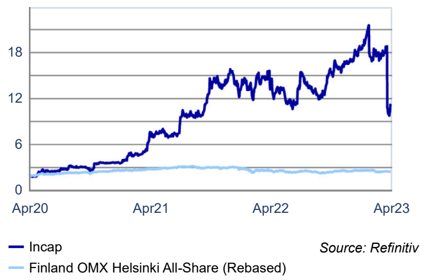
Incap

Capital Goods
Finland

KEY DATA

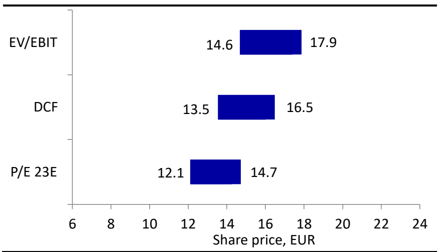
Stock country	Finland
Bloomberg	ICP1V FH
Reuters	ICP1V.HE
Share price (close)	EUR 11.20
Free Float	
Market cap. (bn)	EUR 0.33/EUR 0.33
Website	www.incapcorp.com
Next report date	28 Jul 2023

PERFORMANCE



Source: Refinitiv

VALUATION APPROACH (EUR/SHARE)



Source: Nordea estimates

ESTIMATE CHANGES

Year	2023E	2024E	2025E
Sales	n.a.	n.a.	n.a.
EBIT (adj)	n.a.	n.a.	n.a.

Source: Nordea estimates

Nordea IB & Equity - Analysts
Pasi Väisänen
Senior Analyst

Gathering strength

Quality, reliable delivery and low costs are the main success factors in the competitive EMS sector and, in our view, Incap has them all. Incap also has a clientele portfolio that can offer notable and long-term growth potential. The company's business is concentrated on renewable energy and energy security. We also believe that Incap will be able to sustain its operating margin above 13% thanks to its competitive and decentralised production platform. We initiate coverage of Incap and calculate a fair value range of EUR 13.5-16.5 per share. Our valuation approach is based on a DCF and backed up by peer group comparison.

Revenue growth will return

Increased digitalisation along with new solution areas like robotics, 5G, renewables, electric vehicles and IoT should lead to 6%-plus market growth for the electronics manufacturing services (EMS) sector. Incap has guided for revenue to decline in 2023 y/y due to destocking of its main customer's inventory, but we believe that Incap will be able to grow faster than the markets over the medium term due to global investments in solar power and energy security. Incap's main customer contributes 66.9% of revenue and sells modules for solar power and energy storage systems. This large customer has used Incap's services for some 16 years and we expect market demand for this customer to remain healthy.

A solid production platform

Incap's decentralised business model has turned out to be the right strategy, in our view, based on its successful performance. Brand owners in the EMS sector tend to squeeze out the value that subcontractors create, but Incap's customers are not able to get the same service at cheaper prices elsewhere, which is why its margins do not seem to be in danger. The company has what we consider to be the right strengths in the highly competitive EMS sector, enabling it to protect its market position and yield on invested capital.

Warranted valuation premium compared to peers

Incap is valued below peers at 2024E EV/EBIT of 8.4x. However, we believe that a small premium is warranted when adjusting the valuation for yield on invested capital. We base our fair value range of EUR 13.5-16.5 per share on a combination of peer group 2023E-24E multiples and a DCF analysis. The main risk to our estimates would be if Incap's main customer loses its competitive edge. Incap is successful when its customers are successful.

SUMMARY TABLE - KEY FIGURES

EURm	2019	2020	2021	2022	2023E	2024E	2025E
Total revenue	71	106	170	264	232	257	280
EBITDA (adj)	11	16	29	43	36	39	42
EBIT (adj)	10	13	26	39	32	35	38
EBIT (adj) margin	14.2%	11.8%	15.3%	14.7%	13.9%	13.6%	13.5%
EPS (adj, EUR)	0.29	0.40	0.72	0.94	0.79	0.86	0.93
EPS (adj) growth	7.3%	40.3%	78.2%	30.8%	-16.1%	8.8%	8.4%
DPS (ord, EUR)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/Sales	0.9	0.8	2.7	2.0	1.3	1.1	1.0
EV/EBIT (adj)	6.3	7.1	17.8	13.2	9.7	8.4	7.1
P/E (adj)	10.1	9.1	21.8	18.2	14.2	13.1	12.0
P/BV	2.9	2.2	7.3	5.7	3.0	2.4	2.0
Dividend yield (ord)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield bef A&D, lease	8.9%	0.7%	0.8%	-1.6%	9.3%	5.7%	7.4%
Net debt	0	5	2	14	-17	-35	-60
Net debt/EBITDA	0.0	0.3	0.1	0.3	-0.5	-0.9	-1.4
ROIC after tax	36.3%	27.4%	34.5%	34.4%	24.5%	26.9%	27.8%

Source: Company data and Nordea estimates

Contents

Note: Share prices in this report refer to closing prices as of 31 April unless specified otherwise.

Factors to considering when investing in Incap

We believe that the company's customer focus, cost discipline and leadership in the energy sector work as a catalyst for growing earnings in the future, and for this reason we do not think that Incap deserves to trade at lower multiples than its peers. Most important of all, Incap's customers are not all in a mature phase, and hence we expect Incap to easily outpace market growth in the medium term despite the company's order intake being volatile in 2022-23. The availability of components has improved, which means that customers no longer need to place orders so far in advance. Visibility has therefore come down to more normal levels. As a subcontractor, Incap's success is still dependent on its customers' demand, but we believe global investments in solar power and energy security will remain healthy. Our valuation approach, based on a DCF and backed up by peer group comparison, gives a fair value range of EUR 13.5-16.5 per share.

Main drivers of the equity story

Incap's strengths include a lower cost base, flexible production, high customer loyalty and a strong balance sheet

- Renewable energy and energy security devices offer growth above-market growth for the EMS market for decades.
- Incap has a lower cost base than its competitors, allowing a better operating profit margin (2023E: 13.9%) and a higher yield on invested capital (2023E: 34%).
- Production units are flexible and utilisation ratios and personnel costs can be changed quickly.
- Customer loyalty is high.
- We believe that successful component sourcing gives Incap a competitive edge.
- Highly competent and proactive management lowers company-specific risks.
- Valuation (based on 2023E EV/EBIT) is not demanding compared to peers.
- The majority of customers operate in industrial solutions, where economies of scale are not as important as in consumer electronics.
- Strong balance sheet that enables an M&A-related growth option.

Key risk factors

One customer accounts for ~67% of revenue

High dependence on solar power investments

- Still some uncertainty related to full-year 2023; Incap guides for declining net sales y/y.
- Incap is dependent on its main customer, which contributes 66.9% of revenue. Any disturbance in the customer product portfolio or in end demand could be visible in Incap's growth and earnings potential, as seen in April 2023.
- Competition has increased in many segments with components available equally for all on the market.
- One risk is a premature end to the EU's COVID-19 "Recovery and Resilience Facility" available to solar power markets in 2021-27.
- Low number of salespeople looking for new customers, which can reduce the company's ability to engage new large customers on an organic growth basis.
- In a relatively mature industry, competition is fierce and there is continuous price pressure from OEMs.
- Incap is still a small company, which means that it lacks economies of scale.
- Cyclicality in the EMS sector is strong, and hence valuation multiples in the EMS sector are typically modest.
- If the CEO were to resign, this could have negative consequences for operations.
- A full description of the company-related risks can be found in the "Risk factors" section of this report.

Incap is gathering strength after two growth years

We expect to see annual average growth of some 6.5% (2023E-28E) in the global EMS market. We base our forecast on data from several market information service providers. Overall, technical innovations (communication, digitalisation and renewable energy) create new demand for subcontractors, which is why we are not worried about the underlying market growth.

A subcontractor model in the OEM electronics industry has also proven to create value, and hence we do not expect to see any structural change in the industry's business model. However, the electronics and semiconductor industry is a highly cyclical market and dependent on investments and on end-customer confidence.

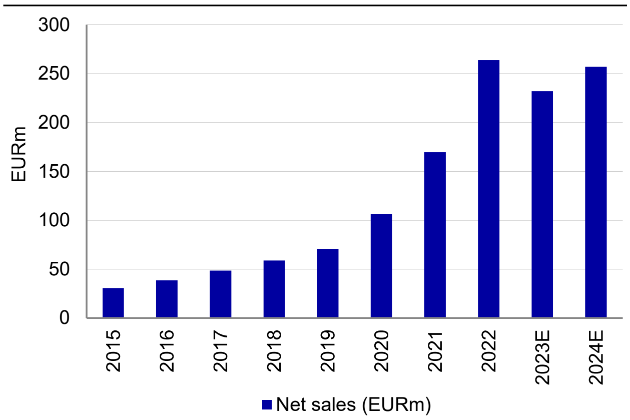
Incap has historically shown above-market growth

Incap has historically shown above-market growth and we expect this to continue, with the exception of 2023 (management has lowered its revenue guidance for this year due to inventory destocking at the company's biggest customer). Moreover, the EU's "Recovery and Resilience Facility" of EUR 800bn will increase investments in solar power in 2022-27. The Energy Performance of Buildings Directive (EPBD) will increase solar power installations in Europe in the long term. The war in Ukraine has also led to increased demand for standalone power supplies and LED solutions in the short term. Over USD 50bn will be used for renewable energy investments globally over the next ten years. Given that Incap makes products for monitoring and controlling solar power systems as well as controllers for connected batteries and standalone off-grid solutions, we believe that its revenue growth will remain substantially higher than the market growth for the EMS sector as a whole.

M&A likely, but we do not include this in our base-case estimates

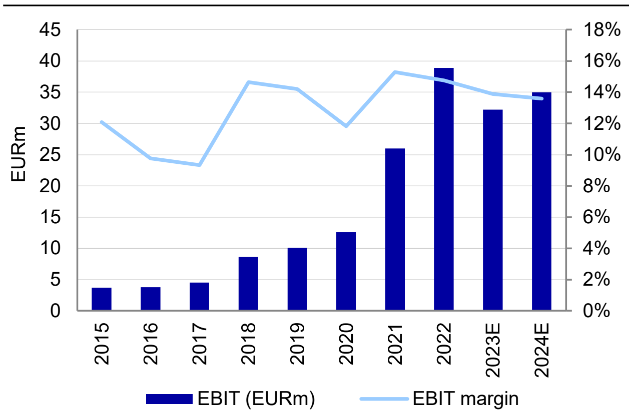
We forecast that a possible acquisition in 2023 would increase annual revenue by over 20%. Regardless of the high likelihood of M&A activity, we do not include any acquisitions in our base-case estimates. Moreover, Incap could easily double the size of the company without adding to its management and group overhead costs.

NET SALES (EURm)



Source: Company data and Nordea estimates

OPERATING PROFIT (EURm) AND OPERATING PROFIT MARGIN



Source: Company data and Nordea estimates

We believe that Incap has the right strengths

Incap's strategic strengths include quality and on-time delivery...

Subcontractors do not typically hold the best position in the vertical value chain. However, given that Incap's strategic strengths are quality, on-time delivery, flexibility and price, we do not believe that the company's position in the market is under any imminent risk.

...and a decentralised business model...

...and renewable energy exposure...

Its decentralised business model also enables direct customer contacts and outstanding cost-efficiency, which has turned out to be a winning strategy in a competitive EMS sector. Furthermore, Incap has been able to identify its own niche markets within renewable energy and energy security, two areas that should be able to offer good growth for several decades.

...and a lower cost base

However, in the electronics manufacturing services industry, customers continue to be very price-conscious and expect their manufacturing partners to increase efficiency continuously and stay competitive. Large OEMs continue to squeeze subcontractors, and we therefore expect margin pressure to persist in the EMS sector. However, Incap is able to run its factories with a lower cost base than most of its competitors, and so we do not believe that Incap's margins are in danger. We not believe that Incap's customers cannot get similar service cheaper.

Incap achieves higher margins than the sector average

Our conclusion is that Incap's proactive management, cost discipline and elastic business model have enabled it to reach better margins than the sector average. Flexibility in operations and in costs means that Incap can rent floor space, equipment and people to scale operations with end demand. The company's operating profit margin has averaged 14.4% during the past five years (Q1 2023: 15.5%). Our EBIT margin forecast for 2023-24 is 13.7% as an average.

A fair value range of 13.5-16.5 per share

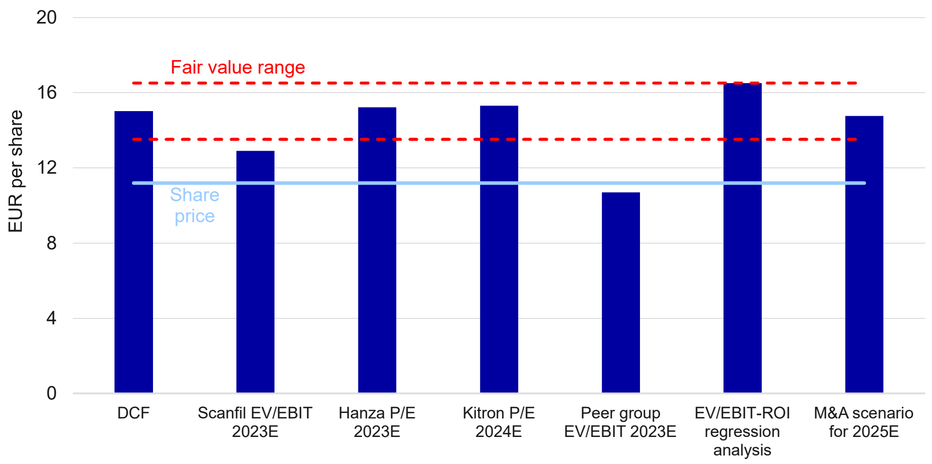
We use relative valuation and a DCF-based fair value calculation in our analysis. We also make a regression analysis comparing yield on invested capital to EV/EBIT valuation multiples. One input to valuation is an acquisition scenario discussed later in this report.

Incap does not look expensive when adjusting valuation for high ROI

Our conclusion is that Incap does not look expensive when adjusting valuation for high ROI. However, revenue growth estimates are subject to high uncertainty. We argue that if revenue growth were to permanently fall below 6%, then the share price might not have notable upside potential. But we are not worried about profitability given Incap's tight cost discipline and proven track record.

Based on the assumption that the company can deliver revenue growth and an operating profit margin in line with our expectations for the coming years, we estimate a fair value range of EUR 13.5-16.5 per share. A sum-of-the-parts analysis does not add more information to the valuation because the business model is not very capital-intensive and the company does not hold intellectual property rights to the end products.

VALUATION SUMMARY (EUR PER SHARE)



Source: Nordea estimates

Incap's fair value could be EUR 12.9 per share when using Scanfil's market consensus (Refinitiv) 2023E EV/EBIT valuation of 11.2x. The 2023E P/E for Hanza (another Nordic competitor) indicates a fair value of EUR 15.2 per share for Incap, while Kitron's 2024E P/E supports a fair value of EUR 15.3 per share. The remarkable upside for the fair value comes from EV/EBIT-ROI regression analysis. Our ROI forecast for 2023 is 34%, compared to sector median of 15% in 2007-22.

Risk factors

The biggest risk is demand variations from the biggest customer

There are several major and minor risks to consider when investing in Incap. We believe the biggest risk relates to its one major customer and its demand/order variations. Improved component availability has led to tightening competition in solar power markets, which could hinder the growth of Incap's main customer. While Incap's biggest customer is active in the solar power markets, we do not expect Incap to lose its major customer. And the renewable energy sector is expected to grow for decades.

Incap is very competitive in terms of quality, in-time delivery and pricing. These are further reasons why we do not expect Incap to easily lose any of its customers. We also expect good profitability to stay, although a possible global economic downturn in 2023 could still create end-demand softness, even in the renewable energy sector.

Country risks in India are not as high as in Russia or China, but corruption in India is still higher than in Europe. We do not see any material risks from the balance sheet, raw materials, first-pass yield or from competition. Also, Incap has a strong financial position.

One risk is related to the CEO Otto Pukk. If he were to resign, this could have negative consequences for operations. We believe Otto Pukk has been a key architect of the current decentralised strategy.

Another risk relates to possible future acquisitions. Here, we argue that the AWS acquisition in 2020 and how well it was handled lowers the M&A transaction-related risk.

Company overview

Incap is an international electronics contract manufacturer and systems supplier for the electronics industries. Incap offers production, manufacturing and aftersales services in Europe and Asia. From a global perspective, Incap is still a small company with some 2,800 employees. In total, the company has four production locations, three in Europe and one in India. The company's strength is its low-cost production platform and clientele base, which are able to offer remarkable growth. Furthermore, Incap operates mainly in the industrial sector and not in consumer electronics, making its high-mix and low-volume business model competitive. The company was founded in 1985 and listed in 1997. The main end market is Europe, whereas the majority of its volume production is in India. Most revenues come from green energy and the electrical mobility segment.

Incap is an electronics subcontractor company

The whole EMS industry exists because not all OEM companies want or have the best competence or efficiency to manufacture the devices they design and sell. Incap is one of these EMS companies offering electronics manufacturing to brand owners.

Incap is a full-service EMS company

In more detail, Incap is a full-service company offering services in supply chain management, logistics, product planning, box-build and final assembly, volume manufacturing of products, prototype production and aftersales services. Product design is offered through a partner network.

The core of Incap's offering is a vertically integrated service and cost-efficient electronics production for global industrial customers. The offering ranges from wire harnesses to printed circuit board (PCB) assembly and independent electric power devices.

The majority of Incap's product offering is high-mix and low/medium-volume products, and it also offers integration and product development services, as well as fully assembled and tested modules and products, so-called box-build services.

Incap has two production facilities in India

Incap has three factories in Europe: one in the UK, one in Estonia and one in Slovakia. Additionally, Incap has two production facilities in Tumkur, India, and a small headquarters in Finland. The company's sourcing office is in Hong Kong. We assess that the majority of components come from China and we therefore believe it makes sense to have a sourcing office in the country.

INCAP'S OFFICES AND FACTORIES

Source: Company data

Company history

Operations expanded to Estonia in 2000 and to India in 2007

The company was registered in 1985 and named Incap in 1992 when three development companies operating in various industries merged. Incap has been listed on Helsinki Stock Exchange since 1997. For several decades, EMS providers have globally shifted production to low-cost regions, and Incap was no exception to this rule. The company shut down its factories in Finland in 2009-10. Operations expanded to Estonia in 2000 and to India in 2007.

In 2020, Incap acquired 100% ownership of AWS Electronics Group, an electronics manufacturing services provider specialised in high-complexity services, with production facilities in the UK and Slovakia. Through this acquisition, Incap widened its portfolio to the UK and Central Europe and gained more customers in the US markets.

Decentralised approach has turned out to be a winning strategy

Since 2020, Incap has achieved a strong track record of revenue growth, and we argue that its outstanding profitability is supported by a deeply engrained cost management culture and an efficient operational model. Incap operates with a decentralised approach driven by the customers and their needs, which has turned out to be a winning strategy, in our view.

Printed circuit board assembly is the core of Incap's operations

Incap offers printed circuit board assembly (PCBA) services as well as full manufacturing of end products (box-build). Printed circuit board assembly stands for 3% of the global electronics value chain according to in4ma. A general trend among all EMS companies is to increase the full box-build offering, not only PCB assembly volumes.

A PCB plate mechanically supports and electrically connects electronic components using conductive tracks etched from layers of copper laminated onto a non-conductive substrate. This PCB assembly is a core part of all electronic manufacturing service companies' offerings, also for Incap.

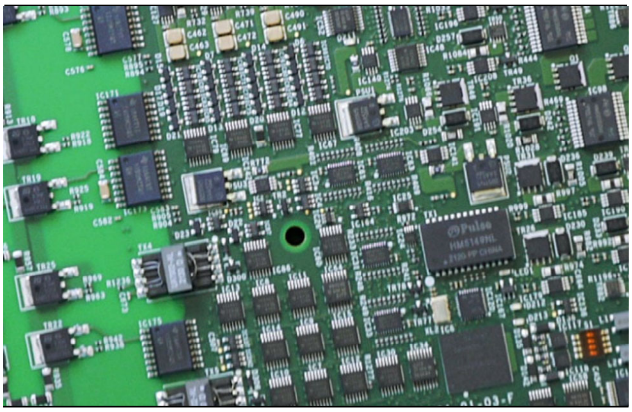
Surface mount technology (SMT) lines are used in PCB assembly

Incap uses surface mount technology (SMT) in electronics assembly to mount components on the surface of the PCB. The first machine used in this SMT process is the solder paste printer, which is designed to apply solder paste to the appropriate pads on the PCB using a stencil. This is the most widely used method for applying solder paste, but jet printing is growing in popularity, especially in the subcontractor sector, as the lack of stencils makes modifications easier to apply versus the solder paste printer.

Once the PCB has been confirmed to have the correct amount of solder paste, it is transferred to component placement. Each component is removed from its packaging using either a vacuum or gripper nozzle, checked by the vision system and placed at the programmed location at high speed.

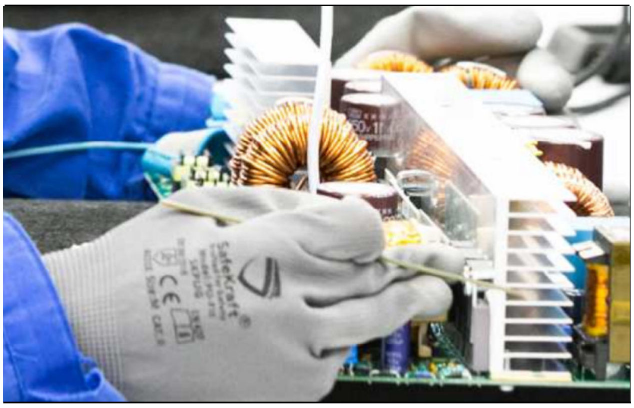
When all components have been placed and checked, PCB assembly moves to the reflow soldering machine, where all the electrical solder connections are formed between the component and the PCB by heating the assembly to a sufficient temperature. After this phase, the only thing left is to once again check that no mistakes have been made. This is done using an automated optical inspection machine to check solder joint quality.

STM LINES ARE USED FOR PCBA



Source: Company image

BOX-BUILD USUALLY REQUIRES MANUAL WORK



Source: Company image

Incap's PCB assembly services range from initial production of very low- volume NPI, EVT, PVT and rapid prototype products, all the way through to the manufacturing of complex, multi-technology PCB assemblies.

In addition to this core PCB assembly, Incap offers a wide range of services to support customers' products through their entire lifecycle. The company has vertically integrated production and can therefore also offer design, assembly, mechanics manufacturing, electronics integration, material management, logistics and aftersales services.

The electronics subcontractor business still relies more or less on manual work, even though PCBA is carried out on automated lines. Robots perform component assembly for the circuit boards, but many other activities at the plants still require manual work. We do not expect to see fully automated plants or factories in the near future because the high investment requirements would jeopardise the return on invested capital.

A product portfolio consists of several hundreds of products

A product portfolio consists of several hundreds of products. Unit prices can vary from a few dollars to thousands of dollars depending on if the product is a small component or a box-build. The product offerings include, for example, battery management systems, power inverters, converters, switchers and chargers. The majority of all products are for industrial customers, but some products even go to consumer electronics markets.

In the electronics device market, an OEM eventually designs, produces and sells its devices. Incap does not design its own products and does not own the intellectual property rights to the products it manufactures.

Tumkur, India

Incap acquired TVS Electronics in India for EUR 7.4m in 2007. This acquisition included a contract with a European photovoltaic module producer that has become the company's largest customer. The original number of employees in India was 230 in 2007. Today, the number is close to 2,300.

Some 80% of all employees in the group are in India, making the country Incap's main production hub. The factory in India is located in Tumkur, near Bangalore. The floor space before the newest increase in Q1 2023 was 16,000 m^2.

The company sends over 90% of the products made in India abroad. The main products are power inverters and UPS, PCBs for fuel and cash dispensers, power supply units, rescue devices, solar inverters, drives and medical devices as well as devices for other electronic industrial products. Some of the devices are complete box-build products, particularly in power electronics.

16,000 m^2 FLOOR SPACE IN TUMKUR, INDIA

Source: Company image

The new factory building will add 8,500 m^2 to Indian production

The company is adding a third building to the factory. The production ramp-up will begin after Q1 2023. The new building has capacity for approximately 800 workers. After the expansion, the total floor space of the factory will be close to 24,000 m^2. The value of the investment was as low as EUR 4.2m, meaning that growth investments do not require a lot of capital.

The machinery at the site is suitable for common component technologies, meaning that the automation level is not very high, and the majority of PCBs are relatively simple. Due to cheap labour, it might not be economically viable to raise the automation level in Tumkur substantially. The final profitability of the expansion is also related to the production mix at the new facility.

THE INDIAN FACTORY HAS AROUND TWO THOUSAND EMPLOYEES

Source: Company image

Otto Pukk was appointed head of the Estonian operations in 2015

Kuressaare, Estonia

A new production platform in Estonia in 2000 was one solution for improving the loss-making Finnish operations. Eventually, all manufacturing was moved from Finland to Estonia and India in 2009-10, after which the Finnish operations were closed. In 2014, also the factory in Estonia faced some financial difficulties. Otto Pukk was appointed head of the Estonian operations in 2015, after which the situation has improved considerably.

The factory in Estonia comprises 7,300 m^2 of floor space, making it the second-largest site for Incap. The Estonian factory employed some 200 workers ten years ago, but the current number is about one hundred. The majority of the sales volumes from Estonia go to Nordic companies that sell their products on the European markets.

