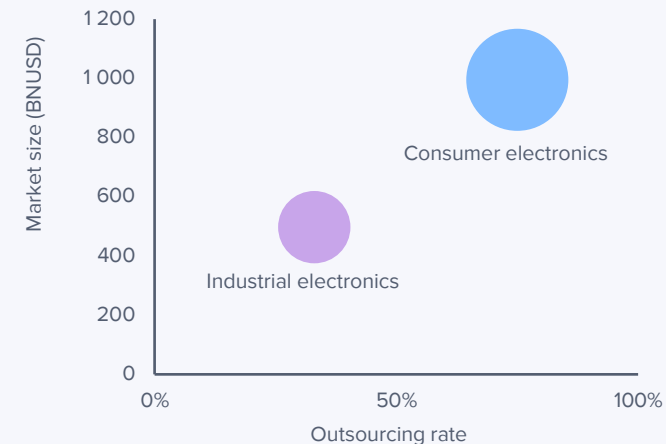
Due to the earnings logic of the industry, contract manufacturers' value chain positions and thus limited pricing power, the basic nature of the competitive landscape is harsh. Despite this, customer retention has typically been good in the industry. We believe this is particularly supported by the fact that the costs of switching contract manufacturers can be high, so customers try to stick to the same suppliers. Indeed, equipment manufacturers only change their contract manufacturers for serious reasons, such as quality problems, constantly stretching delivery times and a loss of permanent price competitiveness. High switching costs also have a downside, as they make new customer acquisition more difficult.

Despite the global structure of operations, the local nature of customer relationships has remained strong. We, therefore, estimate that Incap has a large number of customers from northern Europe, Great Britain, the US and the Baltic States, while the customer portfolios of, e.g., Central European manufacturers consist more clearly of local target market players. Thus, Incap's competitive landscape varies regionally and battles are typically fought with different companies in Europe, North America and Asia. In addition to regional factors, the competitive situation is also influenced by the underlying industry (i.e. the positioning of competitors) and the size and solution needs of the customer.

Geographical distribution of the market



Market outsourcing rates



Industry and competitive landscape 4/6

Three-tiered battle

Contract manufacturers are typically divided into three groups based on revenue. The largest companies (revenue > 1,000 MEUR) operate extensively across the electronics industry segments, and another common denominator for these players is massive production resources, especially in low-cost regions. Due to their large size, these players have typically operated in the low mix/high volume segments and are thus not very relevant competitors to Incap. However, these companies cannot be completely ignored, as their large-scale operations inevitably extend to customer sectors that are important to Incap. Within their financial resources, large companies have a strong investment capacity and thus the potential to change the prevailing dynamics of the competitive landscape, but we do not see this as an acute threat to Incap.

The annual revenue of the second-tier companies is 200-1,000 MEUR. These companies typically operate with global operating models but concentrate on one or more market segments. Mass production of consumer electronics is largely outside the capabilities of these players, but flexibility and agility are still sufficient to bring competitiveness to smaller manufacturing batches and tailor-made customer service. We believe that a large part of the main competitors come from this segment. We feel the current or future competitors worth mentioning among medium-sized companies are, e.g., Finnish Scanfil, Norwegian Kitron, German BMK Electronics and Katek, Swedish Note and Hanza, and Swiss Enics and Cicor.

The third tier includes players with annual revenue of under 200 MEUR. The resources of companies in this size-class are somewhat narrower than those of medium-sized manufacturers, which means that their service offering may also be smaller. In addition, the share of the biggest customers of the entire portfolio of these companies can be extremely high. The main competitive advantages of the smaller-end companies focus on agility and flexibility, specialized products, and fast lead times. Among these companies Incap competes, e.g., with Swedish Inission, French Lacroix, Finnish Kyrel and Darekon, and British JJS Manufacturing and SMS Electronics. Incap also competes with a number of small local operators specialized in prototype and small series production and with OEMs' own productions.

Consolidation shapes the competitive landscape

The industry as a whole is very fragmented, with over 2,000 contract manufacturers in Europe alone. The number is even higher in Asia, although in terms of revenue, the sector is more concentrated in Asia with large players. In recent years, the large number of players and efforts to improve value chain positions have driven the consolidation of the sector. We expect this will continue to affect the structure of the competitive landscape reflecting the industrial logic of the underlying drivers (e.g. the pursuit of economies of scale in purchasing). For Incap, the structure of the industry is favorable, as it provides ample opportunities for M&A transactions.

Incap is among the leaders in the industry

Incap's profitability level is among the highest in the industry, which we believe is a tangible reflection of both its successful strategic positioning and its focus on its core strengths, and also of the tailwind from the largest customer's strong growth on average. However, the high profitability does not derive from relative pricing, as Incap's gross margin is at a normal level for the industry. Therefore, maintaining the correct positioning and, especially, maintaining the operational efficiency is a necessary measure in an environment characterized by constant price pressure. Against this background, we do not consider it likely that Incap could substantially increase its margin level (> 2 percentage points) in the next few years but maintaining the achieved 13-15% would already be a good performance.

Due to the low capital intensity of the industry, it is possible to generate higher returns than the COE requirement with relatively thin profit margins. With better profitability than its competitors and efficient use of capital, Incap's ROI has been excellent in recent years and quite clearly higher than for its competitors. Thus, based on the figures, we believe Incap is one of the highest quality players in the industry.

Industry and competitive landscape 5/6

Selected contract manufacturers



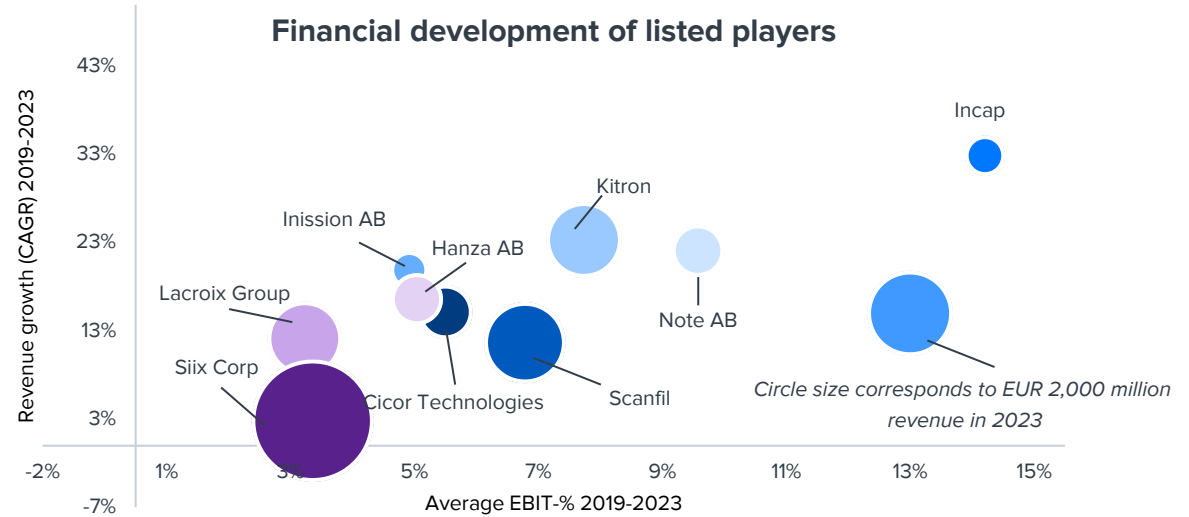
Contract manufacturers operating with high production and financial resources with a strong presence in consumer electronics



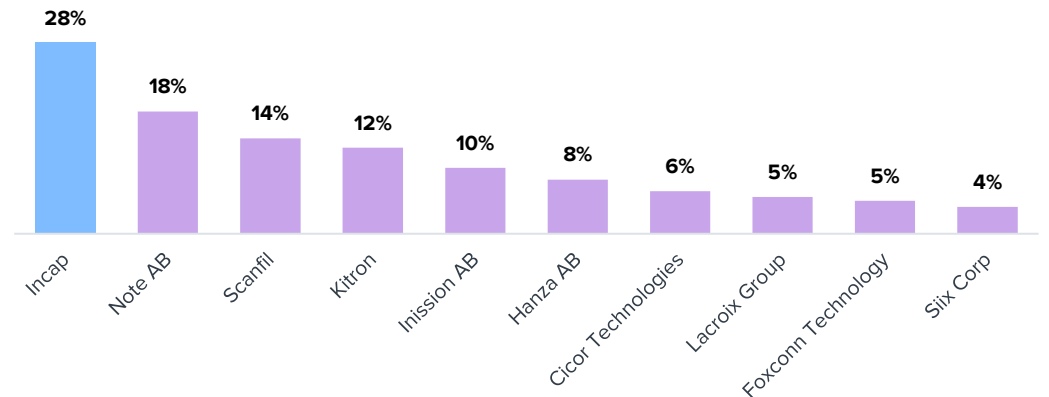
Strong players with resources for large service packages and focus almost entirely on industrial electronics applications



Companies with a slightly narrower service offering that are flexible and agile



Average ROIC 2019-2023



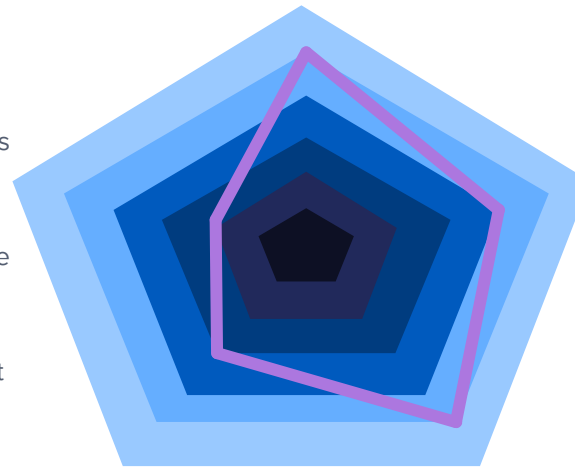
Industry and competitive landscape 6/6

Current competitive situation (significant*)

- The number of contract manufacturers is very large globally and value chain positions are fundamentally challenging
- Cost structures of OEMs are reasonably rigid, increasing their price sensitivity and partially tightening competition
- A healthy long-term growth picture lowers the tightness of competition

Threat of substituting products (minor*)

- Contract manufacturers do not have own products and the threat of substituting products manifests through customer portfolios
- We do not believe that a drop in the degree of outsourcing is a relevant threat, considering the overall benefits offered by contract manufacturers
- There are also no change catalysts in sight that would quickly replace existing production technologies



Threat of new competitors (low*)

- Ramp-up of operations does not require massively heavy capital investment and the industry growth picture is healthy
- Due to the switching costs for OEMs and the operating dynamics new customer procurement is slow, which reduces the risk of completely new competitors
- Achieving competitive technology and process expertise requires a sufficient scale

Negotiating power of suppliers (moderate*)

- Component production is rather concentrated, which limits the bargaining power of distributors and, consequently, also contract manufacturers
- Producers also have little differentiation capacity
- The supply chains of contract manufacturers are decentralized and dependence on a single supplier is moderate
- There is a risk of further integration of component suppliers, and this has also been realized in recent years

Buyers' bargaining power (significant*)

- OEMs supply chains are typically more decentralized than contract manufacturers' customer portfolios (i.e. the OEM is more important for contract manufacturers than vice versa)
- There is a low risk of contract manufacturers' backward integration, while OEMs also have their own production
- Contract manufacturers' differentiation capacity is limited to service level, but the cost of switching can be high
- In industrial electronics, the price sensitivity of OEMs is lower than in consumer electronics

*Inderes' view of the threats caused by industry power for Incap on the scale no threat, minor, low, moderate, significant and high.

