

INCAP GROUP

BUSINESS REVIEW

JANUARY-SEPTEMBER 2023

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Incap Group's business review for January–September 2023 (unaudited): Challenging third quarter tackled by agile operational response securing profitability

July–September 2023 highlights

- Revenue amounted to EUR 50.0 million (7–9/2022: EUR 70.6 million), a decrease of 29%.
- Adjusted operating profit (EBIT) amounted to EUR 6.4 million (EUR 11.2 million), a decrease of 43%, or 12.7% of revenue (15.9%). Non-recurring items were mainly related to the acquisition.
- Operating profit (EBIT) amounted to EUR 5.7 million (EUR 10.9 million), a decrease of 48%, or 11.4% of revenue (15.5%).
- Net profit for the period was EUR 4.4 million (EUR 7.7 million).
- On 5 July 2023, Incap acquired Pennatronics Inc., an Electronics Manufacturing Services company based in Pennsylvania, USA.

January–September 2023 highlights

- Revenue amounted to EUR 179.2 million (1–9/2022: EUR 185.1 million), a decrease of 3%. Excluding the impact of the company's largest customer, revenue grew 30%.
- Adjusted operating profit (EBIT) amounted to EUR 26.2 million (EUR 27.1 million), a decrease of 3%, or 14.6% of revenue (14.6%).
- Operating profit (EBIT) amounted to EUR 24.5 million (EUR 26.3 million), a decrease of 7%, or 13.7% of revenue (14.2%).
- Net profit for the period was EUR 18.5 million (EUR 18.9 million).
- Earnings per share were EUR 0.63 (EUR 0.65).
- Since the beginning of the year, workforce has been reduced by 1,136 people at Incap's factories in India.

Unless otherwise stated, the comparison figures refer to the corresponding period in 2022. This business review is unaudited.

Key figures

EUR million	7–9/23	7–9/22	Change	1–9/23	1–9/22	Change	1–12/22
Revenue	50.0	70.6	-29.1%	179.2	185.1	-3.2%	263.8
Non-recurring items	0.1	0.2	-44.4%	0.9	0.4	104.5%	0.6
Operating profit (EBIT)	5.7	10.9	-47.6%	24.5	26.3	-6.7%	38.9
EBIT, % of revenue	11.4%	15.5%		13.7%	14.2%		14.8%
Adjusted operating profit (EBIT)*	6.4	11.2	-43.2%	26.2	27.1	-3.3%	40.0
Adjusted EBIT*, % of revenue	12.7%	15.9%		14.6%	14.6%		15.1%
Net profit for the period	4.4	7.7	-42.9%	18.5	18.9	-2.4%	27.6

*Adjusted operating profit (EBIT) is an alternative performance measure. Adjusted EBIT excludes non-recurring items and purchase price allocation amortisation. Adjusted EBIT provides comparable information between different financial years on operating profit.

Outlook for 2023

Incap estimates that its revenue for 2023 will be EUR 210–220 million and EBIT EUR 24–28 million. The outlook includes the newly acquired Incap US (Pennatronics Inc.) business.

The lower operating profit estimate is due to Incap's largest customer's updated sales forecast. The customer's destocking will take longer than expected.

Incap expects to see the full impact of the decreased volumes during the fourth quarter.

The estimates are given provided that unexpected events impacting Incap's business environment do not occur, for example, in the availability of components.

CEO's comments

I am happy to note that our sales to most of our customers but the largest one increased in the third quarter. This is the result of a great team effort and success in new customer acquisition and growing existing accounts, supported with the good EMS market demand. As communicated earlier, the decrease in our revenue is related to our largest customer's need to reduce their inventories. We continue to work closely with our customer to help them reduce their inventory levels; however, the destocking is taking longer than expected. We expect to see the full impact of the decreased volumes during the fourth quarter. With the growth of other customers' business and the recent acquisition of Pennatronics Inc., our dependency on the largest customer has significantly reduced.