The Kuresaare facility produces complex and demanding electronic components as well as complete box-build products. Important product categories include medical monitoring, scientific measuring and energy storage systems. Some customers even operate in the consumer electronics sector.

Kuressaare is Incap's second-largest site

7,300 m^2 FLOOR SPACE IN KURESSAARE, ESTONIA

Source: Company image

The factory in Kuressaare won a relatively big contract with Corvus Energy in 2018. According to the Corvus contract, Incap produces components for modular battery systems used in hybrid vessels. We believe that annual revenue with Corvus could be EUR 5-10m.

The new STM line in Kuressaare can support several customer segments

Kuressaare has two older STM lines and one modern and bigger STM line installed at the factory. This means that there is no need to produce high-volume PCB assembly in India and ship the components to Estonia. Kuressaare is therefore an independent production unit and competitive enough for European markets. Furthermore, the new STM line is interchangeable and can support several customer segments.

A HUNDRED WORKERS IN ESTONIA

Source: Company image

Namestovo, Slovakia

EMS manufacturing in Namestovo was started in 2008

The Slovakian factory has 5,200 m^2 of floor space and a dedicated section for the automotive business. The site provides a volume manufacturing option mainly for European customers. EMS manufacturing at the site was started in 2008. Namestovo has 255 workers.

At the beginning of 2022, the company used EUR 1.4m to build a new STM production line in Namestovo. New production lines are ordered only if the customer has a long-lasting commitment to using Incap's manufacturing services, which is why the recent investments are positive signals for growth expectations.

In addition to the automotive sector, Namestovo serves customers in the medical, airspace, industrial and scientific sectors. We believe devices manufactured at the site could include flying drones and diabetes monitoring systems.

5,200 m^2 FLOOR SPACE IN NAMESTOVO, SLOVAKIA

We assume that Incap gained a Tier-1 automotive manufacturer as a customer in 2015

Source: Company image

Automotive customers can order, for example, wire harnesses, LED lightning, switches and PCB assembly. An automotive component soldering technology line in Namestovo has an annual capacity up to two million final products. Other products in the portfolio include industrial control devices. Incap does not usually disclose the names of its end customers. We assume that Incap gained a Tier-1 automotive manufacturer customer back in 2015.

Automotive customers can, for example, order wire harnesses, LED lightning and switches

240 EMPLOYEES IN SLOVAKIA

Source: Company image

Newcastle-under-Lyme, UK

The smallest unit is in the UK, with floor space of 4,400 m^2. The site has 175 employees that conduct niche PCB assembly as well as complete product build manufacturing and electro-mechanical assemblies. End products are relatively complicated at the UK factory. Customers operate in Europe, Asia and North America.

Newcastle has a dedicated standalone rapid prototyping facility that can quickly produce sample devices for customers during the R&D process. We believe prototyping is an important part of the offering for a high-mix and low-volume EMS company.

The site also offers maintenance, repair and overhaul services, but these are only a small part of revenues, according to our understanding.

Some US customers have used the Newcastle site for more than 20 years

180 WORKERS IN NEWCASTLE, UK

Source: Company image

High-level technical capabilities allow the factory to specialise in the demanding defence, security and aerospace sectors. Complicated electronic products usually create long-lasting customer contracts. Some of the customers in the US have used Incap's services for more than 20 years. The factory in Newcastle is not able to make as high-volume products as the other sites.

THE PRODUCTION UNIT IN NEWCASTLE HAS A HIGH AUTOMATION LEVEL

Source: Company image

A winning strategy

Incap is a customer-driven company

Flexible and decentralised operations together with proactive management and tight cost control are the key pillars of Incap's strategy. But the main focus is on customers - Incap is customer-driven company.

The corporate culture is formed around independent and entrepreneurial production units in order to enable agile and fast product delivery in accordance with all customer needs. Incap has understood that when the customer is successful, also Incap is successful.

Our analysis is that an entrepreneurial approach applies only to the management. We do not expect entry-level workers in India to execute cross-selling or be financially rewarded for new orders. We also believe that the main competitors surely understand the value of the customer, but that they do not give as much responsibility to a factory leader as Incap does.

Incap is also a growth-driven company

Incap has already executed three successful acquisitions (Estonia, India, AWS), through which it has been able to get growing customer accounts. The company is trying to leverage its competencies in new acquisitions, where the decentralised decision-making and corporate culture could be adopted at new factories. New customer contracts could be hard or even impossible to gain organically, which increases the likelihood of an acquisition.

Customer base

Incap does not usually disclose individual customers, as is the case for several other EMS companies. Brand owners like to remain anonymous, and the subcontracting model is operationally important information for them.

The biggest customer, representing 66.9% of net sales, produces devices used in photovoltaic systems and back-up power solutions, and has been using Incap's services for 16 years. Incap gained its biggest customer when it acquired a factory in India in 2007. We respect Incap's policy of not disclosing its customer account information.

Financials and market capitalisation

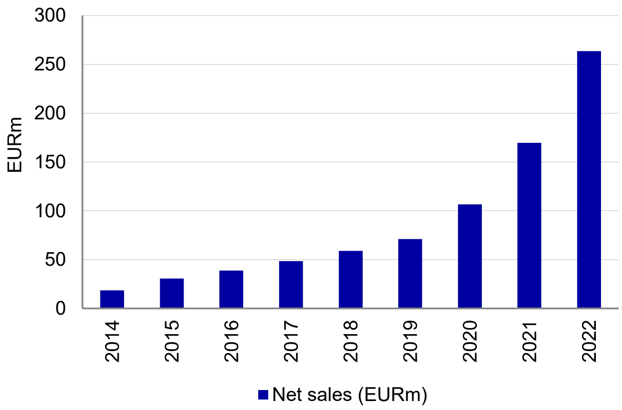
Its clientele base is one of the key reasons for Incap's remarkable revenue growth

We argue that Incap has the right customers. Its clientele base is one of the key reasons for the company's remarkable revenue growth in past years (2014-22 CAGR of 39%).

The company's operating profit margin has been around 14% during the past five years. Brand owners tend to squeeze the subcontractor margins, but Incap has been able to retain the added value it has created.

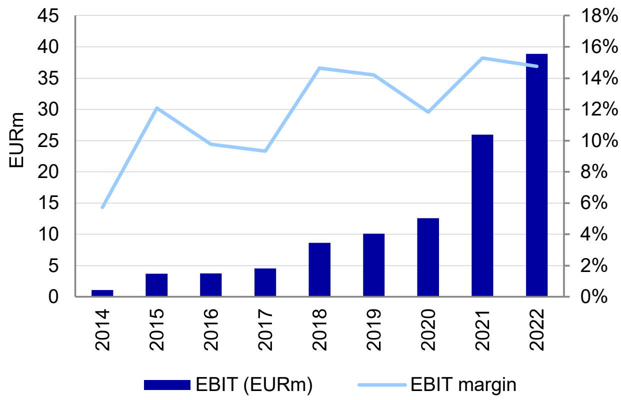
Some customers have full visibility (open book policy) in Incap's P&L statement, but it has still been able to maintain very good profitability. One reason for this is extraordinary efficiency, which is not easily repeated by competitors. So, Incap's customers are not able to get the same product at a cheaper price from competitors, which is why it is hard for them to bargain with Incap, according to our understanding. Another reason for the high profitability is that group overheads and administration costs are growing at a clearly slower rate than revenue.

REVENUE (EURm), 2014-22



Source: Company data

ADJUSTED EBIT (EURm) AND MARGIN, 2014-22



Source: Company data and Nordea estimates

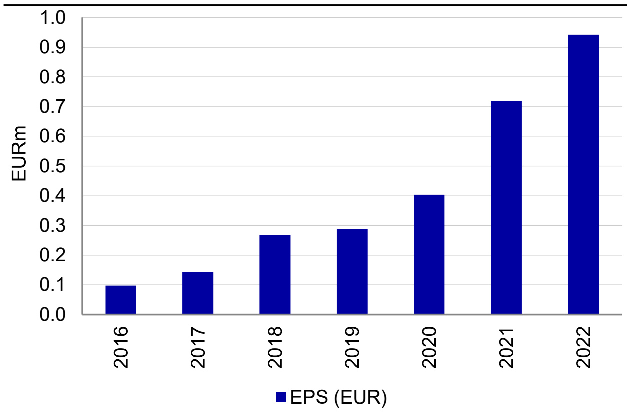
Incap's earnings per share bottomed out in 2013 and have been on a positive trend since then. Regardless of the massive improvement, the company has not paid dividends. Incap clearly prefers growth investments over dividend payments.

The electronics manufacturing subcontractor business model is not capital-intensive

A production facility is essentially an uncomplicated entity. Automated assembly lines are relatively inexpensive and widely available with flexible lease contracts. Incap has typically spent under 2% of revenue on ordinary maintenance. A new STM line can cost EUR 2-3m. We believe that Incap's future acquisitions could be in the range of EUR 20-90m. Overall, the electronics manufacturing subcontractor business model is not capital-intensive, which is why the return on invested capital has been close to 40%.

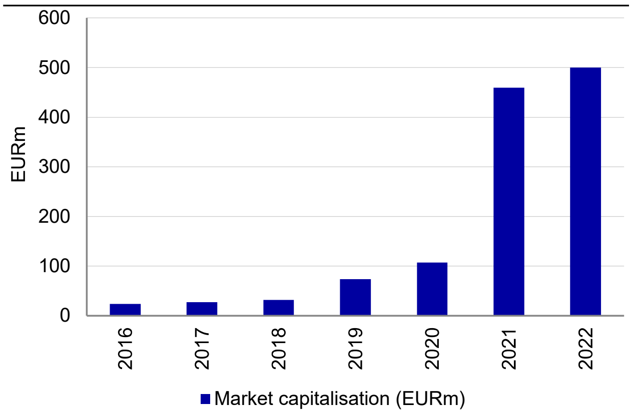
The company's market cap rose from EUR 60m to EUR 500m in last three years, which is a remarkable achievement by any standards. The market capitalisation has been driven by extraordinary (over 50%) annual revenue growth in 2020-22. The key question is for how long the current sales growth can be maintained. We believe revenue growth could be supported by the solar power investments, by the ongoing expansion in India in 2023 and by acquisitions in 2024.

EARNINGS PER SHARE (EUR), 2016-22



Source: Company data and Nordea estimates

MARKET CAPITALISATION (EURm), 2016-22

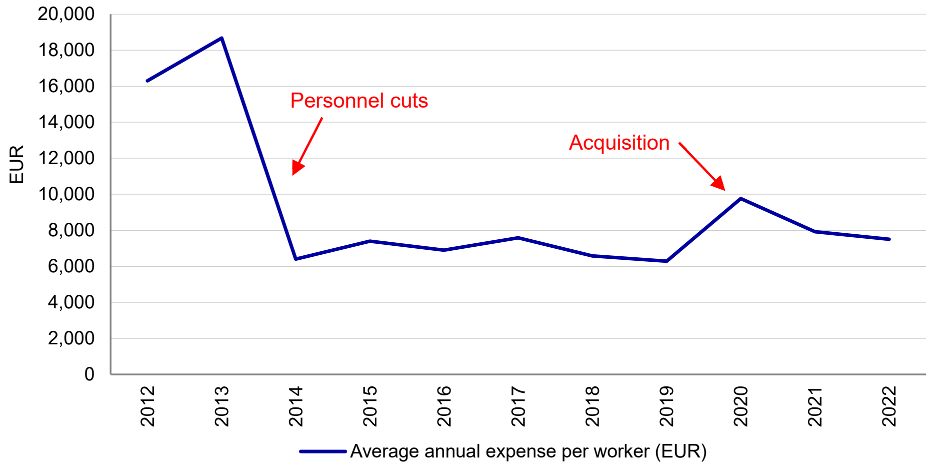


Source: Company data and Nordea estimates

Incap is a cost leader in a very competitive industry, and its decentralised low-cost platform strategy is also visible in its financials and valuation. The average monthly expense per employee is only EUR 702. We argue that competitors are not able to match Incap's offering and its cost base. It is also worth noting that Incap can keep its quality promise despite the low-cost production platform approach.

The average monthly expense per employee is EUR 702

AVERAGE ANNUAL PERSONNEL EXPENSE PER EMPLOYEE (EUR), 2012-22



Source: Company data and Nordea estimates

Executive management

Strategy execution, customer relationships and risk mitigation play key roles for Incap's top management. The management team has six members, comprising the CEO, CFO and four factory managers.

Otto Pukk has been CEO since September 2018. We believe a major part of the recent earnings improvement is based on the leadership and operational excellence of Otto Pukk. He also harbours superior customer account management expertise, which creates a risk factor as operations could be negatively affected if Otto Pukk were to go to a competitor.

MANAGEMENT

Source: Company data and Nordea

MANAGEMENT (CTD.)

		
Jamie Maughan Director, UK	**Miroslav Michalik** Director, Slovakia	**Margus Jakobson** Director, Estonia
Relevant management experience: • Joined Incap in 2020 through the acquisition of AWS Electronics Group • Previously at Motorola and other roles in electronic manufacturing	**Relevant management experience:** • Joined Incap in 2020 through the acquisition of AWS Electronics Group • Previously various positions in AWS Group, Giesecke+Devrient Slovakia	**Relevant management experience:** • Joined Incap in 2016, member of the management of Incap Estonia responsible for QHSE, process and strategy development • Previously various managerial positions at ETAL Group, Nordic Houses and Pharmadule
Education: • Higher National Diploma (HND)	**Education:** • Institute for Industrial and Financial Management (MBA)	**Education:** • Institute for Industrial and Financial Management (MBA)
Incap shares: 0	**Incap shares:** 0	**Incap shares:** 0

Source: Company data and Nordea

CFO Antti Pynnönen joined in 2019

Overall, the management team encompasses a broad range of experience and fresh perspective, a combination that we value highly. Factory managers Jamie Maughan and Miroslav Michalik joined Incap in 2020 when their respective units were acquired from AWS. CFO Antti Pynnönen joined in 2019. Margus Jakobson heads the factory in Estonia. He started in 2016, one year after Otto Pukk. Before joining Incap, they both worked in ETAL Group, which is a supplier of magnetic components in the electronic industry.

The Indian factory is led by Murthy Munipalli, who has been with Incap since 2008. In the early years, Murthy Munipalli was able to bring some of the new customers to the Indian factory, like members of Tata Group.

CEO Otto Pukk and CFO Antti Pynnönen have trusted the factory heads to handle day-to-day business, and there is a strategy to avoid micromanagement, which could create inefficiency in the organisation. Overall, the company's organisation is thin, light and agile, with a proven track record of strong cost management.

The board of directors

Four board members is a relatively small number for a listed company, but it highlights the thin administration layer. Ville Vuori, the former CEO (2014-17) chairs the board. Ville Vuori went to Kemppi Group in 2017 but continued as an Incap board member.

Board member Carl-Gustaf von Troil is a well-known banker in Finland and also a notable owner in the company. Carl-Gustaf von Troil offers a deep understanding of the financial markets and corporate funding.

Julianna Borsos became a board member in 2023. She is the founder and CEO of Bocap, a private equity fund established in 2012. Prior to that, she held several financial advisory positions and senior executive positions in Mandatum and Nordea. Julianna Borsos has vast and solid experience in financing, M&A and also from the EMS sector.

Kaisa Kokkonen has been a board member for close to three years. She became a board member after the AWS acquisition. She offers knowledge from financing and accounting, and we believe she will play a key role when evaluating the rationality of the next possible acquisition in 2023.

The main owner, Erkki Etola, is not on the board, but we believe that all board members have his approval.

BOARD MEMBERS

Source: Company data and Nordea

Shareholders

The main owner has been patient with a long-term vision

The main shareholder, Erkki Etola and his companies, holds 22.7% of the shares and votes in Incap. He is one of the most experienced private investors in Finland and widely considered a long-term investor. The outstanding performance of Incap is a good example of the kind of reward that can be gained when the main owner is patient and holds a long-term vision.

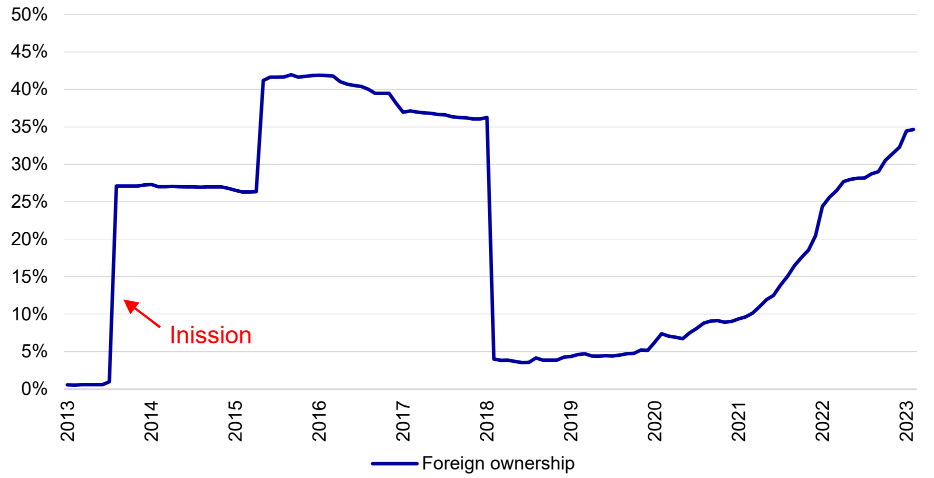
Other big Finnish shareholders include Nordea Life, Kyösti Kakkonen and the Ilmarinen mutual pension fund. Foreign owners include Deka, Lupus Alpha, Berenberg and Fondfinans, according to Refinitiv. We assess the foreign ownership (39.9%, according to Incap) as relatively high. Overall, Incap Corporation has roughly ~4,700 shareholders. The company does not own any of its own shares.

The management team does not have a notable ownership. In small, fast-growing and international companies, the management team typically has higher ownership in the company than in the case of Incap.

Incap's board of directors decided to establish a long-term incentive plan for key employees in 2022. The rewards will be paid partly in the company's shares and partly in cash. The rewards, which are based on performance in 2022-24, correspond to the value of an approximate maximum total of 30,191 Incap's shares, including also the proportion to be paid in cash.

Foreign ownership is relatively high

FOREIGN OWNERSHIP (%), 2013-22



Source: Euroclear (28 February 2023)

Inission became an owner in Incap in 2013 and was awarded two members on the board of directors. The original target was a merger between Incap and Inission in 2013, but the transaction was cancelled. Inission is a small Swedish EMS company that has 900 employees. Inission is listed on Nasdaq First North Growth Market.

BIGGEST SHAREHOLDERS

	Name	Shares	%		Name	Shares	%
1	Erkki Etola and controlled entities	6,636,665	22.66	16	Berenberg Funds	231,923	0.79
2	Nordea Life Assurance Finland Ltd	1,882,750	6.43	17	Danske Invest	222,827	0.76
3	Kyösti Kakkonen controlled entities	1,765,431	6.03	18	DNB Asset Management AS	210,027	0.72
4	Avanza Pension	1,445,636	4.94	19	BlackRock	178,345	0.61
5	Ilmarinen Mutual Pension Insurance Company	1,391,540	4.75	20	True Value Investments SGIIC	169,873	0.58
6	Handelsbanken Fonder	1,156,655	3.95	21	Elo Mutual Pension Insurance Company	160,000	0.55
7	Deka Investments	800,000	2.73	22	Mikko Kantola	149,000	0.51
8	KBC Asset Management	422,119	1.44	23	Value Square NV	132,351	0.45
9	Lupus alpha	407,000	1.39	24	Ålandsbanken Fonder	121,250	0.41
10	Kari Kakkonen	390,525	1.33	25	Norron Fonder	113,061	0.39
11	Oy Pontia Invest Ab	386,465	1.32	26	Juhani Lemmetti	110,000	0.38
12	Consensus Asset Management	312,000	1.07	27	Heimo Juhani Räsänen	84,530	0.29
13	OP Asset Management	272,255	0.93	28	Haaron Perunatila Oy	84,500	0.29
14	Carl-Gustaf von Troil and controlled entities	270,690	0.92	29	Hannu Tapani Rauhanen	82,175	0.28
15	Cervantes Capital	256,385	0.88	30	Mandarine Gestion	81,998	0.28

Source: Company data

Historical financials

There are three important events in Incap's past that are clearly visible in the company's operating performance: 1) its profitability improvement starting from Q3 2014 after a couple of tough prior years; 2) the acquisition of AWS Electronics in 2020; and 3) the start of the EUR 800bn EU recovery investments in 2021 combined with component shortages. The profitability improvement in 2014 was possible after layoffs and renewal of the strategy. The recent sales growth mainly comes from acquisitions and COVID-19-related recovery investments in solar power in Europe. However, there are also several other growth drivers behind the recent outstanding performance. Our conclusion is that Incap is currently hard like a diamond and is set to shine for several years ahead.

Acquisition and solar power took revenues to the next level

Incap failed to achieve the same growth as the global EMS industry in 2000-12. Annual average revenues during 2000-12 were EUR 78m. The company's growth was lacking and profitability was weak during this period. Incap's situation looked fairly dire in 2013 when net sales were down 35% y/y. However, a successful turnaround programme was able to stabilise the situation and create a foundation for a profitable growth path since 2015.

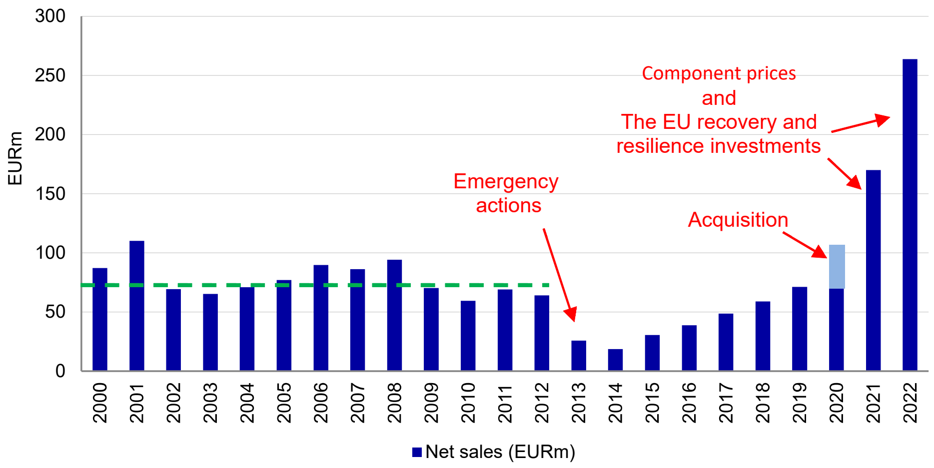
We consider the acquisition of AWS Electronics to be successful

Net sales in 2020 were very good due to acquisitions, but still burdened by COVID-19-related shutdowns in India. The growth potential of Incap's customers was fully revealed in 2021 when sales growth was an outstanding 59%. Furthermore, component prices and the recovery investments to renewable energy in the EU supported reported sales growth in 2021. Regardless of the component shortage, Incap was able to deliver products for its main customer in 2022, which improved the market share of its main customer and led Incap to report revenue growth of 55% in 2022 y/y.

Steady improvement from 2013-14 lows

Outstanding performance in 2021-22

NET SALES, 2000-22 (EURm)



Source: Refinitiv

We conclude that Incap has a very good customer portfolio

Incap cannot grow if its customers are not growing. One of the key drivers of the most recent growth is a successful and competitive big customer in its own field. This is also a reason why all EMS companies want to find customers on an exploding growth trajectory. A major global brand or other big OEM customer can usually offer remarkable and stable volumes but these customers in a mature phase cannot normally offer over 20% annual growth for a subcontractor. Our conclusion is that Incap has a very good customer portfolio.

From dust to super league

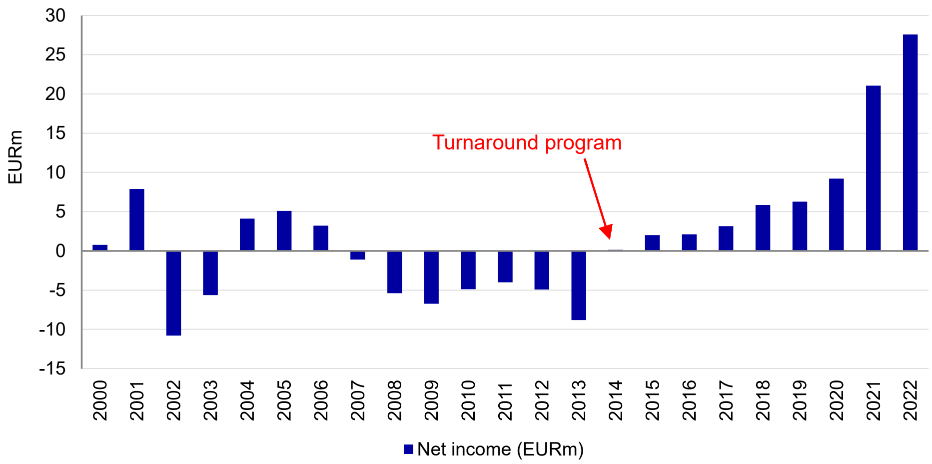
Successful turnaround started in 2014

Cumulative net income during 2001-17 was EUR -25m, which of course is not good. What was successful, however, was the turnaround programme started in 2014.

As part of its turnaround programme, the company renewed its focus on core subcontracting business and it eliminated several non-profitable customer accounts. The organisation was reduced in size to cover only essential functions and excess production capacity was cut (i.e. headcount reduction). Two factories had to bear their own costs and became independent profit units.

Starting in 2015, CEO Otto Pukk has successfully built up a decentralised and agile organisation with tight cost discipline. Incap has gone from dust to super league in a relatively short space of time, a feat which has required hard work and also some luck with customers.