Strategy 1/5

Value proposition in quality and supply reliability

We believe that Incap's long operational history has created a reputation as a reliable contract manufacturer. We do not believe that it is possible to build a long operational history and good reputation without creating lasting customer value by consistently delivering on the value promise. We believe that the value proposition of Incap's strategy is to be both a reliable and competitive manufacturing partner with high-quality and secure supply.

Cost-efficiency is key

Reflecting Incap's operating model and results of recent years, we believe it is clear that cost efficiency is key to implementing the strategy. Through cost-efficient operations, Incap is able to improve its overall competitiveness and open up important parts of value chains for strategic partnerships. At the same time, cost-efficiency creates a strong basis for making excellent profitability and creating shareholder value.

Cost efficiency, and especially maintaining it, also plays a key role in terms of competitive dynamic. Incap's current cost-efficiency enables the company to achieve good profitability levels in an environment of chronic price pressure, even if sales prices must be cut to an extent in certain situations. Due to the nature of the industry, sufficient price competitiveness is an essential hygiene factor, which means that continuous focus on efficiency will be a key strategic and, to some level, tactical priority for the company in the future as well. However, it is

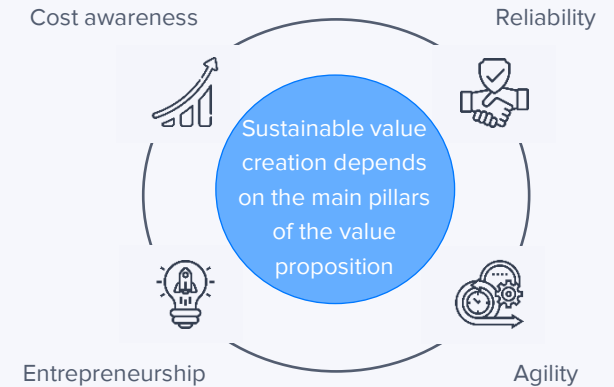
not necessary to seek the label of the lowest-priced manufacturer in the competitive landscape, nor do we expect the company to do this.

Grabbing for strategic partners

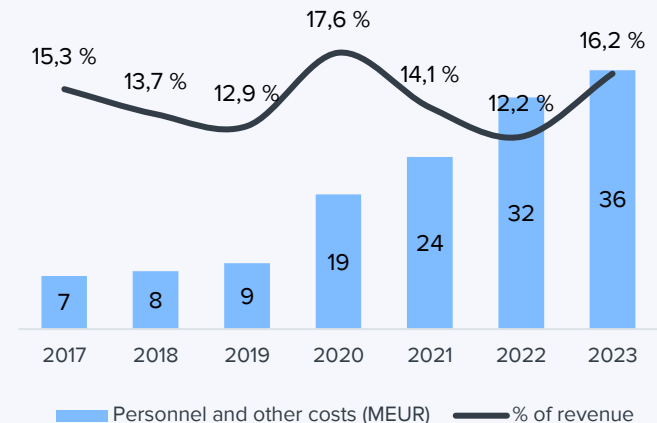
We estimate that with cost efficiency and cost awareness Incap aims to build a platform for long-term customer relationships and thus for establishing strategic partnerships. This is logical, as we estimate that long customer relationships have typically led to 1) a higher customer-specific outsourcing rate and/or a higher share of the customer's outsourced production activities, 2) entirely new applications, and 3) the sum of these leading to higher order volumes. Thus, investing in and succeeding with long-term customer relationships is an important fuel for growing the business in the longer term.

By entering into strategic partnerships, Incap aims to position itself as an important production resource for the customer and, as mentioned above, to control as large a part of the value chain of the end product as possible. In addition, the industrial logic behind strategic partnerships is to increase the switching cost and to strengthen one's competitive advantage. We believe that in the big picture the euro-denominated starting level of the strategic partnership is not a key issue for Incap, we believe that the expected longer-term growth potential of the customer relationship and possible reference points are more important for the company. Considering this, we expect that the company considers a customer with a lower initial order flow

The core of the strategy



Personnel costs and other costs



Strategy 2/5

from a completely new industry and/or with attractive growth potential to be strategically more important than a somewhat larger player that operates in a more mature market and is in a more mature development phase and potentially highly price-conscious. In addition, it is also essential to avoid investing in small customers who do not have the capacity to grow and scale up.

In line with the structure of Incap's customer portfolio, the establishment of new strategic partnerships also has a risk management function. However, due to the logic of the industry (e.g. time span from prototypes to volume production), new strategic partnerships are the result of very long-term work and we estimate that the progress of new customer relationships to a size class that affects the structure of the portfolio can take years. Of course, this dynamic is not universal and in the right circumstances (e.g. rapid development of the customer's business) new strategically important customers can become economically relevant relatively quickly.

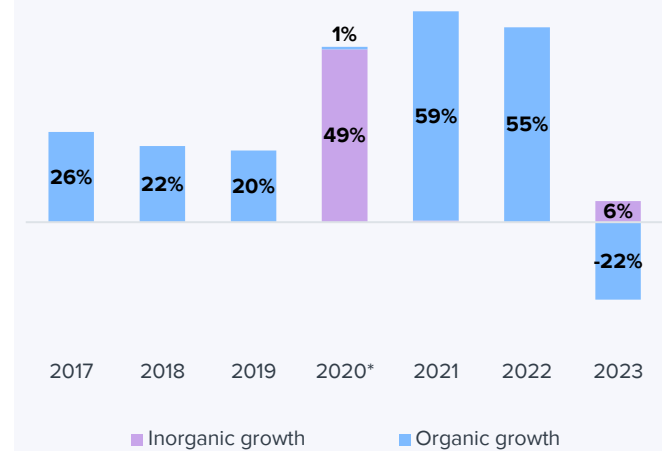
Growth in sight

By implementing its strategy, Incap unsurprisingly targets profitable business growth (RONIC > WACC). We believe the cornerstones of this work are the preservation and strengthening of long-term customer relationships, progressing new customer procurement, maintenance of efficiency levels and

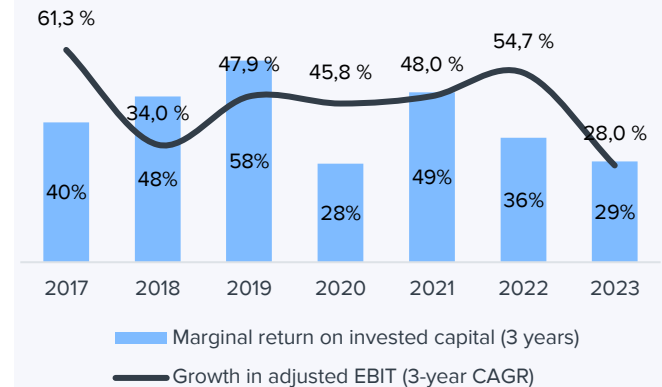
M&A transactions. In recent years, the company has established a strong operational performance. As far as we know, the company has not encountered any negative surprises in the integration of AWS and Pennatronics, and there are no significant development projects underway for a company of its size. Considering this, Incap should have full capacity to focus on implementing its strategy and creating shareholder value.

Incap seeks organic growth through both established and new customers. We estimate that the key customers in Incap's portfolio are competitive companies in their respective operations, which together with Incap's own strengths provides a solid basis for growing with these customers. Own core strengths, the expanded plant network through the AWS and Pennatronics acquisitions and the relatively small size on a global scale (i.e. we estimate that the share of the largest customers' production chain is still relatively small) also create reasonable conditions for customer-specific market share gains. Such gains can also be a small risk-management success if they mean, for example, entering into entirely new applications within the customer. In addition, the two-way and interesting cross-selling potential associated with the US is probably still largely untapped.

Structure of revenue growth



Return on new invested capital¹



Source: Incap, Inderes

¹Capital invested and EBIT growth over the last 3 years

Strategy 3/5

Incap also has many small companies in early stages of development in its portfolio. With the right positioning and innovative solutions, the businesses of such companies can grow rapidly. Considering the strong service ability created by the operating model that allows for large comprehensive deliveries and fast decision making, we believe Incap's position in realizing the longer-term opportunities these customers bring is good. However, in the short term, the direction of the delivery flows is dominated by progression of the larger customers due to the concentrated structure of the customer portfolio.

In terms of new customer acquisition, we expect the focus to be on strategic partnerships. In addition to the time typically taken by volume-production ramp-up, one should also consider the switching costs faced by OEMs when discussing new customers. Since these costs can rise to a relatively high level, OEMs restructure their production and supply chains relatively rarely. Thus, success in customer acquisition does not directly guarantee visible organic growth in the short term but will be more clearly visible only in the medium and long term.

Acquisitions as complementary elements

Incap tries to boost organic growth through acquisitions. In its current form, Incap has made two acquisitions: the AWS acquisition in 2020 and the Pennatronics acquisition in 2023. Strategically both acquisitions were significant, as they resulted in

Incap's geographical footprint expanding into new areas and strengthening both the production plant network and total offering. The Pennatronics acquisition was smaller, but with it, Incap expanded into a strategically increasingly important US market. Both arrangements also smoothed Incap's customer risks from the date of the arrangements.

At least AWS' and probably also Pennatronics' cultural fit has been excellent, of which the integration work without major problems and realized cost synergies are concrete proof. Even though the sensibility of future acquisitions is always case-specific and affected, e.g., by the price and the nature of the acquired business, our view of Incap's desire to grow inorganically is positive in principle. Our view is supported by the following factors:

Cash flow profiles for acquisitions are positive from the start and the arrangements will result in significantly faster results than organic investments.

