SCANFIL

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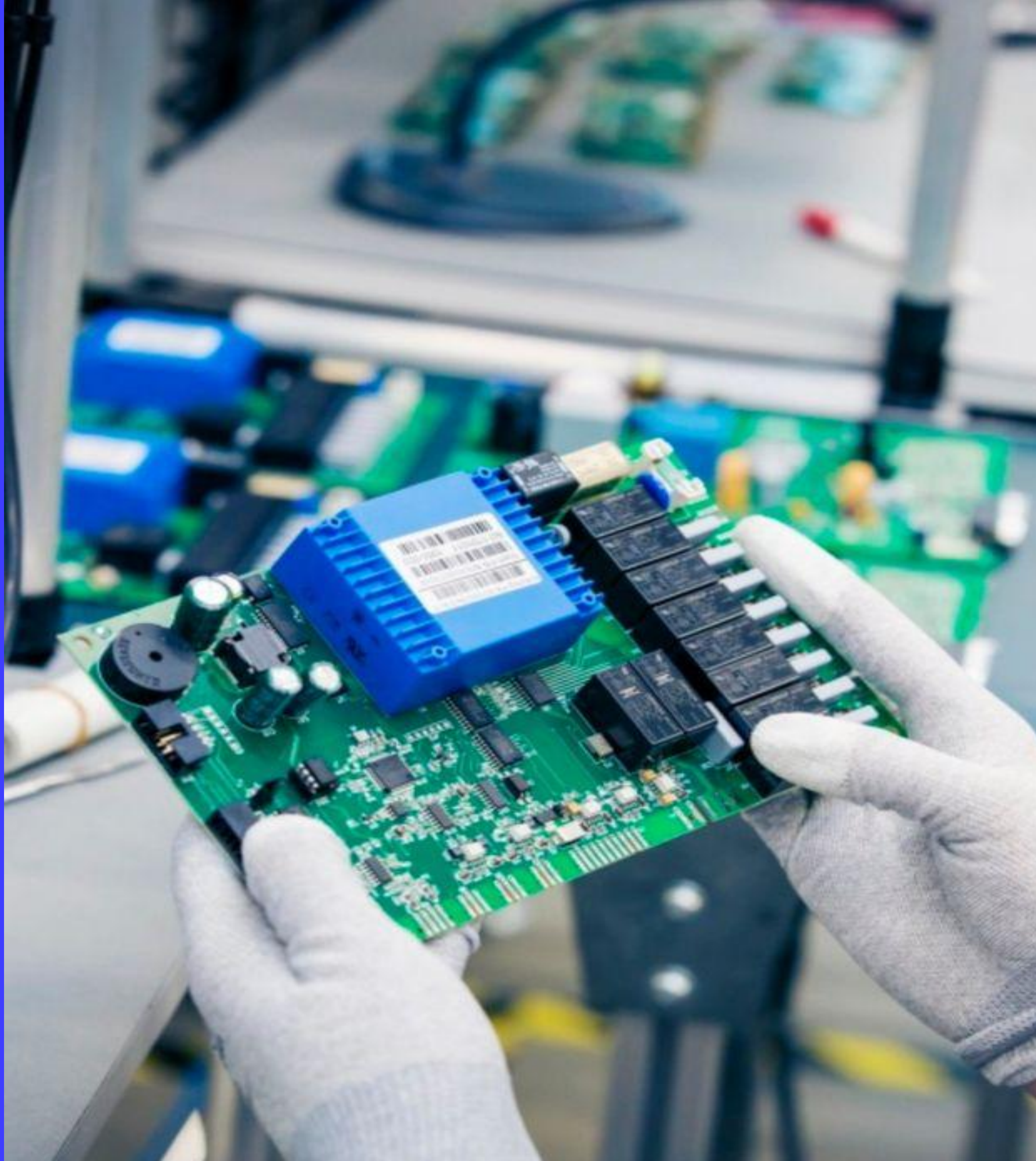
INDERES CORPORATE CUSTOMER

EXTENSIVE REPORT



Topline-driven value creation

We reiterate our Accumulate recommendation for Scanfil and lower our target price to EUR 9.00 (was EUR 9.40), reflecting estimate cuts due to the trade policy situation and an increase in the required return. We expect Scanfil's playbook to remain viable, even though uncertainty related to investment-driven demand is now very high. In our view, the risk-adjusted expected return of the stock across all components is still slightly higher than the required return.

Global electronics contract manufacturer

Scanfil offers its customers the opportunity to outsource the manufacture of products containing electronics and focus on their core operations, which creates flexibility in cost structures and improves capital efficiency for customers. Scanfil manufactures end products especially for the industrial, energy and environmental sectors (green transition), as well as for the healthcare segment. In these customer segments, small production batches, short delivery times and long product cycles, as well as a partial need to be present near customers' product development, enable smaller companies to operate viably, even though competition in the industry is tight. The company has a total of 11 factories divided into the geographical areas of Central Europe, Northern Europe, APAC and the Americas. In our opinion, Scanfil's strengths include a comprehensive factory network, global operating model, a cost-efficient culture, long experience in the industry, and the speed, flexibility and quality of production. The company also has a strong financial history, which reflects the viability of Scanfil's strategy in the long term. In our view, the clearest risks for Scanfil are the global economy, investment-driven demand and, to some extent, increased competition. Scanfil has a production plant in the US, serving the local markets, but due to indirect effects, we see the possible US tariffs and their retaliatory tariffs as negative news and a risk to the company's business.

Scanfil is a growth company

We estimate that the volumes of Scanfil's relevant market are growing by about 3-6% per year in the long term, driven by GDP growth, increased outsourcing of industrial production, electrification and defense investments. The company's market is fragmented, which gives Scanfil a good platform for inorganic growth. In our view, acquisitions are an integral part of Scanfil's growth strategy, which has historically implemented successful M&A transactions. In our opinion, the company has ample debt capacity on its balance sheet to carry out even a large (EV > 100 MEUR) acquisition or several smaller acquisitions. Scanfil has suffered from weak demand in a sluggish economic environment in 2024. The impact of US tariffs and retaliatory tariffs on the global economy will be somewhat negative if implemented, while German infrastructure and defense investments would support activity in Scanfil's main market in Europe. However, we expect the company to remain on a moderate revenue and earnings growth path in the coming years in a slowly improving operating environment (incl. SRX acquisition in 2025). Earnings growth is revenue-driven, while profitability is expected to remain roughly stable around the lower limit of the company's target level (7-8% EBIT%).

The valuation picture is moderate despite the risks

Based on our estimates, Scanfil's P/E ratios for 2025 and 2026 are approximately 12x and 11x, and the EV/EBIT multiples are 9x and 8x. The valuation lags slightly below the company's 5-year medians and is at a discount relative to the peer group, which provides some buffer against estimate risks. We expect slight earnings growth, limited upside in valuation, and a dividend yield of approximately 3% to form an expected return that is slightly higher than the required return over the next year and the medium term. The DCF value is also still above the share price. Therefore, we reiterate our positive view on Scanfil, which has an attractive long-term investment case, despite the increased risk profile due to external factors.

Recommendation
Accumulate
(was Accumulate)

Target price:
EUR 9.00
(was EUR 9.40)

Share price:
EUR 8.08

Business risk

Valuation risk

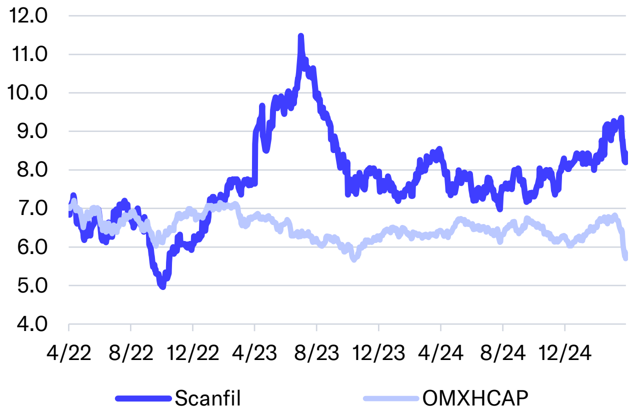
	2024	2025e	2026e	2027e
Revenue	780	833	878	945
growth-%	-13%	7%	5%	8%
EBIT adj.	53.6	57.3	61.5	67.7
EBIT-% adj.	6.9 %	6.9 %	7.0 %	7.2 %
Net income	39.1	43.6	47.1	52.3
EPS (adj.)	0.60	0.67	0.72	0.80
P/E (adj.)	13.6	12.1	11.2	10.1
P/B	1.9	1.7	1.5	1.4
Dividend yield-%	2.9 %	3.1 %	3.3 %	3.6 %
EV/EBIT (adj.)	10.5	9.1	8.2	7.1
EV/EBITDA	7.5	6.6	6.0	5.3
EV/S	0.7	0.6	0.6	0.5

Source: Inderes

Guidance (Unchanged)

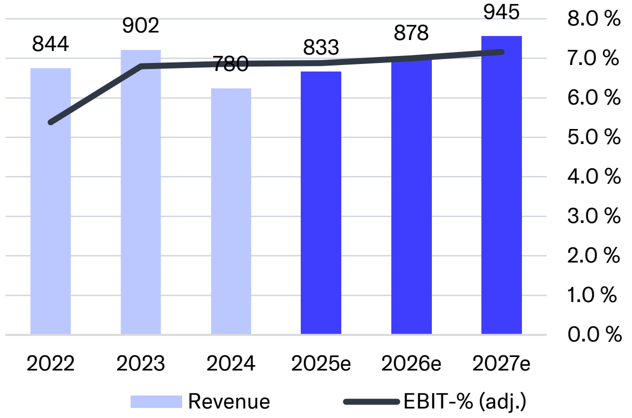
Scanfil estimates that in 2025, its revenue is 780-920 MEUR and adjusted EBIT 53-66 MEUR

Share price



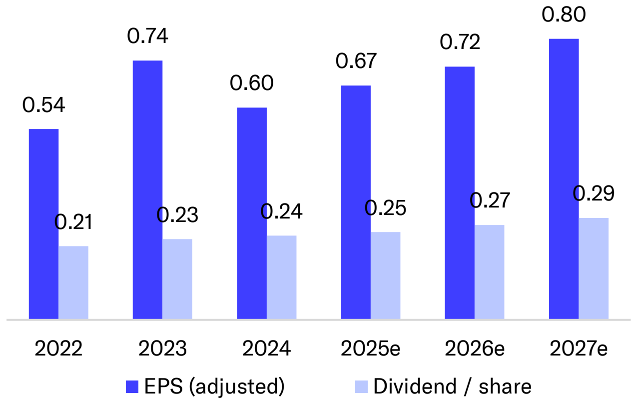
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Organic growth with the market and key customers
- Benefiting from the green trend
- Accelerating growth through M&A
- Strong financial track record
- Increase in acceptable valuation

Risk factors

- Demand comes partly from somewhat cyclical sectors
- Demand is investment-driven and therefore somewhat sensitive to interest rates
- Tightening competition and changes in the competitive field
- Limited pricing power
- Inflation

Valuation	2025e	2026e	2027e
Share price	8.08	8.08	8.08
Number of shares, millions	65.3	65.3	65.3
Market cap	528	528	528
EV	524	505	483
P/E (adj.)	12.1	11.2	10.1
P/E	12.1	11.2	10.1
P/B	1.7	1.5	1.4
P/S	0.6	0.6	0.6
EV/Sales	0.6	0.6	0.5
EV/EBITDA	6.6	6.0	5.3
EV/EBIT (adj.)	9.1	8.2	7.1
Payout ratio (%)	37.5 %	37.4 %	36.3 %
Dividend yield-%	3.1 %	3.3 %	3.6 %

Source: Inderes

Contents

Scanfil in brief

Scanfil is an electronics manufacturing services (EMS) partner that operates primarily as a strategic partner for equipment manufacturers focused on industrial products.

1976

Contract manufacturing begins

2002

IPO (Nasdaq Helsinki)

5.5%

Average revenue growth (CAGR) 2016-2024

780 MEUR (-13% vs. 2023)

Revenue in 2024

53 MEUR (6.8% of revenue)

Adjusted EBIT in 2024

3,593 (-2.1% vs. 2023)

Personnel (FTE) at the end of the 2024

SCANFIL

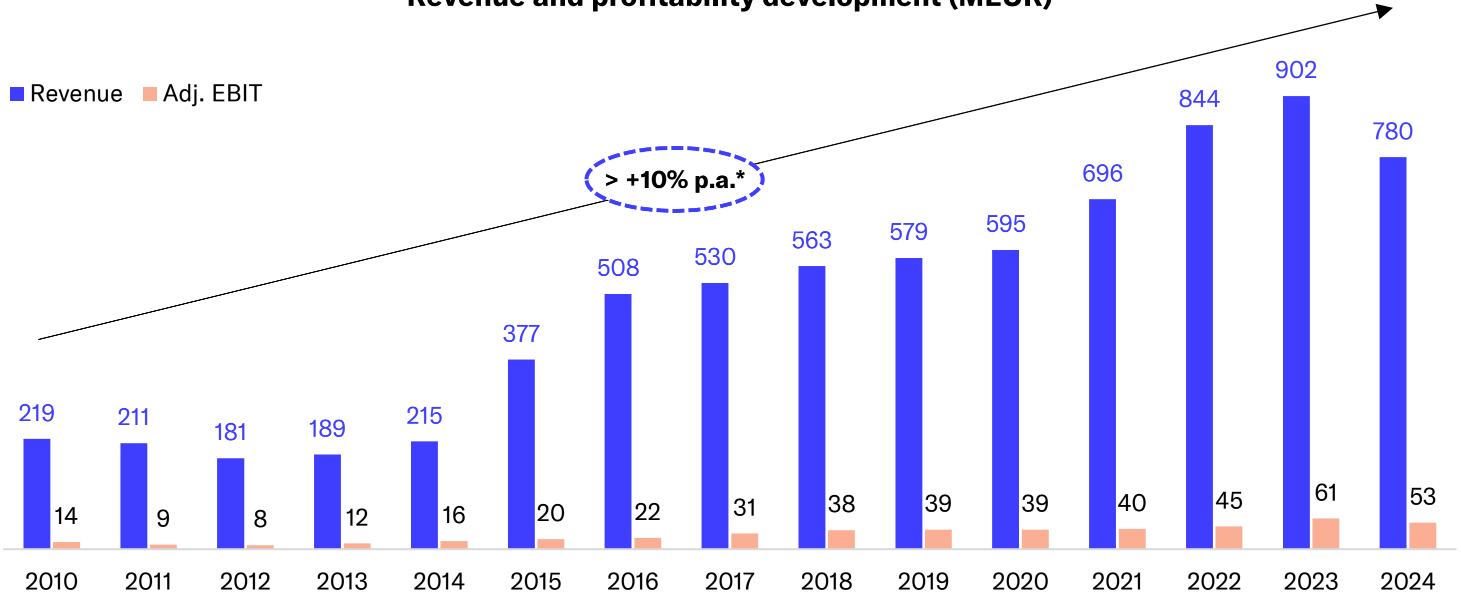
2010-2014

- The telecommunications sector, which has historically been important to the company, began to contract structurally even before the financial crisis that started in 2008
- Partial demerger from Sievi Capital in early 2012
- Good organic growth season for industrial electronics in 2012–2014
- Improved productivity leads to improved profitability levels
- Preparing for acquisitions (strengthening the balance sheet)

2015-2024

- The PartnerTech acquisition in 2015, which was cheap measured by revenue, raised Scanfil to a new size class
- The extensive restructuring measures implemented in the units acquired in 2015-2016 reduce fixed costs
- The efficiently tuned production machinery shows its strength in a good market in 2018-2019.
- Strategic HASEC acquisition in 2019
- Scanfil successfully adapted to the COVID crisis in 2020
- Strong demand in 2021-2023 and the easing of material challenges in 2023 that limited profitability in 2021-2022
- The market situation normalizing in 2024

Revenue and profitability development (MEUR)



Source: Scanfil, Inderes
*Average revenue growth (CAGR)

Company description and business model 1/4

Contract manufacturer skilled in turnkey deliveries

Scanfil is a vertically integrated contract manufacturer positioned in industrial electronics, focusing especially on the integration of electronics and various system product packages. At the level of daily operations, this means that Scanfil can manufacture the entire product or sub-assembly for the customer (i.e. an OEM company). This allows the customer to allocate resources more efficiently to the core functions of their business model, such as R&D, sales and marketing. Naturally, production outsourcing also brings flexibility to OEMs in terms of capacity and cost management.

Europe drives the business

In 2024, Scanfil's revenue was 780 MEUR and adjusted EBIT was 53 MEUR. Scanfil's business is strongly driven by the European economic area, as over 70% of its revenue came from this region in 2024. Of other geographical areas, China with approximately 15% revenue contribution and the US with slightly under 10% contribution are important to the company. The geographical distribution of revenue is based on the location of the end customer, not the company's own production plant.

In 2024, Scanfil's largest single customer accounted for approximately 13% of revenue, while the ten largest customers accounted for some 55% of total earnings flow for the year. Over the past year, the share of the largest customer has increased slightly, and that of the 10 largest has decreased some. Although Scanfil's customer portfolio is reasonably concentrated, we do not consider the customer risk particularly high considering the industry. Our view is supported by the mature development stages and business quality of Scanfil's key customers, the long duration of these customer relationships, Scanfil's competitiveness and, in our view, solid customer-specific market shares, as well as the largest customer's overall reasonable share of revenue. The acquisitions made over the last decade have also diversified customer risks, which in turn has lowered the company's overall risk profile.

Business structure

From the beginning of 2025, Scanfil reports its financial earnings in four geographical segments: APAC, Northern Europe, Central Europe, and the Americas.

In 2024, **Central Europe** was Scanfil's largest business area. Last year, it generated 39% of the company's revenue and 42% of the adjusted EBIT. Thus, the region was slightly more profitable than the group average, with an adjusted EBIT margin of 7.4%. The Central Europe region includes a major factory in Sieradz, Poland, as well as smaller factories in Myslowice, Poland, and Wutha, Germany.