NET INCOME, 2000-22 (EURm)

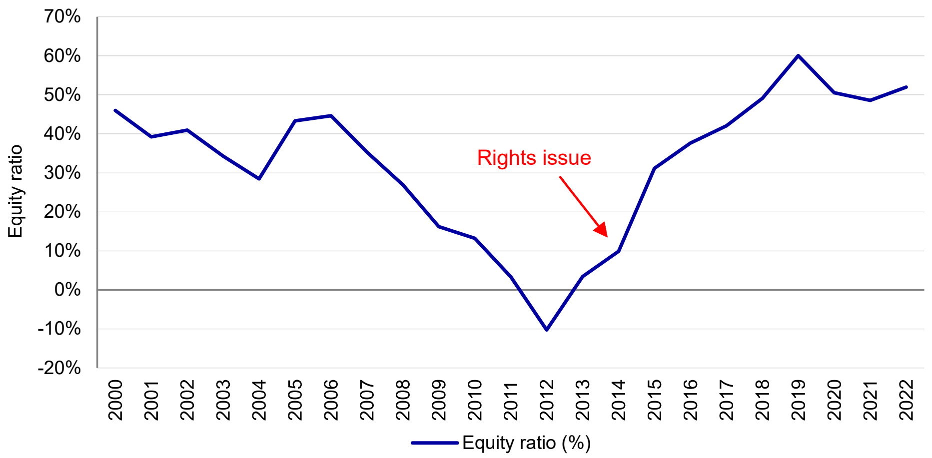


Source: Refinitiv

Since 2015, value creation has been increasing and shareholders have been rewarded

The equity ratio in June 2014 was 0.6%. Subsequently, Incap raised a total of EUR 2.2m in new equity through a rights issue. It may have needed even more, but at least the main owners kept the company alive. Since then, the value creation has been increasing and shareholders have been rewarded.

EQUITY RATIO, 2000-22 (%)

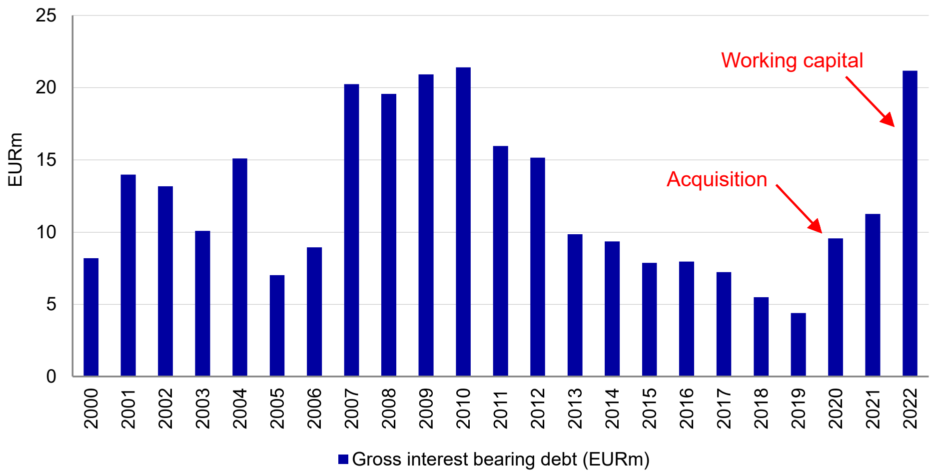


Source: Refinitiv and Nordea

Gross interest-bearing debt increased again in 2020 with the acquisition of AWS Electronics

During 2001-10, gross interest-bearing debt averaged EUR 15m. It gradually declined in 2011-19, but increased again in 2020. The acquisition of AWS Electronics with production facilities in the UK and Slovakia was completed in January 2020 at a debt-free acquisition price of EUR 15.9m. The transaction was funded with a EUR 13m loan in the first phase, and later on in 2020 with a EUR 10.9m rights issue. In our view, this acquisition was a risky move that required a lot of courage from the top management, and the pandemic added extra tension to the transaction in H1 2020. The deal indicated an EV/EBIT valuation of 10.6x, which was not an extremely low multiple for the EMS sector on average, but it was a low multiple compared to the growth option it offered.

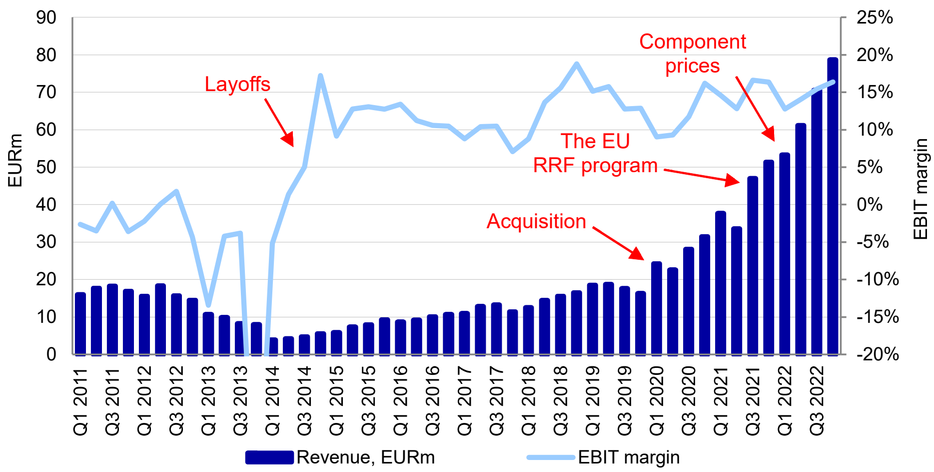
INTEREST-BEARING DEBT, 2000-22 (EURm)



Source: Refinitiv

Looking at the quarterly development since 2000, we can see that a turnaround in profitability is visible in Q3 2014. The deepest decline in net sales was seen in 2013 when the company ran out of cash and could not buy components for customer deliveries. Several OEM companies abandoned Incap due to delayed deliveries in 2013.

QUARTERLY REVENUES (EURm) AND EBIT MARGIN (%)



Source: Company data

One observation is that Incap's exploding growth started about the same time as the component shortage escalated and as Spain received EUR 70bn in grants under Europe's COVID-19 recovery and resilience scheme. Spain allocated ~40% of the EU's recovery and resilience investments to measures that support climate objectives, such as solar power and battery systems. Since 2020, almost 11 GW of solar power has been installed in Spain, leading to a 117% increase over the last three years. Incap's biggest customer is active in Spanish solar power markets and produces inverters, converters and power monitoring modules. Incap was able to get needed the components in 2021-22, which increased the competitiveness of its main customer in its own sector.

Our conclusion is that Incap has done a stellar job but that it has also been boosted by COVID-19 recovery investments in renewables in Europe. The European Union's RRF funding is about to end in 2027, which could be one trigger to follow when estimating Incap's future growth. One risk is that recovery investments will be prematurely ended, because they accelerated inflation. The availability of components also improved in late 2022, making competition tighter in the solar power markets.

Market outlook

The global electronic manufacturing services (EMS) market has shown steady growth during this millennium, except for 2020, when the market declined by 2% due to the COVID-19 pandemic affecting component availability and the supply chain. Market growth was strong in 2021-22 due to low comparison points and high component prices. Now that these issues are mainly resolved, we expect the EMS sector to return to stable volume growth in the near future. The global EMS market is worth about USD 500bn, according to our analysis, and we expect to see annual average growth of some 6.5% (2023E-28E). We base our forecast on data from several market information service providers. The biggest EMS sectors are consumer electronics (25%), automotive (22%) and aerospace & defence (20%). Geographically, the Asia Pacific region represents 41% of the global EMS market and Europe about 10% (source: in4ma). The main market drivers, in our view, are overall digitalisation, renewable energy, medtech, IoT, electric vehicles, increased product innovation and outsourcing ratios.

Weakening global economic growth

The global economic outlook is currently not that bright

The EMS sector follows the global economic cycles, and the outlook for the global economy is currently not that bright. There is a lot of uncertainty surrounding the inflation outlook, and peaks in central bank interest rates are likely.

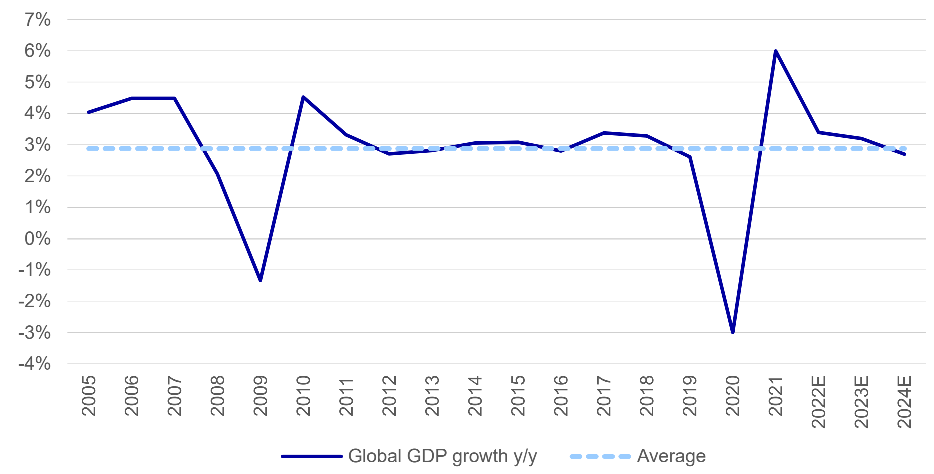
We believe that many countries will experience negative growth in H1 2023. However, mild weather conditions in Europe as well as China's sudden decision to end its zero-COVID policy increase the likelihood of positive surprises for the global economy. In the US, recession fears might not materialise as labour markets remain strong, inflation is coming down and consumers are likely to further consume the excess savings that they accumulated during the pandemic.

Nordea's global GDP growth forecast is 3.2% for this year, partly reflecting that the economic outlook in China has improved significantly. However, political and geographical risks still loom over the global economy.

For the euro area, Nordea forecasts 1% GDP growth in 2023. European central banks could continue tightening monetary policy for longer than currently expected by the markets. Interest rate differentials could also diminish, leading to a weaker USD against the EUR.

Nordea's global GDP growth forecast is 3.2% for this year

GLOBAL GDP GROWTH Y/Y, 2005-24E



Source: Macrotrends and Nordea estimates

We do not believe that many years of ultra-easy monetary policy have been the main reason for Incap's extraordinary growth. However, the company's customers may have gained from the investment cycle, which is why we do not consider continuous growth of 50% for Incap to be a realistic forecast for the near term. Rising interest rates could even result in falling investments in the sectors in which Incap is active.

Global EMS markets could grow at twice the rate of GDP growth

50% of all electronics are manufactured by subcontractors

For the past few decades, large technology companies have typically manufactured at least part of their products in their own factories. However, over the past few years, original equipment manufacturers (OEMs) have increasingly been moving production, design and development processes to electronic manufacturing service (EMS) companies. Today, some 50% of all electronics are manufactured by subcontractors instead of brand owners.

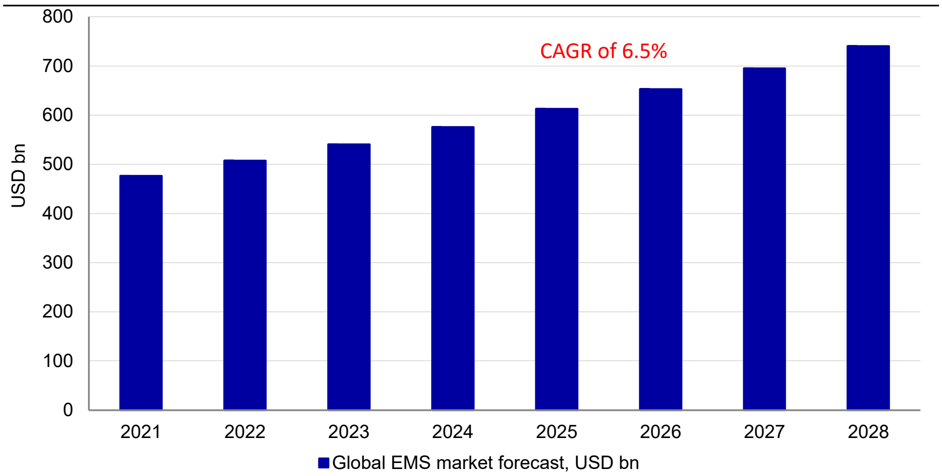
Today, new technology companies design products without their own production facilities or even without any intention to build their own plants. This operational model means that the EMS market can outpace global GDP growth. There will always be a need for electronic components, and we do not expect to see any remarkable paradigm shift in the EMS industry. One conclusion is that electronics is a good place to be, as already stated by CEO Otto Pukk.

The EMS market is fragmented, with more than 15,000 companies offering EMS services. Smaller EMS contractors are well suited to high-mix and low-volume production. For example, tailoring and low-volume series, even to a box-build, have provided a decent niche for Incap. Consolidation is set to continue in the markets where economies of scale can be gained by having a bigger size. The sole market leader is Foxconn, with a 39% global market share (source: in4ma).

Incap's global market share is 0.05%

According to several information agencies, the global EMS market is around USD 500bn. Incap's global market share is then 0.05%. We believe that annual average market growth could be 6.5% in 2023-28. Small EMS companies with successful customers can grow faster than the overall global EMS market.

GLOBAL EMS MARKET FORECAST (USDbn)



Source: Skyquest Technology consulting, Fortune business insights, Nordea estimates

European EMS market growth could be 4-5% in medium term

The European electronic manufacturing services market is estimated at around USD 50bn

We estimate the European electronic manufacturing services market at around USD 50bn. Subcontracting is not as common in Europe as it is on a global basis. Some 40% of electronics in Europe are produced by EMS companies, compared to a global share of 50%, according to in4ma.

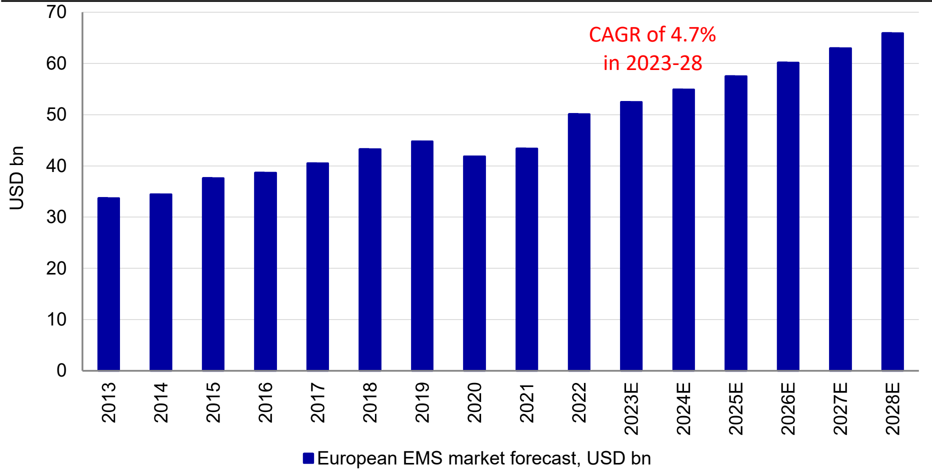
Market growth in Europe could lag behind global EMS market growth. This is because demand for electronic manufacturing tends to fluctuate with the ups and downs of the economy, and the European economy currently has several weak spots such as the war in Ukraine and consumer confidence. A weakness of the consumer electronics industry is that much of it is built on the production of non-essential goods, so a downturn in the economy can have a crippling effect. The volatility is a little less in industrial solutions than on the consumer electronics side. Thankfully, the majority of Incap's products are aimed at industrial customers.

We forecast that European EMS 2023-28 market will be 4.7% on average. Kitron, a Norwegian EMS company, forecasts that the European EMS market will grow 8%

(2023-28 CAGR), but we currently consider this too optimistic. However, Kitron will likely gain from the security situation in Europe and increased defence spend in old and new NATO countries.

Europe represents around 10% of the total EMS market, while Asia stands for more than 40%. Overall, according to in4ma, there are some 1,800 EMS companies in Europe, of which 566 factories are in Germany, making it the biggest EMS market in Europe. German Zollner is the biggest European EMS company in Europe, but Flex and Foxconn still have bigger operations in Europe than Zollner. In Estonia, there are 24 EMS factories, one of which belongs to Incap.

EUROPEAN EMS MARKET GROWTH FORECAST (USDbn)



Source: In4ma and Nordea estimates

Solar power market growth (CAGR) could be as high as 20%

A key area of Incap's product portfolio is solar power modules, charge controllers and power inverters/converters. Hence, renewable energy and standalone power solutions are driving factors for Incap's growth.

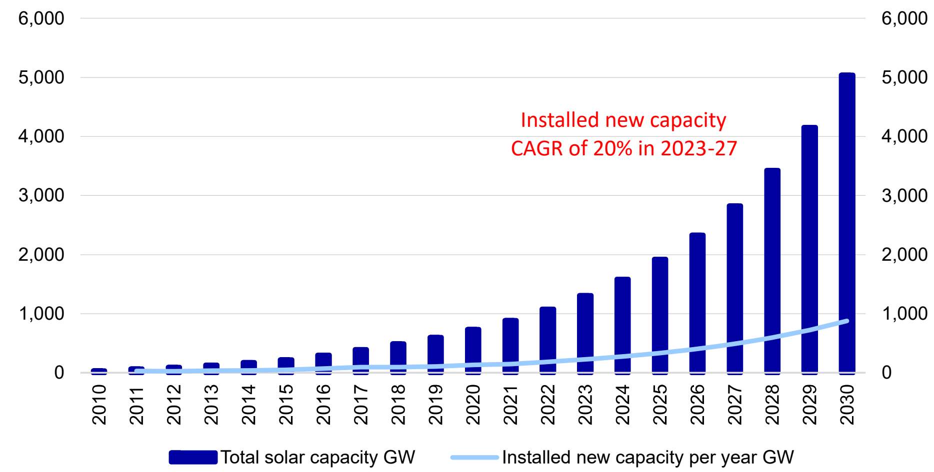
We expect the solar power installation market to show a 2023-27 revenue CAGR of 20%, while MarketsAndMarkets forecasts that the global residential energy storage market (3-6 kW) will show a 2022-27 CAGR of 20%. Annual new solar power installations in terms of capacity in 2030 could be as big as the current total solar power installation base. According to our analysis, Incap's biggest customer has a strong footprint especially in Spanish solar power markets.

The global market for solar charge controllers was valued at USD 1.8bn in 2021 and is expected to expand at a CAGR of 16.5%, reaching USD 4.4bn in 2027 (360ResearchReports). Solar charge controllers control the flow of current and voltage from solar panels to the linked battery, preventing the battery from becoming overcharged or discharged.

The war in Ukraine has created demand for light and transportable standalone power supply solutions

Overall, the combination of solar power used with storage is becoming affordable. Furthermore, the war in Ukraine has created unexpected demand for light and transportable standalone off-grid power supply solutions, and this growth could stay for 2023. High energy prices in Europe have also increased demand for private solar power panels. Solar panel installations in Germany in 2022-23 alone could be as high as seen in the past two decades combined.

SOLAR POWER INSTALLATION MARKET, 2010-30E (GW)



Source: IEA, Irena and Nordea estimates

The European Commission's REPowerEU package could even make rooftop solar installations 'mandatory' on buildings in Europe, which would surely improve Incap's long-term growth prospects. One scenario is that by 31 December 2027, all existing public and non-residential buildings – with a usable floor area over 400 m^2 – undergoing extensive renovation would be legally required to have solar installations.

Competition

The overall EMS sector is in a relatively mature phase and competition is fierce. A subcontractor business model faces competition in all regions and in all customer segments. The needed technologies and production lines in the plants are almost a commodity and available for all EMS companies. Relatively low capital intensity in the EMS sector also keeps the barriers of entry low. Despite the fierce competition, customers tend to be very sticky in the sector. A clientele portfolio that includes heavily growing customers is then a true competitive edge. Hence, competition is not the biggest threat to Incap. In our view, the biggest threat to Incap relates to its customers' own strength in the global market, rather than losing a customer to another EMS provider.

Customers tend to be relatively sticky regardless of the competition

Not all OEMs have the best skills or resources to manufacture their own devices, leaving this field for EMS providers such as Incap. Global digitalisation and electrification continue to grow, offering steady growth for all electronic device subcontractors. But the whole business model in the subcontractor sector is vulnerable to price erosion and margin pressure. Competition will usually keep earnings improvement possibilities modest.

The main product segments in the EMS market are consumer electronics, communications, computers, automotive, industrials, medical and aerospace

The main product segments in the EMS market are consumer electronics, communications, computers, automotive, industrials, medical and aerospace. The biggest global competitors focus mainly on the consumer electronics markets and include companies like Hon Hai, Sanmina, Benchmark, Jabil and Flex.

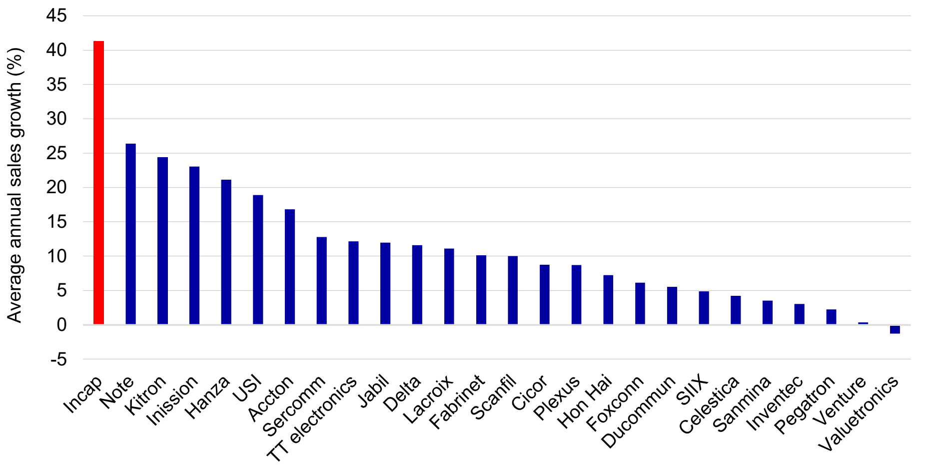
Nordic competitors, which mainly operate in the industrials sector, include Scanfil, Note, Kitron, OrbitOne, Hanza and GPV electronics. In Central Europe, the main competitors are Zollner, Exceet, TQ, Lacroix, BMK, Enics, and Neways.

Price competition is tough

Despite the fierce competition, customers tend to be very sticky in the sector. This creates an interesting situation – if the production of electronic components works well and products are reasonably priced, customers have no reason to change subcontractors. Nonetheless, the potential for customer turnover is very high in the sector, as all customers are price-sensitive and well aware of the pricing environment. This means that price competition is tough, but the pressure comes directly from the customers rather than from peers.

Incap has had the highest growth among 25 selected peers in 2018-22

PEER GROUP: AVERAGE ANNUAL REVENUE GROWTH, 2018-22



Source: Refinitiv and Nordea estimates

Incap is a growth champion among 25 selected peer companies, as seen in the graph above. The main explanation for Incap's good growth is right investments and a favourable clientele portfolio. However, volatility in orders can be high in the EMS sector, as seen in 2023 as Incap has guided net sales to decline y/y.

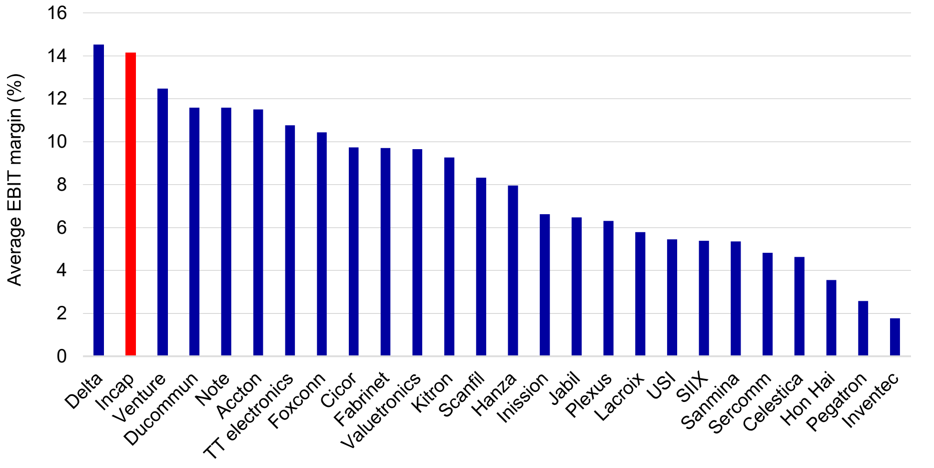
In-house production should be seen as a direct competitor to all EMS companies

Customers usually have the alternative to make their own devices by setting up their own production units. In-house production should therefore be seen as a direct competitor to all EMS companies. Thus, long-term customer relationships do not easily translate to better profitability for a subcontracting company. Incap is in a very good position because its main customer has no resources to manufacture all of its devices.

For Incap, keeping its current customers and its efficient production platform is an absolute must, as well as gradually finding small customers with future growth options. We argue that Incap has done good work in this arena. Thanks to its strengths (price, speed, flexibility and quality), Incap has proven to be a survivor in the competitive EMS industry, and we do not expect the company to lose its strengths easily. Incap has been able to reach an outstanding 14-15% operating profit margin, which highlights the competitive edge of its low-cost production platform and decentralised business model.