Acquisitions automatically expand the customer base while opening up new geographic/industrial areas. In addition, these extensions and openings can bring different cross-selling opportunities. Acquisitions can also be seen as strategic measures to gradually reduce the overall risk level.

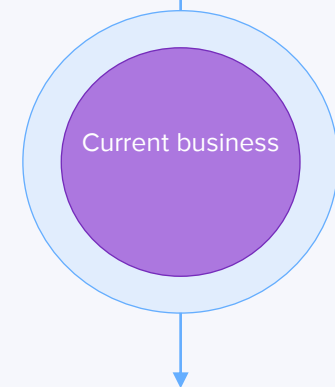
Cheap acquisitions i.e. acquisitions with valuation multiples lower than the company's own multiples can generate shareholder value in the short term, which also results in good long-term value creation potential. Moreover, arrangements made at low



Anatomy of organic growth

Current customers

- For long-term growth, winning new product generations for existing customer applications is very important (i.e. focus on high retention)
- Growth in customer-specific market shares is most valuable when the value chain position expands (PCBA → Box Build)
- The combination of good customer relationships and own competitiveness also provides the basis for winning new applications



New customers

- We believe the aim of new customer acquisition is to scale different industry expertise
- Small early-stage customer relationships must have viable longer-term growth potential
- We believe companies operating in applications nearing the end of their life cycle/shrinking business operations are not, in principle, optimal new customers for Incap

Strategy 4/5

deal prices provide a safety margin against the weaker-than-expected development of the acquired business and/or possible deterioration.

The structure of the industry is very fragmented. This provides Incap with a large critical mass to implement the acquisition driven strategy.

In our view, acquisitions do not offer massive cost synergies in the industry, mainly due to the moderate weight of fixed costs in the portfolio. The logic of the M&A must therefore be based on something other than the achievement of large spending synergies.

The approach is quality-oriented

We expect the company to follow a conservative model in terms of gauging potential targets, and we do not see Incap as being interested in turnaround companies operating at a loss or with very low profitability. We believe that such a quality-oriented approach is justified considering the usual risks associated with M&A transactions and their management. At AWS, and also at Pennatronics, Incap has probably also clearly increased the profitability of the factories.

In addition to the actual quality of the business, we believe that the company is very meticulous in screening the acquisition targets when it comes cultural fit. Incap's independent production units are managed in a very entrepreneurial way, which means that the top level of the organization

structure is light and decision-making is mainly at local level. Thus, we estimate that Incap is particularly interested in operators that already operate following the company's own principles and have personnel capable of taking responsibility. In addition to lowering integration risks, we believe that such selectivity is also sensible in terms of efficiency since buying players with heavier administrative operations and centralized decision-making would inevitably result in rigidity in Incap's own structures and their personnel would not manage without structure.

Geographically, we believe the focus is on North America, Central Europe and also Asia outside China. These are huge blocks in absolute size, where the outsourcing rate has clear room for improvement. Reflecting these factors, we estimate that there are a reasonable number of targets in all areas that meet Incap's criteria and are of sufficient size (revenue > 25 MEUR).

We do not believe that the company will start building a new production plant in any area considering the capacity of the existing production plant network and the unscaled capacity reserve in India. The company could easily afford a greenfield plant but such a plant would initially rely solely on existing customers, which would mean that the time gap between the investment and positive cash flow would be far too long.



Acquisitions

1

Cultural fit

- The company to be purchased must fit perfectly to Incap's entrepreneurial and flexible operating culture (e.g. independently operating production units and their personnel)
- Recognizing cultural suitability requires time, but investing in assessment and especially in nurturing reduces the risks associated with the integration phase

2

Financial performance

- Incap's resources for various turnaround exercises or seeking considerable operational synergies are limited, so the company to be acquired must operate at a healthy earnings level
- An approach that fosters operational quality can lead to higher valuation multiples but on the other hand, the risks of the acquisition strategy are lower than in the opposite situation

3

Strategic logic

- For smaller transactions, we estimate that the underlying logic relies on quick but limited synergies (e.g. procurement and capacity).
- In larger ones, the logic is to gain access to new industries and their customers
- We feel the common strategic denominator of different sized M&A transactions is the strengthening of the geographical footprint and construction of cross-selling routes.

Strategy 5/5 – SWOT



Strengths

- An operating model that is highly cost-effective and enables fast decision-making
- A global and high-performance production plant network
- High basic profitability and return on capital
- Strong balance sheet



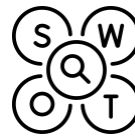
Opportunities

- Long-term growth drivers are healthy
- The degree of outsourcing in industrial electronics is low
- A strong balance sheet and industry structure enable value-creating acquisitions
- OEMs reducing their China risk and transferring supply chains closer to the end customer (i.e. localization)



Weaknesses

- Under normal conditions, the order backlog structure is short
- Dependency on the largest customer is still elevated
- Direct pricing power is limited, and the value chain position is challenging
- New customer gains are slowly reflected in the current size class



Threats

- Loss of a key customer / customer's own business challenges
- Cost-efficiency erosion and decision-making becoming more rigid
- Failure in acquisitions
- In the longer term, structural changes in the competitive field

Financial position

Balance sheet offers leeway

At the end of Q1'24, Incap had an equity ratio of 62% and a net gearing of -5%. Thus, the company's balance sheet is strong. The company had 39 MEUR is cash assets. Thus, the company even has liquidity in its account for acquisitions, although achieving the desired growth turnaround in the business will start to tie up cash in working capital. We feel there are no write-down risks relevant to Incap's scale in the balance sheet as the amount of goodwill is very low and the most obvious risk point in terms of inventories, i.e. the 2023 financial statements, has been passed.

A strong capital structure and a good profitability and growth profile underpin Incap's structural debt capacity and financial flexibility. However, we would not be surprised if, in the eyes of external lenders, the still concentrated customer structure partly limits the benefits of these strengths. Given the M&A arm of the company's growth strategy, we believe Incap is interested in running its machinery with a more aggressive lever than the current situation, but with a capital structure that maintains a sufficient overall sense of security. We estimate that such a balance sheet, in terms of net gearing, could mean a level of around 20-40%, or a 1x-2x range in the net debt/EBITDA ratio. At these levels, the company would have reasonable leverage to improve its return on equity.

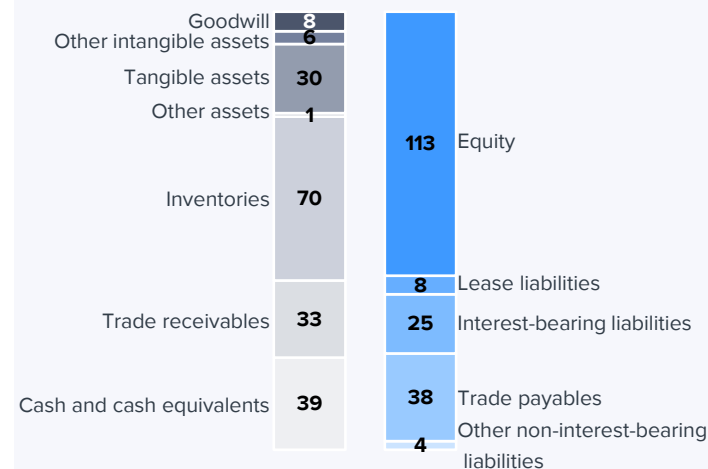
Reflecting the balance sheet at the end of 2023 and the debt parameters we consider to be in the comfort zone, we estimate that Incap would have

around 60-90 MEUR of free debt capacity for inorganic growth in its balance sheet if organic growth does not clearly exceed our estimates in the next few years. By applying the 6x-8x EV/EBITDA ratio that we find somewhat typical for an unlisted contract manufacturer, this would mean the ability to purchase operational earnings growth of about 7-15 MEUR (or 20-45%) with debt financing alone. Although the valuation of acquisition targets that meet the criteria set by Incap has slightly decreased during 2023-2024, we expect the company to patiently wait for an appropriate opportunity to advance on the inorganic front with a reasonable risk/reward ratio. However, in the medium term, acquisitions are quite likely.

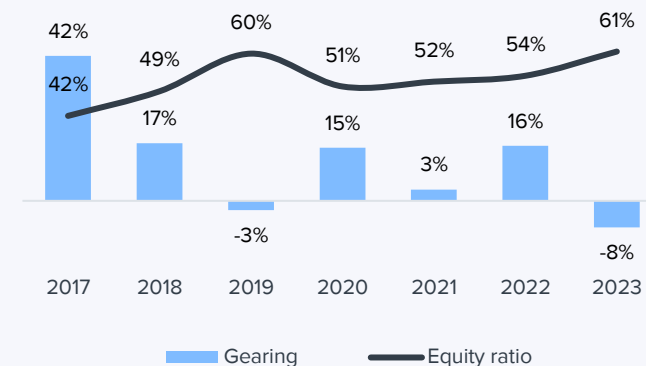
Cash flow is normally lower than the result

Considering Incap's organic growth picture and the working capital needs it requires, the cash flow ratio (cash flow from operations/EBITDA) is generally under 100%. However, this is normal for contract manufacturers and Incap's cash-flow profile is in no way different from normal. In our view, the company's fixed capital expenditure needs for the coming years are moderate, which together with high operating profitability should provide the basis for comfortable free cash flow generation now when the outlook for the growth rate is lower than in 2021-2022 in all scenarios. Looking further ahead, good cash flow is also a prerequisite for profit distribution, although, as mentioned earlier, we hope that the dividend will continue to play a small supporting role in Incap's capital allocation.

Balance sheet Q1'24 188 MEUR



Equity ratio and gearing



Estimates 1/4

Estimate model

We estimate Incap's revenue development in the short and medium term based on underlying market growth, estimated customer-specific market share changes, and new customer acquisition based on relative competitiveness. Our longer-term estimates, in turn, are largely based on the combination of the expected growth of the electronics industry and Incap's own core strengths. We model short- and medium-term profitability line by line for different cost items. In the long term, we anticipate profitability through the margin levels we assess to be sustainable.

We have not included M&A transactions that we find likely in the medium term at the latest in our estimates. This is because it is impractical to assess the exact timing, size and other characteristics of the transactions (e.g. purchase price, financial structure and quality of the company being acquired).