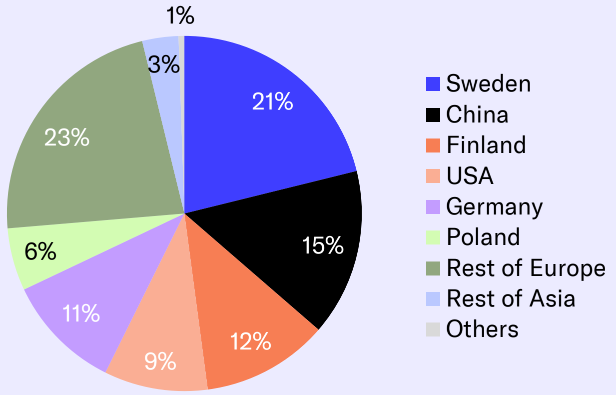
Northern Europe was the second largest business area, accounting for 33% of the Group's revenue last year and 26% of adjusted EBIT. The profitability in the region was the Group's weakest, with an EBIT margin of 5.4% last year. In our view, Northern Europe, which serves smaller customers on average, has suffered especially from the sluggish economic conditions in Finland and Sweden. The Northern European region includes factories in Malmö and Åtvidaberg in Sweden, Sievi in Finland, and Pärnu in Estonia.

APAC generated 24% of Scanfil's revenue last year and 28% of its adjusted EBIT. Thus, the company reached an adjusted EBIT margin of 7.8%. APAC has a large and efficient factory in Suzhou, China that serves the local market. Scanfil's Chinese operations developed well last year,

SCANFIL

- Over 45 years of operational history and high level of technological expertise
- An efficient and viable production facility network on a global scale
- Successful positioning in industrial electronics customer segments
- Long customer relationships with strong equipment manufacturers in their own areas

Revenue distribution based on the location of the customer (2024)



Source: Scanfil, Inderes

Company description and business model 2/4

at least when compared to the development of the Chinese macroeconomy, as Chinese revenue grew by 6% last year. APAC improved its margin to well above the Group average before the SRX acquisition, which was completed at the beginning of Q4'24 and diluted the region's margin in Q4'24. With the SRX acquisition, APAC acquired factories not only in China but also in Malaysia and Australia.

The Americas is Scanfil's smallest geographical area. It accounted for 5% of the Group's revenue and 6% of the adjusted EBIT. The profitability of the Americas was the best in the Group, with the adjusted EBIT margin reaching 8.6% last year. We believe the Americas benefited from the better economic conditions in the USA compared to the rest of the world last year, and from the increased capacity due to investments. The only factory in the Americas is in Atlanta, USA.

Since the beginning of 2024, the company has reported its revenue through three customer segments. These segments are:

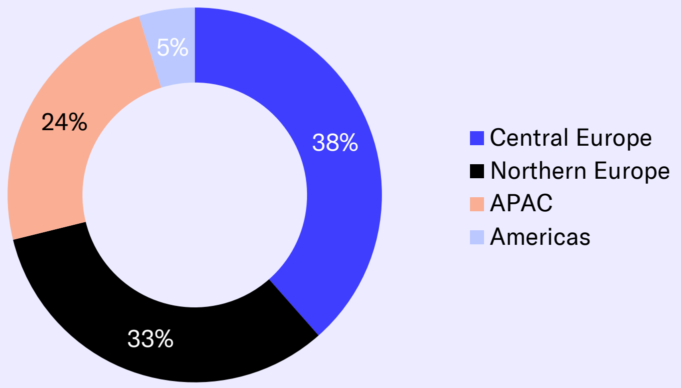
Industrial which generated approximately 47% of Scanfil's revenue in 2024. Typical products in the segment include elevator control units, automation and access control systems, vending machines, radio systems, reverse vending machines, and slot machines. We believe the largest customers in the segment are established industrial companies like KONE, Valmet and Toyota Material Handling. The segment is driven by investment-driven demand, so the segment is cyclical to some extent. However, within the segment, customers progress in different investment cycles.

Energy & Cleantech accounted for approximately 34% of Scanfil's revenue in 2024. Typical products in the segment include inverters, frequency converters, switches, energy systems, and automated collection and sorting solutions. The segment's customers include players that focus on high-tech applications like ABB and Tomra. The growth outlook for Energy & Cleantech is good thanks to the green transition, although last year was spent digesting the problems caused by post-COVID overheating and economic challenges. The EU's carbon dioxide emission reduction targets and the green energy transition resulting from the war in Ukraine may further improve the segment's growth outlook. The basic nature of demand is investment-driven, and especially the situation in the financial markets can impact the segment's demand and growth rate.

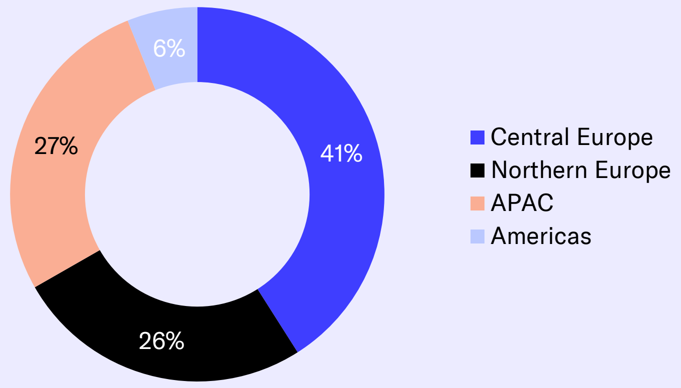
Medtech & Life Science accounted for approximately 19% of Scanfil's revenue last year. Typical applications for the segment include various measurement and analysis instruments, dental chairs and weather observation equipment. Reflecting this product portfolio, typical customers include companies with a strong market position and competitiveness, such as Planmeca, ThermoFisher Scientific and Vaisala. In our view, the product cycle of the segment is long and demand is stable, which by default makes this business more defensive than the other two segments. The growth outlook is also generally good, and in our opinion, the segment contains pockets of the market with very attractive margin potential.

As a whole, we find Scanfil's business structure balanced and the company is not too dependent on the development direction or strength of a single customer industry. In addition, the growth outlook for the underlying segments is generally healthy, and their growth should be faster than that of the contract manufacturing market.

Revenue distrubution by area (2024)



Adjusted EBIT distribution by area (2024)



Company description and business model 2/4

Geographically, Europe's weight is still significant, but at least after the SRX transaction, Scanfil is a full-fetched global company. This creates a good starting point for Scanfil for long-term value creation. Due to the diversified structure of revenue across different segments, cyclical differences within segments and the global nature of the business, the direction of the portfolio has also historically been quite stable and predictable despite the largely investment-driven nature of demand.

Product manufacturing is at the core of the vertically integrated business model

As a contract manufacturer, Scanfil has practically no customer-independent product development and design functions typical of equipment manufacturers. Thus, the integration of electronics into product assemblies is at the core of Scanfil's Group-level business model, even though the business model consists of several processes by which the company fulfills parts of its customers' value chains. Scanfil's operating model is vertically integrated, which enables the company to offer its customers comprehensive production and service packages (incl. supply chain management for the entire product lifecycle) in addition to manufacturing. Service sales accounted for 46 MEUR or 6% of Scanfil’s revenue in 2024.

Contract manufacturers' production lines are typically standardized, making it quite difficult to gain a relative advantage in the industry through strong technological expertise or capital investments. Instead, Scanfil's turnkey delivery model still has a relatively large number of personnel-intensive processes, and especially the people who manage these processes are variable parts, even though the industry is trying to increase automation rates. Relatively high personnel intensity and technological development (e.g. utilization of automation and AI) have increased and continue to increase the level of competence required from employees. In our view, the operating model itself does not create actual competitive advantages for Scanfil, but the company's strengths derive especially from the scale of operations, the global and efficiently performing production plant network, and the cost-effective and -conscious corporate culture.

Long customer relationships are important

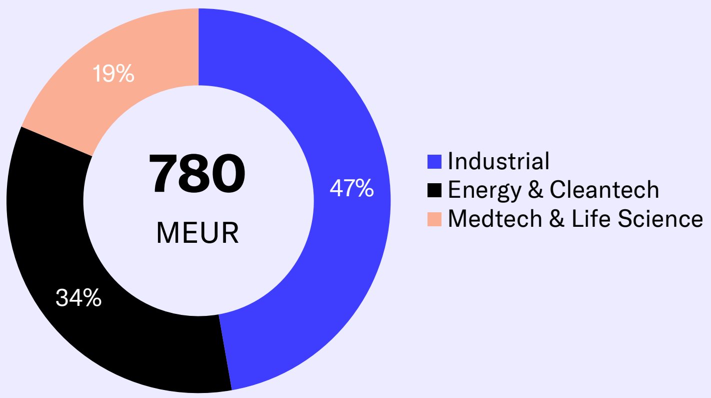
Due to the earnings logic of contract manufacturers, long-term customer relationships are crucial. We believe the strengths of Scanfil's operating model, which is geared towards turnkey deliveries, are particularly evident in long-term customer relationships, accommodating the gradually increasing volumes of equipment manufacturers and the resulting need for additional services. Of course, long-term customer relationships are also a result of high-quality services that create added value for customers.

Historically, Scanfil has also been very successful in this respect, and key customers have practically never been lost. Customer satisfaction, which fell in 2022 due to temporary delivery challenges caused by component shortages and exceptionally high inflation, clearly recovered in 2023-2024. We feel long customer relationships reflect both the durability of Scanfil's key strengths and its successful positioning in industrial electronics with good opportunities and, within it, in customers with good competitiveness. In particular, the last component, and thus the success of customers in their businesses, is critical to Scanfil's growth and shareholder value creation due to the dynamics of the industry. On the other hand, Scanfil's key account portfolio is heavily weighted towards stable and large companies, and explosive growth

Customers*

PLANMECA
ABB
TELESTE
VAISALA
Valmet
TOMRA
ThermoFisher SCIENTIFIC

Revenue distribution by segment (2024)



Source: Scanfil, Inderes

* Over 100 customers from a wide range of industries

Company description and business model 3/4

is also unlikely on their coattails, although increasing customer-specific market share may to some extent enable faster growth than the customer's growth (and vice versa).

Order book is structurally short

Fluctuations in contract manufacturer demand can be strong, as customers typically use contract manufacturers as buffers for variations in their end-use demand. Scanfil has long-term framework agreements with its key customers, which are specified into non-binding annual and monthly estimates. These estimates typically only turn into hard orders 4-6 weeks before delivery, so the order book is structurally short. In the unstable global supply chain situation of 2021-2022, order books and estimates reached well beyond normal (even 1-2 years ahead), but in our view, visibility has returned to approximately the long-term average level as supply chain problems have practically dissolved.

Despite the structure of the order backlog, components are acquired clearly before the forecasts are converted to orders. This puts pressure on the company's working capital management, as the market prices of components can vary significantly depending on their availability. However, framework agreements with customers enable Scanfil not to bear the full risk of front-loaded material purchases, but if the estimated order is cancelled, the responsibility for the components purchased to the inventory remains with the customer. A short order backlog may also make it difficult to manage the company's order/supply chain and cause surprises when demand estimates fail, as capacity does not fully flex in the short term. Incorporating the industry's earnings logic, we do not believe this principle will change, so the company must maintain operational flexibility and tools for this (e.g. the use of agency-hired labor) also in the future.

The cost structure is light

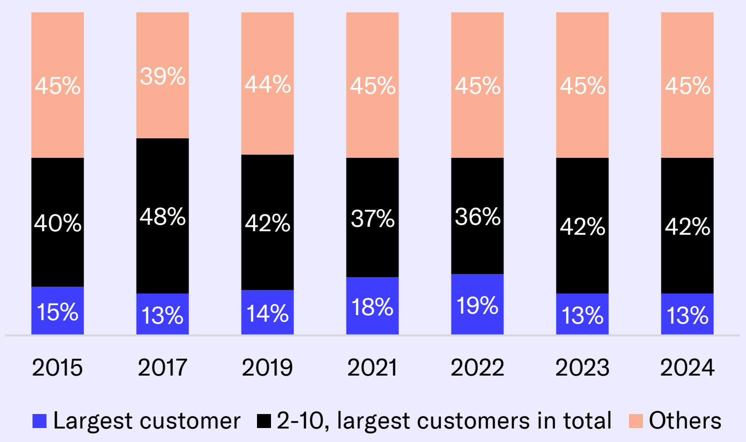
We estimate that approximately 85-90% of Scanfil's total costs are variable and 10-15% are fixed, which means the company's cost structure is flexible. Low fixed costs are mainly explained by the fact that the company does not need its own product development (i.e. the IPRs belong to the customer) and fixed resources tied to it. Fixed costs related to factories are also reasonable, considering the relatively light nature of manufacturing.

In addition, the company's organizational structure is light for its size and its culture is cost-conscious. Due to the light cost structure, Scanfil's realizable economies of scale are quite limited, and revenue growth does not scale to profitability with a particularly large lever after reaching a certain base level. On the other hand, a light cost structure allows reasonable flexibility in operating costs. In the big picture, the light cost structure and reasonable short-term flexibility give Scanfil good tools in normal circumstances to achieve a satisfactory margin level (and healthy cash flow) even in a declining revenue environment. As a result, the company has never made an operating loss, and margins have remained at or above a satisfactory profitability level even in weak market conditions.

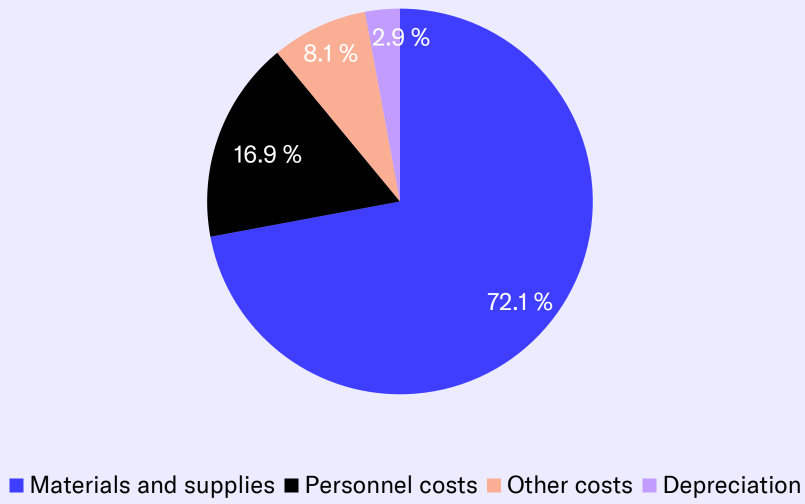
The business is capital light

The company's business operations don't tie up much capital, even though the company operates in the manufacturing industry. In 2024, fixed capital as a percentage of revenue was approximately 12% (incl. IFRS 16), which is a moderate level. Relative to the balance sheet total, the share of fixed capital was, in turn, just under 18%, and the message it indicates is similar. This is mainly explained

Customer structure



Cost structure (2024)



Source: Scanfil, Inderes

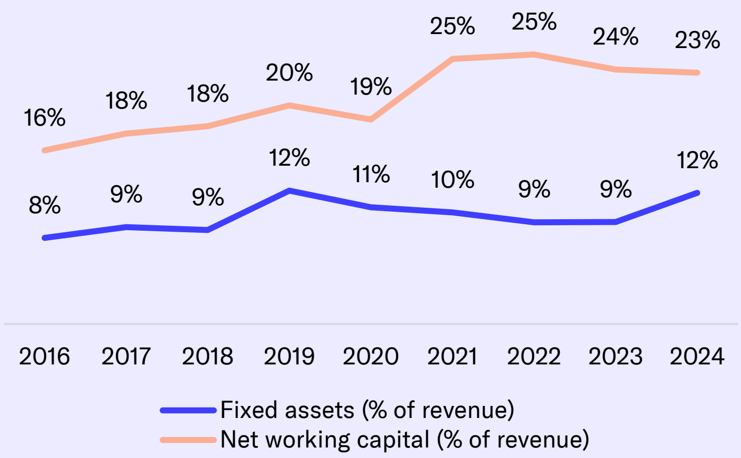
Company description and business model 4/4

by the nature of the operations, which are more personnel-intensive and lighter in terms of equipment than the process industry. In the industry, equipment investments can be made in a fairly linear relationship with demand growth, if the wall and floor space of the factories allows it. This gives players some leeway in their investments compared to current demand (cf. process industry), and contract manufacturers have typically avoided long-term overcapacity situations that destroy margin levels. Scanfil has typically invested 2-3% of its revenue, which we believe is a sufficient level for the company also going forward.

Scanfil's operations have typically tied up about 20% of net working capital, but since 2021, the level has been clearly higher due to component availability challenges, and the situation has not yet fully recovered. At the end of 2024, the turnover rates of trade receivables and accounts payable were slightly negative (i.e. trade receivables > accounts payable), but in the longer term, these items have largely offset each other. Thus, the net working capital committed by the company consists mainly of inventories, on which challenges have also focused in recent years. We also estimate that the company will normalize its relative working capital efficiency in the coming years as demand and supply chains stabilize. Across the board, contract manufacturing is rather working capital intensive even in normal circumstances, and its commitment strains Scanfil's free cash flow, especially during volume growth (i.e. 1 MEUR of additional revenue requires 0.2 MEUR of financing to cover the working capital need).