Incap has the second-highest annual average operating margin among our group of 25 selected peers

PEER GROUP: ANNUAL AVERAGE OPERATING PROFIT MARGIN, 2018-22



Source: Refinitiv and Nordea estimates

Medium-sized EMS companies tend to be the most profitable

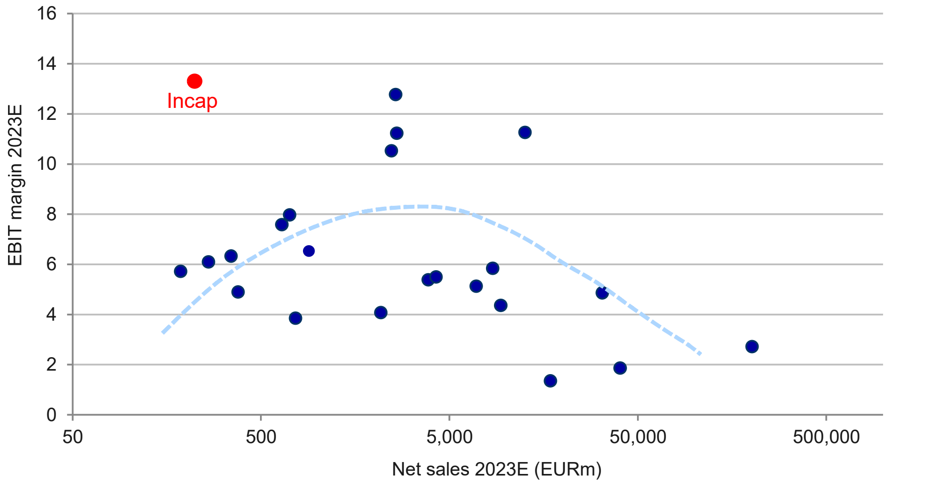
Economies of scale should work well in the electronic device manufacturing business. According to our analysis, however, size does not increase operating profit margins above a certain level. The most profitable peers are actually medium-sized companies.

Overall, operating profit margins tend to be low in the EMS industry compared with several other sectors, such as capital goods and engineering consulting. This is because subcontractors do not have IPR and their bargaining power in the value chain is usually weak.

Incap likely faces the most competition from similarly sized industrial solutions companies

Big companies are not very flexible and therefore struggle with low-volume and high-mix production. Hence, Incap likely faces the most competition from similarly sized companies. The biggest players are on the consumer electronics side, but Incap operates in industrial solutions, where size and high volumes are not as important.

PEER GROUP: NET SALES AND OPERATING PROFIT MARGIN COMPARISON



Source: Refinitiv and Nordea estimates

Six core strengths in the EMS sector

We identify several core strengths in the subcontracting business, but the companies operating in the sector usually have only one or two core strengths to differentiate them from competitors. According to our analysis, no company is the supreme leader in all core strength categories that we identify. Below, we look at each of these strengths in the context of Incap's business operations, after which we look at some of the closest peer companies in more detail.

1. Quality

Quality is one of the most important core strength metrics. All companies offering subcontracting manufacturing services claim to be leading quality providers. The differences in quality can be tracked by looking at end-product prices, internal processes and the company's cost structure. It should be noted that not all customers require the best quality for their products because of what it means for end-customer segmentation and the required price point.

Subcontractors usually put considerable effort into quality assurance

When making a longer product series or a totally new product, problems in quality can be very costly. Quality problems may not only cause delays and extra work, but also ruin a brand's intangible value. This is why subcontractors usually put considerable effort into quality assurance. Detailed process control plans, documentation, training, integrated failure detection and industry-recognised quality certifications are some of the ways to assure brand owners of production quality. Incap has long experience in optical and automated quality control and certificates and has no severe incidents on its record.

2. Price

Price is always strength. Some subcontractors make devices with a cheaper price than competitors. A lower price point does not always mean lower quality. A subcontractor can have a very suitable production unit with a cheap workforce, cheap energy and cheap transportation costs. Local raw material prices can also make a large difference to production costs.

We believe Incap can keep its quality promise but still offer products at a relatively cheap price

Many subcontractors have increased the level of automation to improve testing and reach a stable quality as well. We believe Incap is able to offer products at a relatively cheap price, without high automation, but still keep its quality promise. In some cases, a small EMS company can take contracts for a price that medium-sized international players are unable to match due to higher overhead costs at the group level. This also means that a smaller size and decentralised business model could give some elasticity and a competitive edge versus the global players.

3. Industry know-how

We view Incap's customer base as one of its core strengths

A subcontractor needs to prove its competence, which usually requires a deep knowledge of the respective industry. Incap is a relatively old company, with decades of experience, and its industrial knowledge in energy, medical, automotive and urban applications makes it appealing to customers. We even believe one of its core strengths is its customer base.

4. Post-manufacturing logistics
Global device manufacturers need to operate economically, which is why part of the production is sometimes outsourced to different countries and continents. Component manufacturing and assembly can then be conducted separately. There is also a need for warehouses located around the world to supply and distribute enough devices for all geographical areas at reliable speeds.

Incap is active in box-build products that are shipped directly to central warehouses

Several subcontractors offer post-manufacturing services for customers, but this usually requires a global footprint and a larger scale. Incap is still a small company and can only offer post-manufacturing logistics in limited areas. However, Incap is active also in box-build products that are shipped directly to end customers or to central warehouses.

5. Tailor-made devices and small product runs

Incap is very flexible in its production needs and can offer smaller product runs

The biggest subcontractors are not able to make smaller product runs economically. The flexibility to tailor product runs differs between subcontractors. We believe Incap is very flexible in its production needs and can make smaller product runs without sacrificing margins or utilisation ratios. Subcontracting is a volume business where economies of scale work well, which is why large global players have tried to achieve long product runs. However, piloting and small test runs are the way to gain new customers, which could bring notable growth for decades.

6. Time-to-market
The goal with time-to-market is to have a new product (or a better quality product) out on the market more quickly than anyone else. Being the first on the market can have many benefits, such as increasing a company's brand value and market share.

Incap is a fast decision-maker

In the electronics sector, brand owners usually want their products on the market quickly, and EMS companies able to deliver this speed will have a competitive edge. Faster time-to-market is a critical business objective for all manufacturers, and they are using speed as a competitive weapon. Incap can produce prototypes and test runs for start-up companies relatively fast. However, there are many EMS companies with a prototype offering in the sector.

Incap is however very competitive when it comes to delivering customer orders on time. Time-to-market is more important in the consumer electronics space, while Incap operates mainly in the industrial solutions sector, where on-time delivery of contemporary orders is more valuable.

Hon Hai (Foxconn)

The biggest iPhone factory in China is operated by Foxconn

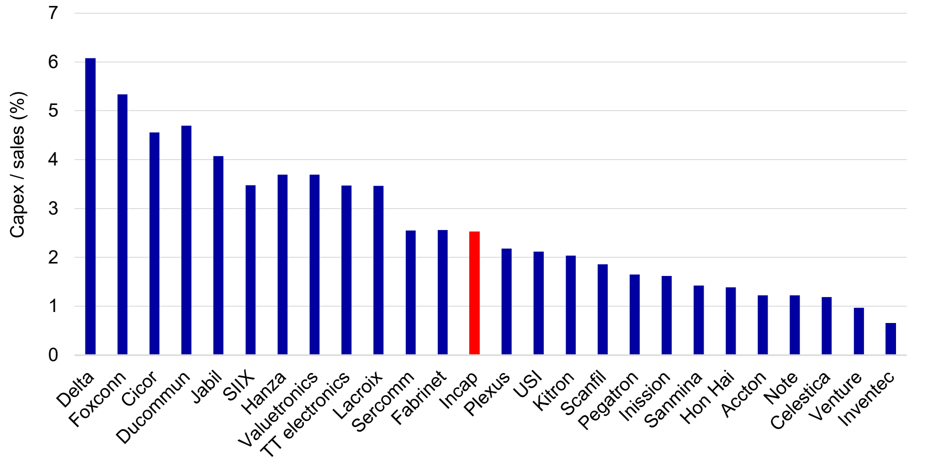
The strategy of the globally largest EMS company, Taiwanese Hon Hai, focuses on consumer electronics, especially smartphones and computers, but the company also operates in the automotive and healthcare sectors. Hon Hai, which uses the Foxconn brand outside Taiwan, has over 1.2 million workers globally. In 2021, Hon Hai's annual revenue reached USD 206bn.

Due to the company's large size, annual sales growth is estimated (Refinitiv) to be only 2-5% in 2023-24. Consumer electronics does not offer high profitability, and the company's EBIT margin is estimated (Refinitiv) at only 3% for 2023-24. We believe one reason for Hon Hai's low profitability is its customer base, which includes Apple, Cisco, HP, Microsoft, Huawei and Sony. These global majors might be tough counterparties in negotiations, as was Nokia for its subcontractors in early 2000.

Foxconn is expanding operations in India

Apple is said to be in discussions with the Indian government. Foxconn is also expected (Forbes) to build a new factory encompassing 100,000 workers in India. Unrest, demonstrations and tightening geopolitical worries in China could be reasons why Apple is starting to manufacture more iPhones in India. Whatever the reason, Foxconn had among the largest average investments as a share of sales for 2018-22. Incap ranks about in the middle of the peer group in terms of average capex per sales.

PEER GROUP: AVERAGE ANNUAL CAPEX AS A SHARE OF SALES, 2018-22



Source: Refinitiv and Nordea

Flex

Flextronics was founded in 1969. The company achieved remarkable growth in 2007 when it bought the competitor Solectron for USD 3.6bn and became an EMS leader in the US. Today, Flex has 200,000 employees and it operates at more than 100 sites in 30 countries. The company has a long-term target of high single-digit revenue growth. The clean operating margin target is set at over 5%.

Flex listed its solar power segment in February 2023

Interestingly, Flex has Nextracker segment (originally acquired in 2015) focusing on solar power solutions. The company's products enable solar panels to follow the sun's movement across the sky and optimise plant performance. Nextracker was separately listed on Nasdaq in February 2023 with a USD 638m valuation. Market consensus (Refinitiv) for Nextracker's revenue growth for the 12-month period from April 2023 to March 2024 is 20%.

Jabil

Jabil has over 250,000 employees across 100 locations in 30 countries. The ordinary EMS business stood for 47% of total revenue. The bigger part of revenues (53%) is related to diversified manufacturing services.

The largest revenue source for Jabil is 5G, cloud and wireless solutions. The second-largest sectors are healthcare and packaging, but the company is also active in the automotive and industrial sectors. Jabil's operating profit margin was around 3-4% in 2010-22, as is the case for many other global EMS majors.

SIIX

The largest EMS company in Japan is SIIX, founded in 1957. The company started as a component trader, but today, over 80% of revenue comes from printed circuit board mounting.

SIIX produces components for the automotive sector in Slovakia

Automotive is the biggest customer segment for SIIX, accounting for 56% of its EMS revenues. The company also has a factory in Kmetova, Slovakia. The automotive offering includes car multimedia, front panels, switches, radars and cameras. Industrial Equipment represented 18% of sales and includes products such as air conditioners, sewing machines and power tools.

Sanmina

Sanmina is one of the global majors offering integrated manufacturing solutions, components, products and repair, logistics and aftermarket services. The company was founded in 1989, and in its early years, it focused on the growing telecom sector, with customers such as Alcatel, Cisco, Dell, Ericsson, HP, IBM, Nokia, Nortel and Siemens.

Today, Sanmina operates in the medical, energy, communication and defence sectors, as well as in the automotive industry. The company is present in 24 countries and has 34,000 workers. Ten years ago, Sanmina had as many as 45,000 workers, but growth in the telecom and computer markets has not been particularly high over the past decade. The Communications, Networks & Cloud and Infrastructure segments now made up 43% of revenue, while the Industrial, Medical, Defence and Automotive segments jointly contributed 57% of net sales.

Sanmina has factories in Finland and Sweden

Sanmina has a factory in Haukipudas, Finland, and another in Örnsköldsvik, Sweden. The Finnish unit operates mainly in telecommunications, multimedia and storage, with products such as routers, set-top boxes and servers. In Sweden, the offering focuses on medical, industrial and multimedia products.

Zollner

German Zollner is a 55-year-old private EMS company and one of the biggest in Europe. The company says that it is fast, flexible and reliable, as is the case for all EMS companies.

Zollner can produce rather large devices

The main customer segments are automotive, railway and data technology, but the company also operates in the healthcare, industrials and aerospace sectors. Zollner can produce rather big devices combining mechanics and electronics, which differentiates it slightly from competitors.

The company has several factories in Germany and low-cost production sites in North Africa, Costa Rica and China. Overall, its international network consists of 24 locations across the globe.

Lacroix

The company is one of the leading operators in France, with 4,000 employees in ten countries, with the main sites in Poland, France and Tunisia. The factories in Poland and Tunisia are used as low-cost platforms for French customers.

Lacroix produces smart road infrastructure devices

Lacroix produces smart road infrastructure devices such as signage and traffic management as well as LED and street lighting. One segment focuses on environmental solutions such as managing water systems. Customers include Bosch, Veolia, Safran, Engie and Somfy.

Lacroix acquired a majority stake in the US company Firstronic in 2021 and is looking for more acquisitions, much like Incap and Scanfil. The company's revenue target is EUR 800m in 2025. The EBITDA margin target is set at 9% by 2025.

TT Electronics

TT Electronics has a total of 26 manufacturing facilities in the UK, North America, Sweden and Asia

The company has a total of 26 manufacturing facilities in the UK, North America, Sweden and Asia. TT Electronics has three segments: Global Manufacturing, Power&Connectivity, and Sensors. The Global Manufacturing segment offers PCB assembly mainly to healthcare and automation customers. Sensors & Specialist Components comprised only 25% of revenue, but it is the biggest contributor to annual operating profit.

The biggest customer segments are automation and electrification, accounting for 39% of net sales. Healthcare represents about 26% of revenue and aerospace 15%. North America accounts for as much as 38% of net sales, while the UK comprises 22%.

TT Electronics' customer segments are expected to grow 3-7% in the medium term, but the group CAGR target level is relatively modest at 3-5%. TT Electronics also has a 10% operating margin target.

Scanfil

Scanfil has 3,500 employees

Scanfil is an international electronic component contract manufacturer for industrial customers. Scanfil's plants offer printed circuit board assembly, electronics and wire harnesses, as well as final and tested modules and products. The company divested some of its sheet metal mechanics operations in 2015 due to low profitability.

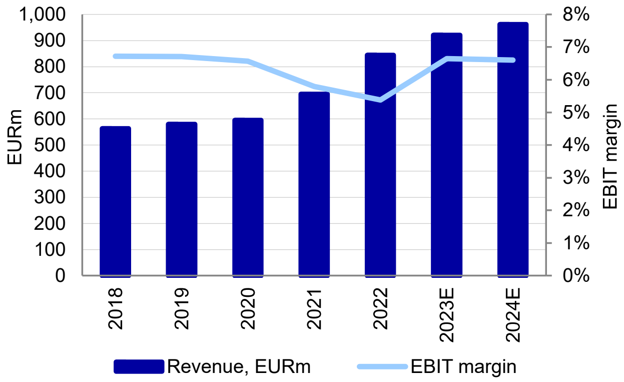
Scanfil was founded by Jorma Takanen back in 1976. In 2002, the company went public and merged with Wecan. Through this merger, Scanfil expanded its operations to China and Estonia. One of the biggest events in the company's history was in 2015 when it acquired the Swedish company PartnerTech, which more than doubled its revenue, number of employees, production facilities and customer base.

Scanfil currently has 3,500 employees and accumulates 18% of its revenue from the medical segment (Thermo Fisher Scientific), 26% from energy and cleantec (Danfoss, and ABB) and 31% from advanced consumer applications (Kone).

Scanfil reported a very good Q1, and the outlook has improved for the remainder of this year. The company's weakness in Advanced Consumer Applications in Q1 could be related to Chinese construction markets. On the other hand, Energy & Cleantech segment revenue was 11% above our expectation. The good start to the year at the group level is due to improved component availability and an easing-off in delivery volumes of products to customers. Capacity utilisation ratios were at a good level in Q1 2023. Falling pass-through sales have also improved relative profitability.

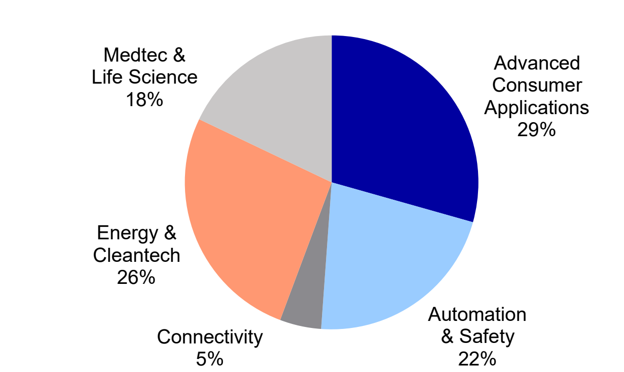
Due to strong demand, Scanfil is adding a new PCBA line to its factory in Atlanta, US in 2023. Our analysis finds that Scanfil should be able to reach good volume growth this year.

SCANFIL: NET SALES (EURm) AND EBIT MARGIN (%)



Source: Company data and Nordea estimates

SCANFIL: CUSTOMER SEGMENTS (SHARE OF NET SALES)



Source: Company data and Nordea

Scanfil has a 5-7% long-term average organic sales growth target

Scanfil has a 5-7% long-term average organic sales growth target. The operating margin target is set at 7%. We note that several small Nordic EMS companies have higher growth and EBIT margin targets.

Kitron

The Norwegian company Kitron has 2,800 employees and 100,000 m^2 of floor space, and has been especially active in the defence sector. Kitron makes components for weapon control systems and military communication devices. Its other sectors include connectivity, marine and offshore, energy and medical. In the telecom sector, Kitron makes radio frequency systems.

The most recent investments have been made in the automotive sector, with special focus on autonomous driving. So we believe the company's technical competence is relatively high. The company's customers include Kongsberg, Saab, Volvo, Atlas Copco, ABB and Raytheon.

We believe Scanfil and Kitron evaluated the possibility to merge some years ago

Kitron has an 8% long-term (2027) EBIT margin target and a 10% organic sales growth target. Indeed, the company has grown strongly, and it currently has operations in Norway, Sweden, Denmark, Lithuania, Germany, Poland, the Czech Republic, India, China and the US. Kitron has calculated that its total shareholder return has been over 1,500% since 2014. We believe Scanfil and Kitron evaluated the possibility to merge some years ago, but the project was not successful at the time. We believe the disagreement was most likely related to the valuation of the operations.

KITRON MAKES ELECTRONICS FOR AUTOMATED MILITARY DEVICES

Source: Company image

Note has 1,400 employees

Note

Note's largest market is Sweden. The company has 1,400 employees and provides manufacturing, box-build, logistics and aftersales services like many of its main competitors. Note is focused on customers in the industrial, medtech, communication, and greentech markets. Note has manufacturing units in Sweden, Finland, the UK, Estonia and China.

Note posted 20% organic growth in 2022, while its operating profit margin was 9.3%. Higher component prices contributed some 5% of organic growth. The company's annual sales growth target is 11% in the medium term including acquisitions. Note expects its operating profit margin to be over 10% by 2025. The minimum equity/assets target is 30%.

Hanza has 1,900 employees

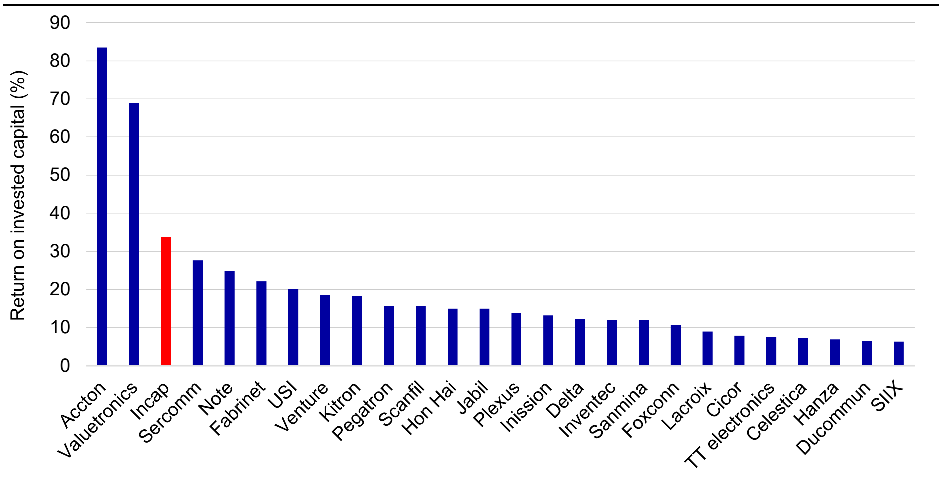
Hanza

Hanza is a Nordic EMS company founded in 2008. The company has 1,900 employees and six manufacturing sites: Sweden, Finland, Germany, the Baltics, Central Europe and China. On top of PCB assembly, Hanza makes final assembly, product development, cable harnesses and sheet and heavy mechanics. Its customers include 3M, ABB, Epiroc, GE, Getinge, John Deere, SAAB, Sandvik, Siemens and Tomra.

The company has an EBIT margin target of over 8% by 2025, but it recorded an average margin below 4% in 2016-22. Hanza also had relatively low average return on invested capital in 2018-22, while ROI for its Nordic peer Note was almost as high as Incap's for this period.

Hanza had relatively low average return on invested capital in 2018-22

PEER GROUP: AVERAGE ANNUAL ROI (%) 2018-22



Source: Refinitiv and Nordea

Inission

Inission is a Swedish supplier of tailored manufacturing services and products in the field of advanced industrial electronics and mechanics. The company has approximately 900 employees and is listed on Nasdaq First North Growth Market. Its floor space in Europe is 25,000 m^2.

The company's services cover the entire product lifecycle, from development and design to industrialisation, volume production and aftermarket services. Inission has operations in Sweden, Norway, Finland, Estonia, Italy, the US and Tunisia. The medtech sector represented some 15% of revenues and the industrial sector 28%.

Incap and Inission planned a merger in 2013

Inission operates in a similar decentralised manner as Incap, with financial and operational targets set for each subsidiary. Incap and Inission even planned a merger in 2013, but the transaction was cancelled. Recently, Inission acquired the Finnish company Enedo, and is working to turn around its loss-making operations.

Inission has a group-level annual long-term revenue growth target of over 15%, of which 10% organic and 5% through acquisitions. Its EBITDA margin target is set at over 9% in the long term.

Orbit One

Orbit One has 650 employees

The company has 650 employees and three factories in two countries (Sweden and Poland). The Russian production unit was closed in 2022. The Swedish units are located in Ronneby and Stockholm. In total, it has eight SMT lines and 24,000 m^2 of floor space in Europe. Orbit One offers contract manufacturing of electronics and electromechanics. The company produces tailor-made devices from design, prototype, procurement, manufacture and testing, to logistics and aftermarket services.

Orbit One is not a public company; it is owned by members of the management team and the board of directors. Despite its relatively small size, the company provides comprehensive annual sustainability reports.

Detailed estimates

We make our revenue forecasts primarily by looking at revenue growth among existing customers, investments, the number of new customers, customers' outsourcing ratios and overall growth expectations for the economy and the EMS market. Our main focus is on the current customer base, which practically defines Incap's revenue growth prospects regardless of EMS industry growth. Incap's profit and loss statement is straightforward: the main cost items are raw materials (74%) and personnel (9%). The company buys raw materials and components only for an actual customer order, which means that inventory or any potential time lag do not pose a threat to profitability, in our view. Due to destocking of the major customer's inventory, our operating profit margin forecast is close to 13% for Q2-Q4 2023 compared to 15.5% in Q1 2023. Our base-case estimates do not include possible acquisitions.

We forecast a 12% y/y drop in revenue for 2023

Incap showed very strong revenue growth in 2020-22, but postponed orders from its main customer will cause revenue to decline this year. Incap was able to get the needed components and deliver products to its main customer in 2021-22. Moreover, its main customer was able to increase its own market share in the solar power sector, which increased orders for Incap in 2022. But the greater availability of components has also led to increased competition, causing Incap's biggest customer to adjust its inventory levels and not order the same amount of devices in 2023 than last year.

Our sales growth forecast for this year is close to market consensus (Refinitiv), but all estimates for full-year 2023 are associated with uncertainty due to weak visibility. Furthermore, a new factory in India could potentially employ as many as 800 workers. We calculate that a potential increase of 400 employees could bring EUR 40m (17%) in new revenue after the inventory adjustment phase is over.

6-7% of revenue growth last year was related to high component prices

We believe Incap would not have scheduled a new factory without any indication of new orders from its customers over the medium term. Overall, technical innovations (communication, digitalisation, renewable energy) create new demand for subcontractors, which is why we are not worried about the underlying market growth in the long term. The automotive sector could reach over 10% average annual growth in 2021-26 due to increased electrification and automation. Incap does not provide a sales breakdown by customer segment.