2024 problems were evident in Q1, but the start was still reasonably good

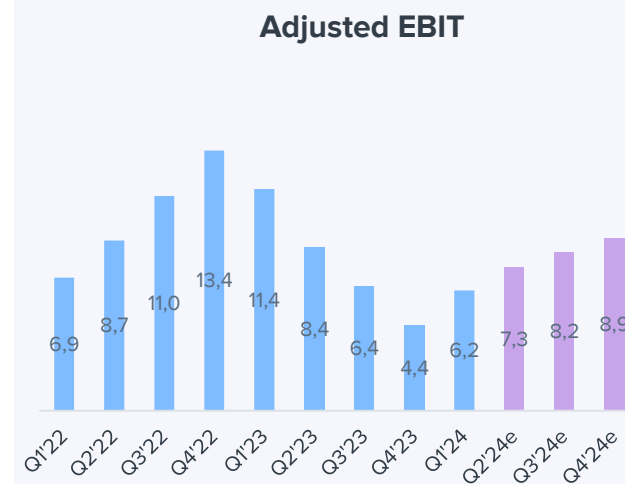
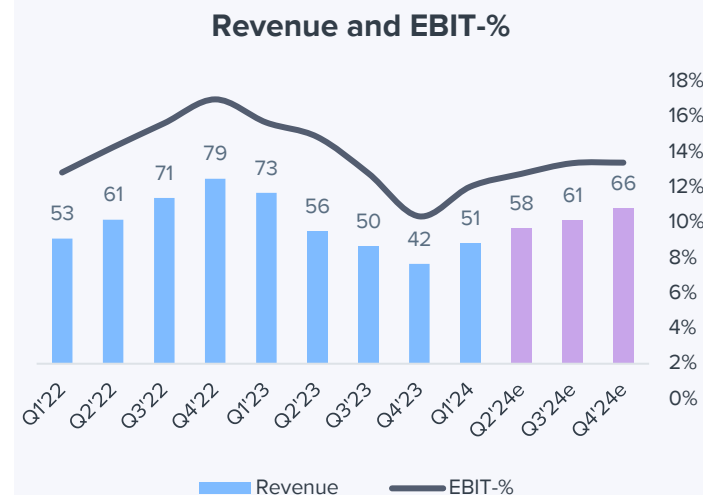
Incap set out to 2024 from a mixed starting point, as the inventory correction of the largest customer (we estimate it to be Victron Energy) was expected to continue this year, although the company estimated that the fastest inventory decline occurred in Q4'23. The situation was better for other customers and their growth outlook was quite good, but macro concerns, investment-driven post-cycle demand, and considering the on average subdued demand comments from peers other customers also involved uncertainty.

Reflecting this situation, Incap issued guidance for the current year in February based on which the company's revenue and operating profit (EBIT) in 2024 will be lower than in 2023. Given the percentage ranges behind Incap's verbal guidance, this means in practice a 1-20% decline in both revenue and EBIT year-on-year. So, in practice the company expects revenue of 178-221 MEUR and adjusted EBIT of 22.6-28.1 MEUR (incl. PPA depreciation and non-recurring items) for this year.

The quarterly-level trend of the business turned in Q1

Incap's revenue decreased by 29% to 51 MEUR in Q1. In organic terms, the decline was even steeper, as the July Pennatronics acquisition probably increased Incap's Q1 revenue by some 15%. In Q1, Incap was slowed down by the underutilization of the Indian factory to lower the inventories of the largest customer. However, the demand turnaround took place, as deliveries to the largest customer probably increased clearly from the very low level in Q4. In other customers, we estimate slight organic revenue growth.

Incap's adjusted EBIT decreased by 46% to 6.2 MEUR from the comparison period in Q1 due to the decrease in revenue. Even with the decreased revenue in Q1, Incap achieved an adjusted EBIT margin of 11.7%, which most industry peers can only dream of even at the top of the cycle. Thus, Q1 was once again a strong demonstration of Incap's strengths. In the lower lines, the company's Q1 numbers roughly reflected Incap's normal structure.



Estimates 2/4

In its Q1 report, Incap reiterated its guidance. In addition, Incap expects both revenue and EBIT to increase on a quarterly basis throughout the year. Considering the Q1 baseline, quarterly improvements need to be very slow in order not to exceed the guidance. Therefore, we consider Incap's guidance to be cautious and a positive earnings revision very possible during the rest of the year.

Profitability may be reversed already this year

We feel the somewhat positive trend in the global economy and the expected moderate interest rate cuts have also slightly brightened Incap's outlook during the year. We estimate that Victron Energy's deliveries will continue to decline clearly at quarter level in Q2 but will turn to growth in H2 once the desired inventory level is reached. The schedule for the end of inventory corrections and the subsequent volume depend on Victron Energy's demand, but reflecting the macro picture and Q1 numbers, the development in this respect is positive this year. We also estimate that Victron Energy has tried to take measures to stimulate demand through, e.g., pricing. However, we do not expect Victron Energy's deliveries to reach the high levels that caused the inventory problems in 2022 and Q1'23 in the foreseeable future.

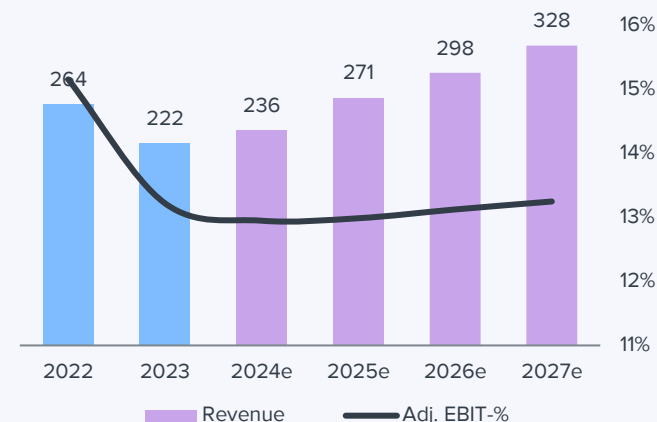
The Pennatronics acquisition supports Incap's inorganic growth still in Q2. We expect the organic growth of other customers to remain positive reflecting the economic situation but will probably be slower than last year's rather brisk pace, reflecting the economic situation and possibly the slightly post-cyclical nature of demand.

Considering this overall picture, we expect Incap's revenue to grow by 6% this year to 236 MEUR. We expect the company to improve toward the end of the year quarter by quarter as volumes increase in virtually all significant customer groups with improving demand. Our forecast is thus slightly above Incap's revenue guidance. We haven't made any adjustments to our reforecasts for this year.

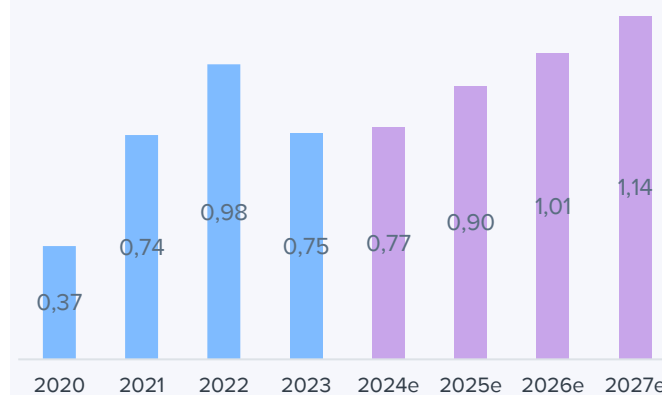
We estimate that Incap's EBIT adjusted for non-recurring items and small PPA depreciation will be 30.5 MEUR this year and the reported EBIT that serves as a benchmark for guidance is 29.7 MEUR. So our forecast is above the guidance. We have slightly raised our forecasts for fixed personnel and other expenses for this year. Thanks to limited organic revenue growth and the low and flexible cost structure we expect Incap to deliver a very strong adjusted EBIT margin of 12.6% this year, in line with the industry context.

After low financing costs and a normal tax rate of around 24%, we expect Incap to achieve adjusted EPS of 0.77 this year. As growth in our forecast is moderate, we expect Incap tie up moderate amounts of working capital this year. While the investment needs are probably still quite moderate and investments are limited to improvements of individual factory lines, we estimate Incap's free cash flow to be approximately 14 MEUR. At the end of this year, we estimate that Incap's balance sheet will be clearly net debt-free if there are no acquisitions before then.

Revenue and profitability



Adjusted EPS



Estimates 3/4

We expect growth to accelerate in the coming years

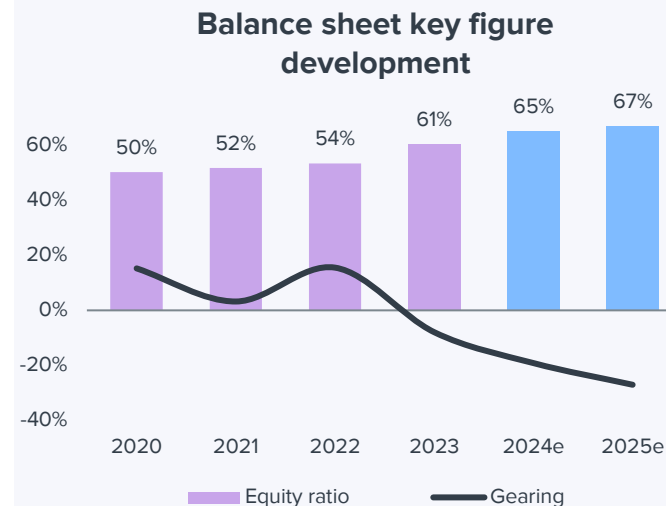
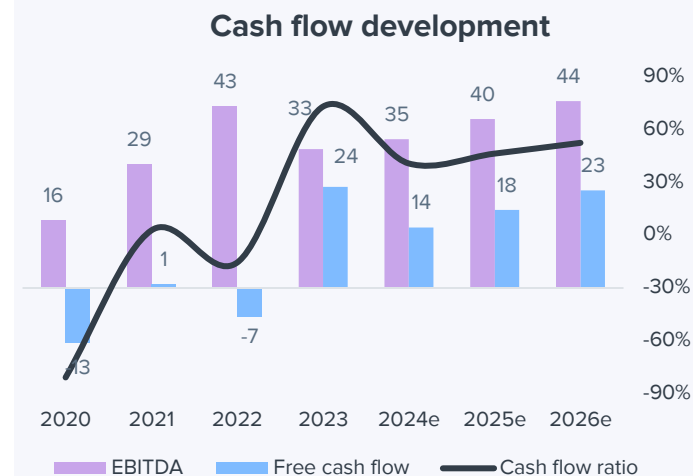
Our forecasts for 2025-2027 are based on a scenario where global macroeconomic growth remains stable and Incap's main European market also returns to low GDP growth rate of 1-2% typical for the 2010s after the weak 2022-2023. We estimate that the Western central banks, and especially the ECB, can cut their interest rates slightly, which, together with an increase in confidence, will support investment enthusiasm. We also expect the green transition to continue to progress in the medium term, although the slope of the trend may partly depend on interest rate levels and the economic situation. This cautiously positive outlook also involves risks, as the global geopolitical situation is unpredictable on many fronts. A negative turn cannot be excluded in terms of inflation and interest rates either.