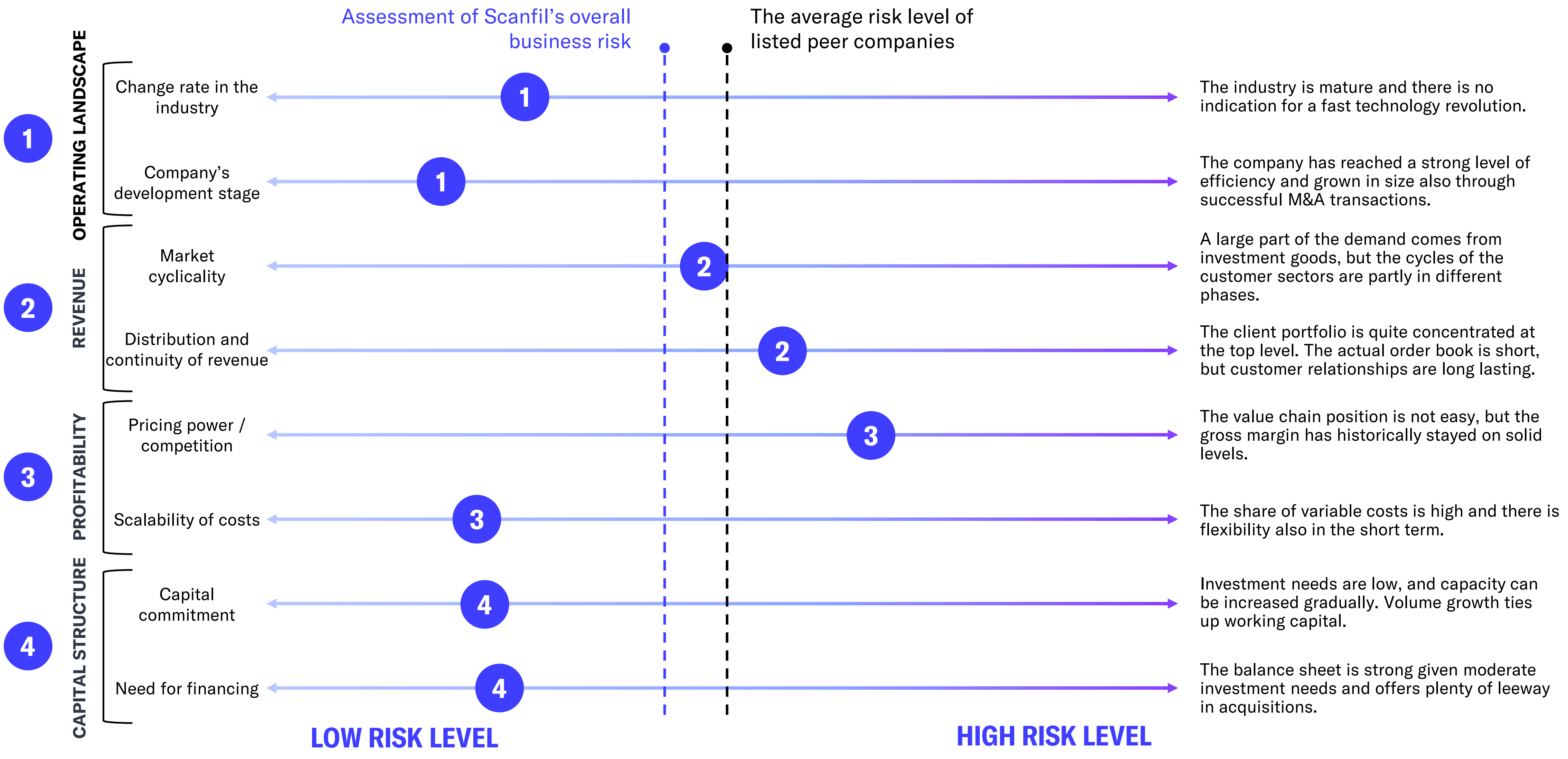
Overall, moderate capital commitment is a positive thing, as the efficient use of capital creates a good basis for achieving high rates of return on capital and thus for creating shareholder value. In addition, a moderate capital commitment improves the company's dividend distribution potential and its ability to carry out acquisitions.

Capital commitment



Lähde: Scanfil, Inderes

Risk profile of the business model



Investment profile 1/2

Scanfil is a growth company

Scanfil's track record of profitable growth in recent years is mainly good, and we feel the company is profiling itself as a profitable grower. Our view is supported by both healthy organic growth prospects and the inorganic growth opportunities offered by the fragmented structure of the industry and enabled by Scanfil's ambitions. Scanfil's cash flow profile is healthy, and historically, the company has also aimed to gradually increase its dividend. The company has achieved the status of a European dividend aristocrat. However, we primarily see Scanfil as a growth company and believe that the role of dividends in the expected return is limited. Focusing on growth makes sense for longer-term value creation, as there is ultimately limited room for margin improvement even in light of the company's targets (i.e. tenths of a percentage point).

Strengths and value drivers

We believe that Scanfil's key value drivers and strengths are:

Cost-effective culture and operating model: Scanfil has historically grown strongly but at the same time profitably. Thus, growth has not been sought by sacrificing margins. In line with the industry framework, Scanfil's long-term average profitability has been quite good, and we believe this mainly stems from the company's cost-effective operating model and culture. Maintaining an efficient operating model and a mindset that emphasizes cost control will continue to be important, considering the structural characteristics of the industry (e.g. chronic price pressure), and we believe this is a key part of daily operations.

Organic growth: In Scanfil's customer field, end demand typically grows at about the same rate as GDP, and growth is also supported by the relatively low outsourcing rates in the industrial sectors. These starting points should enable slightly faster growth than global GDP on an annual level, which, considering the cost logic of the industry, should also be reflected in earnings. In addition, we believe that the company's efficiency and broad overall offering enable moderate customer-specific market share gains.

M&As: The contract manufacturing market is structurally very fragmented, and we believe that consolidation will continue in the future as chronically tight competition forces players to streamline their operations and seek economies of scale in procurement. This should offer companies like Scanfil good acquisition-driven opportunities to both increase scale and reduce the risk profile (i.e. expand the customer base). Scanfil's previous track record of M&As creating shareholder value is mainly good, and we believe that the expected value of the M&A option is positive for investors.

Small increase in profitability: Before the PartnerTech acquisition, Scanfil reached an EBIT margin of 7-8% at best. In our view, the portfolio acquired from the deal is not structurally weaker than the old Scanfil, so we believe that the company should be able to improve its EBIT margin from just under 7% in 2024 to its target range of 7-8% in the coming years. Sustainably increasing the profitability level to within the range would be a good margin level considering the industry's earnings logic, even though some peers have reached higher levels. We believe exceeding this limit would require growth from the company, especially in its existing factories. The relatively small improvement potential in the profitability from this year's level highlights our view that most of Scanfil's long-term value creation must come through organic and inorganic growth.

Summary of the SWOT analysis

Strengths	Weaknesses
▪ A global, efficient and flexible factory network ▪ High-quality customers and a good position within them ▪ Long operational history and good reputation ▪ No dependence on a single industry	▪ Order book and visibility structurally short under normal circumstances ▪ Customer portfolio is relatively concentrated ▪ Pricing power is limited in both directions of the value chain ▪ At its current size, organic successes in customer acquisition are slow to materialize
▪ Long-term growth drivers in customer segments are healthy ▪ The degree of outsourcing of industrial electronics is still moderate ▪ The industry structure offers good opportunities for M&As ▪ Profitability still has some room for improvement	▪ Losing a key customer / customer-specific challenges ▪ Slipping from the cost-effective approach ▪ Failure in M&As ▪ In the longer term, structural changes in the competitive field
Opportunities	**Threats**

Source: Inderes

Investment profile 2/2

Weaknesses and risks

We believe Scanfil's main weaknesses and risks are:

Demand fluctuation and cyclicality: A majority of Scanfil's revenue comes from investment goods, the demand for which is susceptible to several factors tied to the global economy and politics. Thus, sudden changes in demand can negatively impact the company's revenue and EBIT. This is further emphasized by the fact that due to the dynamics of the industrt the hard order backlog is short. In the longer term, thanks to the flexibility of its cost structure, the company has good prerequisites to adapt its operations to volume changes, and in practice, the predictability of its business has also been quite good. The customer portfolio that is spread across several industries and thus different cyclical stages also provides a buffer against demand changes.

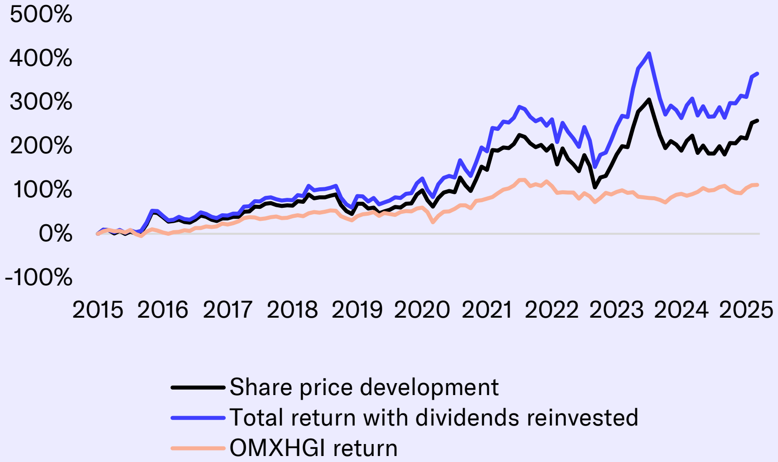
Loss of a key customer: Scanfil's customer portfolio is still concentrated, with the largest customer generating 13% of revenue in 2024 and the top ten generating 55%. The revenue from the largest customers likely includes deliveries from several factories and from several products (i.e., decision-makers are different parties at the customers), so losing an entire customer is not particularly likely. In addition to actually losing a customer, Scanfil also carries a risk that the state of customers' businesses deteriorates. In our opinion, Scanfil's key customers are strong and well-established players in their respective fields, and we believe that the company's position within these customer relationships is also good. These factors limit the risks associated with individual customers, but due to a certain degree of concentration at the top level, we still see some customer risks associated with the stock, at least in the eyes of investors.

Pricing power: Scanfil's value chain position is not easy, as the company faces price pressures from both component suppliers and end customers. As a result, the company may have its work cut out to defend its gross margins and/or prevent working capital from growing if customers' end-product prices face downward pressure and/or component prices face upward pressure. Looking at the longer history, however, Scanfil's gross margins and working capital levels have been stable. In our view, the company continues to have good prerequisites for this, reflecting the healthier competitive dynamics of industrial electronics and the strategic partnerships formed with key customers (i.e. the threshold for changing contract manufacturers is quite high), but fluctuations are possible in the short term.

Changes in the competitive field: Increased competition in Scanfil's key areas may to some extent increase margin pressure. In our view, possible structural changes could materialize through both organic and inorganic movements. Due to the industry's earnings logic, organic changes in the competitive landscape typically materialize slowly, but M&As can change the balance of power more quickly.

On the other hand, changes in the competitive field can also be driven by big players on a global scale if they try to break into industrial areas that are relevant to Scanfil. Tightening of the competitive landscape can also be driven by smaller companies than Scanfil. For example, many Nordic companies (e.g. Kitron, Incap and Note) have greatly improved their performance and become increasingly relevant players for customers. Structural changes in the competitive landscape will only become more evident in the medium term, and in the short term, risks related to the competitive situation are strongly linked to the relative competitiveness of contract manufacturers, such as price, quality, and factors related to security of supply.

Return of Scanfil's stock (2015–2025)



Scanfil's investment profile in brief

Strengths and value drivers	Weaknesses and risks
+ Cost-effective culture and operating model	− Certain variation in investment-driven demand
+ Organic growth	− Losing a key customer
+ M&A transactions	− Pricing power
+ Small upside in profitability	− Changes in the competitive field

Source: Bloomberg, Inderes

Industry and competitive landscape 1/6

Huge overall market

According to estimates by various research companies, the combined revenue of the global electronics industry in 2022 will be around USD 2,200 billion. We do not believe that the total market will grow radically in 2023-2024, considering the economic turbulence. The whole market can be divided into four parts based on the business models of the companies operating in it: equipment manufacturers (OEMs), outsourced design and manufacturing (ODMs), contract manufacturers (EMSs) and component distributors (technical wholesalers and resellers). These operating models differ in the types of underlying value chains and who owns the intellectual property rights of the end product. Since Scanfil is a contract manufacturer, the company does not have independent and fully customer-independent product development. Thus, the company does not own the rights to the applications it manufactures. However, different operating models, excluding distributors, compete to some extent with each other (e.g., manufacture / buy decision), which is why we believe that it makes sense to look at the entire electronics market as the relevant starting point for Scanfil's target market.

The contract manufacturing market itself is estimated to be around 550 BNUSD by various research companies. Thus, the playing field is huge compared to Scanfil's own size class, and we do not see the market size in itself as limiting the company's growth opportunities in the foreseeable future.

Asia reigns supreme in size

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

With the degree of personnel intensity of operations and constant price pressure, we believe that actual volume production will continue to focus on low-cost areas. The industry is likely trying to reduce risks related to individual countries, and especially China, due to the supply chain risks exposed by the COVID pandemic and the tighter geopolitical situation. Thus, we believe the primary role of Western production plants is to focus on narrower niche segments with higher requirement levels, fast deliveries, and product development series.

Scanfil's selected competitors/peers

Foxconn, Zollner, SIIX, Jabil

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

GPV, Kitron, Fideltronik, Neways, Cicor, BMK

Main competitors with resources for large service packages and focus almost entirely on industrial electronics applications

NOTE, InCap, HANZA, Lacroix

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

Source: Inderes, companies

Industry and competitive landscape 2/6

The continuous development of production chains that are gradually moving closer and production technologies (e.g. automation) should partly support the strategic roles and competitiveness of Western units, also given volume production of a reasonable scale. In addition, there is room in Western countries for manufacturing defense sector products, as risk management is even more important than cost-effectiveness for them.

Four segments on the market

The market can be divided into four segments: consumer electronics, industrial electronics, electronic components, and public sector electronics (e.g. defense).

In consumer electronics, the technical requirements for applications are not very high, but the delivery volumes are large (low mix / high volume). The successful contract manufacturers in this segment are huge players with vast production resources. In consumer electronics, product cycles are short, lasting about 2-3 years. Competition is price-driven and fierce, which keeps margins thin. However, thanks to large volumes, managing working capital is relatively easier for a giant company in the industry.

Scanfil is positioned especially in industrial electronics, where product technical requirements are high and deliveries are clearly smaller than in consumer electronics (high mix / low volume). In industrial electronics, product cycles can be up to 20-30 years, making the contract manufacturer an important partner for the OEM and highlighting the role of own product development expertise and after-sales customer service. This in turn makes the competition in industrial electronics healthier and creates attractive business opportunities also for smaller players.

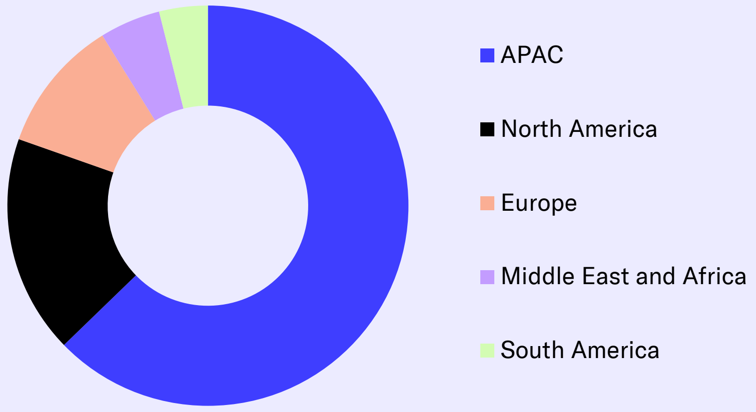
However, a challenge in a business that breaks down into smaller entities may be a greater susceptibility to tie up working capital. The dynamics of public-sector electronics are broadly similar to the industrial sector. Scanfil is not involved in components.

The growth picture is excellent

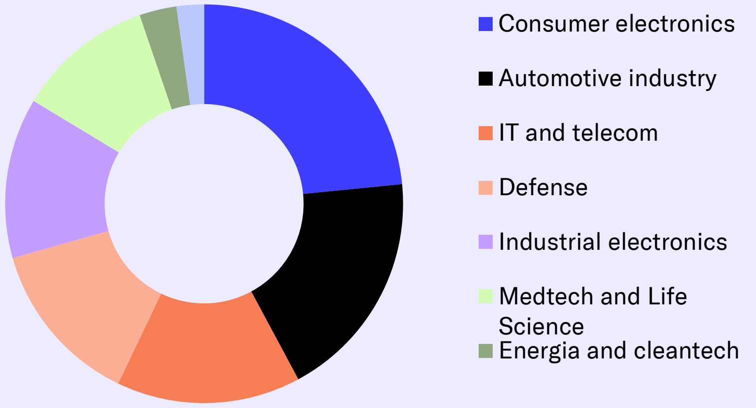
Market growth is driven by global electrification, which is steered by rising living standards, digitalization, an aging population, and the green transition. Supported by these factors, the total market has grown by about 4-5% per year according to various sources, although higher estimates have also been presented, especially for future global growth. The growth rate is expected to remain healthy in the coming years, supported by strong drivers, although a weakening general economy typically eats into the prerequisites for short-term growth (cf. e.g. 2024). Geographically, growth is estimated to be fastest in Asia, which is expected to exceed global growth. In Europe and North America, however, market growth is estimated to remain below global growth, in line with the slower development of the general economy.

Of Scanfil's segments, demand growth in Energy & Cleantech and Medtech & Life Science is expected to be stronger than market growth. The strongest growth outlook for the next few years is especially in the defense sector in Western countries, where an annual growth potential of up to 20% has been mentioned for the coming years as Europe strengthens its military capacity. However, defense is not yet a particularly significant customer segment for Scanfil, considering the overall scale, but we believe that the company will try to strengthen its position in the sector in the coming years.

Geographical distribution of the industry (2023)



Industry distribution by segment (2023)



Source: Scanfil, EMS, Inderes

Industry and competitive landscape 3/6

In addition to global drivers, increasing outsourcing among OEMs has been a market driver in recent years. The industrial logic of this is clear: production outsourcing frees up OEMs' resources for their core operations while generating cost savings. Outsourced production enables OEMs to better manage their capacity and cash flow as investments can be transferred and growing demand met by utilizing contract manufacturers' resources. In addition, reflecting this dynamic, OEMs can achieve certain cost-related flexibility in their typically rather fixed cost structures. As a result, the growth of contract manufacturers has increased more rapidly in recent years than in the electronics market as a whole. We believe that the situation will continue as is, reflecting the overall benefits mentioned above.

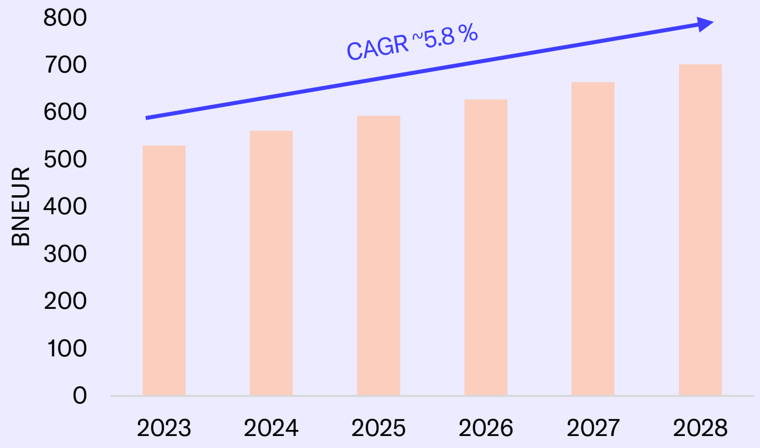
In industrial electronics, the degree of outsourcing has typically been well below consumer electronics, as smaller and more demanding deliveries raise the threshold for larger outsourcing. However, we estimate that, with the benefits offered by contract manufacturers, reducing own manufacturing resources will become more popular among industrial electronics OEMs and especially among new companies entering the market (i.e. no large-scale production investments). Considering this we believe that growing demand will increasingly be directed toward competitive contracting manufacturers. We believe that the outsourcing rate of industrial electronics is only around 35%, indicating that even a small increase in the outsourcing rate would offer contract manufacturers a substantial amount of additional sales in an absolute large market. In the defense sector, the rapid need to increase production capacity may also increase outsourcing rates.