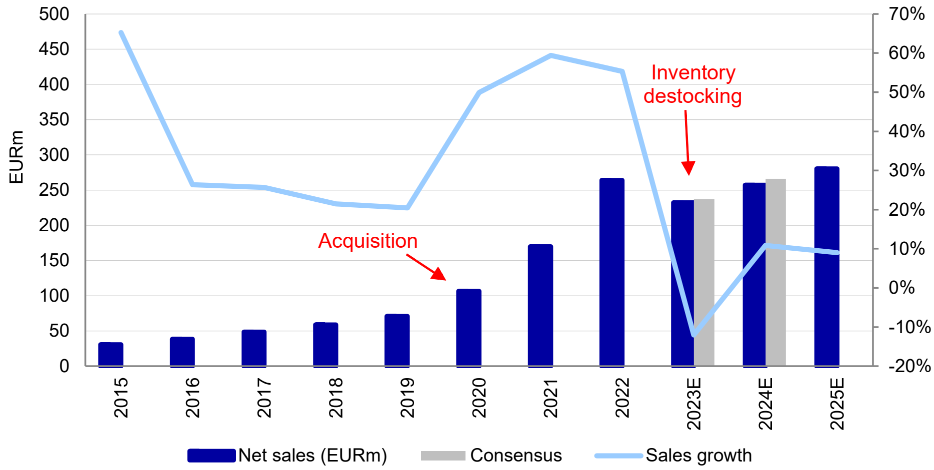
The war in Ukraine has led to increased demand for standalone power supplies

The war in Ukraine has led to increased demand for standalone power supplies and LED solutions over the past year. It should be noted that Incap has strong exposure to standalone off-grid backup power supply markets. Moreover, we also expect the defence sector and other power technology solutions to show strong global growth in 2023-26.

High energy prices in Europe have increased demand for solar power panels. Incap produces components for monitoring and controlling solar power systems as well as controllers for connected batteries. Solar panel installations in Germany in 2022-23 alone could be as high as seen in 2000-20 combined.

An important revenue driver for all companies in the EMS sector in 2022 was component prices. Market growth for equipment manufacturers in western Europe was 19% y/y last year (source: in4ma), a third of which was price related and two-thirds was volume-related growth. Our forecast is that delivery volumes in the EMS sector will not come down as much in 2023 as they grew in 2022, even if we see an economic downturn this year. However, component price-related growth could be flat in 2023 or even negative.

NET SALES (EURm) AND SALES GROWTH (%)



Source: Company data and Nordea estimates

Full-year guidance means a decline of 0-20% in net sales

Incap estimates that its revenue for 2023 will be lower than in 2022 and the company guides for a decline of 0-20% in net sales. The decrease in revenue is related to Incap's largest customer, which has decided to reduce inventory levels and thus postpone some orders from 2023 until 2024. Incap expects growing revenue from most of its other customers, but the growth is not enough to compensate for the decreased sales to its largest customer. Our revenue forecast for 2023 is EUR 232m.

We forecast that a possible acquisition in H2 2023 could increase annual revenue by over 20%. Regardless of the high likelihood of M&A activity, we do not include any acquisitions in our base-case estimates.

If we exclude the tougher years of 2014 and 2021, annual revenue per worker has been EUR 85,000 on average. Incap is not a consulting company, and its business model requires workers on the factory floor. Hence, the current EUR 100,000 invoicing per worker is a good achievement, but a lot depends on the product portfolio. Product mix affects the average revenue per worker, but a basic printed circuit board (PCB) assembly is usually rather similar for all EMS companies.

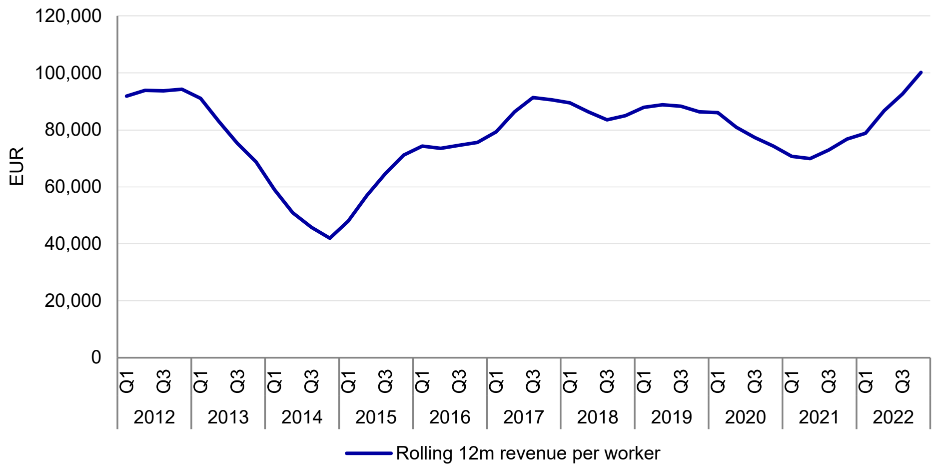
In practice, Incap can increase revenue growth with the help of new orders and by increasing the number of workers in line with these new orders. So, the business model is not scalable in its original form.

As component availability keeps improving, visibility will come down to more normal levels as customers do not need to place orders so far in advance. The company does not disclose information regarding new orders, order book or book-to-bill ratios. In any case, extra workers also need floor space, and so square metres are often used to evaluate growth prospects of EMS companies. The new factory in India will offer 8,500m^2 (26%) more floor area for Incap this year.

Declining orders will lead to similar adjustments in leased workforce

Floor area itself does not tell much about Incap's utilisation ratios, and so the number of workers could be an even better indicator of Incap's growth as the company can adjust the number of workers faster than adjusting the number of square metres. For workers that have been hired, we expect the utilisation ratio to be over 90%. One conclusion is that declining orders in 2023 could lead to similar adjustments also in leased workforce. Cost awareness is high, and hence we do not expect to see major problems related to profitability.

ROLLING 12-MONTH REVENUE PER WORKER (EUR)



Source: Company data and Nordea estimates

Raw material costs represent 74% of revenue

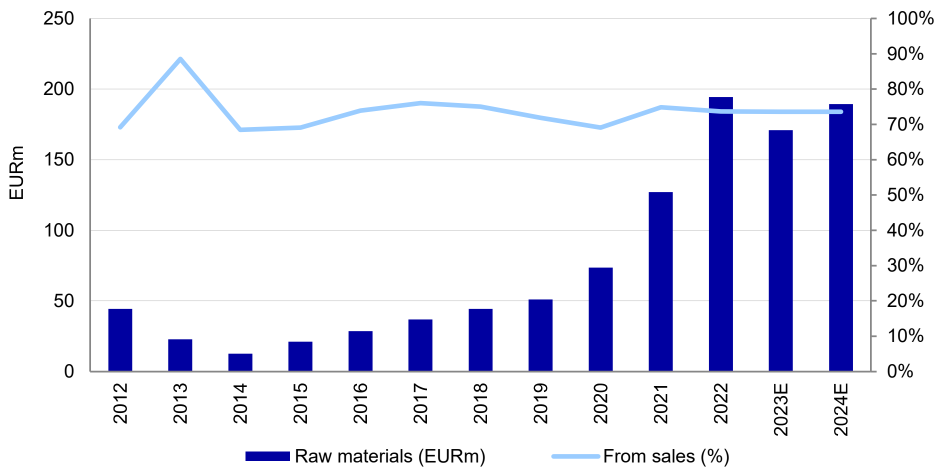
Subcomponents and other raw material costs make up the lion's share of revenue for all EMS companies. The main raw materials for printed circuit boards are woven fibreglass, phenolic paper, aluminium, copper, microchips, sensors, wires, connectors and other electronic components.

The main customer (ODM) does not always buy raw materials, even though it could have the necessary R&D-based knowledge, bigger size and purchasing power. In some cases, Incap buys the required components for a manufacturing process.

Incap buys raw materials only when there is a firm order from a customer to use the required components

Incap buys raw materials only when there is a firm order from a customer to use the required components. This also means that there should be no risk of inventory leftovers or non-current inventory value changes. The price per tonne of raw materials varies considerably, and we argue that a per-tonne measure is irrelevant for microchips and connectors.

RAW MATERIAL AND CONSUMABLE EXPENSES (EURm)



Source: Company data, Refinitiv and Nordea estimates

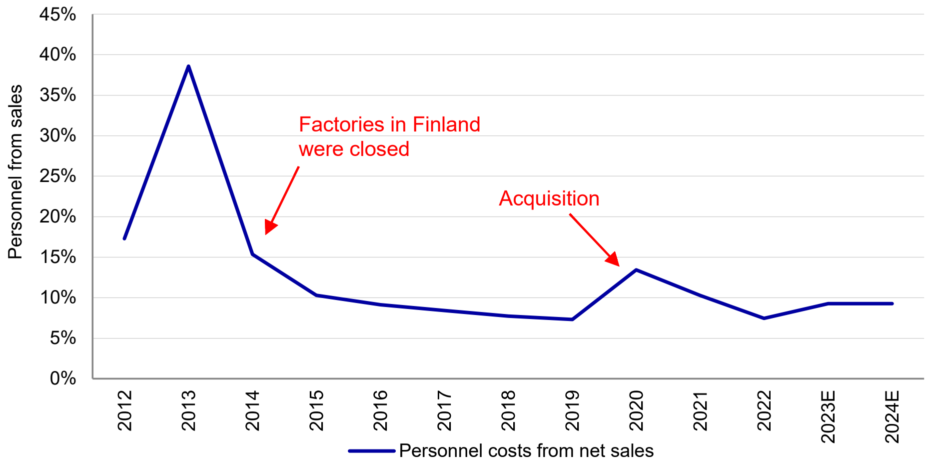
Personnel costs represent 9% of revenue

Incap is running its operations with lower personnel costs than many of its competitors

The company's core strength is low personnel costs. The average annual cost per worker is EUR ~8,000 at the group level but under EUR 6,000 in India. For example, personnel costs represent 16% of revenue for the Finnish EMS competitor Scanfil, but only 9% for Incap. Raw materials and components are priced globally, and hence personnel costs are one of the main differences between Scanfil and Incap.

Around 80% of all workers are located in India. The majority (64%) of Incap's workers are sourced from an external partner. This also means that the workforce can be easily adjusted up and down in the case of variations in end demand. Flexible personnel costs are again a key advantage for an EMS company.

PERSONNEL EXPENSES AS A SHARE OF NET SALES (%)



Source: Company data and Nordea estimates

Energy-related costs are small and not usually an issue for an EMS company

Energy costs represent ~1% of revenue

Electricity and heat are needed when assembling components for printed circuit boards. However, the need for power is not high or at the same level as required by other converters or industrial producers. Incap could use over 8 GWh of energy per year. The electricity price in India for industrial users is close to USD 100/MWh.

We conclude that large batteries are not in the product portfolio (that are fully charged onsite) because of the relatively low electricity usage. Overall, some 60 KWh of energy could be required for each 1 KWh battery capacity for cell production, but Incap only assembles subcomponents and it is not a material company. Furthermore, one giga (battery) factory could consume over 2,000 GWh of electricity per year by charging its batteries. Our analysis then is that Incap does not charge an extensive amount of batteries in its factories.

Energy sources other than electricity, such as gas, are relatively small. We do not believe Incap hedges its electricity purchases because the energy use per plant is relatively modest.

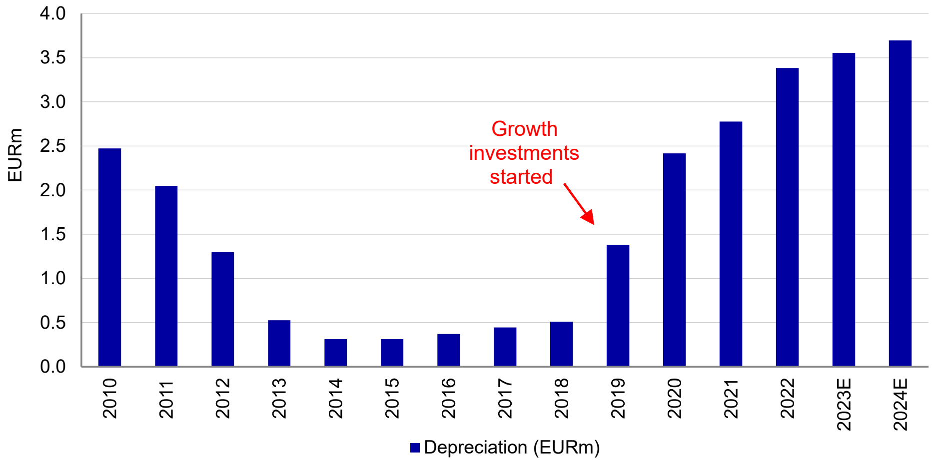
Depreciation is 2% of sales

For Incap, the death valley for profitability was relatively long (2008-13), which also became visible in declining investments and depreciation. Total depreciation amounted to EUR ~1.5m in 2019, but the AWS Electronics acquisition meant that depreciation increased to EUR 2.5m in 2020.

Growth investments have been the reason for the rising depreciation in 2021-22, in line with the company's strategy. We do not believe Incap has overinvested in its operations, which could remarkably increase depreciation with a delay.

Amortisation (PPA) was EUR 0.4m in 2022. Intangible assets are now at EUR 11m, which is 13% of total equity. Consequently, a possible writedown after an impairment test related to a severe economic recession would not put the equity or the ratios under pressure.

DEPRECIATION (EURm)



Source: Refinitiv, company data and Nordea estimates

Operating profit margin

The company has no long-term financial targets, which creates some uncertainty for medium-term estimates. Indeed, one risk is that the current good profitability is not sustainable. Any disturbance in the main customer accounts would immediately wipe out hopes of a continuous 15% EBIT margin, as is the case for Q2-Q4 2023, according to our estimates.

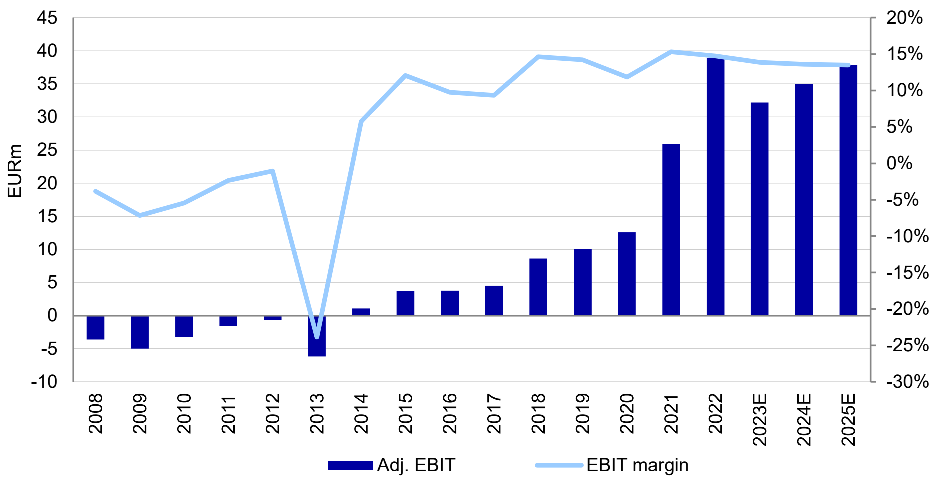
Operating profit guidance for 2023 indicates a lower figure than seen last year (EUR 39m). Our current EBIT forecast is EUR 32m for this year. Old products in the portfolio are usually more profitable than new ones, which is why changes in the portfolio could also affect profitability. Product mix can also create 1-2% variation in the EBIT margin, but we have not seen any clear annual seasonality in the operating profit margin.

A part of the weakening EBIT margin in 2022 y/y was related to high component prices, which did not carry the same value-added margin as ordinary sales. The negative margin effect could have been as much as 0.8 pp in 2022. However, we currently forecast a 0.8 pp y/y decline in the EBIT margin for 2023 due to declining net sales and destocking of the biggest customer's inventory.

We do not think Incap will lose its competitive strengths easily

The EMS sector's average EBIT margin has been 5-6%, which at least makes it hard to expect that Incap could continuously improve its profitability. However, the company's healthy profitability highlights Incap's low-cost production platform, tight cost discipline and the importance of its proactive management team. We do not think that the company will lose these competitive strengths easily.

OPERATING PROFIT (EURm) AND OPERATING PROFIT MARGIN (%)



Source: Company data and Nordea estimates

Annual rolling operating profit per worker has been EUR 9,800 on average since 2015 when the current CEO Otto Pukk joined the company. The current 12-month rolling EBIT run rate per worker is EUR 15,000 when excluding the COVID-19 effect in 2020-21.

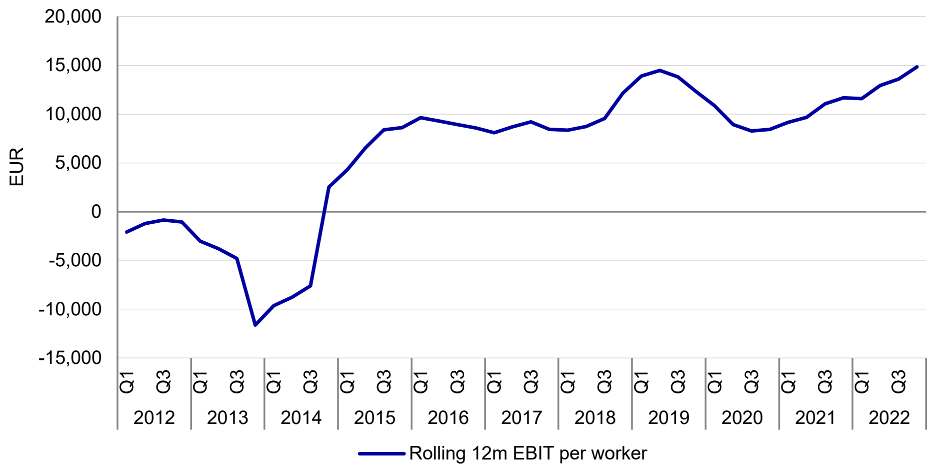
As said before, Incap needs more workers to achieve revenue growth and the business model is not scalable in its original meaning. Moreover, automation in India may not be an economically viable solution because the workforce is cheap and flexible. Automatic robot lines in an EMS factory could require an investment of several million euro. We believe Incap prefers cash flow and flexible costs at its Indian production site, and will hire more people there to meet increased demand instead of focusing on automation.

Assuming an average annual personnel cost in India of EUR 6,000 and average annual EBIT per worker at group level of EUR 15,000, an increase of 400 workers in the new factory could add EUR 6m to group level operating profit. The final effect also depends on several factors, such as product mix, utilisation ratios and FX.

It should also be noted that the investment in a new factory in India was EUR 4.2m, leading us to conclude that the payback time for an investment is very short. The conclusion is that it makes sense for Incap to build as many factories as possible. The main restricting issue is the expected growth of its customer deliveries.

The business model is not scalable in its original meaning

ROLLING 12-MONTH OPERATING PROFIT PER WORKER (EUR)



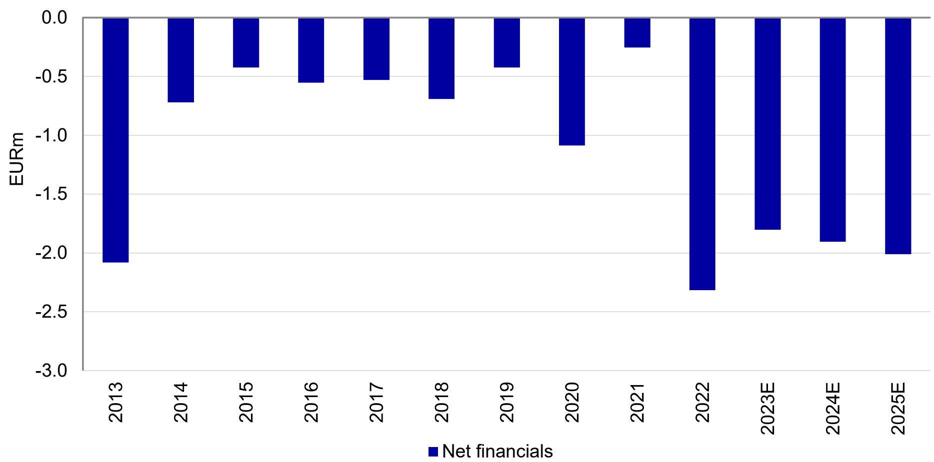
Source: Company data and Nordea

Rising interest rates are not a major issue for the company

Financial expenses

The acquisition of AWS Electronics took interest expenses slightly higher in 2020. Net financial expenses have typically been about EUR 0.55m a year, while last year Incap reported net financials of EUR -2.3m, of which EUR -0.7m was interest expenses related to bank loans. We forecast net financials of about EUR -1.9m going forward (2023E-24E), mainly due to other financial expenses than bank loans. Rising interest rates are not a major issue for the company. A possible acquisition and extra debt of EUR 80m is not yet included in our interest expense forecast.

NET FINANCIALS (EURm)



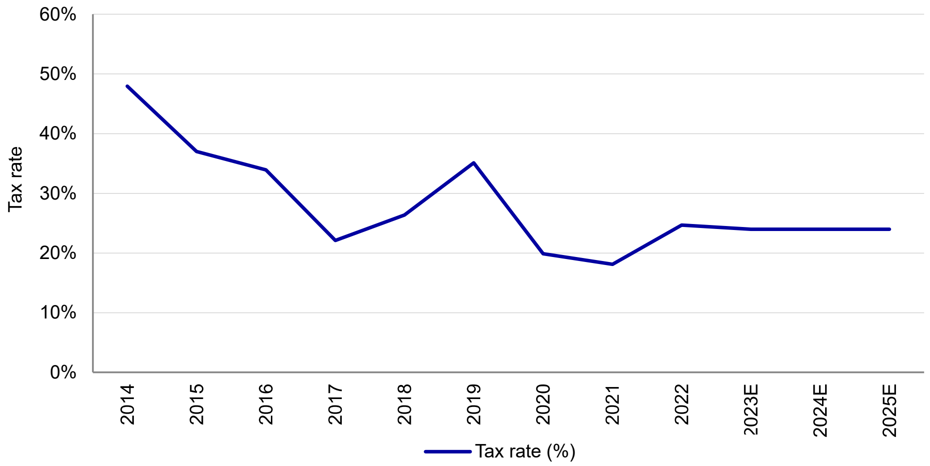
Source: Company data and Nordea estimates

Tax rate could be 24% in the near future

Incap's taxes are calculated on taxable income on the basis of the tax rate in force in each country. The basic corporate income tax rate applicable to a foreign company in India is 25%, but an effective tax rate could be different. The corporate tax rate in Estonia is generally a flat 20%. However, corporate income tax is not levied when profit is earned, but rather when it is distributed.

The average tax rate over the past eight years has been relatively high at 27%. In 2021, the average tax rate was lower than the historical average, which could be due to India's COVID-related exemptions. We forecast a tax rate of ~24% going forward. The company does not have any significant old losses to be used for deductions.

GROUP TAX RATE (%)



Source: Refinitiv, company data and Nordea estimates

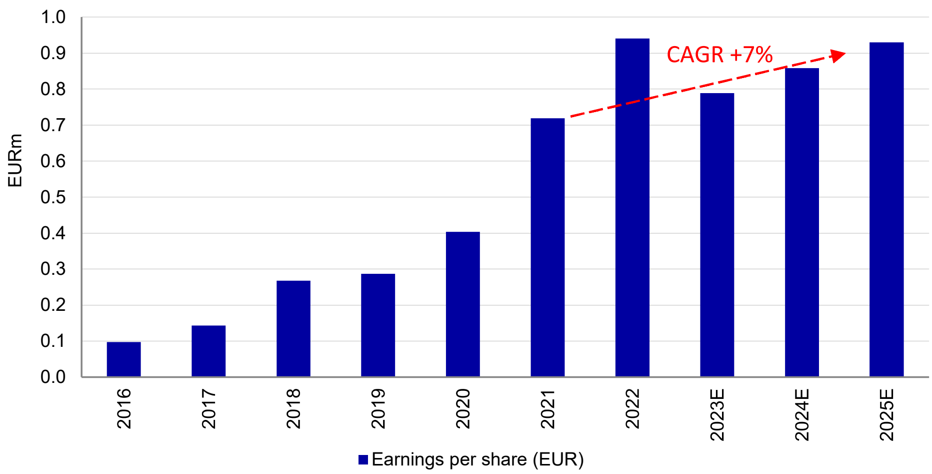
Our EPS forecast for this year is EUR 0.79

A 1:5 stock split was implemented in May 2022, resulting in a total of 29.2 million shares. The objective of the share issue without payment was to enhance the liquidity of the company's share.

We forecast a 7% EPS growth (CAGR) for the years 2021-25E in our base-case scenario without acquisitions. EPS growth will not surpass expected revenue growth because the relative tax rate is increasing and interest expenses cannot get much lower than currently. In an acquisition scenario, we calculate that the company could reach clean EPS of EUR 0.86 in 2024.

In a negative scenario, EPS could drop by a further EUR 0.18 if major customers reduce inventory more and renew their product portfolios at the same time. However, the exact downside is hard to evaluate. A drop to EUR 0.61 in annual EPS could take the P/E valuation up to 18-19x, which looks high for the EMS sector.

EARNINGS PER SHARE (EUR)



Source: Company data and Nordea estimates

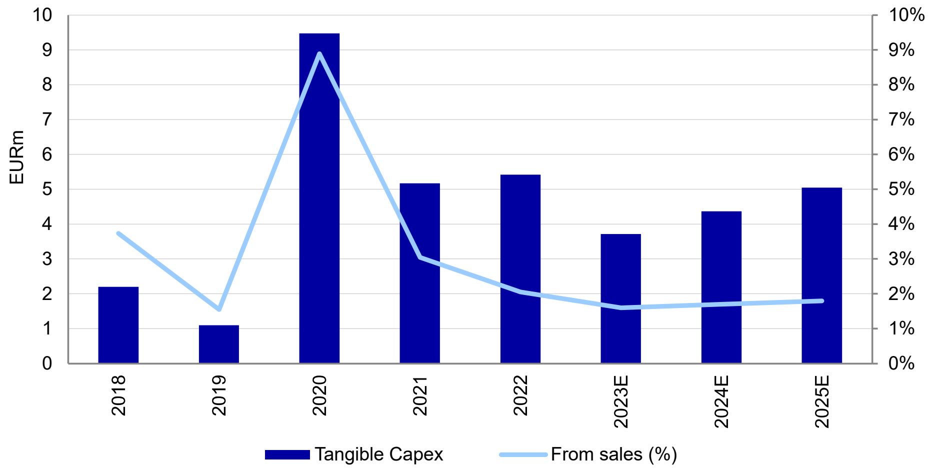
Investments account for close to 2% of revenue

The EMS sector is not very capital-intensive, so investments usually only account for 2% of revenue. The peak in Incap's investment took place in 2020 and related to the acquisition of AWS Electronics.