Our forecasts for Incaps' largest customer are based on an estimate where Victron Energy's revenue continues growing clearly more slowly in 2025-2027 than in the early 2020s. We forecast that Incap's other customers will continue to grow in 2025-2027, but this is of course somewhat subject to general economic development. In addition, we estimate that Incap will also open some new customers in the medium term thanks to its strengths, which supports the growth outlook for the second half of the decade in our forecast. Reflecting this baseline scenario, we expect Incap to grow organically by 10-15% in 2025-2027.

In terms of operational results, we expect Incap to achieve an adjusted EBIT margin of 13.0% in 2025-2027, as volume growth, revenue share growth from efficient production facilities in India, and the very low cost structure that rises a bit with absolute growth bring profitability close to the company's recent historical levels and potential. On the lower lines of the income statement, we expect financing costs to be low and the tax rate to remain stable at around 24%. Our medium-term forecasts rose slightly reflecting the changes in 2024. In our forecasts, Incap's EPS will exceed the 2022 level in 2026 and grow on average by 11% (CAGR) by the end of 2027 from the 2023 level.

We expect cash flow from operations to remain slightly below earnings as growth continues to tie up some working capital, but with a more moderate growth rate in 2020-2022, Incap's cash flow will be significantly stronger than in these years. We estimate that organic investment needs will be moderate in the next few years apart from purchases of individual new production lines for various factories until the full capacity completed in India in 2023 is sold.

The net profit and the clearly positive free cash flow also strengthen the company's balance sheet and push net debt into clearly negative territory. In practice, however, we do not believe that the balance sheet will strengthen to the levels we have predicted, as acquisitions are already very likely in



Estimates 4/4

the medium term. The debt capacity will increase toward the end of the period and in 2027 it would already be significant if no acquisitions are carried out before that. In addition to debt capacity, Incap could naturally use equity and own shares to finance acquisitions, which would further improve the firepower. We do not expect Incap to pay dividends but believe the company will save capital for acquisitions.

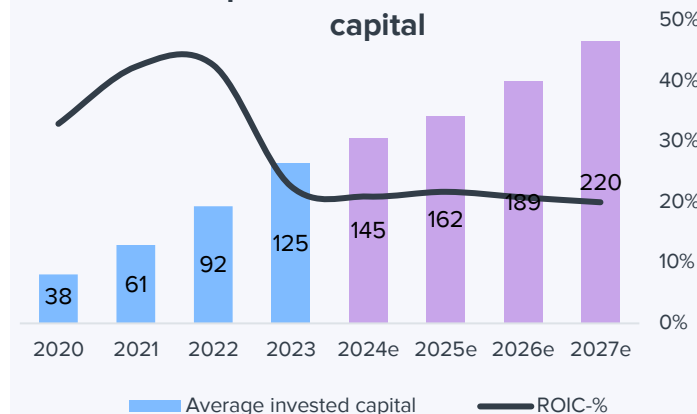
The long-term outlook is also positive

We expect Incap to implement its growth strategy in a consistent and value-creating manner even after 2027. In our longer-term estimate, we expect the company to continue to grow in a healthy way thanks to the forces that support existing customers, the entire electronics industry and contract manufacturers' businesses. Considering this overall picture, we expect the company's revenue to grow by some 2-5% per year in the long term, which is in line with the estimated growth of the global electronics industry over the same period. Considering our organic growth forecasts, the share of the largest customer of Incap's revenue will not decline significantly over the entire forecast horizon, so without acquisitions, the customer risk is elevated also in the long term. Thus, our forecasts are still partly subordinate to continued growth in Victron Energy's own businesses. We believe it would be difficult for Incap to grow substantially faster than the market in the long term with the current structure without growth of the customer in question.

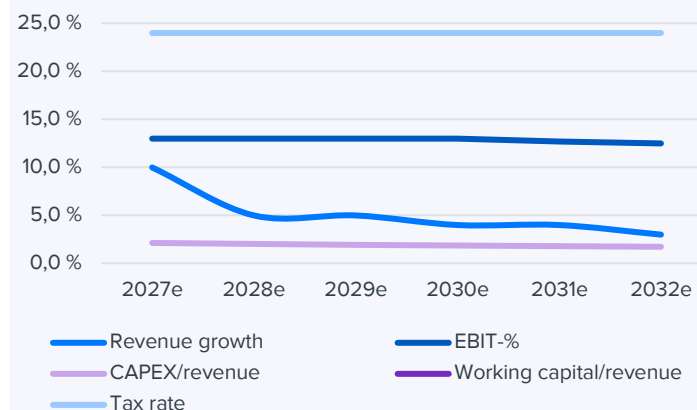
In the long term, we expect Incap's adjusted EBIT margin to remain at a strong level of 12.5-13.0%. The key long-term profitability drivers are revenue growth, a gradually improving product mix, mild economies of scale, for example in procurement, and a low cost structure. The main risks relate to the largest customer base and the success in maintaining the efficiency of the operating model and allocating capital. However, we estimate that with our current forecasts, Incap will not even grow to such a large size in the terminal (2033e: revenue 411 MEUR) that the size class would force the company to change its operating model. We note that there is some tail risk, especially for the terminal period, as Incap's profitability at the terminal is significantly above the industry average. We believe that the company's strengths are sustainable, which is why we are ready to tolerate this risk in our forecasts.

We made no changes to our long-term or terminal forecasts for Incap.

Development of return on invested capital



Long-term estimate parameters



Income statement and estimate revisions

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	264	72.7	56.4	50.0	42.4	222	51.4	57.5	61.0	66.0	236	271	298	328
Incap	264	72.7	56.4	50.0	42.4	222	51.4	57.5	61.0	66.0	236	271	298	328
EBITDA	42.8	12.4	8.6	6.9	5.0	32.8	7.3	8.5	9.3	10.0	35.1	39.9	44.1	48.5
Depreciation	-3.8	-1.1	-1.1	-1.2	-1.3	-4.6	-1.4	-1.4	-1.4	-1.4	-5.4	-5.5	-5.7	-5.8
EBIT (excl. NRI)	40.0	11.4	8.4	6.4	4.4	30.6	6.2	7.3	8.2	8.9	30.5	35.2	39.2	43.5
EBIT	39.0	11.3	7.5	5.7	3.7	28.2	6.0	7.1	8.0	8.7	29.7	34.4	38.4	42.7
Kertaerät	-1.0	-0.1	-0.9	-0.7	-0.7	-2.4	-0.2	-0.2	-0.2	-0.2	-0.8	-0.8	-0.8	-0.8
Net financial items	-2.3	-0.4	-0.2	0.1	-1.3	-1.8	0.3	-0.3	-0.3	-0.2	-0.5	-0.3	0.0	0.5
PTP	36.7	10.9	7.4	5.7	2.4	26.4	6.3	6.8	7.7	8.5	29.3	34.1	38.4	43.2
Taxes	-9.0	-2.6	-1.7	-1.4	-1.0	-6.6	-1.4	-1.7	-1.9	-2.1	-7.1	-8.2	-9.2	-10.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	27.6	8.4	5.7	4.4	1.4	19.8	4.9	5.1	5.7	6.3	22.2	25.9	29.2	32.8
EPS (adj.)	0.98	0.29	0.22	0.17	0.07	0.75	0.17	0.18	0.20	0.22	0.77	0.90	1.01	1.14
EPS (rep.)	0.94	0.29	0.19	0.15	0.06	0.68	0.17	0.17	0.20	0.22	0.75	0.88	0.99	1.12

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	55.4 %	36.3 %	-7.8 %	-29.1 %	-46.1 %	-16.0 %	-29.3 %	1.9 %	21.9 %	55.5 %	6.4 %	15.0 %	10.0 %	10.0 %
Adjusted EBIT growth-%	49.4 %	66.4 %	-4.0 %	-41.9 %	-67.1 %	-23.5 %	-45.7 %	-12.5 %	27.3 %	101.1 %	-0.2 %	15.4 %	11.2 %	11.0 %
EBITDA-%	16.2 %	17.0 %	15.3 %	13.7 %	11.7 %	14.8 %	14.3 %	14.8 %	15.3 %	15.2 %	14.9 %	14.7 %	14.8 %	14.8 %
Adjusted EBIT-%	15.2 %	15.7 %	14.9 %	12.8 %	10.4 %	13.8 %	12.0 %	12.8 %	13.4 %	13.4 %	12.9 %	13.0 %	13.1 %	13.3 %
Net earnings-%	10.5 %	11.5 %	10.1 %	8.8 %	3.3 %	9.0 %	9.6 %	8.9 %	9.4 %	9.6 %	9.4 %	9.6 %	9.8 %	10.0 %

Source: Inderes

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	Actualized	%	Old	New	%	Old	New	%
Revenue	236	236	0%	271	271	0%	298	298	0%
EBITDA	33.9	35.1	4%	39.4	39.9	1%	43.8	44.1	1%
EBIT	28.5	29.7	4%	33.9	34.4	2%	38.1	38.4	1%
PTP	28.1	29.3	4%	33.5	34.1	2%	38.0	38.4	1%
EPS (excl. NRIs)	0.74	0.77	4%	0.89	0.90	2%	1.00	1.01	1%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	29	45	44	44	44
Goodwill	7	8	8	8	8
Intangible assets	0	6	5	4	3
Tangible assets	20	30	30	31	32
Associated companies	0	0	0	0	0
Other investments	0	0	0	0	0
Other non-current assets	1	0	1	1	1
Deferred tax assets	0	1	0	0	0
Current assets	136	137	160	193	229
Inventories	92	71	68	77	84
Other current assets	0	0	0	0	0
Receivables	36	24	47	54	60
Cash and equivalents	8	43	45	62	85
Balance sheet total	168	182	204	238	273

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	87	107	129	155	184
Share capital	1	1	1	1	1
Retained earnings	70	90	112	138	167
Hybrid bonds	0	0	0	0	0
Revaluation reserve	-5	0	0	0	0
Other equity	22	16	16	16	16
Minorities	0	0	0	0	0
Non-current liabilities	13	33	18	18	18
Deferred tax liabilities	1	1	1	1	1
Provisions	2	0	0	0	0
Interest bearing debt	11	30	15	15	15
Convertibles	0	0	0	0	0
Other long term liabilities	0	2	2	2	2
Current liabilities	68	42	57	65	71
Interest bearing debt	11	4	5	5	5
Payables	57	38	52	60	66
Other current liabilities	1	1	1	1	1
Balance sheet total	168	182	204	238	273

Valuation 1/4

Earnings-based multiples work best

We favor earnings-based multiples in examining Incap's pricing and valuation. In our opinion, the most usable earnings multiples are the net earnings-based P/E ratio, and EV/EBITDA and EV/EBIT ratios that take the company's balance sheet structure better into consideration. As absolute multiples we apply the estimated neural multiples that are based on our view of the company's growth and profitability levels, the ability to generate capital and the risk profile, as well as partly on the company's actual pricing on the stock market. In addition to the absolute multiples, we have utilized the framework of a relatively extensive peer group consisting of companies with similar business models. We examine Incap's pricing mainly for the first two estimate years. In addition, we utilize the DCF model that considers the long term.