Our revenue in the third quarter of the year was EUR 50 million, 29% below last year's third quarter, but excluding the impact of our largest customer, our revenue grew over 30%. Despite the lower revenue, our relative profitability stayed on a healthy level: EBIT in the third quarter was EUR 5.7 million or 11.4% of revenue. Thanks to our flexible operational model, we have been able to efficiently reduce our variable costs. In order to adjust to the lower volume level, we have taken hard measures and reduced workforce by 1,136 people at our factories in India. This has been tough for everyone involved, and I would like to thank the team for their efforts and commitment during this tough adjustment period.

Our recent acquisition of Pennatronics, now known as Incap Electronics US, Inc., creates a foothold for further expansion in the U.S. and broadens our

customer base. The integration of Incap US is proceeding very well. We are already visiting customers jointly and exploring cross-selling opportunities. We are seeing growing interest in Europe and India from customers on the other side of the Atlantic and vice versa.

We are continuing the good dialogue with our customers and organise different customer events for them. In Slovakia, we had the factory's 20-year jubilee, and in Estonia, we will organise our yearly Customer Day event later in October.

With the growing demand, we have made investments in our factories. In Estonia, a new SMT line was commissioned, increasing the capacity by 50%. In Slovakia, the factory expansion project was finalised, and the plant now has 1,200 additional square metres for production. In India, production in the third factory has started.

Our estimate for 2023 is that our revenue will be EUR 210–220 million and EBIT EUR 24–28 million, including Incap US. While component availability is continuing to improve, we still see some price pressure on the market. However, with a more global and balanced customer base, tight cost control and our committed team, we believe that we will be able to continue to grow organically and to keep a good relative profitability level. We will also continue to focus on pursuing M&A, concentrating in companies with a strong cultural fit and good profitability.

Otto Pukk, President and CEO of Incap Corporation

Financial performance

July–September 2023

In July–September 2023, revenue decreased 29.1% year on year and amounted to EUR 50.0 million (EUR 70.6 million). The decrease was due to lower revenue from the largest customer, which had to reduce its inventory levels.

July–September operating profit (EBIT) decreased 47.6% year on year and amounted to EUR 5.7 million (EUR 10.9 million). Adjusted operating profit (EBIT) was EUR 6.4 million (EUR 11.2 million), 43.2% lower year on year. Adjusted operating profit margin was

12.7% (15.9%). In July–September 2023, Incap cancelled credit loss provisions amounting to EUR 0.3 million (in July–September 2022, credit loss provisions for EUR 0.1 million were recorded). Provisions for inventory write-offs amounting to EUR 0.3 million were cancelled (in July–September 2022, provisions were recorded for EUR 0.6 million).

Net profit for the period decreased 42.9% year on year and totalled EUR 4.4 million (EUR 7.7 million).

January–September 2023

In January–September 2023, revenue decreased 3.2% year on year and amounted to EUR 179.2 million (EUR 185.1 million). Revenue was positively impacted by strong demand of electronics and negatively by the lower revenue from the largest customer, which had to reduce its inventory levels.

January–September operating profit (EBIT) decreased 6.7% year on year and amounted to EUR 24.5 million (EUR 26.3 million). Adjusted operating profit (EBIT) was EUR 26.2 million (EUR 27.1 million). Year-on-year decrease was 3.3%. Adjusted operating profit margin was 14.6% (14.6%).

In January–September 2023, Incap cancelled credit loss provisions amounting to EUR 0.2 million (in January–September 2023, credit loss provisions for EUR 0.3 million were recorded). Provisions for inventory write-offs amounting to EUR 0.3 million were cancelled (in July–September 2022, provisions were recorded for EUR 1.1 million).

Net profit for the period decreased 2.4% year on year and totalled EUR 18.5 million (EUR 18.9 million). Earnings per share were EUR 0.63 (EUR 0.65).