Scanfil has a good position

Considering the good long-term growth and profitability potential of industrial electronics, we believe Scanfil is fairly well positioned in the industry. As a reasonably small player relative to the total market, Scanfil is not primarily dependent on market growth, but it does not operate in a vacuum either. Thus, market growth is a positive driver for Scanfil, since attractive niche segments may be ignored by large players as the market grows. On the other hand, a slowdown in market growth would most likely stem from hiccups in the economy, and this would inevitably affect the businesses of Scanfil's customers and thus Scanfil. We consider Scanfil's currently limited exposure to the defense industry, where the outlook is likely to be strong for several years, as a slight weakness in positioning.

Scanfil's operating model is vertically integrated, which makes the company's offering broader than that of a player focused solely on electronics manufacturing and thus brings differentiation. We believe this is particularly emphasized in industrial electronics, where product cycles are long and the customer's product development need is continuous in nature. We feel Scanfil has good capabilities to respond to the challenges posed by the forces (e.g. automation and AI) that are reshaping production processes and customer product applications in a trend-like fashion in the coming years, while also benefiting from the opportunities that arise. Therefore, we see Scanfil's position relative to the electronics market and prevailing trends (incl. energy efficiency, green energy and electrification) as good.

Estimated development of the global EMS market



Growth drivers for the market

Electrification of the world

Rising living standards, digitalization, aging population, and the green transition.

Increasing degree of outsourcing among equipment manufacturers

Source: Scanfil, EMS, Inderes

Industry and competitive landscape 4/6

Plenty of competition

Due to the earnings logic of the industry, contract manufacturers' value chain positions and thus limited pricing power, the basic nature of the competitive landscape is harsh. Despite this, customer retention has typically been good in the industry. We believe this is particularly supported by the fact that the costs of switching contract manufacturers can be high, so customers try to stick to the same suppliers for a long time. OEMs typically only change their contract manufacturers for weighty reasons, such as constantly stretching delivery times, recurring quality problems, and a loss of cost competitiveness. However, the cost of switching is a bit of a double-edged sword, because while it strengthens customer relationships, it also makes it difficult to acquire new customers based on the same logic.

Despite the global structure of operations, the local nature of customer relationships has remained strong. For this reason, Scanfil has many Swedish and Finnish industrial and technology companies as customers, while the company's Central European competitors focus on local market customers. Accordingly, Scanfil's competitive landscape varies regionally and the company partly faces different companies in the Nordics, Central Europe and Asia. In addition to regional factors, the actual peer group is naturally also affected by the underlying industry (i.e. the positioning of competitors) and the customer's size class.

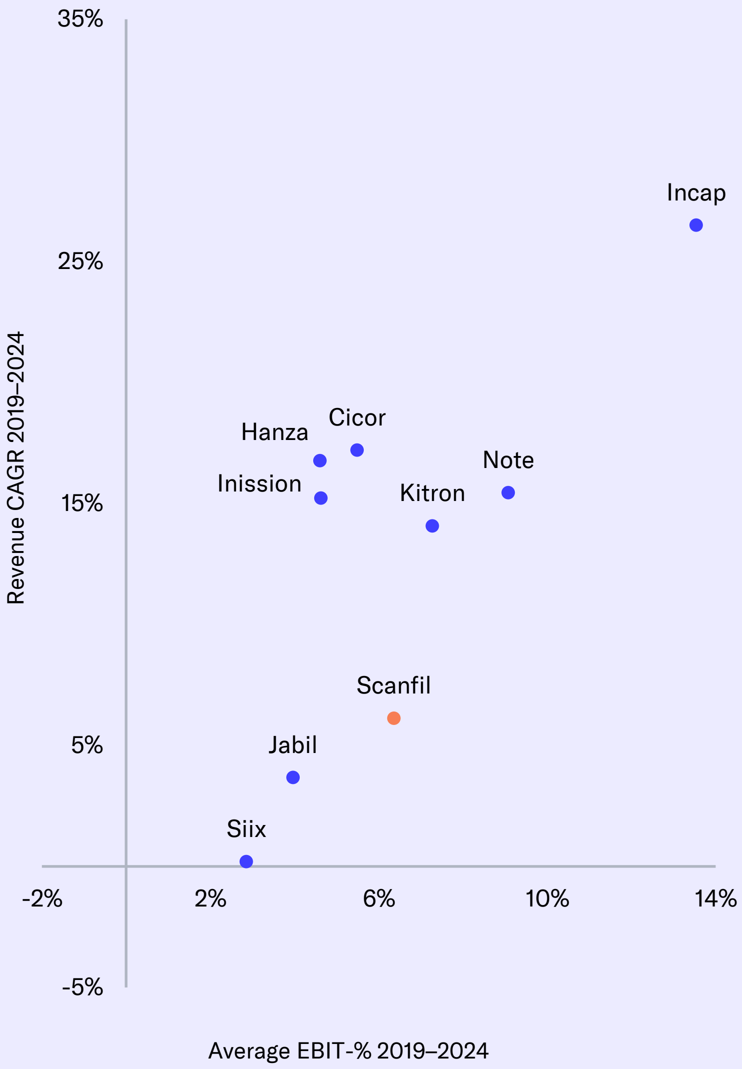
Three-tiered battle

Contract manufacturers can typically be divided into three groups based on revenue.

The largest companies (revenue > 1,500 MEUR) operate extensively across the electronics industry segments, and another common denominator for these players is massive production resources, especially in low-cost regions. Due to their large size, these players have typically operated in the low mix/high volume segments and are thus not very relevant competitors to Scanfil. However, companies in this category cannot be completely ignored, as their extensive operations inevitably extend to customer sectors that are important to Scanfil. In addition, in the context of their financial resources, large companies have strong investment capacity and preconditions to both change the prevailing dynamic of the competitive landscape and break into the areas important to Scanfil. Although this development is possible on paper, we do not consider it to be an acute threat, because we believe that this would also require changes in the thinking and operating models of these giants.

The annual revenue of the second-tier companies is 300-1,500 MEUR. These companies typically operate with global operating models but concentrate on one or more market segments. Mass production of consumer electronics is largely outside the capabilities of these players, but flexibility and agility are still sufficient to bring competitiveness to smaller manufacturing batches and tailor-made customer service. Since Scanfil falls into this category, we believe that the most relevant competitors are also found in this group. In our view, the main competitors among medium-sized companies are the Swiss Cicor, Swedish Note, Danish GPV, Norwegian Kitron, German BMK Electronics, Dutch Neways, Finnish Incap, French Lacroix and Polish Fideltronik.

Financial development of listed players



Source: Bloomberg, Inderes

Industry and competitive landscape 5/6

In addition to medium-sized companies, Scanfil also competes with companies **in the third tier with annual revenue of some 300 MEUR or below**. The resources of companies in this size category are narrower than those of medium-sized players, which means that their service offerings or geographical coverage are also smaller (i.e. not always fully vertically integrated). In addition, the customer base of these companies can be highly concentrated. The key competitive advantages of small companies, on the other hand, are agility and flexibility, special products, and fast lead times. The industry's fastest-growing companies and best profitability in recent years have been found in this area, so the segment can also provide increasing competitive pressure for Scanfil. Scanfil's main competitors in this group also include unlisted local companies.

Consolidation shapes the competitive landscape

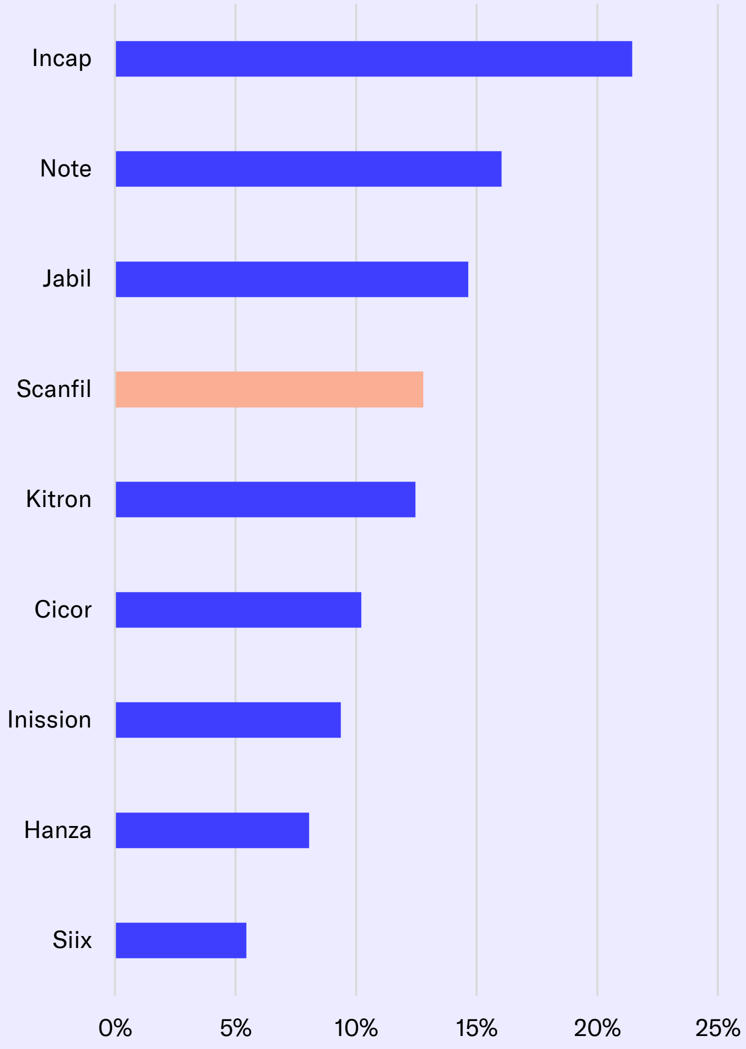
The industry as a whole is very fragmented, with over 2,000 contract manufacturers in Europe alone. The number is even higher in Asia, although the sector is more concentrated in Asia with large players. In recent years, the large number of players and efforts to improve value chain positions have clearly driven the consolidation of the sector. We expect this will continue to affect the structure of the competitive landscape reflecting the industrial logic of the underlying drivers (e.g. mitigating customer risks and pursuit of economies of scale in purchasing). We feel the structure of the industry is favorable for Scanfil, as it offers ample opportunities for inorganic implementation of its strategy.

Scanfil is a strong player in the industry

In recent years, Scanfil's profitability has been among the best in the competitive landscape, which, we believe, reflects the company's largely successful strategy execution and the good effectiveness of its key strengths. In general, there is a strong dispersion in the profitability of European companies in the sector. This highlights the importance of correct positioning and operational efficiency, as the competitive situation in the industry is tough due to, e.g., chronic price pressure. Against this backdrop, we do not think it is justified to expect Scanfil to be able to achieve a significant improvement in margins in the coming years, despite the company's good track record and reputation.

Due to the low capital intensity of the industry, even with reasonably thin profit margins (i.e. EBIT margin 6-8%), it is possible to achieve high returns on capital of roughly 20%, provided that working capital (i.e. the size of the balance sheet) remains at a fairly normal level and the balance sheet is not inflated by goodwill created by unnecessarily expensive acquisitions. Scanfil's return on capital figures have been at the top of the competitive field thanks to good basic profitability and, under normal circumstances, efficient capital utilization. This supports our view that Scanfil is a top-quality company in the industry.

Average ROIC-%
(2019–2024)



Source: Bloomberg, Inderes

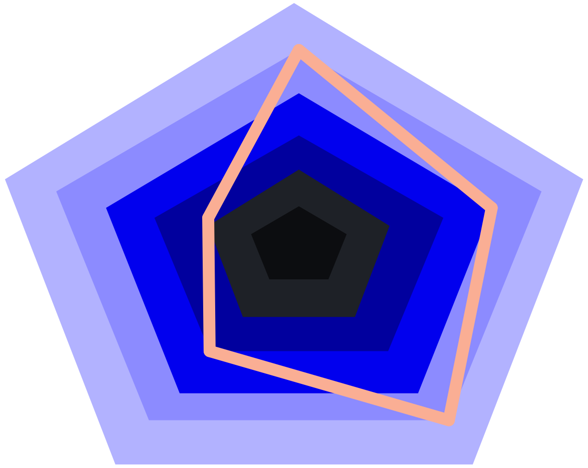
Industry and competitive landscape 6/6

Current competitive situation (significant*)

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

Threat of substituting products (minor*)

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



Negotiating power of suppliers (moderate*)

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

Threat of new competitors (low*)

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

Buyers' bargaining power (significant*)

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

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

Strategy 1/4

Key priority: profitable growth

Scanfil's strategic goal is to grow profitably. We believe the key factors for achieving the goal are strengthening long-term customer relationships, growing with customers, utilizing a comprehensive delivery offering in new customer acquisition, acquisitions, and cost efficiency. Scanfil is committed to being a global player strategically and operationally, which we believe is important given the global business of the company's key customers.

We do not see any significant weak links or major development projects in Scanfil's current operations. This is also indicated by the rather limited profitability differences between geographical areas. Thus, the company can focus on implementing the strategy and creating long-term shareholder value.

The factory network has capability to serve a variety of customers

In our opinion, the key to the contract manufacturing business is the factories' capabilities to serve their customers in an optimal way. This is further emphasized in Scanfil's current operating model, which aims to decentralize decision-making closer to customers at factory level to improve responsiveness and operational efficiency.

Of Scanfil's 11 factories, 6 are located in higher-cost countries, Finland, Sweden, Germany, the US, and Australia. The remaining 5 are located in lower-cost areas in China, Poland, Estonia and Malaysia. We believe factories in low-cost countries are, on average, bigger and play a larger role in serving the company's global key customers, although factories in China and the US, in particular, play a significant role from the perspective of local markets. In China, in particular, we believe that Scanfil applies a business model that relies especially on local markets, which we think makes sense given the large size of the Chinese market and, on the other hand, the specific risks associated with the country.

Correspondingly, smaller factories in countries with higher cost levels must gain competitiveness from flexibility and a broader service selection, which in practice means product and production planning support functions and prototype testing play a bigger role in the service selection. In our estimate, the role of Western factories in the portfolio is also supported by the geographic diversification that may be beneficial in the event of a partial return of supply chains from East to West, as well as in the trade war scenario that is now unfortunately on the table.

In this way, Scanfil can provide growth-oriented and internationalizing customers with a clear path from product development series to global volume manufacturing. We see this further increasing the attractiveness of the company's total offering and gradually raising switching costs. Thus, we consider the factory network to be an essential element for Scanfil's competitiveness.

Ability to offer additional services

More than 90% of Scanfil's revenue comes from product deliveries, but the company offers value-added services (e.g. logistics and minor repair work). In 2024, the company's service sales were 46 MEUR, down by approximately 2% from the comparison period. We see services as an important part of Scanfil's entirety, as they enable the company to serve especially small technology companies in the early stages of their life cycles. Large customers, on the other hand, often have their own resources in areas similar to this offering, although of course some larger customers buy services from Scanfil. In our view, the additional services offered by contract manufacturers also cannot achieve exceptional and clearly higher margins than product manufacturing (cf. the maintenance businesses of engineering workshops), which highlights their roles as complementary parts to core functions.

Growth through organic...

Scanfil seeks organic growth through both established and new customers. This is a natural approach, as the company's customers are well-positioned in their respective industries and have at least moderately strong competitiveness, which makes growing with them attractive. However, many of the company's key customers depend on the prevailing state and direction of the global economy, which limits their growth potential and, to some extent, also Scanfil's. In addition, we estimate that Scanfil's market shares are already reasonably high in some customers, considering the customers' supplier portfolios and the dynamics related to them (large companies have an extensive supplier register). Geographic expansion (e.g. most recently the SRX acquisition) may still open opportunities for the company to win a bigger share of its customers' wallets. However, scraping together significant market share gains from existing customers is hard, and we see smaller-sized customers as a more attractive growth area. In smaller companies, new customer acquisition is also a bit easier. In our view, the company has improved its new sales in the 2020s, as some of its peers were ahead of Scanfil in terms of organic growth rate.

Strategy 2/4

For example, in 2024, the company sold new projects at an annualized rate of 189 MEUR. This should support the company's growth next year, although the scale is difficult to assess due to the lack of a benchmark.

Increasing market share in the smaller end of the current portfolio is also important for risk management, as the customer portfolio is still somewhat concentrated at the moment. However, due to the logic of the industry's earnings, new customer relationships typically start slowly, and for Scanfil, progressing to significant volumes may require several years of cooperation. Thus, especially in the short term, the direction of revenue is very strongly determined by the development of business operations and orders among established customers.

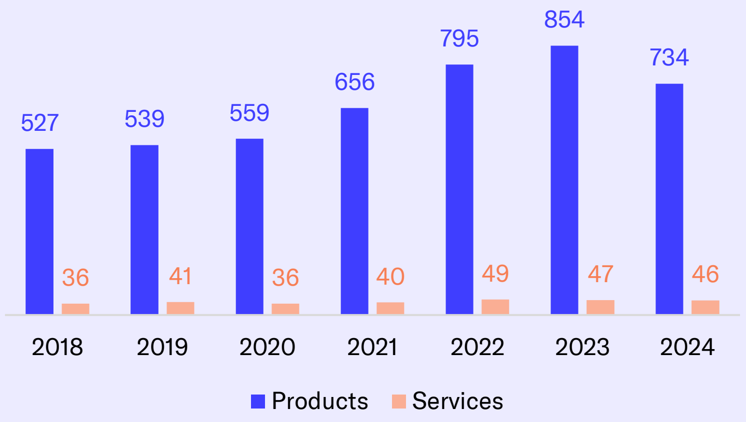
In our view, the company should have a reasonably good capacity for organic growth, as Scanfil expanded its factories in Poland, Germany, China, and the US in 2022 (there is room for further expansions at least in the US). Scanfil also has a 14,000 m^2 construction expansion underway at the Sieradz factory in Poland, although the project was postponed due to the slowdown in market growth, and we believe the company has also sought to implement the investment in a more phased manner than originally planned, as well as improving the efficiency of current production. In Malaysia, the company is investing over 4 MEUR in a new SMT line, which we believe is due to the capacity needs at the factory caused by the Laerdal customer relationship. In addition, Scanfil has continued and will continue to invest in the automation and digitalization of production processes and material management (estimated 6 MEUR in 2024-2028). The aim of these investments is not only growth but also continuous improvement of productivity.