We expect investments to operations to total EUR 3.7m in 2023. The company has seen that revenue growth is required to support its market capitalisation, and revenue growth might not come without investments.

We expect EUR 3.7m in investments in 2023

ANNUAL INVESTMENTS (EURm)



Source: Company data and Nordea estimates

We forecast EUR 21m in annual free cash flow in 2024

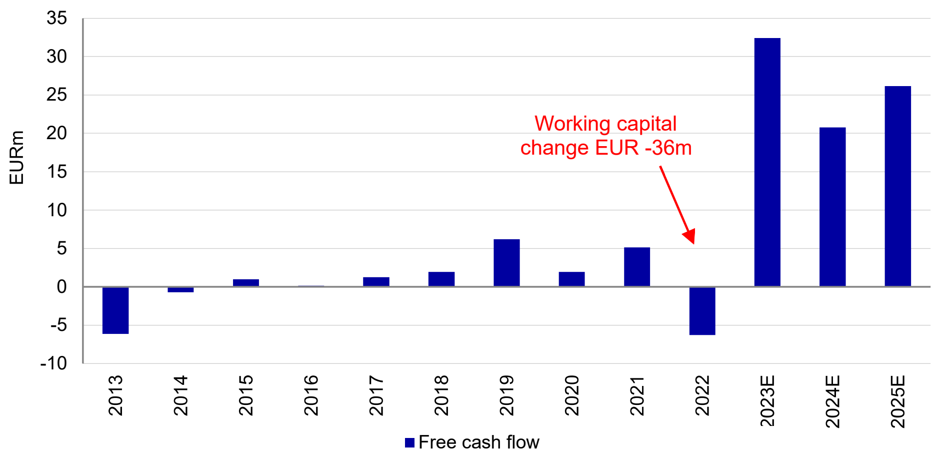
Annual cash flow from operations was positive but relatively low in 2015-21. An increase in working capital somewhat hampered the cash flow improvement in 2021-22. The average inventory level increased to 30% back in 2021 for small- and medium-sized EMS companies in Europe, compared to the ordinary inventory level of 15-20%. Incap's inventory was as high as 54% of total assets in 2022.

We expect to see EUR 31m in cash flow from business operations on average for 2023-24, from which ordinary investments would take EUR 4m, leaving EUR 27m in annual free cash flow in 2023E-24E (see chart below).

We do not expect to see dividend payments, due to growth investments. However, dividend payments could be EUR 13m in 2025 by paying out 50% from lease-liability-adjusted free cash flow in the base-case scenario, indicating a dividend yield of 4%. Our conclusion is that Incap will not become a dividend case and that its story is more related to revenue growth, cost leadership and proactive management.

An increase in working capital hampered cash flow improvement in 2022

FREE CASH FLOW, 2013-25E (EURm)



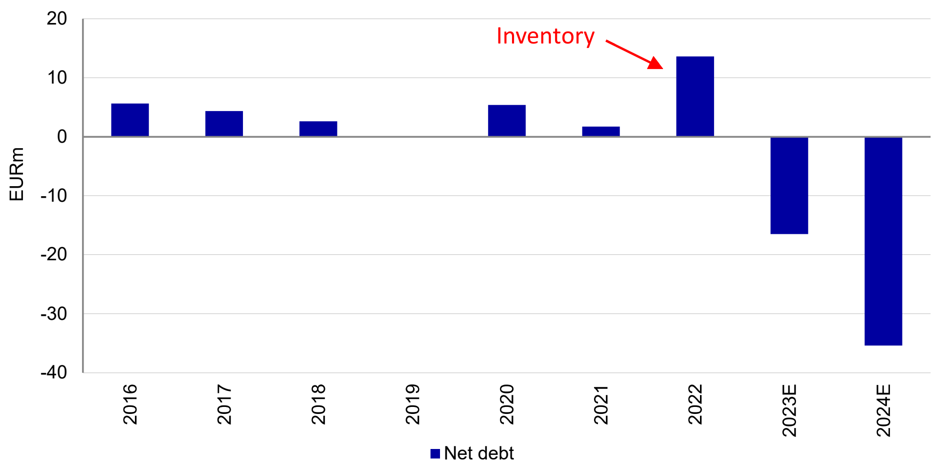
Source: Company data and Nordea estimates

Good capacity to handle debt

An acquisition in 2020 temporarily took net debt up to EUR 6m, which is still a relatively small number. Net debt was EUR 14m in December 2022, which was related to increased inventory value. Overall, free cash flow indicates that the company has good capacity to handle debt. We also conclude that Incap has enough resources for an acquisition.

A possible acquisition could increase debt by EUR 84m, causing net debt to increase to EUR 45m in 2023E and EUR 20m in 2024E. However, an acquisition is not our base-case estimate.

NET DEBT (EURm)

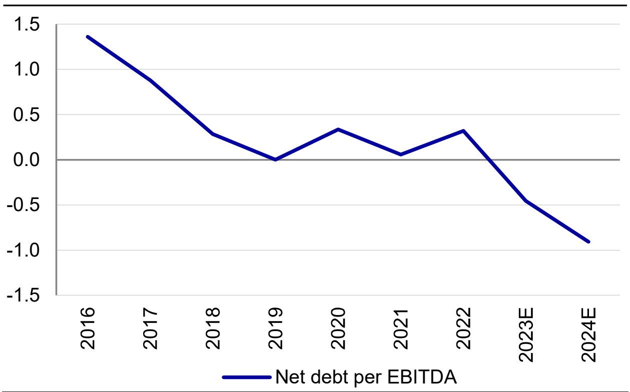


Source: Company data and Nordea estimates

Net debt/EBITDA and net gearing indicators both tell the same story – the balance sheet is strong and leverage is low. Inventories and receivables combined are over 75% of the balance sheet.

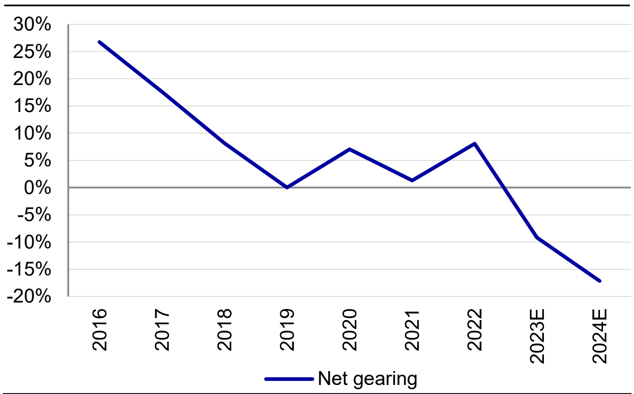
One conclusion is that it makes sense for Incap to increase its leverage for several reasons. Investments in core operations are yielding strongly and the company's valuation could even be burdened by a high net cash position in the future.

NET DEBT/EBITDA (x)



Source: Nordea estimates

NET GEARING (%)



Source: Nordea estimates

Valuation

The Incap share does not look expensive compared to its peer group when looking at P/E multiples for this year and next year. The situation is the same when adjusting valuation for yield on invested capital. We also expect Incap to continue to show above-market growth after 2023. We are not overly worried about profitability either given Incap's tight cost discipline and proven track record. What is most important is that Incap's customers are not all in a mature phase, and hence we expect Incap to easily outpace peers on revenue growth in the medium term. Furthermore, investments in new STM lines and new floor space will enable growth with its main customers from 2024 onwards. Due to inventory destocking, we forecast that Incap's revenue will decline by 12% y/y in 2023. Using our DCF- and peer group-based valuation approaches, we derive a valuation range for the Incap share of EUR 13.5-16.5.

Our revenue estimate for 2023 is 2% below market consensus

In its full-year outlook, Incap issued guidance for 2023 revenue to decline y/y. We estimate of a 12% decline in revenue for 2023 is slightly below market consensus, but Refinitiv consensus might not be fully updated yet. Growth potential in 2023 will in any case be restricted due to inventory destocking by the biggest customer.

We forecast 2023 operating profit of EUR 32m, which is more or less in line with Refinitiv consensus. Incap has had a relatively high EBIT margin for years and it will not be easy for the company to continuously improve the margin, in our view. Our operating profit margin forecast is 0.8 pp above the market consensus for 2023. The company is considering setting a medium-term financial target (e.g. EBIT margin target) but no figure has been made available yet.

NORDEA ESTIMATES VERSUS MARKET CONSENSUS

	Nordea estimates				Consensus estimates				Difference %			
	Q2 2023E	2023E	2024E	2025E	Q2 2023E	2023E	2024E	2025E	Q2 2023E	2023E	2024E	2025E
Sales (EURm)	59	232	257	280	57	237	266	293	3%	-2%	-3%	-4%
Adj. EBIT (EURm)	8	32	35	38	6	31	38	42	29%	4%	-8%	-10%
Adj. EBIT margin	13.2%	13.9%	13.6%	13.5%	10.5%	13.1%	14.3%	14.3%	2.7pp	0.8pp	-0.7pp	-0.8pp
Adj. EPS (EUR)	0.19	0.79	0.86	0.93	0.15	0.78	0.99	1.12	28%	1%	-13%	-17%

Source: Refinitiv and Nordea estimates

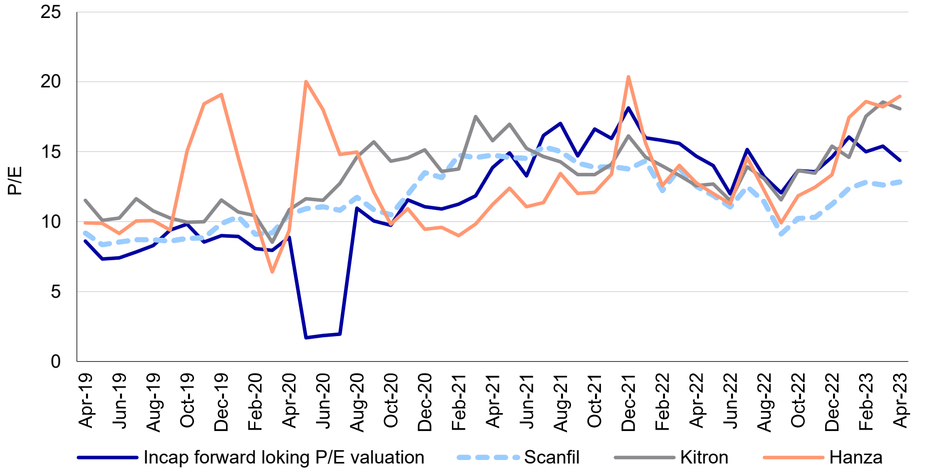
Sector median P/E of 14.2x for 2007-22

12-month forward P/E valuation for Incap, Scanfil, Kitron and Hanza (based on Refinitiv consensus estimates) ranged 10-15x in 2022, with the midpoint at 12.8x. Valuation multiples were slightly higher in 2021, with average 12-month forward P/E for the same group at 14x. A higher interest rate environment and the crisis in Ukraine were the main reasons for the declining valuation multiples in 2022.

We consider a P/E of 20x as an upper limit for Incap for rolling 12-month forward valuation

Valuation multiples in the sector have been on a rising trend again in 2023. The 12-month forward average P/E for Kitron and Hanza is currently 18.5x, which is above the long-term sector median. The main reason for this could be relatively good end demand. We consider a P/E of 20x as an upper limit for Incap for rolling 12-month forward valuation. Our conclusion is that EUR 17.2 per share is then an upper limit for the P/E-based fair value per share in the near term. The current share price is EUR ~11.

HISTORICAL 12-MONTH FORWARD P/E VALUATION (x)



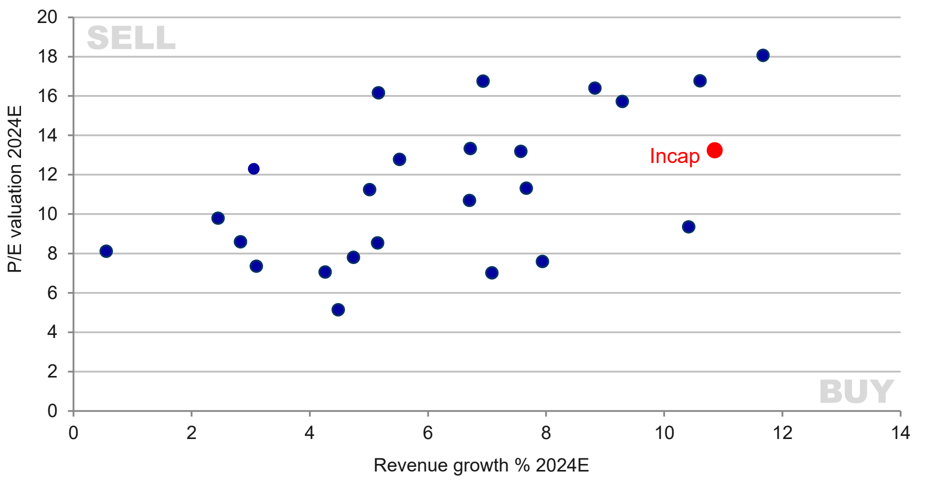
Source: Refinitiv

Subcontractors have always had relatively low valuation multiples, within a tight range. But for every sector and for all companies, P/E valuation can be relatively high as long as revenue growth stays elevated. Incap performed well in terms of revenue growth last year, but 2023 guidance has highlighted that visibility is weak and demand variations in the EMS sector can be unpredictable.

Incap is currently trading at a 2023E P/E of 14.4x, based on our estimates

The EMS sector's historical average P/E during 2007-22 was 14.5x. Incap has traded at an average P/E of 12.8x over the past seven years, but the multiple has varied between 9x and 20x. In our view, Incap should be able to keep pace with market growth on its annual revenue growth in 2024E-25E. For this reason, Incap's P/E could stay above the sector median. For 2023E, Incap is trading at a P/E of 14.4x, based on our estimates.

P/E AND SALES GROWTH REGRESSION ANALYSIS 2024E



Source: Refinitiv and Nordea estimates

EV/EBIT valuation

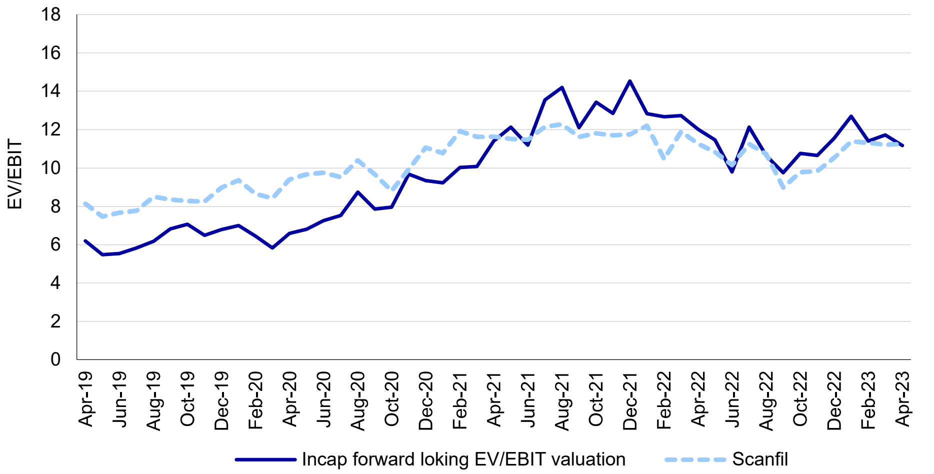
Valuation based on 12-month forward EV/EBIT saw a rerating from 6x in 2019 up to 14x in 2021. The Finnish peer company Scanfil has traded close to Incap's forward-looking EV/EBIT valuation, but with a smoother uptick from 8x in 2020 to 12x in 2021.

We believe EV/EBIT of 14x could be an upper limit for Incap in terms of valuation in the near term. We have used an EV/EBIT multiple of 14x for a fair valuation also for sustainability-branded Neste, which is growing by 20% (CAGR) in terms of renewable diesel sales volumes.

A share price of EUR 16 would imply EV/EBIT of 14x

A share price of EUR 16 would imply EV/EBIT of 14x based on our EBIT estimate of EUR 32m for 2023. Based on the current share price of EUR ~11, this would imply upside of 45%. One conclusion is that a lot depends on the company's organic growth.

HISTORICAL 12-MONTH FORWARD EV/EBIT VALUATION



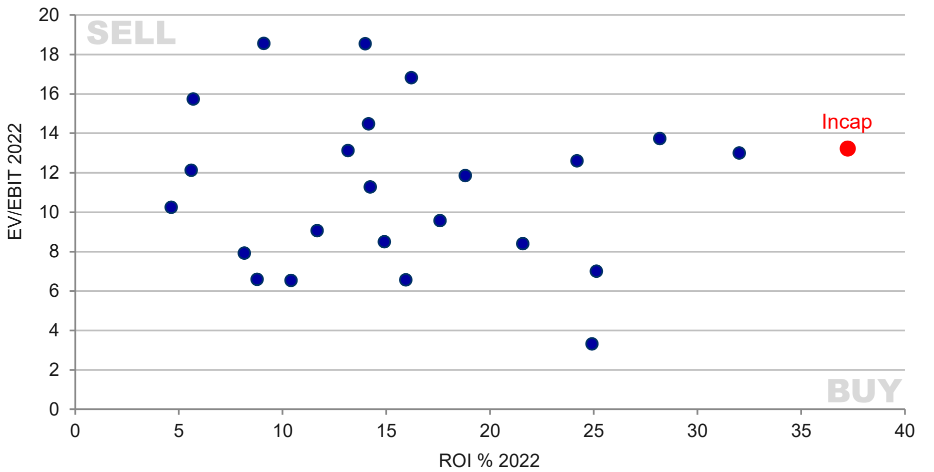
Source: Refinitiv

Incap had a 37% return on invested capital last year

Peer companies showed an average ROI of 19% in 2022, according to Refinitiv data. Incap had a 37% return on invested capital last year. The good yield on invested capital is partly thanks to Incap's asset-light business model. Incap has not overinvested in its facilities during past years. Capital employed is also low due to the small amount of gross debt.

Compared to yield on invested capital, Incap's EV/EBIT valuation does not look expensive, according to our analysis. However, growing investments could increase invested capital leading to a declining yield on invested capital in the future. Our forecast for ROI in 2023 is 34%.

PEER GROUP EV/EBIT (x) AND ROI REGRESSION ANALYSIS (%)



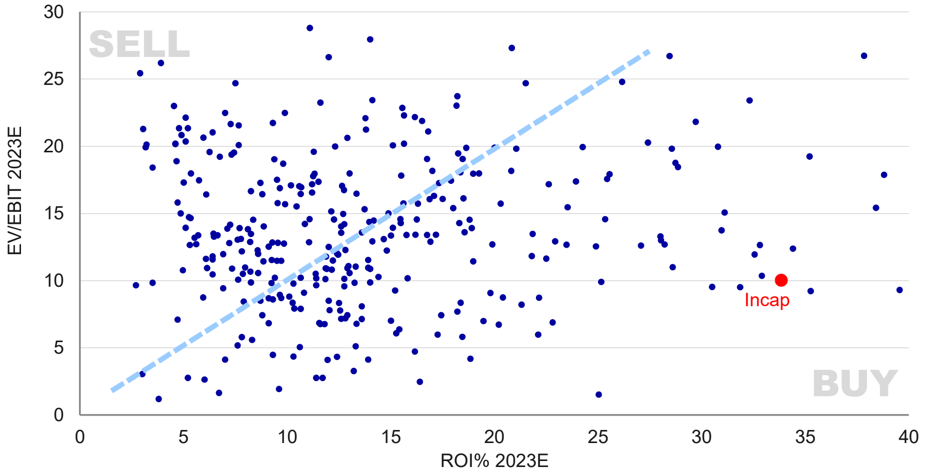
Source: Refinitiv and Nordea estimates

Comparison to EuroStoxx600 index

We also compare Incap's yield on invested capital to the EuroStoxx600 index to cross-check the company's valuation. When companies are able to post a decent return on invested capital, this is usually well rewarded in the equity markets regardless of the sector or industry.

In the chart below, we calculate the correlation between 2023E EV/EBIT and ROI among all EuroStoxx600 companies. By comparing Incap's EV/EBIT valuation range with its ROI, we can see that the company is quite inexpensive its current share price of EUR ~11.

EUROSTOXX600 REGRESSION ANALYSIS



Source: Refinitiv and Nordea estimates

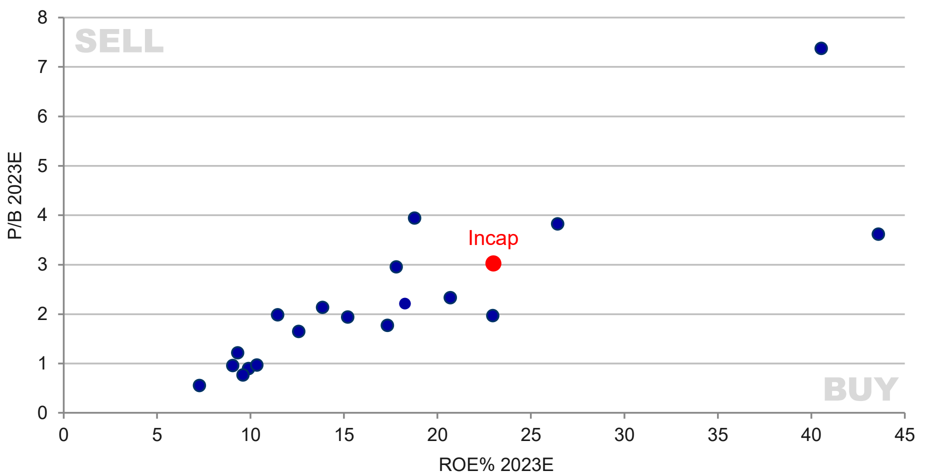
Sector median P/B of 2.1x for 2011-22

Using a P/B and ROE regression analysis including 25 peer companies, we can see that Incap is priced in line on 2023E multiples

Looking at a P/B and ROE regression analysis including 25 peer companies, we can see that Incap is priced in line on 2023E multiples. Overall, return on equity correlates well with P/B valuation in the sector, as shown in the graph below. Incap's P/B was meaningless in 2011-13 due to severe financial problems and a low amount of equity. Last year, Incap reached a 32% return on equity with a P/B of 5.7x. Our forecast for Incap's return on equity is 21% for this year, meaning the company should not trade below a P/book valuation of 3x. The main reason for a declining ROE in 2023 is a material increase in book value due to a high net results in 2022 and declining net profit in 2023E y/y.

PEER GROUP P/B AND ROE REGRESSION ANALYSIS

The correlation between P/B and return on equity is clear



Source: Refinitiv and Nordea estimates

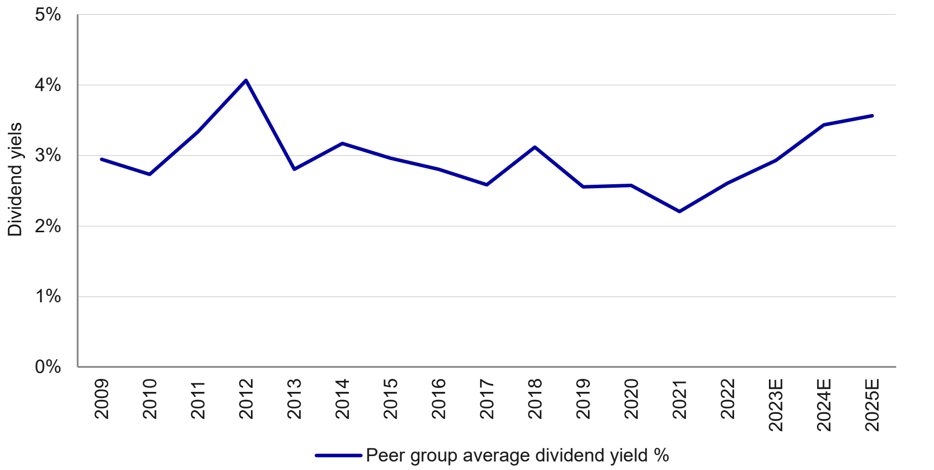
Incap is not a dividend yield case

We do not expect Incap to pay dividends in the near future

We do not expect Incap to pay dividends in the near future. The company has not paid dividends since 2001 either, due to weak financial performance and/or growth investments.

A possible maximum dividend could be 50% of annual free cash flow, which is only our assumption and the company has not guided on possible dividend payments. Neither does the company have a dividend policy, or even long-term financial targets. In a scenario where Incap pays 50% of its free cash flow in 2024, the dividend yield could be 3.3%. We conclude that dividend expectations will not drive share performance.

PEER GROUP AVERAGE DIVIDEND YIELD (%)



Source: Refinitiv and Nordea estimates

DCF valuation range is EUR 13.5-16.5

One of the most common ways to value the attractiveness of an investment opportunity is by using the discounted cash flow (DCF) method. A DCF model discounts all available cash flows for equity, bond and non-equity holders.

In other words, WACC represents a blended cost of capital for all invested capital in the company. In fundamental terms, a DCF framework is built on three parts: 1) discounting the company's free cash flow at WACC; 2) identifying the value of debt and other non-equity claims on the enterprise value; and 3) deducting all claims to determine the value of the common equity.