Balance sheet and financing

Total assets in the Group's balance sheet on 30 September 2023 stood at EUR 191.0 million (EUR 162.9 million). The Group's equity at the end of the financial period was EUR 108.2 million (EUR 84.2 million).

Liabilities increased from the comparison period to EUR 82.8 million (EUR 78.7 million). EUR 34.6 million thereof (EUR 18.8 million) were interest-bearing liabilities. Liabilities increased from the comparison period due to the loan related to the acquisition of Pennatronics, Inc. Interest-bearing net debt was EUR 4.5 million (EUR 14.5 million).

The Group's non-current interest-bearing liabilities amounted to EUR 32.5 million (EUR 7.1 million) and non-current non-interest-bearing liabilities to EUR 5.7 million (EUR 2.4 million). Current interest-bearing liabilities were EUR 2.2 million (EUR 11.7 million). Out of the current interest-bearing liabilities, EUR 0.0

million (EUR 4.9 million) are related to the Indian subsidiary. Out of the non-current interest-bearing liabilities, a loan of EUR 24 million (EUR 2.0 million) granted by the company's Finnish bank is related to the acquisition.

The main covenants of the Group's loans include equity ratio and the Group's interest-bearing debt in relation to EBITDA, and their status is reviewed every six months. On 30 September 2023, the target level of interest-bearing debt in relation to EBITDA was below 3.0 and that of the equity ratio over 30%. The company met these covenants as the actual figure for interest-bearing debt/EBITDA on the review date was 0.8 and the equity ratio 58.1%.

With regards to the loans granted by the Indian bank, the company is committed to follow ordinary covenants and the bank's general loan conditions.

At the end of September 2023, the company's financial position remained strong. Equity ratio increased to 58.1% (53.6%). Net gearing was 4.1% (17.3%).

The Group's cash position during the reporting period was good. On 30 September 2023, the Group's cash and cash equivalents totalled EUR 30.2 million (EUR 4.3 million) and the company had unutilised credit lines amounting to EUR 8.0 million (EUR 6.9 million). Change in inventories had a positive impact in cash position.

Acquisitions

On 3 July 2023, Incap announced having signed an agreement to acquire 100% ownership of Pennatronics Inc., an Electronics Manufacturing Services company in Pennsylvania, USA. The acquisition was closed on 5 July 2023. Founded in 1999, Pennatronics is an experienced and well-performing Electronics Manufacturing Services company with a 6,000-sqm factory in Pennsylvania, USA. Pennatronics' revenue for the financial year that ended on 31 March 2023 was USD 30 million (EUR 28 million), and the company has 102 employees.

The acquisition will establish Incap's presence in the U.S. market and create a foothold for further expansion there. Pennatronics' U.S. production facility complements Incap's current production facilities located in Estonia, in India, in the U.K. and in Slovakia. Incap's customer base will be broadened through the acquisition, and Incap will

The Group's quick ratio was 1.4 (0.6), and current ratio was 3.2 (1.9).

Inventory at end of September 2023 totalled EUR 83.6 million (EUR 90.3 million). Inventory decreased clearly during the first nine months of the year, which was mainly due to improved material availability and Incap's largest customer's decision to postpone orders due to overstocking. The value of the inventory was impacted by the new acquisition, where the value of the inventory at the end of September 2023 was EUR 8.8 million. Both trade receivables and payables decreased due to the destocking by Incap's largest customer.

be able to offer U.S. based services to existing and new customers, while Pennatronics' customers will benefit from opportunities to source services from Europe and India. In the long term, the acquisition is expected to bring cross-selling opportunities and synergy benefits in e.g., material purchasing.

The enterprise value of the acquired company was USD 18.6 million (EUR 17.1 million), and the agreement also includes a potential additional earn-out of a maximum of USD 3.0 million (EUR 2.8 million). The transaction was paid in cash except for the amount of approximately USD 1.6 million (EUR 1.5 million), which was paid in Incap's shares.