…and in the long term also through inorganic measures

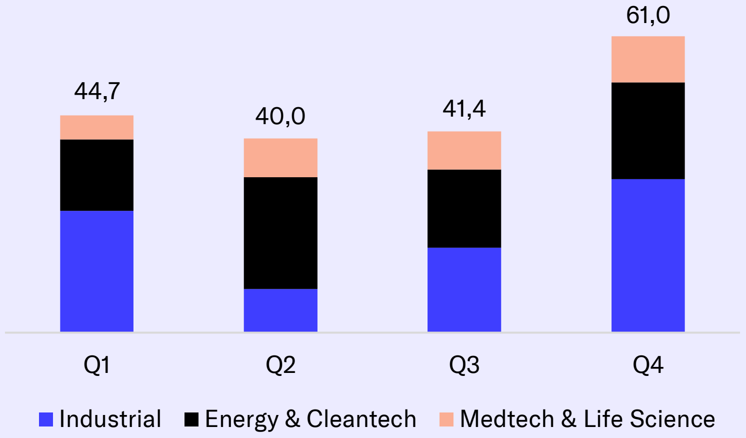
In line with its strategy, Scanfil also seeks growth through acquisitions. In our opinion, the weight of the inorganic line increased slightly in the spring 2024 strategy update. We feel this is supported by the already quite advanced path in margin improvement, as well as the uncertainty affecting organic growth prospects in the prevailing slow-growth global economic environment.

In 2015, Scanfil carried out a large and very successful PartnerTech transaction, while in 2014 and 2019, the company made two smaller transactions by acquiring the German Schaltex Systems and HASEC. In the fall of 2023, Scanfil expanded to Malaysia and Australia with the acquisition of SRX Global. In our view, the small deals (EV under 25 MEUR before earnouts) that have expanded the business portfolio have been strategically good, as they enabled Scanfil to expand its geographical coverage in both Europe and overseas. However, Scanfil's Hamburg factory, which came with Schaltex, was forced to close in 2021 due to profitability challenges. Thus, the deal was not a complete success, although it allowed the company to enter Central Europe and the Medtech segment, and despite the closure, it retained at least most of the factory's customers.

Development of product and service sales (MEUR)



Sales of new projects by quarter (2024, MEUR)



Source: Scanfil, Inderes

Strategy 3/4

Even though the sensibility of acquisitions is always case-specific (e.g., price and business profile), we view Scanfil's acquisition plans positively for the following reasons:

1. **The cash flow profile of an acquisition is usually positive right away** and generates faster results than organic investments
2. **Acquisitions expand the company's customer base** automatically and open both new market areas and possibly also new industries
3. **Affordable acquisitions** (i.e. the multiples of the company being purchased are lower) create shareholder value already in the short term, which also makes the longer-term value creation potential attractive
4. **The industry structure is fragmented**, which offers enough potential mass for carrying out an acquisition-driven strategy

Reflecting this overall picture, we consider it practically certain that the company will accelerate growth with acquisitions in the coming years. When mapping out acquisition targets, we believe that Scanfil will maintain a disciplined and conservative approach in terms of both the quality and price of the business to be acquired. In our view, this is a well-founded approach, considering the usual risks associated with acquisitions. In terms of the location of potential acquisition targets, we believe the company favors the US and Asia (excl. China). In our opinion, Scanfil's even smaller presence in these regions supports the emphasis on overseas countries. In addition, inorganic expansion into the strong growth prospects of the defense sector is likely to attract the company, although this option is probably geographically located primarily in Europe for political reasons.

We do not believe the company will make greenfield investments in the future either, even though the cost of a new factory, some 15-30 MEUR, would not be particularly large in Scanfil's scale. In our opinion, the risk level in such investments is higher than that of an acquisition of the same scale, reflecting, e.g., differences related to the cash flow profile.

Financial targets were updated in 2024

Scanfil changed its financial targets in connection with the 2024 strategy update. The company is now aiming for 10% annual growth over cycles (incl. organic and inorganic growth) and an EBIT margin of 7-8%.

The company has recently exceeded its long-term revenue target thanks to successful organic growth investments, a favorable economic cycle, inflation, and acquisitions. Achieving the target in the future will require success on the same fronts, but we consider it realistic going forward as well. Considering the company's customer structure and the geographical distribution of its business, we estimate that roughly half of the target must come inorganically through acquisitions, assuming that in the coming years, we will be in an environment of slower rather than faster global economic growth. Annual growth will also vary due to the timing of acquisitions and economic cycles.

Financial targets

Revenue growth

10% growth over the cycle

Profitability

Adjusted EBIT margin **7-8%**

Debt servicing capacity

Net debt/adjusted EBITDA below **1.5x**

Dividend distribution policy

The aim is to distribute approximately **1/3** of the Group's annual net result as dividends to shareholders

Source: Scanfil, Inderes

Strategy 4/4

The profitability target is realistic

Scanfil reached its profitability target before the PartnerTech acquisition and is now close to the lower end of the range. In the sector, a few other Nordic companies have also reached and/or exceeded the range, although we point out that in at least some cases, the level of risk has also been higher as a counterbalance to high profitability. Generally speaking, a 7-8% EBIT margin is good for contract manufacturers, and at this level and with Scanfil's typical balance sheet structure, the ROE undoubtedly rises to a level that exceeds the criteria for a quality company (i.e. ROE at least 20%). Overall, the financial targets are also realistic in terms of profitability, given the company's previous track record and the logic of the industry.

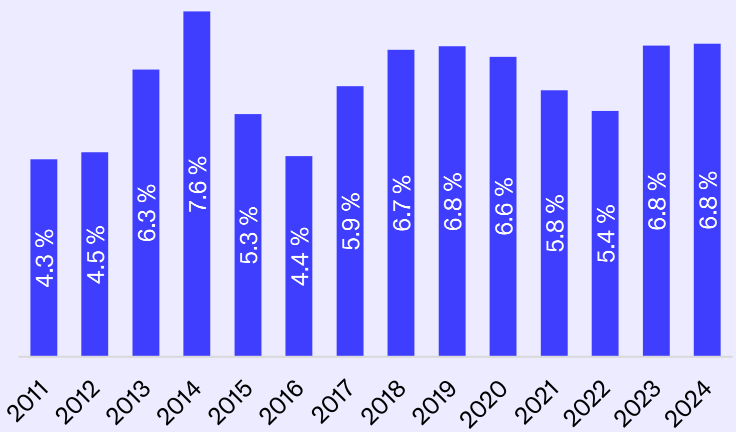
Considering Scanfil's vertically integrated operating model, the slight scaling of the cost level with growth, and continuous efficiency improvements, we believe the company should have the potential to sustainably achieve an EBITDA margin of approximately 9-10% and an EBIT margin of 7-8%. Instead, in our view, achieving profitability at the top end of the Nordic peer group is difficult for Scanfil, due to a customer portfolio that is on average maturer and has more negotiating power than some of its peers. Thus, we see that the value creation potential from margins is moderate, especially when calculated from the longer-term average actual figures, which further emphasizes growth as the most important long-term value driver.

The business can withstand a small leverage well

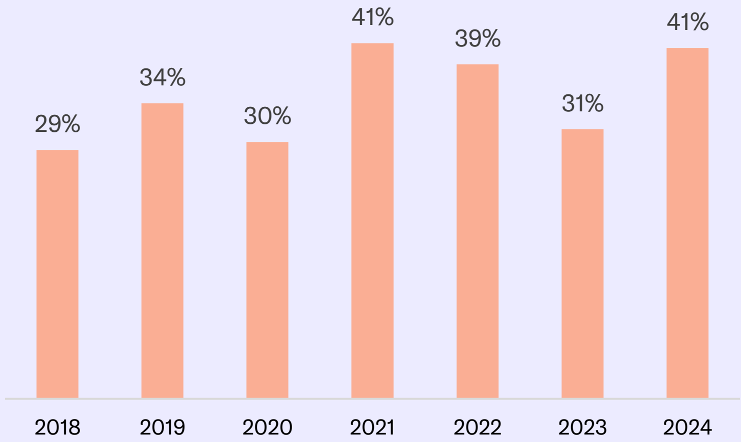
In light of the balance sheet target, the company aims to maintain a solid position, which is justified given the industry's business logic and the strategy involving acquisitions. Scanfil's EBITDA is also fairly stable and at least there have been no major downward fluctuations. Therefore, we believe that the company can withstand leverage similar to the target level well, and there will probably be a clear safety margin to the financiers' covenants at the target level. Considering the upper limit of the target level, Scanfil could afford at least a 100 MEUR (EV) debt-financed acquisition or acquisitions at the moment.

In terms of dividends, Scanfil's official policy is to keep the dividend payout ratio at around one-third, although we believe the company is also aiming for a steadily increasing profit distribution. In our opinion, Scanfil has good prerequisites for this, considering the low organic capital requirement. Considering the company's capital return potential, we find allocating cash flow primarily back into the business more attractive than profit sharing for shareholders.

Adjusted EBIT %



Payout ratio (%)



Source: Scanfil, Inderes

Financial position 1/2

The balance sheet is working capital heavy

Scanfil's balance sheet is very typical for a contract manufacturer and reflects the industry's low fixed capital needs and higher working capital commitment. At the end of 2024, the company had 95 MEUR of fixed assets and 49 MEUR of intangible assets (29 MEUR of goodwill). In our view, the company's long-term assets are current, as it has shut down unprofitable factories on several occasions in recent years and, of course, also written down the related assets.

The largest asset items in Scanfil's balance sheet come from working capital, as at the end of last year the company had inventories of 168 MEUR and trade receivable of 165 MEUR on its balance sheet. In our assessment, trade receivables do not involve significant credit loss risks. We also believe inventories are current. Inventories clearly decreased during 2024, but relative to the size of the business, inventories have not quite returned to pre-pandemic levels. Therefore, there may still be room for improvement in inventories. Typically, Scanfil's inventories have been around 17-20% of annual sales, while the current level, adjusted for the impact of the SRX acquisition, is slightly above this range.

Scanfil had 49 MEUR in cash at the end of 2024, which is a good level considering the scale of the business and other available liquidity buffers. The company's liquidity position also enables it to agree on increasingly flexible and, from a profitability perspective, sensible payment terms with both customers and suppliers.

Interest-bearing debt is very moderate

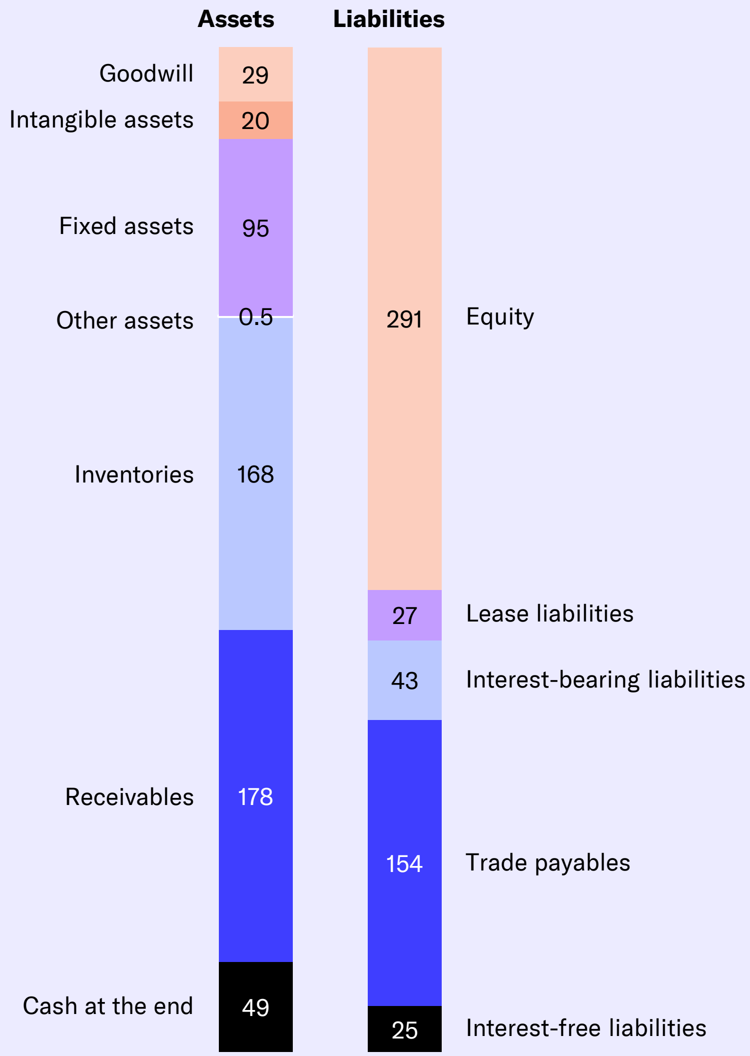
At the end of last year, Scanfil had 291 MEUR of equity in its balance sheet liabilities, while total debt amounted to 248 MEUR. Of the debt, the traditional interest-bearing liabilities accounted for 43 MEUR and lease liabilities amounted to 27 MEUR. Non-interest-bearing liabilities amounted to 167 MEUR. Over 90% of the non-interest-bearing liabilities consisted of trade payables, which is typical for the industry logic and has fluctuated on both sides of the level of trade receivables in the long run. Thus, the company's working capital requirement mainly consists of inventories and cash reserves required to run the business. The balance sheet total was 541 MEUR.

The financial position is sturdy

At the end of 2024, Scanfil's equity ratio was 56% and net gearing 7%. These figures are still very reasonable for Scanfil, given that debt now includes lease liabilities (IFRS 16). The net debt/EBITDA ratio was approximately 0.4x at the end of the year. Thus, Scanfil's debt servicing capacity is well below the upper limit of the target level, and the company's financial position as a whole is solid.

Reflecting the solid performance and stable cash flow under normal conditions, we estimate that Scanfil's financial expenses (incl. interest, interest on lease liabilities, lease liability repayments, and other financial expenses) are currently about 3% of gross debt. In our view, there is no significant pressure to change interest rates, considering the general interest rate level has turned downwards.

Simplified balance sheet structure 2024 (MEUR)



Source: Scanfil, Inderes

Financial position 2/2

Considering the company's moderate and presumably decreasing level of debt, the significance of this factor for the stock is limited. We would also like to remind that Scanfil's financial expenses in the income statement may be affected both quarterly and annually by exchange rate gains outside of hedge accounting, even though the company has taken measures related to currency hedges to reduce fluctuations in income statement items during 2023. However, potential non-cash financial expenses have no practical significance for the share, but they may affect the P/E valuation in individual years.

There is already a good amount of gun powder

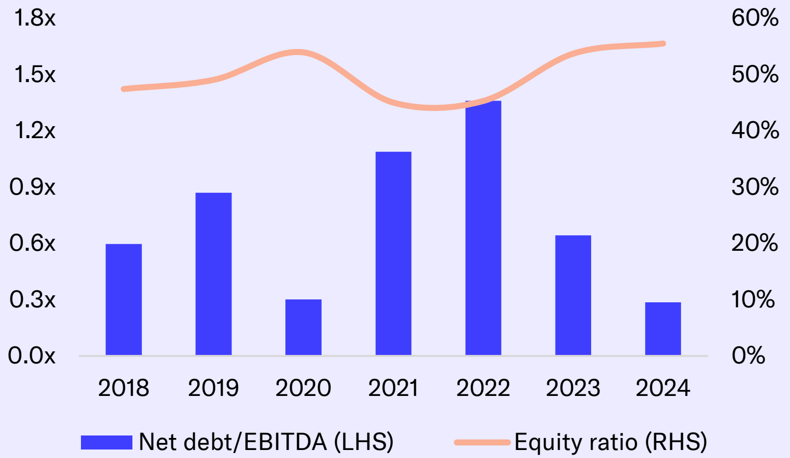
We estimate that Scanfil is well inside its comfort zone in terms of its financial position. Thus, the company can calmly continue its strategy and implementation of organic and inorganic investments. In addition, we believe that the risks related to working capital are fairly neutral or still slightly positive and working capital management is largely in the company's own hands. Thus, Scanfil's financial position can strengthen further. If the guidance is achieved, Scanfil will reach a net debt-free position in about one year, and in this scenario, the company's financial position is very strong.

We believe Scanfil still has over 100 MEUR of debt capacity for M&A transactions based on its debt targets, and positive cash flow naturally supports this capacity. The company could allocate this capital to several small and medium-sized (EV 20-50 MEUR) or 1-3 larger (EV over 50 MEUR) acquisitions in 2025-2027. Considering the typically lowish revenue multiples in M&A transactions in the sector, we estimate that the company could acquire at least 200 MEUR more revenue with the help of its balance sheet.

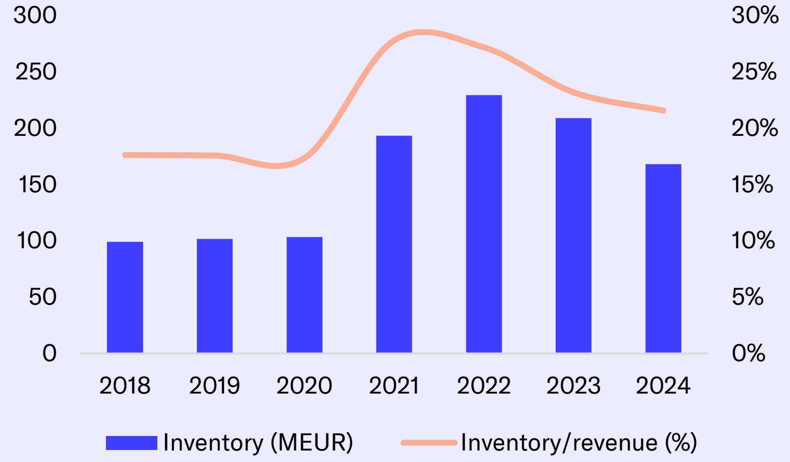
Thus, the acquisition option has grown to a rather comfortable size. We also believe that raising equity is an option for the company if the strategic fit of a potential acquisition target is deemed appropriate, the investment's return potential is sufficiently attractive, and Scanfil's share valuation is good enough.

Although Scanfil has been quite openly hinting at M&A possibilities, we expect Scanfil to be very patient in seeking suitable arrangements. This has also been the company's historical approach. We are in principle positive about M&A transactions, as Scanfil's arrangements have historically been primarily good and the fragmented structure of the sector supports consolidation. However, M&A transactions must always be assessed case by case.

Development of balance sheet position



Inventory development



Source: Scanfil, Inderes

Estimates 1/4

Estimate model

We forecast Scanfil's revenue development in the short and medium term mainly based on estimated market and market share growth. In assessing short- and medium-term profitability, we model the development of the company's gross margin and fixed cost structure on an annual level. Following the 2025 reporting reform, we will also model the development of profitability quarterly and by region. Our long-term forecast is based on estimated market growth, Scanfil's historical profitability level, and the profitability potential we estimate for the company. Our forecasts do not consider the effects of M&As, which are probable at least in the medium term, as the timing of deals is impossible to predict.