Factors to be considered in valuation

We believe the following factors affect Incap's valuation:

- **The cost-effective operating model** is almost unparalleled and the company's profitability level is among the highest in the industry. Cost efficiency, and especially maintaining it, is also a fundamental pillar of strong relative competitiveness.
- **Track record of profitable organic growth** and maintaining efficiency levels is primarily strong and the company's longer-term growth outlook is also good.
- **Long-term organic growth potential** is good thanks to electrification, digitalization, rising outsourcing rates and strong own competitiveness. Reflecting Incap's high return on invested capital, and in particular its RONIC, success in organic growth creates a lot of value.
- We believe that **acquisitions** are good alternatives to accelerate value creation, following the company's patient approach. Currently, Incap has borrowing power to carry out a relatively large acquisition.
- **The largest customer** has a significant impact on Incap's direction in the short and probably also medium term, which raises the risk profile of the stock. Thus, the risk of fluctuation is always present, even though the decrease in the revenue share and share price of the largest customer in the year has balanced the risk included in the share. We are not afraid as such that Incap will lose the customer, but it is still problematic for investors that Incap's growth and result still largely depend on a single and poorly predictable driver.
- Business **demand drivers are investment-driven**, which exposes Incap to cyclical fluctuations in the economy. However, the customer portfolio consists of companies operating in various industrial sectors and at different stages of development, which creates some kind of stability / cyclic resilience in demand.

Valuation	2024e	2025e	2026e
Share price	12.1	12.1	12.1
Number of shares, millions	29.4	29.4	29.4
Market cap	356	356	356
EV	332	314	291
P/E (adj.)	15.7	13.4	12.0
P/E	16.1	13.7	12.2
P/B	2.8	2.3	1.9
P/S	1.5	1.3	1.2
EV/Sales	1.4	1.2	1.0
EV/EBITDA	9.4	7.9	6.6
EV/EBIT (adj.)	10.9	8.9	7.4
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Valuation 2/4

- **The challenging value chain position** between material suppliers and end customers makes the price pressure chronic. Competition is also tight and may tighten further once the post-pandemic component problem is over and the highest demand has cooled down.

Considering the factors that support and depress the acceptable valuation, we believe that Incap should be priced with a P/E ratio of 12x-15x and correspondingly an EV/EBIT ratio of 9x-12x in the current stock market environment, where the nominal interest rate is clearly positive. We have raised the acceptable ranges slightly after the company has proven its ability to generate strong profitability even with declining revenue. The bottom end of these ranges is also roughly in line with Incap's median levels for the past five years. Over time, these levels are not fixed, but have flexibility to consider both operational and strategic development steps and changes in risk levels (e.g. possible expansion/concentration of the customer base). The earnings growth rate and interest rate levels also play an important role when creating the acceptable valuation.

Absolute multiples are modest

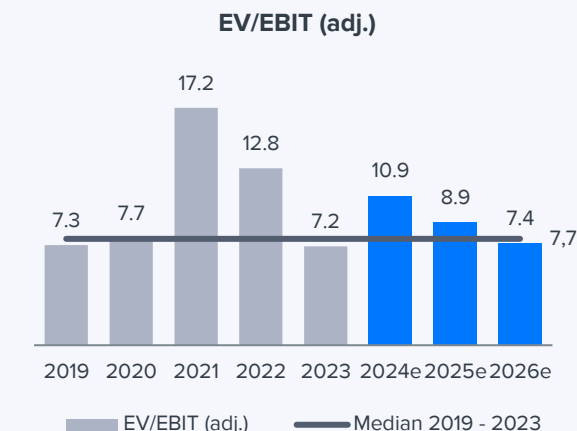
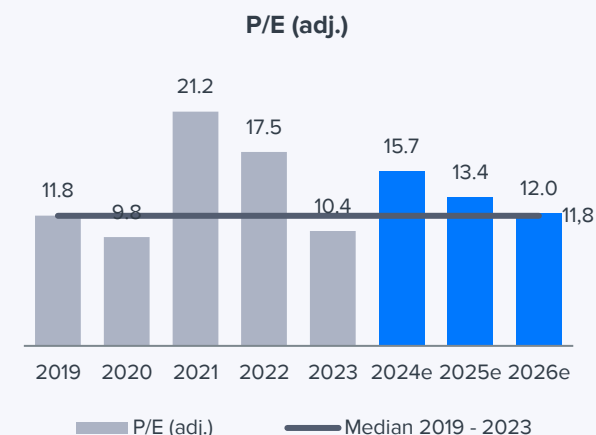
Incap's adjusted P/E ratios for 2024 and 2025 based on our estimates are 16x and 13x while the corresponding EV/EBIT ratios are 11x and 9x. These multiples are close to the top end of the neutral multiple ranges we estimate for the company with this year's result that is below the company's potential, and around the bottom end of the range for next year. Relative to historical levels, the

multiples for this year are above the 5-year median levels and next year's multiples are slightly above them. In our opinion, this is a reasonable starting point given that the customer structure is now and in light of the estimates clearly more diversified than the average for the past 5 years and the company has also provided evidence of its ability to maintain high profitability even when revenue decreases. Thus, we find the pricing of the share attractive on a multiple basis as long as Incap returns to profitable growth in H2 in a year-to-year comparison and stays on this path in the next few years. In addition, investors have the option that the P/E-based valuation would decrease by a double-digit percentage if Incap succeeds in putting its balance sheet to work through a good debt-driven acquisition. However, the attractiveness of the valuation purely depends on the direction of the earnings trend next year and we see no upside in the share if Incap's result does not turn to growth in H2 (Q1'24 LTM P/E 19x).

We expect Incap's dividend yield in the next few years to be zero, as the company saves capital for implementing the inorganic branch of its growth strategy. We are positive about the choice as such, but the return for investors will consist of the change in value creation and dividend does not support the short-term expected return.

The basis for a premium are strengthening

The number of listed contract manufacturers is large, so a large group of similar companies to Incap in terms of business models and value chain positions are available for relative examination of the valuation level. However, it is worth noting that the peer group



Valuation 3/4

not perfect, as some of the companies are very large contract manufacturers. In addition, the profitability profiles, business structures, strategic positions and risk levels of the companies are not fully comparable. Some of the relevant peers are also unlisted companies (e.g. JJS Manufacturing) or, e.g., have no public forecasts, like Katek, which makes the peer group deficient. Despite these points, we find the relative valuation to be sufficiently useful, although we only apply it as a secondary support to the other methods we use.

Some of the peers we have chosen are significantly larger manufacturers than Incap, but the majority are relevant to the size of the company. In particular, we consider Nordic contract manufacturers to be excellent indicators, because similar geographical and industrial positions mean that they are also often direct competitors to each other, in our opinion. In addition, acquisitions are central to the strategies of all Nordic manufacturers, which we believe indicates that there is some competition also on the front of potential acquisition targets.

Compared to the peer group, Incap is priced quite neutrally with the multiples for this year and also next year. When compared to the peer group, Incap's strong track record and even superior basic profitability would, in our opinion, support a clear premium. The still more concentrated customer structure compared to the peers is the opposite driver, but due to the strong profitability record of the past quarters and the quarter-level turn in the business, the rationale for the moderate premium has strengthened. Therefore, we still consider the

relative earnings-based valuation of the stock cautiously attractive, especially considering that we do not find the peer group significantly expensive.

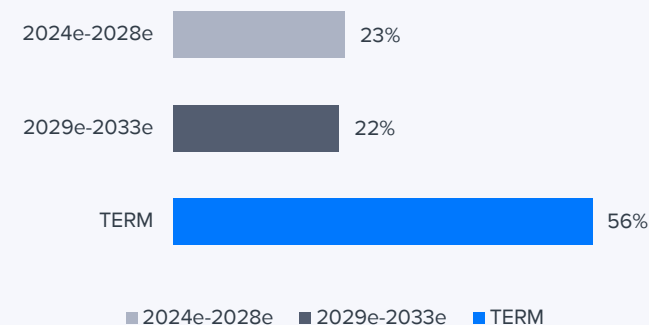
On a volume basis, Incap is priced up to twice as high as its peer group. We believe that this is justified considering the high basic profitability relative to the company's industry. We note, however, that maintaining the volume-based premium on the current scale will require the company to continue reaching double-digit EBIT margins and there could be a clear downside in the share if profitability would even temporarily fail to a single-digit level.

Cash flow based valuation

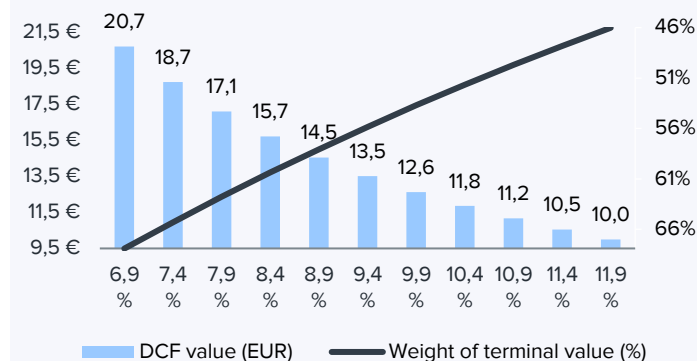
We also give weight to the cash flow based model (DCF) in our valuation despite it being rather sensitive especially to the required return and the variables of the terminal period. In light of this we feel the model provides sufficiently relevant support for other methods used, and in particular for examining the longer-term potential for value creation. Our DCF model indicates a share value of EUR 13.5 per share. The DCF, therefore, still provides a positive signal of the share's valuation.