Pennatronics Inc. was renamed Incap Electronics US, Inc. and the company is now a fully owned subsidiary of Incap Corporation. The company has been included in Incap Group's reporting as of July 2023.

Management and organisation

At the end of September 2023, Incap's Management Team consisted of President & CEO, Otto Pukki; Director of Operations, India and Sales APAC, Murthy Munipalli; Director of Operations, Estonia, Margus Jakobson; Director of Operations, U.K., Jamie

Maughan; Director of Operations, Slovakia, Miroslav Michalik; and CFO Antti Pynnönen. In the USA, Incap Electronics US, Inc.'s Management Team is led by Managing Director David Spehar.

Shares

Related to the acquisition of Pennatronics Inc., on 3 July 2023, the Board of Directors of Incap Corporation resolved to issue 152,379 new shares in the company to the company itself without consideration. The new shares are of the same class as the company's other shares. The shares were issued based on the share issue authorisation

granted by the Annual General Meeting held on 27 April 2023. The shares issued were used for the partial payment of the purchase price of the acquisition of Pennatronics Inc.

On 30 September 2023, the total number of shares in Incap was 29,437,214.

Share-based incentives

The Board of Directors of Incap Corporation decided on 23rd March 2023 on the share-based incentive plan's new performance period 2023–2025, where the rewards are based on the group's cumulative operating profit (EBIT). During the performance period 2023–2025, the CEO and other Incap Management Team members form the target group of the incentive plan. The rewards to be paid on the basis of the performance period 2023–2025 correspond to the value of an approximate maximum total of 27,123 Incap Corporation shares, including also the proportion to be paid in cash.

The rewards will be paid partly in the company's shares and partly in cash. The cash proportion of the reward is intended to cover taxes and statutory social security contributions arising from the reward to a participant. In general, no reward is paid if the participant's employment or director

contract terminates before the reward payment.

The Incap Management Team member is obliged to hold 50 per cent of the received net reward shares, until the total value of the Management Team member's shareholding in Incap Corporation equals to 50 per cent of their annual base salary of the preceding year. Respectively, the CEO is obliged to hold 50 per cent of the received net reward shares, until CEO's shareholding in Incap Corporation equals to 100 per cent of the CEO's annual base salary of the preceding year. Such number of Incap Corporation shares must be held as long as the membership in the Management Team or the position as the CEO continues.

Significant events after the end of the reporting period

On 5 October 2023, Incap specified its outlook for 2023. The company estimates that its revenue for 2023 will be EUR 210–220 million and EBIT EUR 24–28 million. The outlook includes the newly acquired Incap US (Pennatronics Inc.) business.

The lower operating profit estimate is due to Incap's largest customer's updated sales forecast. The customer's destocking will take longer than expected.

The estimates are given provided that unexpected events impacting Incap's business environment do not occur, for example, in the availability of components.

Previously Incap estimated that its revenue and operating profit (EBIT) for 2023 would be lower than in 2022.

Financial reporting in 2024

Incap will publish its financial reporting schedule for 2024 in December 2023.

In Helsinki, 25 October 2023

INCAP CORPORATION

Board of Directors

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Accounting principles for the business review

This business review has been prepared in accordance with IFRS recognition and measurement principles, although not all requirements of the IAS 34 Interim Financial Reporting standard have been followed. When preparing the review, the same

principles have been used as in the 2022 financial statements. Unless otherwise stated, the comparison figures refer to the same period in the previous year. This business review is unaudited.