The company started with rather broad guidance

In connection with its financial statement in late February, Scanfil issued guidance for the current year, estimating revenue to be 780-920 MEUR and adjusted EBIT to be 53-66 MEUR. In our view, the rather wide ranges still reflect uncertainty in the near-term outlook, especially related to external factors such as geopolitics and trade policy, as well as the global economy. On the other hand, the growth outlook is supported by the company's success in new sales last year (new projects totaling 189 MEUR annualized), which will mostly be transferred to production this year.

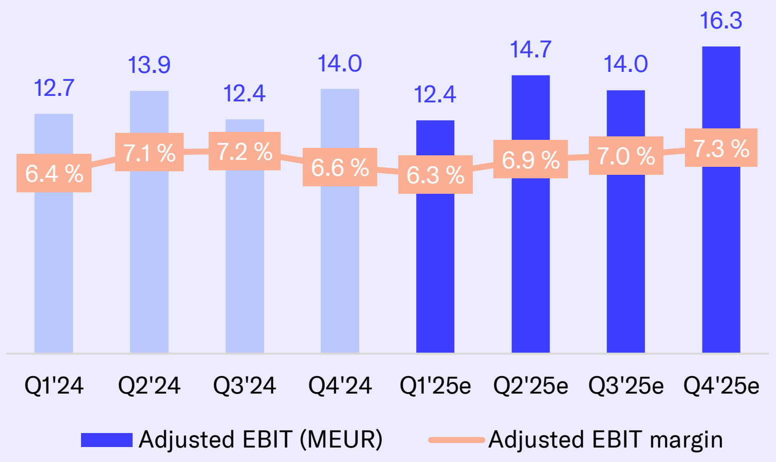
Based on the comments in the financial statement report, the guidance is somewhat backloaded, as Scanfil will ramp up production of several projects won last year in Q1. Therefore, growth is likely to have the potential to accelerate only from Q2 onwards Similarly, we suspect that the ramp-up of new projects could dilute profitability in Q1. An improvement in the general economic situation could also, in principle, support Scanfil's demand, especially in H2, if the tariffs announced by the USA in Q2 and their counter-reactions do not materialize on a significant scale this year. The general demand situation is unlikely to pick up from the rather weak levels of H2'24 in H1.

For Scanfil, the clearest uncertainty is focused on the top line (i.e. demand), as the 2025 guidance points Scanfil towards profitability at or near the target level. The guidance was of course given before the unpleasant surprise from the US regarding tariff plans, and with the recent news flow, uncertainty regarding the near-term outlook has increased. The company's internal efficiency is, therefore, in good shape and the cost structure is quite flexible based on the efficiency measures implemented over the past year. However, the accumulation of absolute earnings has a significant impact on the revenue level. Economic forecasts are mainly positive and interest rates have already fallen, so, in principle, demand should be gradually improving unless, e.g., US tariffs drive the global economy into a recession. Similarly, the relaxation of Germany's debt brake and the resulting acceleration of infrastructure investments could be a positive driver for Scanfil.

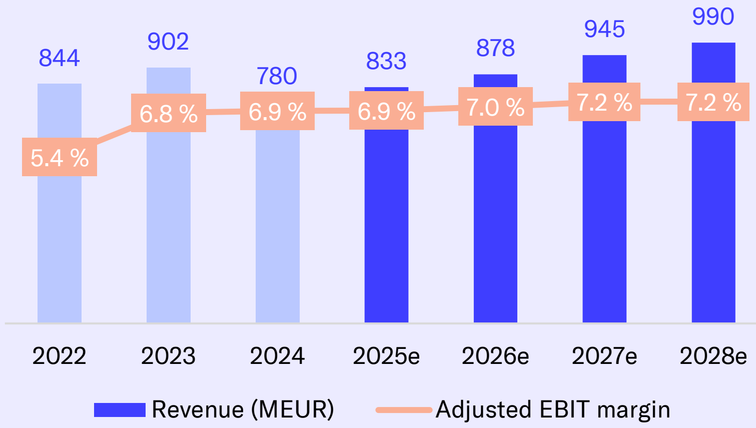
Our estimates are roughly in the middle of the guidance range

We forecast the company's revenue to grow by 7% to 833 MEUR this year, with growth weighted towards H. Growth and earnings growth in Q1-Q3 are also supported inorganically by the SRX acquisition by approximately 30 MEUR, or some 4%, in APAC, as well as last year's sales successes.

Revenue per quarter



Revenue and profitability development



Source: Scanfil, Inderes

Estimates 2/4

Our revenue estimates for the Americas and both European units remain stable. We expect the general demand situation to remain sluggish throughout the year, as the tariff madness cools investment-driven demand. Our forecast is slightly below the bottom of the company's guidance range.

We estimate Scanfil's adjusted EBIT to increase this year with a 7% earnings leap to 57 MEUR, which is also below the midpoint of the guidance range. The majority of the earnings improvement comes from APAC inorganically, but we expect stable results for other regions. We expect relative profitability (EBIT %) to remain stable at 6.9%. We expect the accumulated income to be weighted towards the end of the year due to the ramp-up of new projects in Q1, and partly also due to normal seasonality of the business.

We estimate that financial expenses will remain fairly stable this year and only slightly negative, although reported financial expenses may fluctuate slightly due to non-cash flow-related FX differences. In our view, however, non-cash FX differences have no practical significance for the share. We estimate that the tax rate will be close to the normal level of 22%. Thus, our EPS forecast for this year is EUR 0.67 (incl. a slight increase in the number of shares in 3/2025 due to option programs), from which we estimate the company will pay a dividend of EUR 0.25 per share, reflecting its policy, and thus raise its dividend for the 13th time in a row in the spring of 2026.

We estimate that free cash flow will be slightly weaker than earnings, as the company will start to tie up some working capital in inventories and receivables in our forecast due to revenue growth. We estimate that investments are roughly at the level of depreciation, as the company has postponed, e.g., the significant expansion project of the Sieradz plant due to the calming of the demand situation. Net profit and positive cash flow strengthen the balance sheet. At the end of 2025, we estimate the company's equity ratio to be 60% and net gearing ratio to be at zero level. We have slightly lowered our estimates for the current year as macro risks have increased following the US tariff announcements.

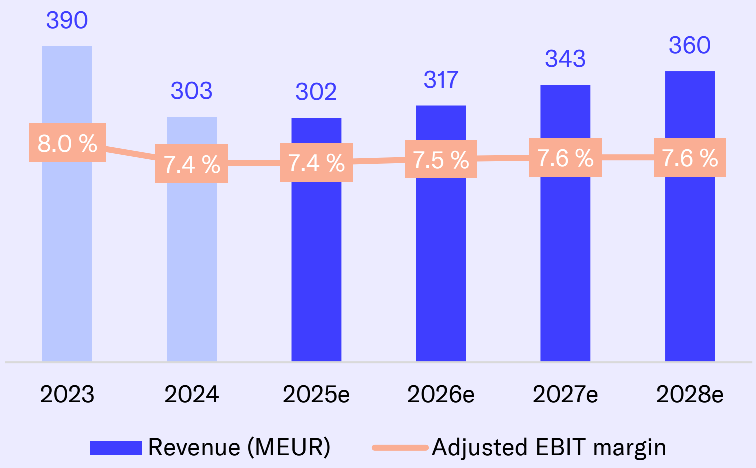
Further earnings growth expected in 2026

Our 2026 estimate is based on a macro scenario in which global economic growth will be weaker than the economists' consensus estimate of about 3% due to trade policy disputes. In developed markets like Europe and the US, the pace is slow, while China is growing more briskly than the global economy but clearly more slowly than in history. Similarly, however, the rate of decline in interest rates slows down, as policies on both sides of the Atlantic are inflationary. In the prevailing geo- and trade policy environment, predictability to 2026 is weak, as, e.g., tariffs and counter-tariffs can have very unpredictable effects on the global economy.

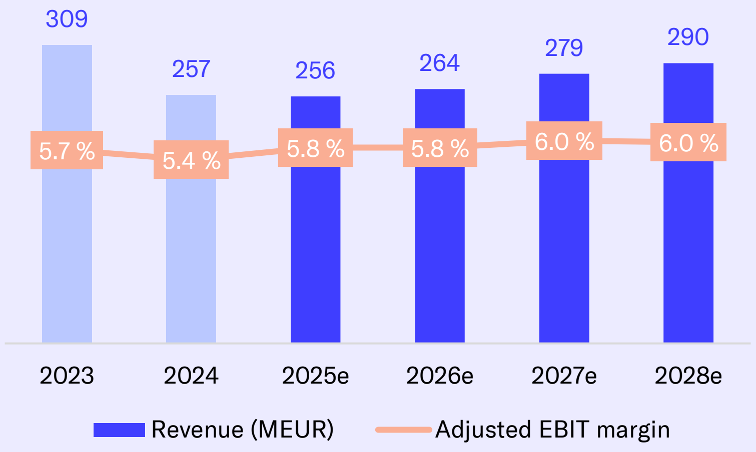
In 2026, we expect Scanfil's revenue to grow by 5% to 878 MEUR. The main drivers of growth are a slight recovery in the economy and investments, but achieving our estimates will also require the company to win certain new project contracts. In our 2026 forecast, growth is organic. We expect growth from other regions except the Americas.

We expect the EBIT for 2026 to increase with revenue and be 62 MEUR.

Central Europe revenue and profitability



North Europe revenue and profitability



Source: Scanfil, Inderes

Estimates 3/4

In our forecasts, the earnings improvement is revenue-driven and generated in APAC, Central Europe and Northern Europe. Our profitability estimate is at the level of the 2025 forecast and slightly above the bottom of the company's target range at 7.0% (adj. EBIT-%). Relative to our forecasts for next year, we believe the key uncertainty factor relates to the development of demand, while we are quite confident about the strength of the company's factory portfolio. In our estimate, financial expenses will decrease a bit and be slightly negative, while the tax rate will remain stable at 22%. Thus, our 2026 EPS estimate rises to EUR 0.72, of which we expect the company to pay a dividend of EUR 0.27 per share, in line with its policy.

In terms of free cash flow, we estimate that 2026 will be on an upward trend, as we expect growth to tie up some working capital and investments to remain roughly at the level of depreciation. Thus, we expect that the company's balance sheet continues to strengthen (2026e: equity ratio 62%, net gearing -7%). So, at the end of 2026, the company's financial leeway for M&As would be considerable. We consider it very likely that the company will make acquisitions before the end of 2026, and the balance sheet will not fall significantly into a net cash position. We have also lowered our 2026 estimates due to the macroeconomic situation.

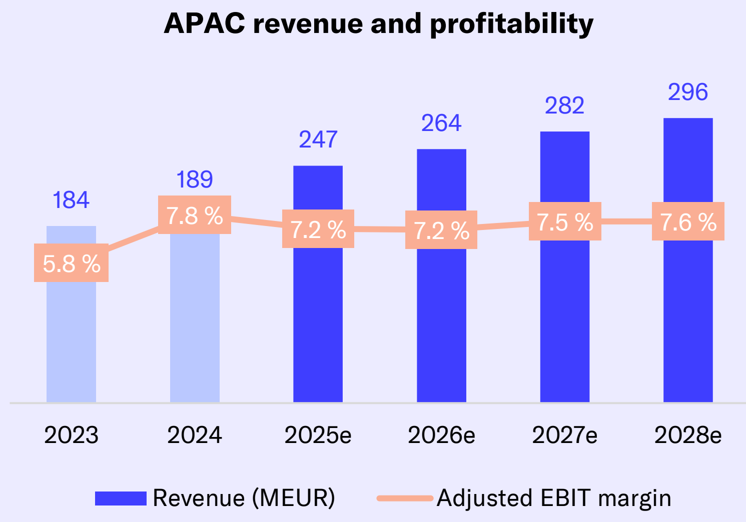
In 2027, the cycle will continue as normal

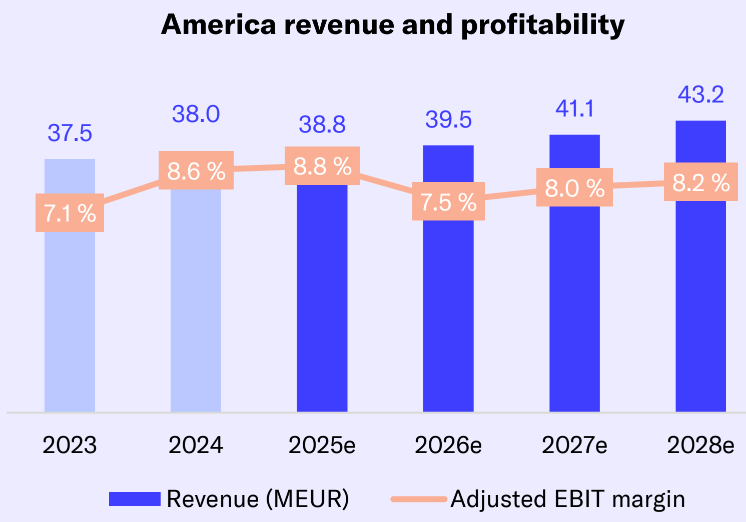
In 2027, we expect Scanfil's organic growth to continue in a slightly recovering macro situation that has avoided the worst pitfalls at a rate of 8%, increasing revenue to 945 MEUR. Growth is still driven by market growth supported by GDP growth, an increase in the outsourcing rate, and moderate success in new customer acquisition and customer-specific market shares. We expect growth in all geographical areas.

In 20207, we expect EBIT to be 68 MEUR and the margin to be quite stable at 7.2%. We estimate that all geographical areas will also support earnings growth. Thanks to the strong balance sheet, financial expenses are only slightly negative in our estimates and we do not expect significant changes in taxes. Thus, we expect Scanfil's EPS to be EUR 0.80 in 2027 and a dividend of EUR 0.29 per share. Thanks to net profit and healthy cash flow, we expect the equity ratio to rise to 63% and net gearing to fall to -12% at the end of the year. At these levels, the company would have ample room for acquisitions. Our forecasts for 2027 have been slightly lowered due to macroeconomic reasons.

We expect growth to continue in the long term

We expect Scanfil to continue its determined implementation of its profitable growth strategy broadly along the same lines even after 2027. In our long-term estimates, we expect Scanfil to continue to grow, driven by the megatrends supporting the company's customers and the entire electronics market, and by the drivers boosting contract manufacturers. We expect Scanfil's revenue to grow by about 2-4% per year in the long term, reflecting the GDP and electronics market growth estimates and outlooks for Scanfil's main market areas. In the long term, acquisitions are very likely to boost growth, and the company's target of over 10% growth depends on acquisitions.





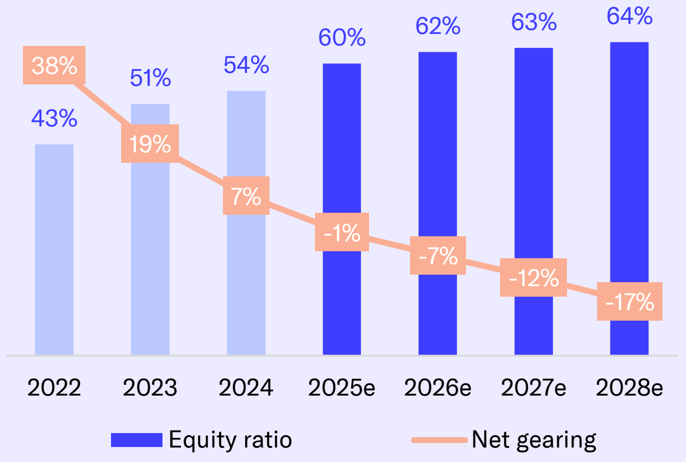
Source: Scanfil, Inderes

Estimates 3/4

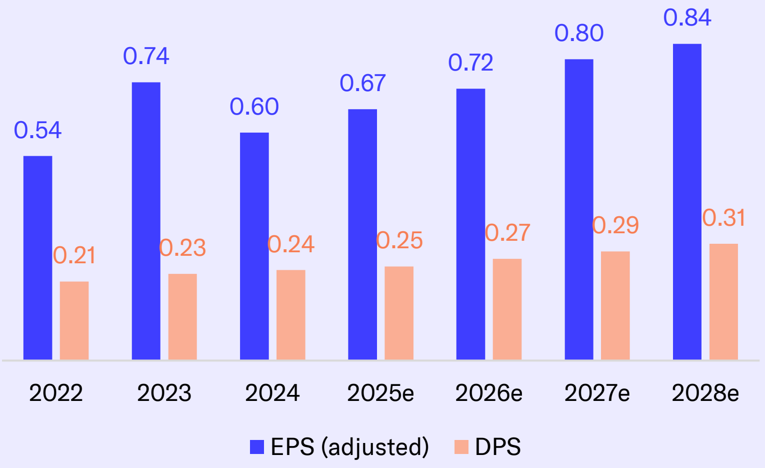
We expect the company's EBIT margins to be in the 6-7% range in the long term due to continued tight competitive pressure and, on the other hand, moderate cost inflation. Scanfil's average EBIT-% for the last 10 years is 6.0% (5-year average 6.3%) and the weakest margin in the 20-year time series is 4.3%, so we also consider our terminal estimates to be moderate for the time being and will thus wait for the company to provide evidence of sustainable achievement of a margin at or above the midpoint of the target level. However, in its current form, we do not see any real barriers to Scanfil reaching its target margin level of 7-8% in the long term, if growth meets targets and the entire production machine operates optimally.

In the long term, estimate uncertainty increases, although we still consider the big-picture predictability of Scanfil's business quite good relative to many other listed companies. We use our long-term estimates mainly in the DCF model.