In our forecast model, the company's revenue growth will stabilize in the long term at 3%, while we expect operating profitability to stabilize at a strong level of around 12.5% reflecting the industry dynamics. Therefore, the model has some tail risk, especially in terms of profitability. In our model, the weight of the terminal period is still at a reasonable level of good 50%

Cash flow distribution



Sensitivity of DCF to changes in the WACC-%



Valuation 4/4

The average cost of capital (WACC) used is 9.4% and the cost of equity is 10.1%. In this update, we have slightly cut the required return that increased significantly in 2023, as we feel that passing the pressure test of recent quarters with flying colors and the brightening outlook have already further decreased the risk level of the stock. Therefore, there could still be a slight upside in the DCF through a decrease in the required return if the company can offset its customer risks in the longer term. However, the increase in DCF starts to primarily require an improved cash-flow outlook. We have applied a risk-free interest rate of 2.5% and similarly a market risk premium of 4.75%.

Expected return is attractive

With the actual result, we also find Incap's valuation elevated (Q1'24 LTM P/E 19x), but the turn in the earnings trend is expected in Q3 or Q4. Thus, on a 12-month horizon, profit growth is sufficient to push the expected return slightly above the required return, even if part of the earnings growth would be used to digest the multiple. We do not expect dividend yield to support the expected return, as we predict that Incap will (sensibly) save its capital for growth. Thus, the role of earnings growth is critical for the expected return. Based on our forecasts, the valuation multiples we accept for the company, the relative valuation and the DCF model, we estimate that the fair value of Incap's share is now around EUR 11-15 per share.

In the medium term, we expect Incap's earnings growth to continue. We forecast good 15% earnings growth for Incap in Q1'24 LTM-2027 at the adjusted EPS level, which provides a strong basis for the medium-term expected return. This good earnings growth potential and a certain positive expectation (incl. a positive earnings revision) related to the recent news flow also support looking beyond the slightly elevated short-term valuation. Realizing the short- and medium-term expected return and growth in the fair value of the share over time requires that the quarterly earnings turn continues throughout the current year and that the company returns to earnings growth in the next few years. The main risks behind our positive views are based on a single large customer, fluctuations in investment demand, possible tightening of competition, and the company's ability to maintain high efficiency (incl. low cost levels).

In addition, a driver for the share even in the short term could be M&A transactions, if Incap could put its balance sheet to work at an affordable, sufficiently high-quality, even slightly synergistic target that especially lowers the customer risk level. Successful AWS and Pennatronics transactions, as well as a patient approach to acquisitions, have supported confidence in the company's M&A strategy. However, our view does not really rely on the realization of a positive M&A option.

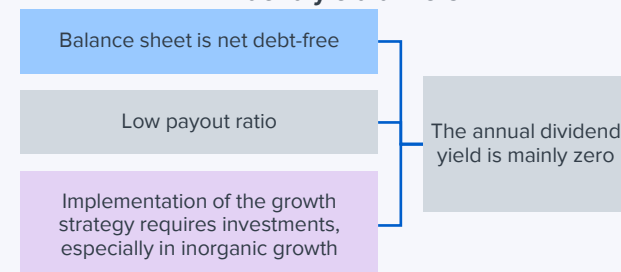
TSR drivers Q1'24 LTM-2027e

■ Positive ■ Neutral ■ Negative

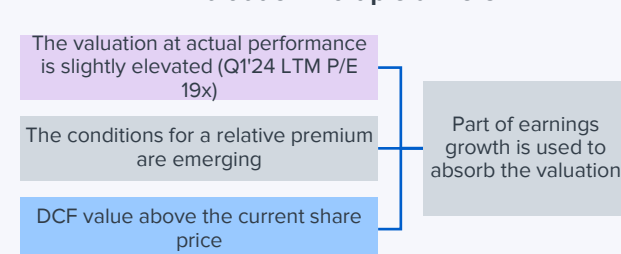
Profit drivers



Dividend yield drivers



Valuation multiple drivers

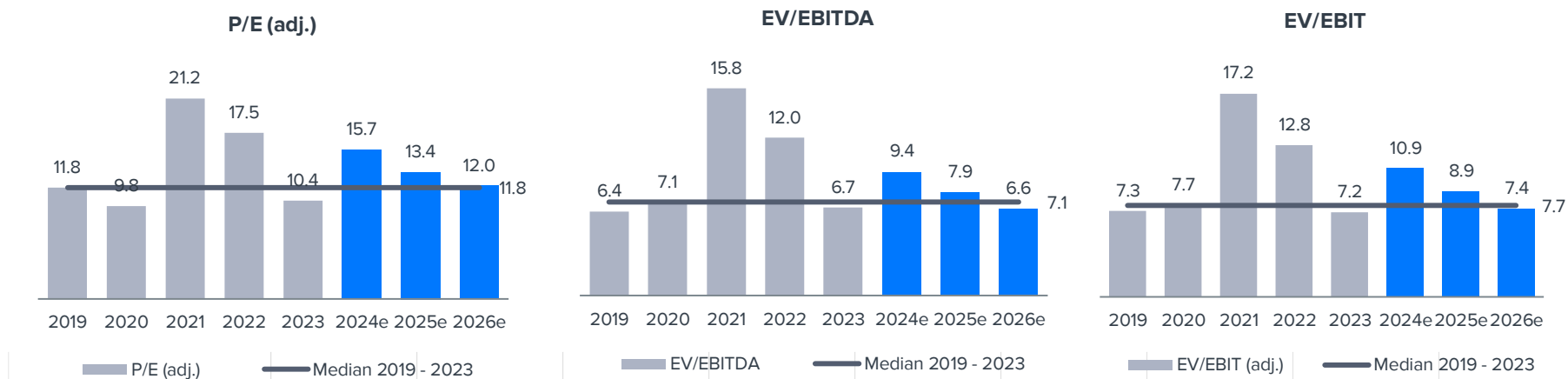


The expected return for the coming years is slightly above the required return

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	3.38	3.69	15.70	17.10	7.75	12.12	12.12	12.12	12.12
Number of shares, millions	21.9	29.1	29.2	29.3	29.3	29.4	29.4	29.4	29.4
Market cap	74	107	459	500	228	356	356	356	356
EV	73	113	461	514	220	332	314	291	264
P/E (adj.)	11.8	9.8	21.2	17.5	10.4	15.7	13.4	12.0	10.7
P/E	11.8	11.6	21.8	18.1	11.5	16.1	13.7	12.2	10.9
P/B	3.4	2.8	7.3	5.7	2.1	2.8	2.3	1.9	1.6
P/S	1.0	1.0	2.7	1.9	1.0	1.5	1.3	1.2	1.1
EV/Sales	1.0	1.1	2.7	1.9	1.0	1.4	1.2	1.0	0.8
EV/EBITDA	6.4	7.1	15.8	12.0	6.7	9.4	7.9	6.6	5.4
EV/EBIT (adj.)	7.3	7.7	17.2	12.8	7.2	10.9	8.9	7.4	6.1
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	20.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	1.8 %

Source: Inderes



Peer group valuation

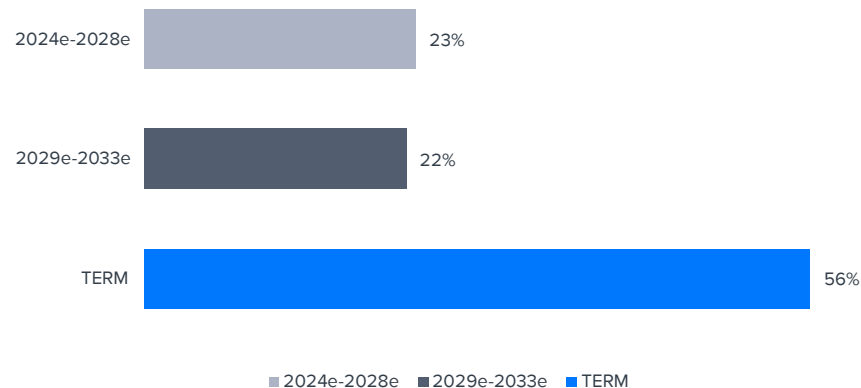
Peer group valuation Company	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Cicor Technologies	188	295	9.3	7.7	5.3	4.6	0.6	0.5	17.8	14.3			1.3
Integrated Micro-Electronics	67	327	12.8	9.7	4.9	4.3	0.2	0.2	3.3				0.2
Data Modul	111	113	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	0.4	0.4	0.7
Hanza	241	324	12.6	9.0	5.0	4.3	0.4	0.4	14.8	10.0	1.9	2.8	1.1
Kitron	565	692	12.2	10.5	9.2	8.2	1.0	0.9	14.6	12.1	2.9	3.5	2.7
Lacroix Group SA	103	243	10.8	8.5	5.7	4.9	0.3	0.3	9.3	6.4	2.4	3.8	0.5
Jabil	12574	12866	8.8	8.5	6.1	5.8	0.5	0.5	13.3	11.7	0.3	0.3	6.5
Scanfil	488	535	9.1	8.7	6.7	6.4	0.6	0.6	10.7	10.3	3.3	3.6	1.6
Fabrinet	8293	7546	27.2	24.3	23.0	20.6	2.8	2.6	28.3	25.7			5.2
Hana Microelectronics	1078	864	17.4	14.5	8.9	8.0	1.3	1.2	20.5	17.5	2.5	2.7	1.5
SVI	467	535	15.5	13.4	12.4	10.8	0.8	0.8	14.8	13.1	2.1	2.2	1.3
TT Electronics	323	467	7.2	6.7	5.5	5.2	0.7	0.7	7.8	7.1	4.7	5.2	1.0
Katek Se													
Nolato AB	1403	1514	18.3	16.0	11.2	10.4	1.7	1.4	23.1	19.8	2.8	3.3	2.9
Celestica	6183	6660	13.3	12.2	10.2	9.5	0.8	0.7	16.8	15.4			3.6
Incap (Inderes)	356	332	10.9	8.9	9.4	7.9	1.4	1.2	15.7	13.4	0.0	0.0	2.8
Average			12.9	11.1	8.6	7.7	0.9	0.8	14.7	13.3	2.3	2.8	2.1
Median			12.4	9.4	6.4	6.4	0.7	0.6	14.7	12.1	2.5	3.0	1.4
Diff-% to median			-12%	-5%	48%	23%	111%	80%	7%	11%	-100%	-100%	99%