Consolidated statement of comprehensive income

(EUR thousands)	1-9/2023	1-9/2022	1-12/2022
REVENUE	179,161	185,106	263,763
Other operating income	407	263	679
Change in inventories of finished goods and work in progress	-4,666	4,398	4,897
Raw materials and consumables used	121,290	138,578	194,330
Personnel expenses	16,630	12,247	16,381
Depreciation and amortisation	3,194	2,817	3,827
Other operating expenses	9,262	9,833	15,859
OPERATING PROFIT	24,527	26,292	38,942
Financial income	1,574	238	385
Financial expenses	-2,034	-1,835	-2,701
PROFIT BEFORE TAX	24,067	24,695	36,627
Income tax	-5,587	-5,753	-9,032
PROFIT FOR THE PERIOD	18,479	18,942	27,595
Earnings per share, EUR	0.63	0.65	0.94

OTHER COMPREHENSIVE INCOME	1-9/2023	1-9/2022	1-12/2022
Items that will not be transferred to P&L (revaluation of employee benefits)	-26	44	54
Items that may be recognised in profit or loss at a later date:			
Translation differences from foreign units	455	2,296	-3,328
Other comprehensive income, net	429	2,340	-3,274
TOTAL COMPREHENSIVE INCOME	18,908	21,282	24,321
Attributable to:			
Shareholders of the parent company	18,908	21,282	24,321

Consolidated balance sheet

(EUR thousands)	30 Sep 2023	30 Sep 2022	31 Dec 2022
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	22,444	13,064	13,476
Right-of-use assets	8,463	5,622	6,893
Goodwill	8,328	7,249	7,178
Other intangible assets	5,750	4,118	4,026
Other financial assets	4	4	4
Deferred tax assets	980	542	362
Other receivables	813	540	614
TOTAL NON-CURRENT ASSETS	46,782	31,139	32,553
CURRENT ASSETS			
Inventories	83,600	90,308	91,798
Trade and other receivables	30,426	37,183	36,416
Cash and cash equivalents	30,192	4,277	7,559
TOTAL CURRENT ASSETS	144,218	131,767	135,773
TOTAL ASSETS	191,000	162,906	168,326
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	1,000	1,000	1,000
Reserve for invested unrestricted equity	23,812	22,184	22,184
Exchange differences	-5,033	136	-5,487
Retained earnings	88,419	60,929	69,728
TOTAL EQUITY	108,198	84,249	87,426
NON-CURRENT LIABILITIES			
Borrowings	24,595	2,157	5,428
Lease liabilities	7,589	4,612	5,222
Deferred tax liabilities	1,492	749	624
Employee benefit obligations	293	332	280
Other liabilities	4,171	1,619	1,619
TOTAL NON-CURRENT LIABILITIES	38,141	9,470	13,173
CURRENT LIABILITIES			
Trade and other payables	41,983	56,992	56,708
Borrowings	1,251	10,740	8,898
Lease liabilities	917	984	1,616
Employee benefit obligations	57	63	57

Other liabilities	453	409	449
TOTAL CURRENT LIABILITIES	44,661	69,187	67,727
TOTAL LIABILITIES	82,802	78,657	80,900
TOTAL EQUITY AND LIABILITIES	191,000	162,906	168,326

Consolidated statement of changes in equity

(EUR thousands)	Share capital	Unrestricted equity reserve	Translation differences	Retained earnings	Total equity
Equity on 1 January 2023	1,000	22,184	-5,487	69,728	87,426
Profit for the period				18,479	18,479
Other comprehensive income			455	-26	429
Total comprehensive income			455	18,454	18,908
Other changes				23	23
Transactions with the owners					
Capital investments ¹⁾		1,627			1,627
Employee share schemes – value of employee services				214	214
Equity on 30 September 2023	1,000	23,812	-5,033	88,419	108,198
Equity on 1 January 2022	1,000	22,185	-2,159	41,867	62,893
Profit for the period				18,942	18,942
Other comprehensive income			2,296	44	2,340
Total comprehensive income			2,296	18,986	21,282
Other changes		-1		-1	-2
Transactions with the owners					
Employee share schemes – value of employee services				76	76
Equity on 30 September 2022	1,000	22,184	136	60,929	84,249

¹⁾ Related to fixed share payment as part of the acquisition of Pennatronics Inc.

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