The fair value per share is then simply calculated by dividing the equity value by the number of outstanding shares. A DCF valuation is commonly considered among academics and practitioners to be the best way to capture the underlying fundamental drivers of a company, such as cost of capital, growth rates, reinvestment rates, etc. If applied correctly, it represents the best way to approximate the true intrinsic value of a company.

The main appeal of a DCF framework compared with other valuation methodologies is that it also focuses on streams of cash rather than accounting earnings. Its main disadvantage is its relative sensitivity to changes in input values. In terms of Incap, the problem is to set a credible growth ratio for coming years.

Annual cash flow from operations was EUR 35m last year. We expect to see EUR 28m in cash flow from business operations in 2023-24 as an average, from which investments would take EUR 4m, leaving some EUR 27m in average annual free cash flow in 2023-24.

Based on the assumption that Incap can deliver broadly in line with our forecasts, with variations in sales growth, EBIT margin and WACC assumptions, we arrive at a fair DCF-based equity value range of EUR 13.5-16.5 per share. In the terminal period, we model 2.5% growth. The assumptions behind our WACC are outlined in the table below.

WACC ASSUMPTIONS

WACC components	
Risk-free interest rate	3.0%
Market risk premium	4.0%
Forward looking asset beta	nm
Beta debt	0.10
Forward looking equity beta	1.60
Cost of equity	9.40%
Cost of debt	4.0%
Tax-rate used in WACC	24.0%
Equity weight	70.0%
WACC	**7.49%**

Source: Nordea estimates

DCF VALUATION

DCF value	Value	Per share
NPV FCFF	442	15.1
(Net debt)	-14	-0.5
Market value of associates	0	0.0
(Market value of minorities)	0	0.0
Surplus values	0	0.0
(Market value preference shares)	0	0.0
Share based adjustments	0	0.0
Other adjustments	0	0.0
Time value	12	0.4
DCF value midpoint	**441**	**15.0**

Source: Nordea estimates

To highlight the sensitivity of the DCF valuation, we also provide sensitivity matrices modelling variations in revenue growth, margin assumptions and cost of capital. The sensitivities in our WACC are outlined in the following tables.

FAIR VALUE SENSITIVITY TO WACC AND EBIT MARGIN

		WACC				
		5.5%	**6.5%**	**7.5%**	**8.5%**	**9.5%**
	+2.0pp	25.9	21.1	17.8	15.4	13.5
EBIT marg change	**+1.0pp**	23.2	19.2	16.4	14.3	12.7
		20.5	17.4	**15.0**	13.3	11.8
	-1.0pp	17.8	15.5	13.7	12.2	11.0
	-2.0pp	15.1	13.6	12.3	11.1	10.1

Source: Nordea estimates

FAIR VALUE SENSITIVITY TO WACC AND SALES GROWTH

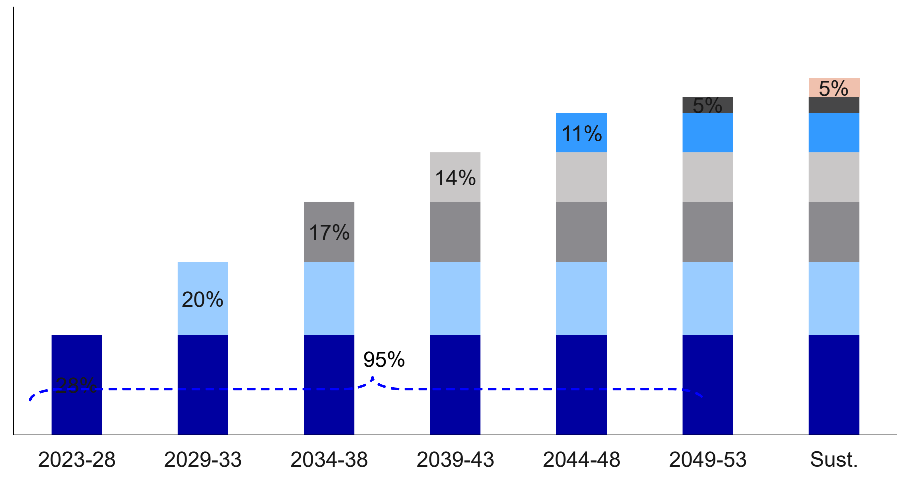
		WACC				
		5.5%	**6.5%**	**7.5%**	**8.5%**	**9.5%**
	+2.0pp	23.8	19.6	16.8	14.6	12.8
Sales gr. change	**+1.0pp**	22.0	18.4	15.9	13.9	12.3
		20.5	17.4	**15.0**	13.3	11.8
	-1.0pp	19.2	16.4	14.3	12.7	11.4
	-2.0pp	18.1	15.6	13.7	12.2	11.0

Source: Nordea estimates

Growth will need to hold up to justify a fair value over EUR 15 per share

We use a stringent valuation framework setting ROIC under WACC in the terminal period, which prevents the model from extrapolating above-market returns in perpetuity. Clearly less than half of the value is distributed in the coming ten years, and 95% within our 30-year estimate cycle, according to our calculations. The conclusion from our DCF analysis is that future growth needs to hold up over EMS market growth to justify over EUR 15 fair value per share.

INCAP: DCF VALUE DISTRIBUTION TIMELINE



Source: Nordea estimates

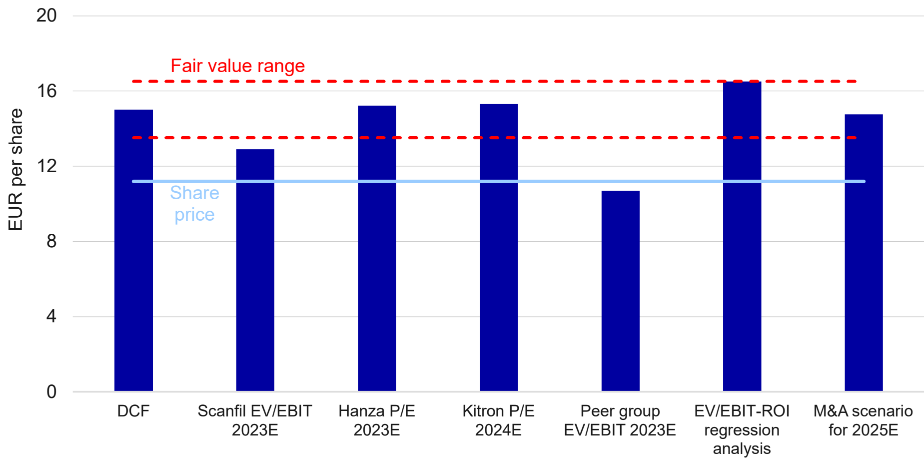
Valuation summary

The fair value of the share price could be EUR 16 if Incap were priced in line with its main peers based on yield on invested capital. However, very high ROI and massive sales growth may not be sustainable in the long term, and this should be taken into account also in the fair value calculation.

By looking at EV/EBIT valuation multiples based on 2023E alone, the current share price looks to be close to Incap's peer group average. However, Incap looks inexpensive when comparing to peer Kitron's P/E multiple for 2024E. As said before, the main issue in the valuation is again revenue growth expectations.

We believe that the company's revenue growth could be above market consensus in 2024-25 due to organic growth and also possible acquisitions. However, the inventory destocking at the company's main customer highlights that visibility is weak and that changes can be unpredictable in the EMS sector. Therefore, we set our base-case valuation range midpoint mainly based on our DCF model, which indicates a fair value range of EUR 13.5-16.5 per share.

VALUATION SUMMARY (EUR PER SHARE)



Source: Nordea estimates

The explanation for an acquisition scenario-based valuation approach is explained in more detail in the next section of this report.

SHARE PRICE SENSITIVITY TO 2023E REVENUE GROWTH AND EV/EBIT VALUATION MULTIPLE

		Revenue growth 2023E												
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	25%	30%	35%	40%
EV/EBIT	2	3	3	3	3	3	3	4	4	4	4	4	4	4
	3	4	4	4	4	5	5	5	5	5	6	6	6	6
	4	5	5	5	6	6	6	7	7	7	7	8	8	8
	5	6	6	7	7	7	8	8	8	9	9	9	10	10
	6	7	7	8	8	9	9	9	10	10	11	11	12	12
	7	8	9	9	10	10	11	11	11	12	12	13	13	14
	8	9	10	10	11	11	12	12	13	14	14	15	15	16
	9	10	11	12	12	13	13	14	15	15	16	16	17	18
	10	11	12	13	13	14	15	15	16	17	17	18	19	20
	11	12	13	14	15	15	16	17	18	18	19	20	21	21
	12	14	14	15	16	17	18	18	19	20	21	22	22	23
	13	15	16	16	17	18	19	20	21	22	23	23	24	25
	14	16	17	18	19	20	20	21	22	23	24	25	26	27
	15	17	18	19	20	21	22	23	24	25	26	27	28	29
	16	18	19	20	21	22	23	24	25	27	28	29	30	31
	17	19	20	21	22	24	25	26	27	28	29	30	32	33
	18	20	21	22	24	25	26	27	29	30	31	32	33	35

Source: Nordea estimates

The table above highlights the share price sensitivity to revenue growth (upper row) and to EV/EBIT valuation (left hand side). Numbers in green are above the current share price. For example, a sales decline in 10% combined with an EBIT margin of 13.9% and with EV/EBIT of 10x would lead to a value of EUR 13 per share, according to our analysis.

Acquisition scenario

In our acquisition scenario, we expect Incap to make acquisitions for EUR 94m in Q3 2023 at an EV/sales valuation of 1.1x. However, we do not yet include this in our base-case estimates due to uncertainties related to any potential transactions. In more detail, we believe Incap is looking at a combination of three to four factories (each factory 4,000-10,000 m^2). Acquisitions are needed to gain new customers and to continue the outstanding sales growth that has supported the company's market capitalisation in 2021-22. Current sales growth in our base-case scenario and a possible P/E of 13x indicate a fair value of EUR 11.2 per share for 2024E. However, a possible acquisition could add EUR 0.11 to annual EPS next year and imply a fair value of EUR 13.5 per share at a P/E of 14x.

The acquisition of AWS Electronics in 2020 was a success

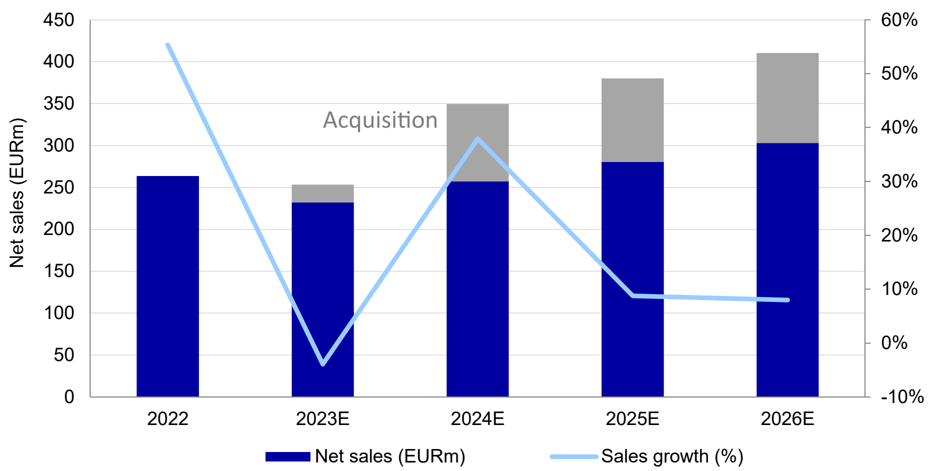
Incap is looking for M&A growth

Incap wants to leverage its core strengths, which is why new production units are needed. Furthermore, new customers are hard to gain on an organic basis. The company has also been relatively vocal about its M&A strategy, increasing the probability of an acquisition this year.

Our acquisition scenario is based on an assumption of EV/sales of 1.1x. This implies that that a EUR 94m transaction could add EUR 82m to annual net sales. Reported sales growth could then be -4% this year and 38% next year. We also assume that target companies are profitable without any need of a turnaround programme. We believe that a healthy EMS company with Incap's operational model could reach an 8% EBIT margin. Hence, we do not use Incap's 2022 EBIT margin of 14.9% as a default for acquired target companies.

The company has also been relatively vocal about its M&A strategy

INCAP: ACQUISITION SCENARIO FOR NET SALES AND SALES GROWTH



Source: Nordea estimates

Acquisitions could be funded by debt, by a share issue or by a combination of different instruments. In the table below, we calculate the EPS effect if we assume a EUR 84m increase in interest-bearing debt with a 4.5% interest rate and without any change in the number of shares. The company might be reluctant to use own shares at the current share price level. We also assume that the tax rate is below 25% for acquired businesses, i.e. factories elsewhere than India.

Our conclusion is that a possible acquisition could add 22% further upside to the fair value of the share price using an ordinary P/E-based valuation approach. We argue that value creation for equity holders is one key reason for Incap to consider an acquisition.

A possible acquisition could add 22% further upside to the fair value of the share

INCAP: EPS POTENTIAL IN M&A SCENARIO

	2022	2023E	2024E	2025E	2026E
EPS base case (EUR)	0.94	0.79	0.86	0.93	1.01
Accepted P/E	13x	13x	13x	13x	13x
Fair value per share (EUR)	12.2	10.3	11.2	12.1	13.2
EPS M&A scenario (EUR)	0.94	0.75	0.97	1.05	1.16
Accepted P/E	14x	14x	14x	14x	14x
Fair value per share (EUR)	13.2	10.4	13.5	14.8	16.2
Upside potential to base case	8%	2%	21%	22%	23%

Source: Nordea estimates

Without an acquisition, the company's net debt position will go into negative territory (see table below). Investors do not usually give credit to having a net cash position, and so the company's market capitalisation could be burdened by net cash. An acquisition could therefore support the EV/EBIT valuation based on market capitalisation.

By assuming a relatively stable EV/EBIT valuation, we calculate that an acquisition could add more than 20% upside to the company's market capitalisation. Hence, our conclusion is that an acquisition absolutely makes sense from a valuation perspective. Possible acquisition targets are trading at 7-8x EV/EBITDA, according to the company (Incap 2023E EV/EBITDA of 8.7x). However, it should be noted that all acquisitions include operational risks, and the execution of the strategy may not be as successful in the future as it has been in the past.

It makes sense for Incap to increase its leverage, in our view

INCAP: NET DEBT IN OUR ACQUISITION SCENARIO

	2022	2023E	2024E	2025E	2026E
Net debt in base case (EURm)	14	-17	-35	-60	-84
EBIT base case (EURm)	39	32	35	38	41
EV/EBIT valuation	8.5x	8.5x	8.5x	8.5x	8.5x
Market cap (EURm)	317	290	333	381	434
Net debt in M&A scenario (EURm)	14	67	45	20	-4
EBIT M&A scenario (EURm)	39	36	50	54	58
EV/EBIT valuation	9x	9x	9x	9x	9x
Market cap scenario (EURm)	336	253	403	464	530
Upside potential to base case	6%	-13%	21%	22%	22%

Source: Nordea estimates

Sustainability issues

Around 74% of revenues are eligible for the EU Taxonomy. The EU Taxonomy-aligned revenues are 0%, but the most important ESG drivers for Incap relate to employee rights and corruption in low-cost countries. The company's use of energy, released emissions and use of water are not a large part of its operations. It has been able to avoid ESG incidents in the past, and we do not see greater ESG-related risks at the present time. But Incap has not been a forerunner or early adapter in sustainability reporting. The company's financial reports have not been very comprehensive in terms of the Global Reporting Initiative or Carbon Disclosure Project, but Incap's goal is to start reporting on CO_2 emissions. The first responsibility programme was introduced in 2020, and code of conduct training for employees was started in 2021, which we recognise as a positive development. The company has also signed the important United Nations Sustainable Development Goals. The company's approach in ESG responsibility is to continuously improve its performance. The company is also committed to providing products and services that are produced responsibly, and it has zero tolerance for corruption and bribery.

Low-cost model does not usually support high ESG scores
In general, most products in the electronics industry are price-driven, leading to low-cost manufacturing processes. Unfortunately, such a business model does usually not score well in sustainability rankings.

For Incap, sustainability comprises looking after employees and supply chain logistics. We do not expect Incap to take broader responsibility for the sustainability of electronic devices globally, as this would require ethical commitment to avoid low-cost production platforms and avoid the unnecessary use of raw materials for products that are not very sustainable.

The company's code of conduct determines how employees are expected to behave. The code embodies the core values, which are honesty, trust, integrity, quality and transparency. Training is arranged to ensure that employees comply with local and international laws and regulations.

However, sustainability-driven investors could be more interested in that an ordinary worker in the factory in India can live on the salary Incap is paying. Similar issues have been raised in many other sectors, like in food delivery and among low-cost airline carriers.

Only 36% of all workers have a permanent working contract

The company does not disclose its salaries in India, but we assume the average personnel cost to be EUR 470 per month for Incap in the country. In 2021, the average salary for a mechanical engineer in the country was USD 280 per month. Our conclusion is that Incap pays low yet still competitive salaries in India. However, only 36% of all workers have a permanent working contract, which we consider a relatively low figure. The majority of workers in India are hired from external personnel agencies, which also allows for fast downscaling of the workforce when end demand decreases.

Due to technologically advanced products, we do not consider underaged workers as a topical issue for Incap. Even though there is pressure to keep salaries low, possible incidents usually relate more to working conditions and disagreements with local labour unions, rather than salaries. But we were not able to gather information about how many times Incap has met with local labour unions in India. We also have not yet had an opportunity to visit Incap's production site in India, which usually gives a relatively good picture of working conditions of the company.

In 2021, Incap had one work-related injury recorded at its factories. Last year, the number of injuries was zero. The company's health and safety target is to have zero injuries. We do not see injuries as a material issue for the company.

EMS is not an energy-intensive industry

Incap uses around 8 GWh of energy a year, which we consider a relatively low figure in the manufacturing industry. The energy intensity per 1 EUR in revenue is only 42 Wh. Meaning that 1 EURm in revenue requires 42 MWh of energy.

Overall, manufacturing electronic devices does not require an extensive amount of energy and does not emit much carbon dioxide or other pollutants. Incap therefore fulfils ordinary environmental sustainability criteria relatively easily.

Supply chain management

The company has approximately 1,200 suppliers worldwide, and supply chain management is a material issue for the company. Incap's goal is to act ethically throughout the supply chain, and the company requires major suppliers to adhere to its supplier code of conduct rules.

Incap does not control the choice of most of suppliers

However, Incap manufactures electronics based on customers' specifications, which include the choice of suppliers or materials. As a result, Incap does not always control the choice of suppliers.

Materials and components are only to a small extent directly chosen by Incap. In case Incap is responsible for the material supplier selection, the company executes supplier evaluation, analysis and onsite audits, often alongside an end customer representative. We have no information about how many times a year Incap's customers evaluate Incap's production facilities.

Customers can drive the sustainability of a subcontractor

An EMS company delivers what customers are asking for, and this also applies to sustainability. Higher pressure from a clientele base usually leads to improvement in ESG reporting. This has been the case for many Finnish companies working for Kone and Nokia.

The most important issue for Incap in terms of sustainability could be transparency towards its own customer

The most important issue for Incap in terms of sustainability could therefore be transparency towards its own customer. Incap cannot take the risk of losing a customer due to lacking ESG principles. The management team of Incap and ultimately the President and CEO Otto Pukk are the highest governing bodies for corporate responsibility matters and are responsible for approving various group-wide policies and processes.

Our understanding is that Incap's customers have high requirements regarding sustainability, but problems might arise if a new customer and a subcontractor have different and not so tight views on some ESG issue.

For example, weak quality and a short product lifecycle are one of the main concerns in the electronics industry. Numerous devices are used only for a relatively short period of time, or even not at all. Better recycling of devices on a global scale would also offer a better recovery rate for important raw materials. In the consumer electronics sector, end users still hold the key role in how material recovery can be arranged. Incap cannot affect how end products are recycled at the end of their lifecycle, and this is true for practically all subcontractors in all sectors.

We believe that Incap in many cases lets brand owners decide what ISO standards to follow and the depth of sustainability requirements that is needed in the manufacturing process. Currently, there are five ISO standards adapted by Incap: ISO 14001 on environmental management, ISO 9001 on international quality management, ISO 45001 on occupational health and safety, ISO 13485 on medical devices, and IATF 16949 on the automotive industry.

Risk factors

There are several major and minor risks to consider when investing in Incap. We believe the biggest risk is the customer concentration. However, the biggest customer operates in the energy sector, which is broadly expected to grow for decades. Furthermore, Incap is competitive in terms of quality and pricing, which is why we do not expect it to easily lose customers. But demand variations could still create end-demand softness for Incap even in the renewable energy sector, as seen in 2023. Incap is successful only when its customers are successful. Country risks in India are not as high as in Russia or China, but corruption in India is still higher than in Europe. We do not see any material risks from the balance sheet, raw materials, first-pass yield or competition. The financial position is strong, and Incap has already proven to be a cost leader. One risk is related to the CEO Otto Pukk. If he were to leave, it could have negative consequences for strategy execution. Another risk is related to any future acquisitions. We argue that the acquisition in 2020, and how well it was handled, lowers the M&A transaction-related risk.

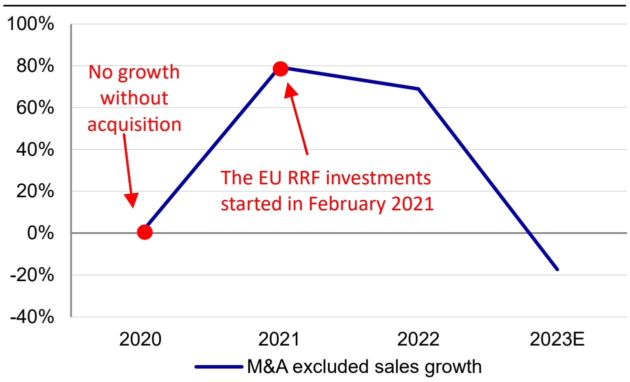
The biggest customer accounts for 66.9% of sales

Customer concentration

We believe the biggest risk is related to customer concentration. Incap has four key customers that represented 74.3% of its sales in 2022. The biggest one stood for 66.9% of sales, according to the company. If Incap were to lose its biggest customer, this could have a significant impact on its business. However, the rest of the customer base is distributed more evenly across size and different segments.

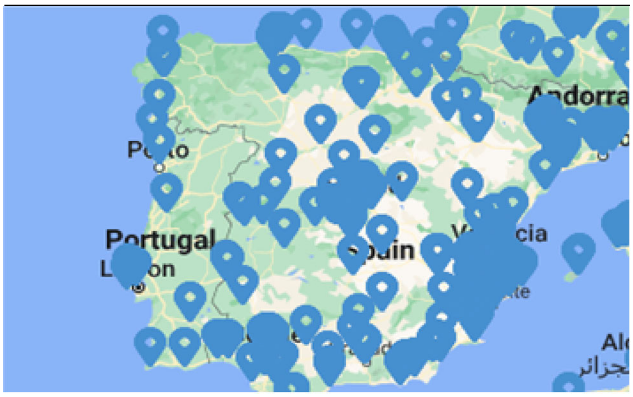
Even if Incap is able to keep its main customer, there is a risk of this customer losing its competitive edge or not being able to grow, as already seen in April 2023 when Incap downgraded its full-year guidance. Increased availability of components has meant a bigger offering and more competition in the solar power markets, which offers an explanation as to why Incap's biggest customer is destocking its inventories in Q2-Q4 2023. Incap offers the needed flexibility in manufacturing in both directions and only fares well if its customers are performing well in their own segments. Additional risk pertains to whether the EU's COVID-19 recovery funding package (EUR 800bn) could end prematurely. This package has created remarkable investments in solar power inverters/converters and battery management systems, especially in Spain.

ORGANIC SALES GROWTH WITHOUT AWD ACQUISITION



Source: Company data and Nordea estimates

THE MAIN CUSTOMER'S DEALER NETWORK IN SPAIN



Source: Company data and Nordea

Demand for back-up and off-grid power supply solutions has also grown due to the war in Ukraine. An end to the war could lower growth in the standalone power supply markets where Incap's biggest customer is active.

Another risk related to customer concentration is the subcontractor's weak position in the value chain. A big customer could start to squeeze the value Incap is able to generate for its equity holders. The whole EMS sector is well-known for having OEM pressure, leading to tight pricing and low margins.

M&A strategy

We believe Incap will make an acquisition this year

The second notable risk we have identified is related to M&A strategy. We believe Incap will make an acquisition this year to continue its extraordinary performance in revenue growth.

The company's future sales and profit growth is therefore, to some extent, dependent on management's ability to complete new M&A deals. Furthermore, there is risk involved in integrating new businesses and the fact that Incap could potentially overpay for a target company.

The operational performance seen in 2019-22 might lead management to be overconfident regarding growth and M&A opportunities. The next acquisition might not lead to the intended growth, synergies or value creation, as was the case in 2020. Possible acquisitions could also include new customers that are not growing in their own sector as rapidly as Incap might hope.

Incap mitigates M&A-related risks by focusing on its core strategy, organic growth and avoiding opportunistic acquisitions. The risk of overpaying is managed through an extensive due diligence process of which the company already has expertise. At least the company has the needed financial resources for an acquisition, we believe.

Liquidity risk

Liquidity risks arise when the company has insufficient funds to meet its payment obligations. Incap is committed to maintaining financial stability and it continuously evaluates and monitors the amount of financing required by the business operations so that it has sufficient liquid funds to finance operations and repay due loans.

The company's interest-bearing liabilities are low, working capital requirements are relatively modest and operational cash flow is strong, which is why the debt-handling capability is good. The company strives to ensure the availability and flexibility of financing by using credit facilities and other forms of financing. Incap's main sources of financing are cash flow from operations and loans from financial institutions.