Key balance sheet figure development



EPS and DPS



Source: Scanfil, Inderes

Income statement and estimate revisions

Income statement	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25e	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
Revenue	**902**	**199**	**196**	**173**	**212**	**780**	**195**	**215**	**199**	**224**	**833**	**878**	**945**	**990**
Americas	37.5	8.6	8.8	9.7	10.9	38.0	9.3	9.0	9.7	10.8	38.8	39.5	41.1	43.2
APAC	184	40.1	45.5	42.7	61.0	189	56.6	64.2	63.7	62.9	247	264	285	299
Central Europe	390	84.6	76.1	65.4	77.2	303	68.2	78.1	68.7	83.4	298	317	346	363
Northern Europe	309	69.1	67.2	56.5	64.6	257	62.7	65.0	58.8	67.9	254	264	279	290
Eliminations / NRIs	-19.3	-3.5	-2.1	-1.0	-1.5	-8.1	-1.5	-1.5	-1.5	-1.5	-6.0	-6.0	-6.0	-6.0
EBITDA	**80.4**	**17.7**	**19.0**	**17.5**	**20.0**	**74.2**	**18.0**	**20.4**	**19.6**	**21.9**	**79.9**	**84.4**	**90.6**	**93.3**
Depreciation	-19.1	-5.0	-5.1	-5.1	-5.9	-21.1	-5.7	-5.7	-5.7	-5.7	-22.6	-22.9	-22.9	-22.5
EBIT (excl. NRI)	**61.3**	**12.7**	**13.9**	**12.7**	**14.3**	**53.6**	**12.4**	**14.7**	**14.0**	**16.3**	**57.3**	**61.5**	**67.7**	**70.9**
EBIT	**61.3**	**12.7**	**13.9**	**12.4**	**14.1**	**53.1**	**12.4**	**14.7**	**14.0**	**16.3**	**57.3**	**61.5**	**67.7**	**70.9**
Americas	2.7	0.5	0.8	0.8	1.2	3.3	0.8	0.8	0.8	1.0	3.4	3.0	3.3	3.5
APAC	10.7	3.0	4.4	3.9	3.5	14.8	3.7	4.5	4.7	4.8	17.8	19.4	21.5	22.6
Central Europe	31.4	6.6	5.1	4.4	6.2	22.3	4.9	5.7	4.9	6.4	21.9	23.8	26.1	27.4
Northern Europe	17.7	2.7	3.9	3.6	3.8	14.0	2.9	3.7	3.5	4.0	14.2	15.3	16.8	17.3
Eliminations / NRIs	-1.2	-0.1	-0.3	-0.3	-0.6	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	0.3	0.2	0.0	-0.2	-1.5	-1.5	-0.4	-0.4	-0.3	-0.3	-1.4	-1.0	-0.7	-0.4
PTP	**61.7**	**12.9**	**14.0**	**12.2**	**12.6**	**51.6**	**12.0**	**14.3**	**13.7**	**16.0**	**55.9**	**60.4**	**67.0**	**70.5**
Taxes	-13.4	-3.1	-3.2	-3.1	-3.1	-12.5	-2.6	-3.2	-3.0	-3.5	-12.3	-13.3	-14.7	-15.5
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**48.3**	**9.8**	**10.8**	**9.1**	**9.5**	**39.1**	**9.3**	**11.2**	**10.6**	**12.5**	**43.6**	**47.1**	**52.3**	**55.0**
Net earnings	**48.2**	**9.8**	**10.8**	**9.1**	**9.5**	**39.1**	**9.3**	**11.2**	**10.6**	**12.5**	**43.6**	**47.1**	**52.3**	**55.0**
EPS (adj.)	**0.74**	**0.15**	**0.17**	**0.14**	**0.15**	**0.60**	**0.14**	**0.17**	**0.16**	**0.19**	**0.67**	**0.72**	**0.80**	**0.84**
EPS (rep.)	**0.74**	**0.15**	**0.17**	**0.14**	**0.14**	**0.60**	**0.14**	**0.17**	**0.16**	**0.19**	**0.67**	**0.72**	**0.80**	**0.84**

Key figures	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25e	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
Revenue growth-%	6.9 %	-11.4 %	-19.6 %	-18.6 %	-3.9 %	-13.5 %	-1.8 %	9.9 %	15.0 %	5.3 %	6.8 %	5.4 %	7.6 %	4.7 %
Adjusted EBIT growth-%	35.0 %	-15.9 %	-20.6 %	-16.8 %	5.9 %	-12.6 %	-2.7 %	6.0 %	10.3 %	13.7 %	7.0 %	7.3 %	10.1 %	4.7 %
EBITDA-%	8.9 %	8.9 %	9.7 %	10.1 %	9.4 %	9.5 %	9.2 %	9.5 %	9.8 %	9.8 %	9.6 %	9.6 %	9.6 %	9.4 %
Adjusted EBIT-%	6.8 %	6.4 %	7.1 %	7.3 %	6.7 %	6.9 %	6.3 %	6.9 %	7.0 %	7.3 %	6.9 %	7.0 %	7.2 %	7.2 %
Net earnings-%	5.3 %	4.9 %	5.5 %	5.2 %	4.5 %	5.0 %	4.8 %	5.2 %	5.3 %	5.6 %	5.2 %	5.4 %	5.5 %	5.6 %

Source: Inderes

Estimate revisions MEUR / EUR	2025e Old	2025e New	Change %	2026e Old	2026e New	Change %	2027e Old	2027e New	Change %
Revenue	844	833	-1%	912	878	-4%	970	945	-3%
EBIT (exc. NRIs)	58.7	57.3	-2%	64.9	61.5	-5%	69.5	67.7	-3%
EBIT	58.7	57.3	-2%	64.9	61.5	-5%	69.5	67.7	-3%
PTP	57.3	55.9	-2%	63.8	60.4	-5%	68.8	67.0	-3%
EPS (excl. NRIs)	0.68	0.67	-3%	0.76	0.72	-5%	0.82	0.80	-3%
DPS	0.26	0.25	-4%	0.28	0.27	-4%	0.30	0.29	-3%

Source: Inderes

Source: Inderes

Balance sheet

Assets	2023	2024	2025e	2026e	2027e
Non-current assets	**112**	**152**	**155**	**148**	**146**
Goodwill	7.7	29.1	29.1	22.1	22.1
Intangible assets	10.4	20.0	20.1	20.2	20.3
Tangible assets	85.3	94.9	97.3	97.4	95.5
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.5	0.5	0.5	0.5	0.5
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	7.7	7.7	7.7	7.7	7.7
Current assets	**406**	**387**	**382**	**418**	**468**
Inventories	209	168	177	184	198
Other current assets	2.7	4.9	4.9	4.9	4.9
Receivables	174	165	167	176	189
Cash and equivalents	21.2	48.5	33.9	53.1	75.2
Balance sheet total	**518**	**539**	**537**	**566**	**614**

Source: Inderes

Liabilities & equity	2023	2024	2025e	2026e	2027e
Equity	**266**	**291**	**320**	**350**	**385**
Share capital	2.0	2.0	2.0	2.0	2.0
Retained earnings	230	256	284	314	349
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	33.8	33.4	34.1	34.1	34.1
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**25.4**	**63.7**	**46.8**	**36.5**	**36.5**
Deferred tax liabilities	5.7	9.7	9.7	9.7	9.7
Provisions	1.1	1.8	1.8	1.8	1.8
Interest bearing debt	18.6	41.9	25.0	25.0	25.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	10.3	10.3	0.0	0.0
Current liabilities	**227**	**184**	**170**	**179**	**192**
Interest bearing debt	54.3	27.8	5.0	5.0	5.0
Payables	167	154	162	171	184
Other current liabilities	5.5	2.8	2.8	2.8	2.8
Balance sheet total	**518**	**539**	**537**	**566**	**614**

Valuation and recommendation 1/4

The market values Scanfil at an earnings basis

In our opinion, Scanfil should primarily be valued on earnings-based multiples, like other profitable growth companies. We use the P/E ratio to value Scanfil, as well as enterprise value-based EV/EBITDA and EV/EBIT multiples that better incorporate differences in companies' balance sheet structures. We primarily look at Scanfil using the valuation multiples for the current and next year, as we believe that the company's good historical track record and reasonable predictability, as well as its stable financial position, sufficiently compensate for the short-term visibility limitations related to the business model and the current trade and geopolitical situation.

In our opinion, the following factors weigh on and support Scanfil's valuation:

A strong track record of profitable growth increases confidence in the company's future competitiveness going forward.

Despite the uncertainties related to global trade and geopolitics and, consequently, the general economic situation, **near-term earnings growth expectations and related risks** are fairly balanced.

We view the **M&A option** as positive, as Scanfil has demonstrated its ability to create shareholder value through M&A transactions, and the company has the firepower for a fairly large (EV over 100 MEUR) transaction or several smaller transactions.

The investment-driven nature and the constant (small) risk of losing major customers keep visibility short and cause volatility, which increases the company's risk profile.

A challenging value chain position between large component suppliers and customers keeps the margin under chronic pressure and usually also makes the cash flow weaker than the earnings.

The ownership structure and the limited number of freely traded shares limit the interest of certain types of investors (e.g. institutions) in the company, and the acquisition option does not properly become a factor supporting the valuation with the current structure.

Incorporating these factors, an acceptable valuation level for Scanfil's share is approximately 12x-15x in terms of P/E ratio and 10x-13x in terms of EV/EBIT ratio. These levels are roughly in line with the median levels (P/E ~13x, EV/EBIT of ~11x) that the markets have on average accepted for Scanfil over the past 5 years. We believe this is justified, as we think Scanfil's value creation outlook and related risks are fairly balanced in relation to the 5-year average situation, and interest rate expectations also reflect the average realization of a somewhat backward-looking period. Also, changes in customer risk have not been significant, despite the SRX acquisition, which has slightly smoothed the risk profile.

In our opinion, Scanfil's valuation has also been weighed down in the recent past, partly by the challenging reputation of certain parts of the industry, cyclical risks and uncertainty about achieving earnings potential, instead of the company's strong development, even though the valuation accepted by the market has been slightly upward-trending. Therefore, we still see moderate upside in the company's acceptable valuation level, but this would necessitate a decrease in the prevailing general economic and political uncertainty, the avoidance of a global recession, and interest rate expectations remaining at most at their current levels.

Valuation	2025e	2026e	2027e
Share price	8.08	8.08	8.08
Number of shares, millions	65.3	65.3	65.3
Market cap	528	528	528
EV	524	505	483
P/E (adj.)	12.1	11.2	10.1
P/E	12.1	11.2	10.1
P/B	1.7	1.5	1.4
P/S	0.6	0.6	0.6
EV/Sales	0.6	0.6	0.5
EV/EBITDA	6.6	6.0	5.3
EV/EBIT (adj.)	9.1	8.2	7.1
Payout ratio (%)	37.5 %	37.4 %	36.3 %
Dividend yield-%	3.1 %	3.3 %	3.6 %

Source: Inderes

Source: Inderes

Valuation and recommendation 2/4

In the short term, relying on an increase in valuation is challenging, but in our view, the multiples should be around the level of the medians of the last 5 years.

In our view, Scanfil has the prerequisites to continue its positive development in the coming years as well, provided that the global economy does not stagnate, and Europe also remains in growth. In our opinion, maintaining growth and especially return on capital would push the company more clearly towards the stock exchange's quality company category. This, in turn, would have the potential to pull the valuation range up in small steps, as has been the case over the past 10 years.

The EV-based multiples remain moderate

In our estimate, Scanfil's P/E ratios for 2025 and 2026 are around 12x and 11x, while the corresponding EV/EBIT ratios are some 9x and 8x. We expect dividend income for the next few years to be 3-4%. Therefore, we view the company's valuation as cautiously attractive in absolute terms over the next 12 months, as the multiples fall within our acceptable ranges for the company on a P/E basis and below the range on an EV basis for the current year. For next year, the valuation is even more attractive, but in the current situation, visibility to next year is poor, and thus the margin of error in the estimates is large.

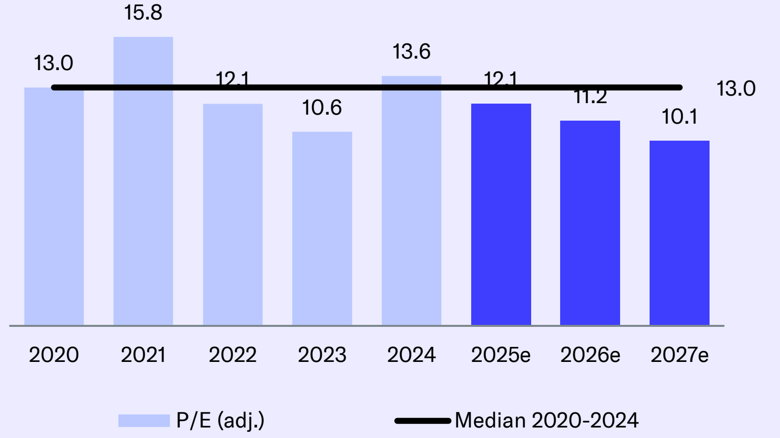
Scanfil's P/B ratio of 1.9x (2024) is reasonable compared to the company's adjusted return on equity of 17% over the last 5 years and the prevailing earnings growth expectations. Scanfil's static trailing earnings yield is at the 9% level with these figures. According to our assessment, Scanfil's cost of equity is currently around 10% from an investor perspective (we have raised our required return), so the backward-looking static earnings yield would directly cover the majority of the required return. Thus, the company's still fairly good long-term profitable growth prospects have been priced into the stock rather tepidly.

Peer group valuation is also low

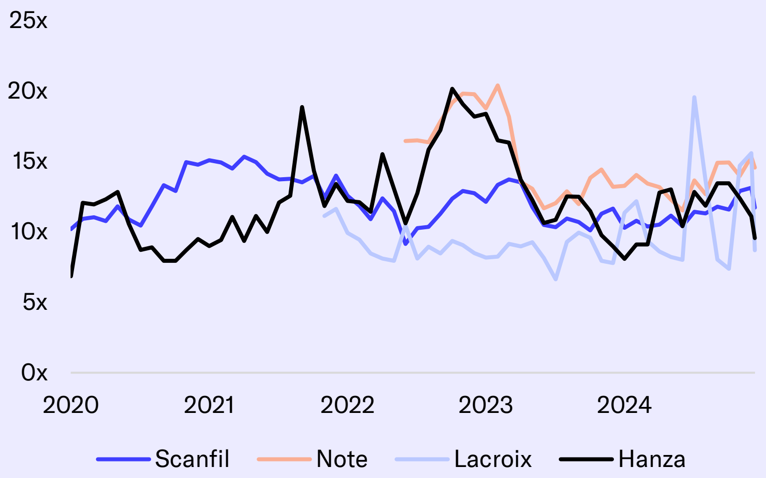
There are many listed companies operating in the contract manufacturing sector, so a fairly large peer group can be gathered for Scanfil for a relative assessment of the valuation level. It should be noted, however, that despite the large number of peers, the comparability of the peer companies to Scanfil is not perfect, as the scale differences to global giants are vast and the peer group includes companies with very varying margins. In addition, there are also unlisted companies in the field of medium-sized contract manufacturers, so it is not possible to include all relevant competitors of Scanfil in the comparison (e.g. Zollner and Fideltronik). Therefore, in our valuation of Scanfil, we emphasize absolute multiples, which are supported by relative valuation. We have included some of the world's 50 largest contract manufacturers in the peer group (including all Western players) and, in addition, some smaller players from Scanfil's direct competitors and Nordic peers.

As a general note, we believe that earnings-based multiples for contract manufacturers have risen slightly more broadly over the past decade and have somewhat converged with the average valuation levels of at least European stock exchanges. This reflects the average performance improvement achieved by many contract manufacturers, as well as some improvement in the industry's reputation (many contract manufacturers have generated excellent investment returns over the past 10 years). Volume-based multiples are low, reflecting the industry's thin margins, while balance sheet-based multiples are highly dependent on the return on capital.

P/E (adj.)



12-month forward-looking P/E ratio



Source: Bloomberg, Inderes

Valuation and recommendation 3/4

Scanfil is valued at an approximately 5% premium to its peer group in terms of earnings-based multiples. Compared to the Nordic core peers, Scanfil is slightly undervalued. In our view, Scanfil would deserve a small premium relative to the entire peer group, considering the mainly good performance in recent years, better positioning in the more profitable industrial electronics segment, and reasonable customer risks. Similarly, we believe the valuation should be roughly in line with core Nordic peers. The volume-based EV/S ratio is at a wider premium but incorporating Scanfil's better-than-average margin and return on capital, we believe that at least the volume-based metric should be at a premium. We do not think the peer group is expensive, although the estimates may hold risks due to the trade and geopolitical situation. Therefore, the relative valuation of the stock looks fairly neutral or gives a faint green light as a whole. On the other hand, however, we do not believe that peer valuations are a particularly strong driver for the stock.

DCF valuation shows green light

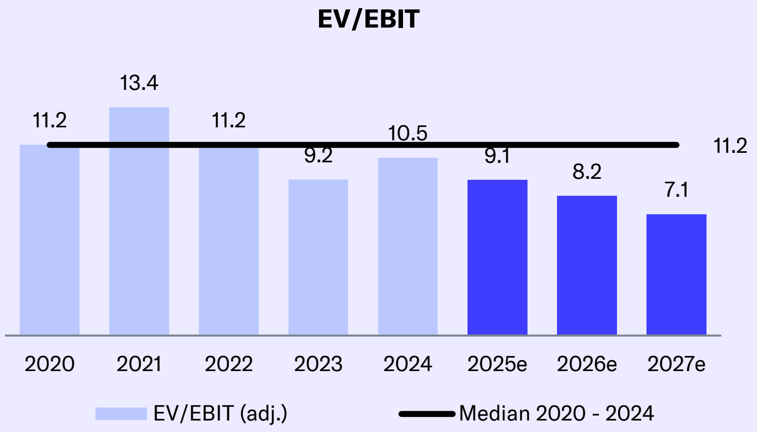
We also give the discounted cash flow model (DCF) a slightly more moderate weight in the valuation than the absolute multiples, as the DCF model is particularly sensitive to term variables and the required return. In our view, the DCF model, even with conservative assumptions and incorporating a long-term outlook, provides a fairly good picture of the fair value of Scanfil's share, as the predictability of the business is at least reasonable. According to our DCF model, the share value is about EUR 9.00, which supports the cautiously attractive picture of Scanfil's share pricing indicated by other methods.

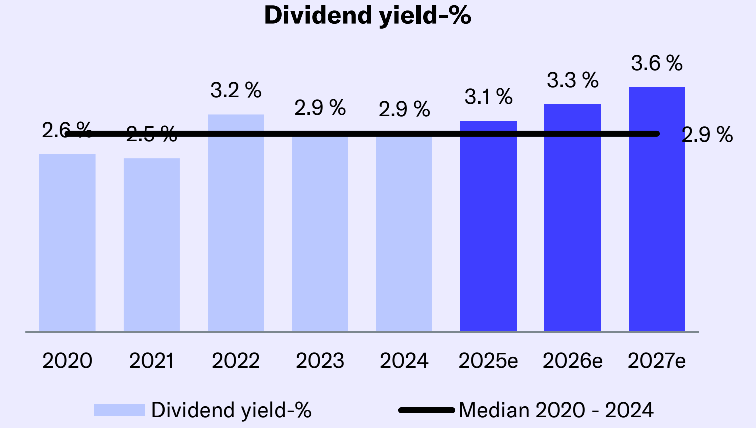
In our estimate model, Scanfil's revenue growth will level off at 2-3% in the long term and the EBIT margin will settle at 6-7% of revenue, which are in line with the company's performance in recent years, and thus the model does not incorporate a significant improvement in relation to the company's proven performance. In the model, the weight of the terminal period in the value of cash flows is at a rather reasonable 53% level. Therefore, we believe that the parameters are well justified by the company's historical performance, and exceeding the estimates is not impossible in the long run either. In the DCF model scenario, we use a WACC of 9.1% and a cost of equity of 9.7%. The risk-free rate is 2.5%, while the market risk premium is 4.75%. We have slightly increased our model's required return due to the tightening of trade policy and the increase in economic risks.