Source: Refinitiv / Inderes

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-16.0 %	6.4 %	15.0 %	10.0 %	10.0 %	5.0 %	5.0 %	4.0 %	4.0 %	3.0 %	2.0 %	2.0 %
EBIT-% (adj.)	12.7 %	12.6 %	12.7 %	12.9 %	13.0 %	13.0 %	13.0 %	13.0 %	12.7 %	12.5 %	12.5 %	12.5 %
EBIT (operating profit)	28.2	29.7	34.4	38.4	42.7	44.8	47.0	48.9	49.7	50.4	51.4	
+ Depreciation	4.6	5.4	5.5	5.7	5.8	5.6	5.8	5.9	6.1	6.2	6.3	
- Paid taxes	-6.6	-7.1	-8.2	-9.2	-10.4	-11.0	-11.6	-12.1	-12.3	-12.6	-12.9	
- Tax, financial expenses	-0.5	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
+ Tax, financial income	0.0	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.7	0.8	
- Change in working capital	14.4	-6.6	-8.2	-5.7	-4.5	-4.1	-4.3	-3.6	-3.8	-2.9	-2.0	
Operating cash flow	40.2	21.3	23.4	29.2	33.8	35.6	37.2	39.5	40.1	41.6	43.4	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-16.3	-4.7	-6.0	-6.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-6.4	
Free operating cash flow	23.9	16.6	17.4	23.2	26.7	28.5	30.2	32.5	33.1	34.6	37.0	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	23.9	16.6	17.4	23.2	26.7	28.5	30.2	32.5	33.1	34.6	37.0	508
Discounted FCFF		15.8	15.2	18.5	19.5	19.0	18.4	18.1	16.8	16.0	15.7	216
Sum of FCFF present value		389	373	357	339	320	301	282	264	247	231	216
Enterprise value DCF		389										
- Interest bearing debt		-34.1										
+ Cash and cash equivalents		42.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		397										
Equity value DCF per share		13.5										

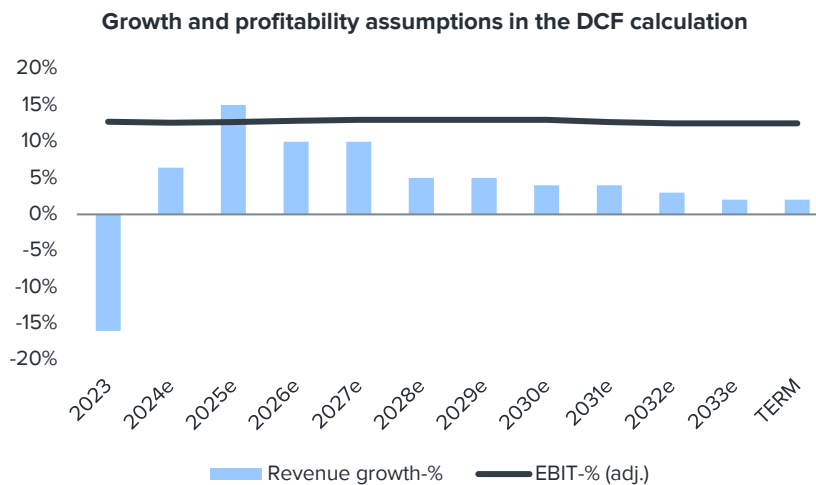
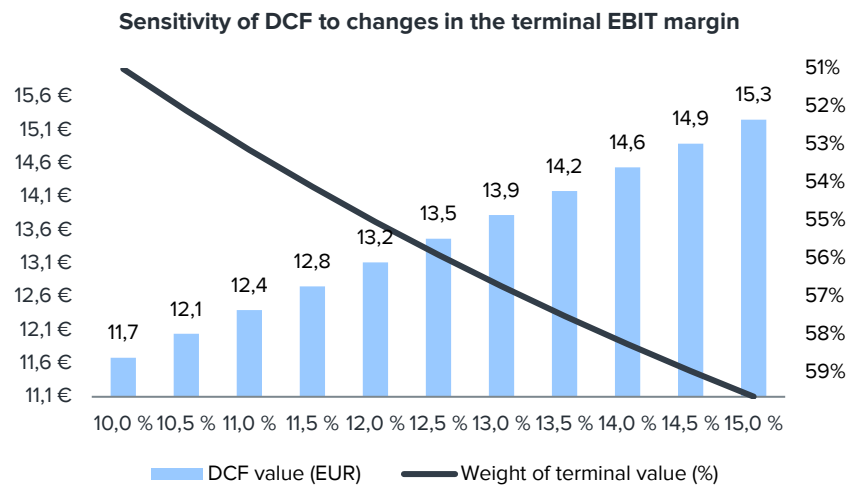
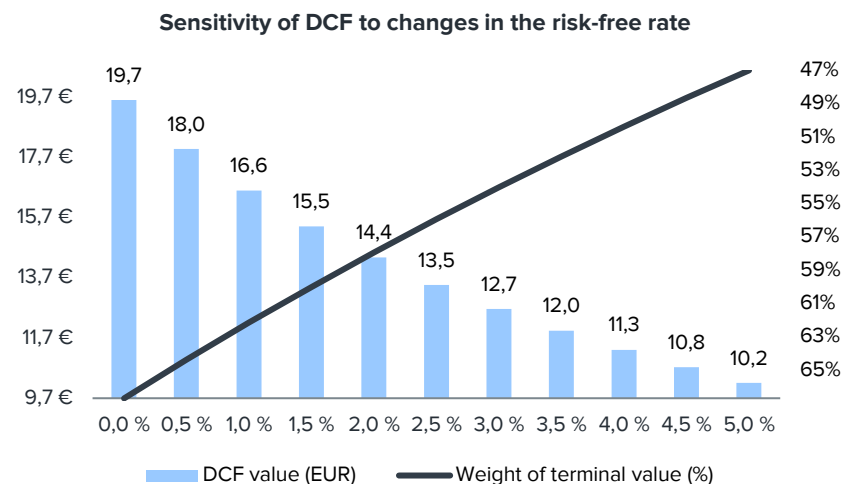
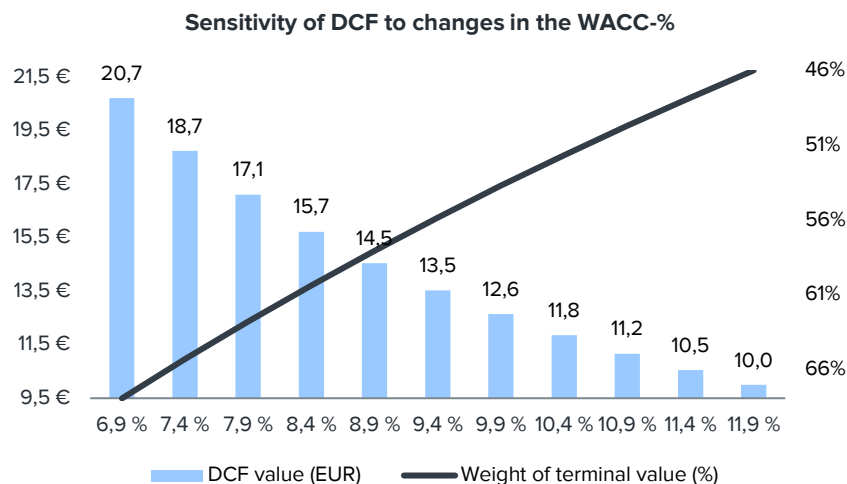
Cash flow distribution



WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	0.90%
Risk free interest rate	2.5 %
Cost of equity	10.1 %
Weighted average cost of capital (WACC)	9.4 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

ESG

The taxonomy eligibility of Incap's business is assessed based on the end product

Incap's customer delivery can also be part of the customer's larger product range. Incap assesses the taxonomy eligibility of its business based on the end product for which Incap provides a specific solution. Therefore, Incap's business is largely so-called enabling functions. These include production of renewable energy technologies, production of low-carbon technologies for transportation, electricity transmission and distribution, electricity storage, rail transport infrastructure, installation, maintenance and repair of instruments and equipment for measuring, regulating and controlling the energy performance of buildings, as well as data processing, hosting and related activities. Therefore, Incap does not have taxonomy-eligible activities.

Reporting practices related to Incap's activities may also change. We do not believe that the current taxonomy rate puts immediate upward pressure on, e.g. Incap's cost or availability of financing, or results in other business challenges. Incap also has one very significant customer, whose size class has varied in 2022-2023 and may continue to vary. Therefore, the change in the revenue share of this customer may fluctuate the taxonomy rates of the group as a whole, especially in terms of revenue and expenses.

There are no significant environmental policy issues related to Incap

We believe the direct environmental policy elements related to Incap's business are relatively small, as the company's business is assembly industry with very light energy intensity that also does not use any hazardous substances. Incap also manufactures products for its customers that mitigate climate

change, such as green energy technology. Therefore, we do not see any greater risks or threats to Incap from regulation in the foreseeable future.

We do not expect significant investment needs to reduce climate emissions

Incap does not yet have official climate targets, although the company reports on the environmental measures it has taken and included in its strategy quite extensively, especially in its annual report. Most of the energy consumed by Incap is used to heat and cool production plants and to run production machinery. In addition to the energy consumption of the production plants, Incap also generates carbon dioxide emissions from logistics, business trips and purchased equipment and services. The company's efforts to reduce energy consumption include the use of modern technology and energy-efficient equipment, LED lighting, intelligent material flows and logistics.

We believe the key role for Incap's overall emissions is especially Scope3 emissions, which the company has limited direct influence on. In light of current data, we estimate that lowering climate emissions will not impose significant and surprising additional short-term costs for Incap but we await further information on this. We also do not expect future investment needs to rise significantly based on the measures.

Taxonomy eligibility	2022	2023
Revenue	74 %	67 %
OPEX	69 %	61 %
CAPEX	56 %	65 %

Taxonomy alignment	2022	2023
Revenue	0 %	0 %
OPEX	0 %	0 %
CAPEX	0 %	0 %

Climate

Climate target	No	No
Target according to the Paris Agreement (1.5 °C warming scenario)	No	No

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Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
7/28/2022	Accumulate	16.00 €	14.66 €
10/19/2022	Accumulate	17.00 €	15.08 €
10/28/2022	Reduce	17.00 €	16.06 €
11/18/2022	Reduce	17.00 €	16.18 €
2/23/2023	Reduce	17.00 €	18.04 €
4/19/2023	Accumulate	12.00 €	10.92 €
4/27/2023	Accumulate	12.00 €	10.36 €
6/15/2023	Accumulate	12.00 €	9.96 €
7/4/2023	Accumulate	12.00 €	10.76 €
7/31/2023	Accumulate	12.00 €	10.72 €
10/9/2023	Accumulate	8.00 €	6.40 €
10/26/2023	Accumulate	8.00 €	6.19 €
2/23/2024	Accumulate	9.00 €	7.94 €
5/10/2024	Accumulate	12.50 €	10.92 €
6/24/2024	Accumulate	13.50 €	12.12 €



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