Short-term liquidity risk is mitigated by cash buffers

Short-term liquidity risk is mitigated by keeping a cash buffer in its bank accounts in order to have a sufficient cash available also in the event of deviations from the cash-flow forecast.

Interest rate risk

Interest rate risk refers to the negative impact of changes in interest rates on the group's income statement and cash flow. The interest rate on interest-bearing debt and interest-bearing assets is dependent on the strength of its balance sheet, earnings volatility and the earnings outlook. Incap does not have a credit rating from international rating agencies.

Interest rate risk is not material for the company

At the end of 2022, Incap's interest-bearing liabilities amounted to EUR 21m. Out of the total interest-bearing liabilities, EUR 6.8m is related to the IFRS 16 leases standard. An increase of 1 pp in the market interest rates on variable rate loans would change the company's annual interest rate expenses by only EUR 0.138m. The conclusion is that interest rate risk is not material for the company. Net gearing is as low as 16%.

Currency risk

A significant proportion of all purchases are made in USD

Currency risk refers to the potential negative impact from varying exchange rates on the group's income statement, cash flows and balance sheet. Two of Incap's factories operate in euro countries, one in the UK and one in India. A significant proportion of all purchases are made in USD, but the biggest non-EUR area for the company is India.

When the Indian factory acquires components in USD and sells its products globally in USD, the Indian rupee (INR) effect is relatively small. Some 90% of all production at the factory in India is exported outside the country.

Incap uses the INR in invoicing between the parent company and the Indian factory. Therefore, exposure to transaction risk concerns almost completely the parent company, and the foreign subsidiary is not exposed to substantial transaction risk. A strengthening of the INR by 15% in relation to the EUR increases the company's equity by EUR 0.3m, while a weakening of 15% decreases the group's equity by EUR 0.4m. Hence, we argue that currency risk is limited.

Credit risk

Credit risk can arise if a counterparty to Incap's operations cannot meet its obligations. Historically, Incap's credit losses have been very limited, but the company has significant receivables from several large domestic and global customers.

No material credit losses were recorded in 2020-22

When a new customer relationship is established, the company assesses the annual volume generated by the new business, its share in revenue and the customer's creditworthiness. For Incap, credit exposure is mainly concentrated to customers in Europe, but credit risk can also involve financial institutions in terms of accounts and deposits, especially in India. The company has sometimes renegotiated payment terms for receivables that would otherwise have been due according to the payment terms. We calculate that due and renegotiated receivables have no material effect on the group's financial position.

Manufacturing risk

Incap's manufacturing process needs to produce quality products efficiently. We believe that the first-pass yield industry median for electronics manufacturing services is approximately 94%. Our assumption is that Incap operates with 95-97% first-pass yield. The company faces the risk that, if this metric were to drop, it would diminish its margins and affect overall profit.

Competition

Incap is to some extent exposed to the general global and, in particular, the European economies, which constituted 71% of sales in 2022. However, we do not believe that a possible economic downturn in the region would lead to delayed orders from its customers, because the end markets for its components are global and to some extent exposed to the energy sector.

We do not see competition as a major risk for Incap because the company is already a cost leader and not in danger of easily losing its customers

As Incap operates in a highly competitive industry, a weaker economic environment could lead to fierce price competition. Additionally, it also needs to take into account the competitive pressure coming from original equipment manufacturers which have their own production. We do not see competition as a major risk for Incap because it is already a cost leader and we argue that it is not in danger of easily losing its customers.

Empowering people

Low salaries and weak working conditions could lead to high employee turnover

Low salaries and weak working conditions could lead to high turnover in the workforce. Unexpected employee departures are therefore a risk factor. Incap could be unable to attract and retain the right people with key competencies in the case of cost-cutting programmes or acquisitions.

The company's personnel strategy is aimed at identifying development needs that are critical for long-term success. Incap pays strong attention to diversifying people's professional knowledge and skills by preparing on-the-job learning criteria for all business-critical positions and by arranging training events. The general availability of employees is good in India.

Health and safety

Zero-accident target

Safety is a top priority in all of Incap's operations, and the target is to have zero accidents. The company strives for a healthy and safe workplace through leadership and a culture of health and safety awareness. It has continuous programmes for safety inspections at its facilities to mitigate risks.

In the event of health and safety-related incidents, the company reports to the relevant authorities and cooperates with them on the investigation. It then takes the necessary measures to prevent such events from occurring again. Risks of accidents and other incidents in the workplace not only affect the individuals concerned, but also threaten workforce productivity and reduce the company's attractiveness as an employer. Some ESG-driven investors also follow soft metrics, and possible incidents could reduce the institutional interest in the stock.

Quarterly estimates

ESTIMATES BY QUARTER (EURm)

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23E	Q3 23E	Q4 23E
Incap Group												
Sales	37.7	33.6	47.0	51.4	53.3	61.2	70.6	78.7	72.7	58.6	50.8	49.9
Sales growth (%)	55%	49%	67%	63%	41%	82%	50%	53%	36%	-4%	-28%	-37%
Adj. EBITDA	6.4	5.0	8.6	9.3	7.8	9.4	11.8	13.8	12.4	8.7	7.8	7.6
Adj. EBITDA margin (%)	17%	15%	18%	18%	15%	15%	17%	18%	17%	15%	15%	15%
Adj. EBIT	5.7	4.3	7.9	8.6	7.0	8.6	11.0	13.0	11.4	7.8	6.8	6.7
Adj. EBIT margin (%)	15%	13%	17%	17%	13%	14%	16%	17%	16%	13%	13%	13%
Net financials	-0.1	-0.1	-0.1	-0.1	-0.6	-0.6	-0.6	-0.6	-0.4	-0.4	-0.4	-0.4
PTP	5.4	4.2	7.7	8.3	6.2	8.0	10.3	12.3	10.9	7.3	6.3	6.2
Net result adj.	4.7	3.5	6.6	7.2	5.2	6.4	8.4	10.0	8.5	5.6	4.9	4.8
Net result	4.5	3.5	6.5	7.0	5.0	6.4	8.3	9.9	8.4	5.5	4.8	4.7
EPS adj. (EUR)	0.81	0.60	1.12	1.22	0.18	0.22	0.29	0.34	0.29	0.19	0.17	0.16
EPS (EUR)	0.77	0.60	1.10	1.19	0.17	0.22	0.28	0.34	0.29	0.19	0.16	0.16

Source: Company data and Nordea estimates

Peer group financials

PEER GROUP FINANCIALS

	SALES (EURm)				SALES GROWTH				EBIT MARGIN			
	2021	**2022**	**2023E**	**2024E**	**2021**	**2022**	**2023E**	**2024E**	**2021**	**2022**	**2023E**	**2024E**
Hon Hai Precision Industry Co Ltd	190,273	202,514	201,531	211,600	12%	11%	2%	5%	2%	3%	3%	3%
Delta Electronics Inc	9,989	11,748	12,580	14,048	11%	22%	11%	12%	10%	11%	11%	12%
Jabil Inc	24,803	33,288	32,381	33,296	7%	14%	5%	3%	4%	5%	5%	5%
Pegatron Corp	40,040	40,264	40,228	41,212	-10%	4%	0%	2%	1%	2%	2%	2%
Universal Scientific Industrial Shangh	7,658	9,282	9,359	10,333	16%	24%	2%	10%	4%	5%	4%	4%
Fabrinet	1,575	2,143	2,457	2,645	14%	20%	20%	8%	9%	10%	11%	11%
Accton Technology Corp	1,892	2,359	2,589	2,863	9%	30%	12%	11%	9%	12%	13%	13%
Venture Corporation Ltd	2,026	2,695	2,630	2,775	3%	24%	3%	6%	11%	12%	11%	11%
Sanmina Corp	5,828	8,052	8,478	8,740	-3%	17%	18%	3%	5%	5%	6%	0%
Inventec Corp	16,498	16,555	17,163	18,048	2%	4%	3%	5%	1%	1%	1%	1%
Plexus Corp	2,906	3,890	3,852	4,144	-1%	13%	15%	8%	5%	5%	5%	6%
Foxconn Interconnect Technology Ltd	3,950	4,233	4,245	4,582	4%	1%	3%	8%	3%	4%	6%	6%
Celestica Inc	4,957	6,774	6,941	7,252	-2%	29%	7%	4%	4%	5%	5%	5%
Ducommun Inc	568	666	683	729	3%	10%	6%	7%	8%	7%	0%	8%
Sercomm Corp	1,393	1,973	2,160	2,257	22%	47%	9%	5%	2%	4%	4%	5%
Note AB (publ)	257	331	n.a.	n.a.	41%	39%	n.a.	n.a.	10%	11%	n.a.	n.a.
Kitron ASA	371	619	644	704	-6%	75%	15%	9%	6%	7%	8%	8%
Scanfil Oyj	696	844	900	928	17%	21%	7%	3%	6%	5%	7%	7%
SIIX Corp	1,734	1,974	2,024	2,168	25%	22%	14%	7%	2%	3%	0%	0%
TT electronics PLC	567	697	710	714	10%	30%	6%	1%	7%	7%	8%	9%
Hanza AB	245	319	347	377	17%	41%	16%	9%	5%	6%	6%	7%
Cicor Technologies Ltd	231	317	378	404	11%	31%	22%	7%	5%	4%	5%	5%
Valuetronics Holdings Ltd	250	234	263	281	-3%	-11%	0%	7%	9%	6%	6%	6%
Lacroix Group SA	501	708	761	793	14%	41%	7%	4%	3%	3%	4%	4%
Inission AB	125	172	187	196	21%	50%	33%	5%	3%	7%	6%	6%
Group median					**10.3%**	**22.2%**	**7.3%**	**6.1%**	**5.0%**	**5.2%**	**5.4%**	**5.7%**
Incap (Nordea)	170	264	232	257	59.4%	55.3%	-12.0%	10.9%	15.3%	14.7%	13.9%	13.6%
diff. from median (pp)					**49.2**	**33.2**	**-19.4**	**4.7**	**10.3**	**9.5**	**8.4**	**7.9**

Source: Company data, Refinitiv and Nordea estimates

Peer group valuation

PEER GROUP VALUATION

	P/E				EV/EBIT				P/B			
	2021	**2022**	**2023E**	**2024E**	**2021**	**2022**	**2023E**	**2024E**	**2021**	**2022**	**2023E**	**2024E**
Hon Hai Precision Industry Co Ltd	10.5	9.9	9.6	8.5	9.6	8.5	8.4	7.4	1.0	0.9	0.9	0.8
TT Electronics	26.8	22.9	20.9	18.1	23.7	18.5	16.8	14.4	4.8	4.3	3.9	3.6
Jabil Inc	13.5	8.7	9.3	8.6	9.2	7.0	7.0	6.7	5.8	4.1	3.6	2.8
Pegatron Corp	8.9	11.2	10.7	9.8	11.9	9.1	9.8	9.0	1.1	1.0	1.0	0.9
Universal Scientific Industrial Shangh	19.3	12.0	11.0	9.4	17.0	10.9	9.4	8.4	2.4	2.0	1.8	1.5
Fabrinet	24.1	15.5	12.3	11.3	19.9	12.6	10.2	9.5	3.1	2.7	2.3	2.0
Accton Technology Corp	31.1	16.2	19.2	16.8	25.7	12.5	14.0	12.2	10.9	8.9	7.4	6.1
Foxconn Interconnect Technology	17.1	13.5	13.5	12.8	13.0	9.6	9.5	9.0	1.8	1.7	1.7	1.6
Sanmina Corp	9.8	11.4	8.1	7.3	7.4	6.6	5.0	0.0	1.3	1.4	n.a.	n.a.
Inventec Corp	13.8	15.5	17.5	16.2	25.0	16.8	17.4	15.8	2.2	2.1	2.0	2.0
Universal Scientific Industrial	19.1	18.0	15.9	13.2	14.1	14.5	11.5	10.4	2.5	2.3	2.1	1.7
Foxconn Interconnect Technology Ltd	9.8	11.0	8.0	7.6	11.7	6.5	6.0	5.2	0.6	0.6	0.6	0.5
Celestica Inc	13.6	9.6	5.6	5.1	10.3	6.6	4.6	4.5	1.1	0.8	n.a.	n.a.
Ducommun Inc	4.2	21.5	17.4	13.3	15.4	15.7	0.0	11.8	1.8	1.2	1.1	1.0
Sercomm Corp	22.9	10.6	9.4	7.8	20.6	8.4	7.3	6.1	2.5	2.1	2.0	0.0
Note AB (publ)	34.4	20.4	n.a.	n.a.	25.5	13.7	n.a.	n.a.	8.3	4.7	n.a.	n.a.
Kitron ASA	28.0	19.6	18.1	15.7	21.4	n.a.	n.a.	n.a.	5.9	4.4	3.8	3.3
Scanfil Oyj	16.4	12.2	12.8	12.3	13.8	11.3	11.3	10.8	2.8	2.5	2.2	2.0
SIIX Corp	14.7	12.8	8.3	7.0	22.0	12.3	n.a.	n.a.	1.1	0.9	0.8	0.7
TT electronics PLC	35.6	10.7	9.1	8.1	16.0	10.2	8.7	8.0	0.9	0.9	1.0	0.9
Hanza AB	28.6	15.5	19.0	16.4	23.3	13.4	14.5	12.6	4.8	3.7	3.0	2.6
Cicor Technologies Ltd	20.6	34.8	24.1	16.8	18.0	10.3	10.1	8.9	1.5	1.3	1.2	1.1
Valuetronics Holdings Ltd	8.1	11.9	11.3	10.7	2.0	3.3	1.2	1.2	1.1	1.0	n.a.	n.a.
Lacroix Group SA	9.6	10.9	9.3	7.1	18.9	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.
Inission AB	99.2	11.0	13.8	11.2	52.6	8.8	11.7	10.3	3.3	1.6	1.9	1.7
Group median	**17.1**	**12.2**	**11.8**	**11.0**	**17.0**	**10.3**	**9.5**	**9.0**	**2.2**	**1.9**	**2.0**	**1.6**
Incap (Nordea)	21.8	18.2	14.4	13.2	3.6	13.2	9.8	8.5	1.5	5.7	3.0	2.5
diff. from average	28%	49%	22%	21%	-79%	29%	3%	-6%	-34%	209%	54%	49%

Source: Refinitiv and Nordea estimates

Reported numbers and forecasts

INCOME STATEMENT

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total revenue	**31**	**39**	**49**	**59**	**71**	**106**	**170**	**264**	**232**	**257**	**280**
Revenue growth	65.2%	26.4%	25.7%	21.5%	20.5%	49.9%	59.4%	55.3%	-12.0%	10.9%	9.0%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	4	4	5	9	11	16	29	43	36	39	42
Depreciation and impairments PPE	0	0	0	-1	-1	-2	-3	-3	-4	-4	-4
of which leased assets	0	0	0	0	-1	-1	-1	-2	-2	-2	-2
EBITA	4	4	5	9	10	14	26	39	33	35	38
Amortisation and impairments	0	0	0	0	0	-1	-1	0	0	0	0
EBIT	4	4	5	9	10	13	26	39	32	35	38
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	-1	-1	-1	0	-1	0	-2	-2	-2	-2
of which lease interest	0	0	0	0	0	0	0	0	0	0	0
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	**3**	**3**	**4**	**8**	**10**	**12**	**26**	**37**	**30**	**33**	**36**
Reported taxes	-1	-1	-1	-2	-3	-2	-5	-9	-7	-8	-9
Net profit from continued operations	2	2	3	6	6	9	21	28	23	25	27
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	2	2	3	6	6	9	21	28	23	25	27
EPS, EUR	**n.a.**	**0.10**	**0.14**	**0.27**	**0.29**	**0.40**	**0.72**	**0.94**	**0.79**	**0.86**	**0.93**
DPS, EUR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit margin in percent											
EBITDA	12.1%	10.7%	10.2%	15.5%	16.1%	15.0%	17.2%	16.2%	15.6%	15.2%	15.0%
EBITA	12.1%	9.8%	9.3%	14.6%	14.2%	12.7%	15.6%	14.9%	14.1%	13.8%	13.7%
EBIT	12.1%	9.8%	9.3%	14.6%	14.2%	11.8%	15.3%	14.7%	13.9%	13.6%	13.5%
Adjusted earnings											
EBITDA (adj)	4	4	5	9	11	16	29	43	36	39	42
EBITA (adj)	4	4	5	9	10	14	26	39	33	35	38
EBIT (adj)	4	4	5	9	10	13	26	39	32	35	38
EPS (adj, EUR)	n.a.	0.10	0.14	0.27	0.29	0.40	0.72	0.94	0.79	0.86	0.93
Adjusted profit margins in percent											
EBITDA (adj)	12.1%	10.7%	10.2%	15.5%	16.1%	15.0%	17.2%	16.2%	15.6%	15.2%	15.0%
EBITA (adj)	12.1%	9.8%	9.3%	14.6%	14.2%	12.7%	15.6%	14.9%	14.1%	13.8%	13.7%
EBIT (adj)	12.1%	9.8%	9.3%	14.6%	14.2%	11.8%	15.3%	14.7%	13.9%	13.6%	13.5%
Performance metrics											
CAGR last 5 years											
Net revenue	-12.4%	-10.9%	-5.4%	18.0%	30.9%	28.4%	34.5%	40.3%	31.5%	29.4%	21.4%
EBITDA	n.m.	n.m.	n.m.	n.m.	61.0%	34.0%	47.9%	53.7%	31.7%	27.8%	21.5%
EBIT	n.m.	n.m.	n.m.	n.m.	56.9%	27.8%	47.1%	53.7%	30.1%	28.2%	24.6%
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	49.2%	45.8%	24.1%	24.4%	18.2%
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Average last 5 years											
Average EBIT margin	-1.8%	0.9%	4.3%	11.1%	12.4%	12.2%	13.6%	14.4%	14.2%	14.1%	14.1%
Average EBITDA margin	-1.8%	1.2%	4.8%	11.8%	13.5%	14.1%	15.6%	16.2%	16.1%	15.8%	15.7%

VALUATION RATIOS - ADJUSTED EARNINGS

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
P/E (adj)	n.a.	9.6	7.4	4.6	10.1	9.1	21.8	18.2	14.2	13.1	12.0
EV/EBITDA (adj)	0.0	6.3	5.5	3.3	5.5	5.6	15.8	12.1	8.6	7.5	6.4
EV/EBITA (adj)	0.0	6.9	6.1	3.4	6.3	6.6	17.4	13.1	9.6	8.3	7.0
EV/EBIT (adj)	0.0	6.9	6.1	3.4	6.3	7.1	17.8	13.2	9.7	8.4	7.1

VALUATION RATIOS - REPORTED EARNINGS

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
P/E	n.a.	9.6	7.4	4.6	10.1	9.1	21.8	18.2	14.2	13.1	12.0
EV/Sales	0.00	0.67	0.57	0.50	0.89	0.84	2.72	1.95	1.34	1.14	0.96
EV/EBITDA	0.0	6.3	5.5	3.3	5.5	5.6	15.8	12.1	8.6	7.5	6.4
EV/EBITA	0.0	6.9	6.1	3.4	6.3	6.6	17.4	13.1	9.6	8.3	7.0
EV/EBIT	0.0	6.9	6.1	3.4	6.3	7.1	17.8	13.2	9.7	8.4	7.1
Dividend yield (ord.)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	n.m.	0.7%	5.4%	7.1%	9.8%	-5.6%	1.0%	-1.2%	9.9%	6.3%	8.0%
FCF Yield bef A&D, lease adj	n.m.	0.7%	5.4%	7.1%	8.9%	0.7%	0.8%	-1.6%	9.3%	5.7%	7.4%
Payout ratio	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Intangible assets	0	1	1	1	1	12	12	11	11	10	10
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	0	0	0	0	0	5	5	4	4	3	3
of which goodwill	0	1	1	1	1	7	8	7	7	7	7
Tangible assets	0	3	3	5	7	11	14	21	21	23	27
of which leased assets	0	0	0	0	2	6	7	7	5	5	5
Shares associates	0	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	1	1	0	0	0	0
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	1	1	0	0	0	0	1	1	1	1
Total non-current assets	0	5	5	6	9	24	27	33	33	35	38
Inventory	0	6	8	12	11	24	59	92	71	66	64
Accounts receivable	0	8	9	12	11	24	34	36	39	51	56
Short-term leased assets	0	0	0	0	0	0	0	0	2	2	2
Other current assets	0	0	0	0	0	0	0	0	0	0	0
Cash and bank	0	2	3	3	6	4	9	8	36	53	76
Total current assets	0	16	20	26	28	52	102	136	148	172	197
Assets held for sale	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	**0**	**21**	**25**	**32**	**36**	**76**	**129**	**169**	**181**	**207**	**235**
Shareholders equity	0	8	10	16	22	39	63	87	111	136	163
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Total Equity	0	8	10	16	22	39	63	87	111	136	163
Deferred tax	0	0	0	0	0	1	1	1	1	1	1
Long term interest bearing debt	0	4	2	1	2	2	1	5	4	3	3
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	1	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Non-current lease debt	0	0	0	0	2	3	2	5	5	5	5
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	0	4	2	1	6	9	6	13	12	11	11
Short-term provisions	0	0	0	1	0	1	0	0	1	1	1
Accounts payable	0	5	7	10	7	25	53	57	48	50	52
Current lease debt	0	0	0	0	1	1	1	2	2	2	2
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0
Short term interest bearing debt	0	4	5	5	1	2	6	9	8	7	6
Total current liabilities	0	9	12	15	10	30	60	68	59	60	61
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**0**	**21**	**25**	**32**	**37**	**77**	**130**	**168**	**181**	**207**	**235**
Balance sheet and debt metrics											
Net debt	0	6	4	3	0	5	2	14	-17	-35	-60
of which lease debt	0	0	0	0	2	5	4	7	7	7	7
Working capital	0	9	10	14	14	23	40	71	63	67	67
Invested capital	0	14	15	19	23	47	67	104	96	102	105
Capital employed	0	16	18	21	28	48	74	109	130	153	179
ROE	n.m.	53.6%	34.0%	44.7%	33.3%	30.5%	41.5%	36.7%	23.3%	20.4%	18.2%
ROIC	n.m.	41.5%	23.8%	38.0%	36.3%	27.4%	34.5%	34.4%	24.5%	26.9%	27.8%
ROCE	n.m.	47.4%	27.0%	46.8%	42.8%	34.7%	44.1%	43.1%	27.4%	25.0%	23.1%
Net debt/EBITDA	0.0	1.4	0.9	0.3	0.0	0.3	0.1	0.3	-0.5	-0.9	-1.4
Interest coverage	-10.6	-9.1	-13.4	7.8	12.8	8.8	28.1	15.4	16.0	16.5	17.0
Equity ratio	n.m.	37.6%	42.0%	49.1%	58.6%	50.3%	48.4%	51.9%	61.1%	65.6%	69.4%
Net gearing	n.m.	71.0%	41.9%	16.6%	0.0%	13.9%	2.7%	15.6%	-15.0%	-26.1%	-36.6%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
EBITDA (adj) for associates	**4**	**4**	**5**	**9**	**11**	**16**	**29**	**43**	**36**	**39**	**42**
Paid taxes	0	-1	-9	-2	-3	-3	-5	-5	-7	-8	-9
Net financials	0	-1	0	0	0	-1	-1	-1	-2	-2	-2
Change in provisions	0	0	0	1	1	-1	0	0	0	0	0
Change in other LT non-IB	0	-1	0	1	0	1	0	0	0	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	-1	1	8	-1	-2	0	2	-2	0	0	0
Funds from operations (FFO)	**2**	**2**	**4**	**7**	**8**	**13**	**25**	**35**	**28**	**29**	**32**
Change in NWC	-1	-1	-2	-3	0	-8	-16	-36	9	-4	0
Cash flow from operations (CFO)	**1**	**1**	**2**	**4**	**7**	**5**	**10**	**-1**	**36**	**25**	**31**
Capital expenditure	0	-1	-1	-2	-1	-3	-5	-5	-4	-4	-5
Free cash flow before A&D	**1**	**0**	**1**	**2**	**6**	**2**	**5**	**-6**	**32**	**21**	**26**
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	-7	-1	0	0	0	0
Free cash flow	1	0	1	2	6	-5	4	-6	32	21	26
Free cash flow bef A&D, lease adj	1	0	1	2	6	1	4	-8	31	19	24
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Equity issues / buybacks	0	0	0	0	0	11	0	0	0	0	0
Net change in debt	0	0	0	-2	-2	-6	2	6	-2	-2	-1
Other financing adjustments	0	0	0	0	0	0	0	0	-2	-2	-2
Other non-cash adjustments	-1	2	0	0	0	-1	0	-1	0	0	0
Change in cash	0	2	1	0	3	-2	5	-2	28	17	23
Cash flow metrics											
Capex/D&A	n.m.	n.m.	n.m.	n.m.	81.6%	83.5%	n.m.	n.m.	93.7%	n.m.	n.m.
Capex/Sales	0.0%	2.5%	1.4%	3.7%	1.6%	2.6%	2.7%	2.1%	1.6%	1.7%	1.8%
Key information											
Share price year end (/current)	1	1	1	1	3	4	16	17	11	11	11
Market cap.	0	20	23	27	63	84	460	501	328	328	328
Enterprise value	0	26	28	30	63	90	462	515	312	293	269
Diluted no. of shares, year-end (m)	0.0	21.8	21.8	21.8	21.8	22.9	29.3	29.3	29.3	29.3	29.3

Source: Company data and Nordea estimates

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