The stock is priced reasonably

In our view, the fair value of Scanfil's share is approximately EUR 8-10 per share, based on a fairly neutral recent EPS potential of EUR 0.70 and an earnings multiple of 12x-15x, as well as a DCF model, especially incorporating sensitivity analyses related to the required return and terminal profitability. Over the longer term, we estimate that the stock's fair value will gradually increase, provided that the company continues its profitable organic or inorganic growth, which, of course, requires reasonable global economic activity to support it.

Considering the set of valuation multiples, we believe that the share's expected return is higher than the required return also for the next year.





Source: Inderes

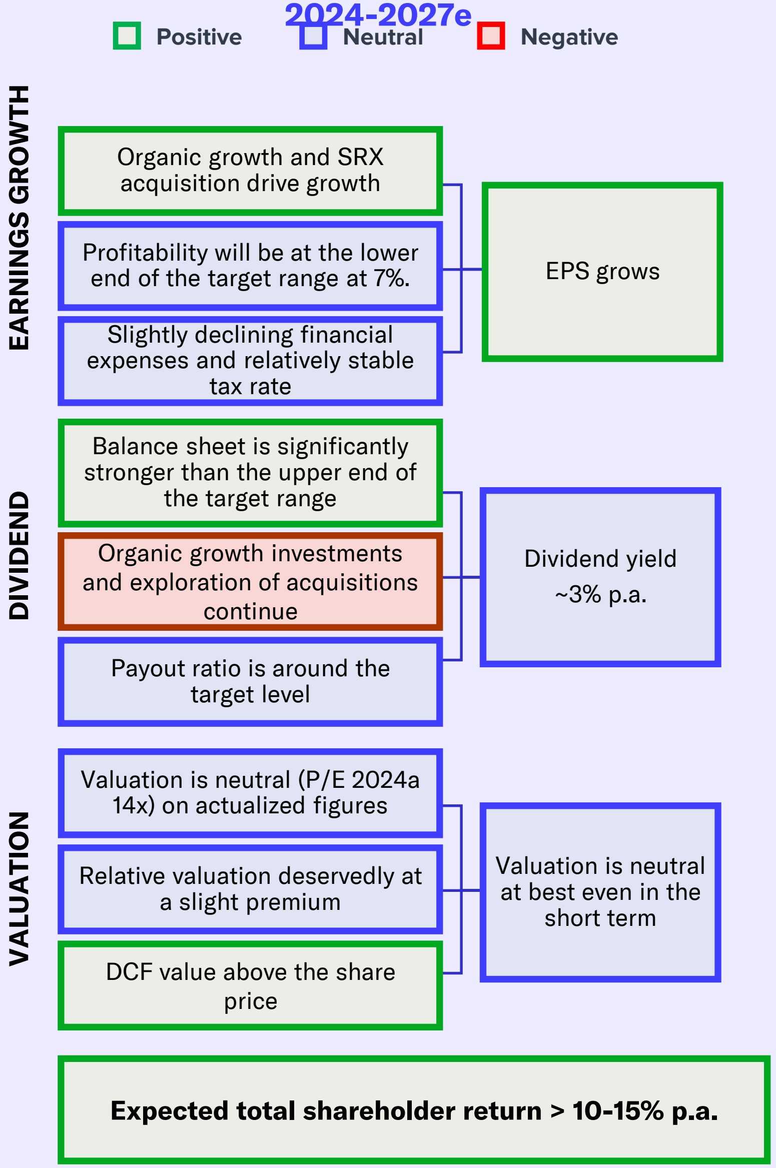
Valuation and recommendation 4/4

The expected return is mainly based on earnings growth and dividend, as well as a slight upside in valuation. In our view, the expected return on the stock will also come mainly from the same components in the medium term, although in the longer term, a moderate increase in multiples a notch higher towards the midpoints or upper limits of our ranges would not be unreasonable at all. This, of course, necessitates that Scanfil succeeds in implementing its strategy and that interest rates do not rise significantly from current levels in the medium term.

And you get an M&A option too!

On top of this, investors get Scanfil's positive M&A option, which, incorporating the firepower enabled by the balance sheet, could materialize fairly quickly. The company also referred quite openly to seeking M&A opportunities in connection with its annual financial statements. Considering the firepower of over 100 MEUR that we believe is inherent in Scanfil's balance sheet, acquisitions could clearly strengthen the company's growth. Strategically well-suited and reasonably priced acquisitions for the company (including valuations below its own premium multiples) would, in principle, support our view of Scanfil's fair value, but the uncertainty associated with the timing of the deals is, of course, high, and all deals must also be assessed qualitatively on a case-by-case basis.

Total shareholder return drivers 2024-2027e



Source: Inderes

Valuation table

Valuation	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Share price	6.52	7.46	6.58	7.83	8.25	**8.08**	**8.08**	**8.08**	**8.08**
Number of shares, millions	64.5	64.5	64.5	65.3	65.3	**65.3**	**65.3**	**65.3**	**65.3**
Market cap	420	481	424	511	538	**528**	**528**	**528**	**528**
EV	439	541	510	563	560	**524**	**505**	**483**	**455**
P/E (adj.)	13.0	15.8	12.1	10.6	13.6	**12.1**	**11.2**	**10.1**	**9.6**
P/E	11.4	16.2	12.1	10.6	13.8	**12.1**	**11.2**	**10.1**	**9.6**
P/B	2.3	2.3	1.9	1.9	1.9	**1.7**	**1.5**	**1.4**	**1.3**
P/S	0.7	0.7	1.9	0.6	0.7	**0.6**	**0.6**	**0.6**	**0.5**
EV/Sales	0.7	0.8	0.5	0.6	0.7	**0.6**	**0.6**	**0.5**	**0.5**
EV/EBITDA	7.2	9.8	8.1	7.0	7.5	**6.6**	**6.0**	**5.3**	**4.9**
EV/EBIT (adj.)	11.2	13.4	11.2	9.2	10.5	**9.1**	**8.2**	**7.1**	**6.4**
Payout ratio (%)	29.7 %	41.1 %	38.7 %	31.1 %	40.1 %	**37.5 %**	**37.4 %**	**36.3 %**	**36.9 %**
Dividend yield-%	2.6 %	2.5 %	3.2 %	2.9 %	2.9 %	**3.1 %**	**3.3 %**	**3.6 %**	**3.8 %**

Source: Inderes

Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**
Incap	304	263	7.8	7.2	7.2	6.1	1.0	0.9	11.7	11.1			1.9
Kitron	803	915	15.5	12.8	11.8	10.0	1.3	1.2	19.9	15.2	1.8	2.5	3.4
Hanza	257	324	8.5	7.2	5.2	4.6	0.6	0.5	10.9	8.8	2.6	3.0	1.6
Pegatron	5469	4600	9.1	8.0	4.7	4.5	0.1	0.1	11.0	10.3	6.1	6.3	1.0
Celestica	7329	7575	11.0	9.3	9.3	7.9	0.8	0.7	14.4	12.0			
Flextronics	9761	11007	8.4	7.8	6.2	5.8	0.5	0.5	10.6	9.7			2.2
Foxconn	48254	44489	6.4	5.5	4.7	4.1	0.2	0.2	8.8	7.7	5.6	6.6	1.0
Jabil	11840	13023	9.6	8.6	6.6	6.1	0.5	0.5	13.4	11.7	0.3	0.3	8.8
Hana Microelectronics	347	88	2.2	1.9	1.0	0.9	0.1	0.1	9.0	7.9	6.0	7.1	0.5
TT Electronics	168	314	6.4	4.9	4.3	3.6	0.5	0.5	5.1	3.7	8.3	9.5	0.5
Fabrinet	5714	4846	15.1	13.2	12.9	11.2	1.6	1.4	17.0	15.0			3.2
Universal Scientific	3446	2916	9.6	7.6	6.3	5.5	0.4	0.3	13.0	10.7	2.4	3.0	1.4
Venture Corporation	2139	1270	6.9	6.5	6.0	5.7	0.7	0.6	12.6	11.9	6.6	6.7	1.1
Plexus	2750	2651	12.4	10.9	9.1	8.2	0.7	0.7	16.2	14.5			2.2
Note	443	463	12.2	10.5	9.3	8.2	1.2	1.1	15.7	13.4	4.2	0.6	2.5
Katek	303	389	7.4	7.5	5.0	5.1	0.4	0.4	9.2	9.6			1.6
Lacroix	34	145	15.1	7.4	5.4	3.8	0.2	0.2		4.6		7.6	
Scanfil (Inderes)	**528**	**524**	**9.1**	**8.2**	**6.6**	**6.0**	**0.6**	**0.6**	**12.1**	**11.2**	**3.1**	**3.3**	**1.7**
Average			**9.6**	**8.0**	**6.8**	**5.9**	**0.6**	**0.6**	**12.4**	**10.5**	**4.4**	**4.8**	**2.2**
Median			**9.1**	**7.6**	**6.2**	**5.7**	**0.5**	**0.5**	**12.1**	**10.7**	**4.9**	**6.3**	**1.6**
Diff-% to median			**0%**	**8%**	**6%**	**6%**	**23%**	**20%**	**0%**	**5%**	**-37%**	**-47%**	**3%**

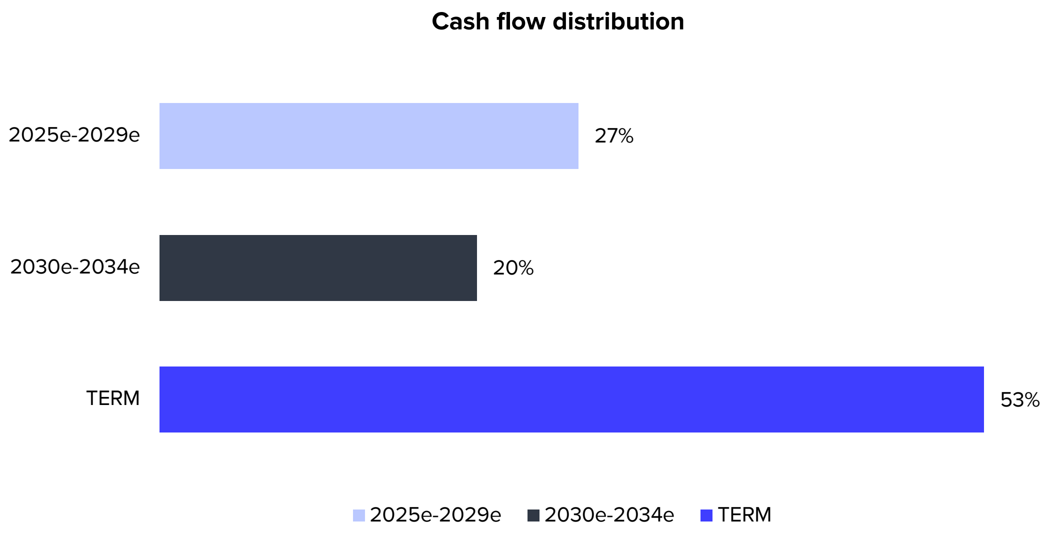
Source: Refinitiv / Inderes

DCF-calculation

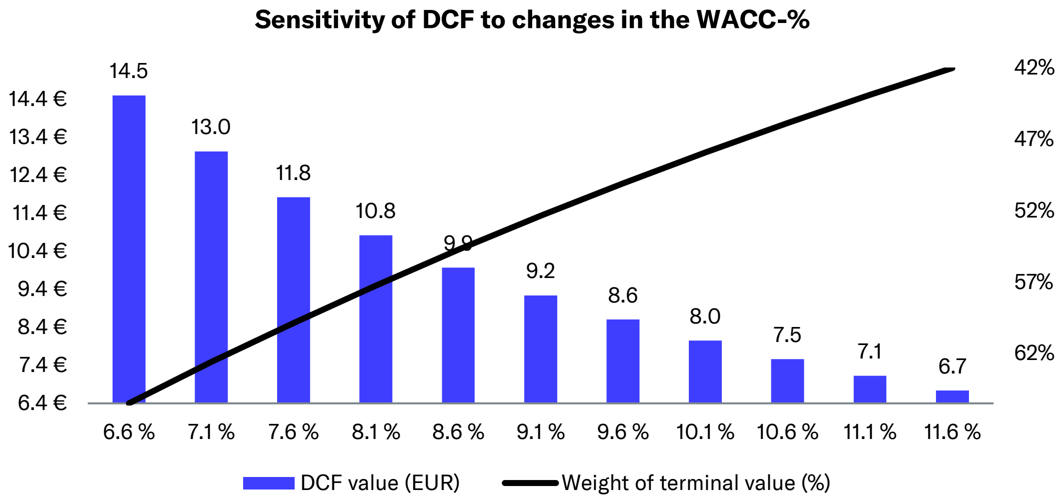
DCF model	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	TERM
Revenue growth-%	-13.5 %	6.8 %	5.4 %	7.6 %	4.7 %	4.0 %	4.0 %	3.0 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	6.8 %	6.9 %	7.0 %	7.2 %	7.2 %	6.8 %	6.5 %	6.4 %	6.4 %	6.4 %	6.4 %	6.4 %
EBIT (operating profit)	**53.1**	**57.3**	**61.5**	**67.7**	**70.9**	**70.0**	**69.6**	**70.6**	**72.7**	**74.9**	**76.4**	
+ Depreciation	21.1	22.6	22.9	22.9	22.5	22.1	21.8	21.6	21.7	21.8	21.8	
- Paid taxes	-8.5	-12.3	-13.3	-14.7	-15.5	-15.4	-15.3	-15.6	-16.1	-16.6	-17.0	
- Tax, financial expenses	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	
+ Tax, financial income	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.5	
- Change in working capital	31.1	-1.0	-8.0	-14.4	-9.6	-8.5	-8.9	-6.9	-7.1	-7.3	-5.0	
Operating cash flow	**96.5**	**66.3**	**62.8**	**61.3**	**68.1**	**68.2**	**67.3**	**69.8**	**71.3**	**72.9**	**76.4**	
+ Change in other long-term liabilities	11.0	0.0	-10.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-61.7	-25.1	-16.1	-21.1	-21.1	-21.1	-21.1	-22.1	-22.1	-22.1	-23.4	
Free operating cash flow	**45.7**	**41.2**	**36.4**	**40.2**	**47.0**	**47.1**	**46.2**	**47.7**	**49.2**	**50.8**	**53.0**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	45.7	41.2	36.4	40.2	47.0	47.1	46.2	47.7	49.2	50.8	53.0	765
Discounted FCFF		**38.7**	**31.3**	**31.7**	**34.0**	**31.3**	**28.1**	**26.6**	**25.2**	**23.8**	**22.8**	**329**
Sum of FCFF present value		622	584	552	521	487	455	427	401	375	352	329
Enterprise value DCF		**622**										
- Interest bearing debt		-69.7										
+ Cash and cash equivalents		48.5										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**601**										
Equity value DCF per share		**9.2**										

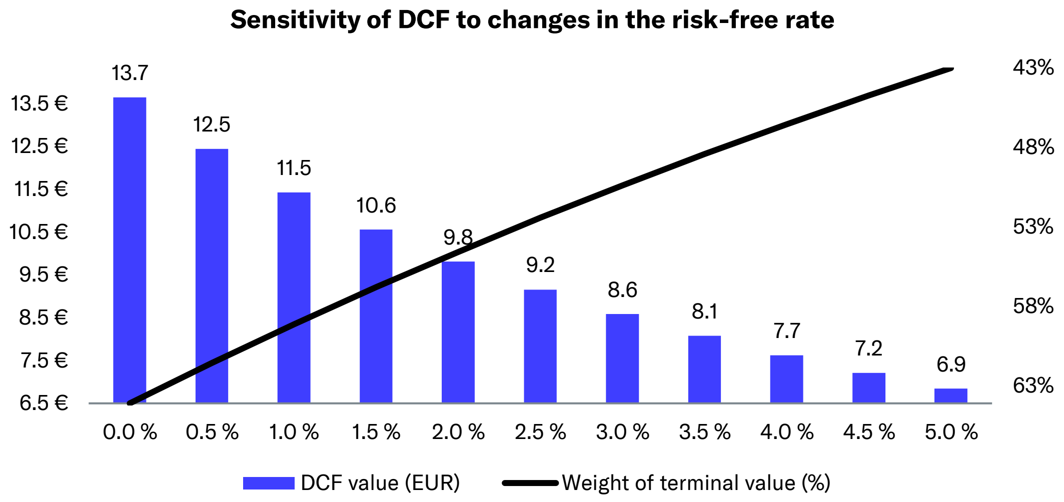
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	10.0 %
Cost of debt	4.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	**9.7 %**
Weighted average cost of capital (WACC)	**9.1 %**

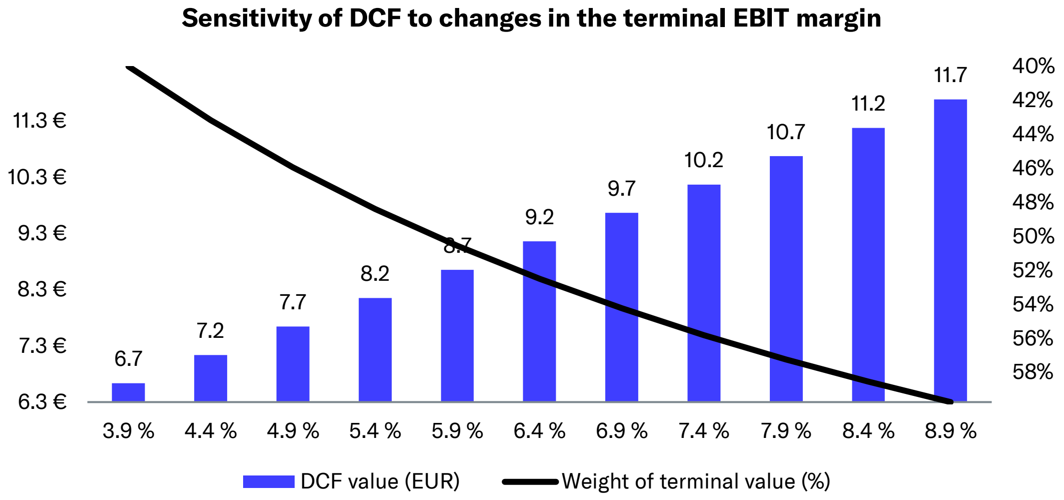
Source: Inderes

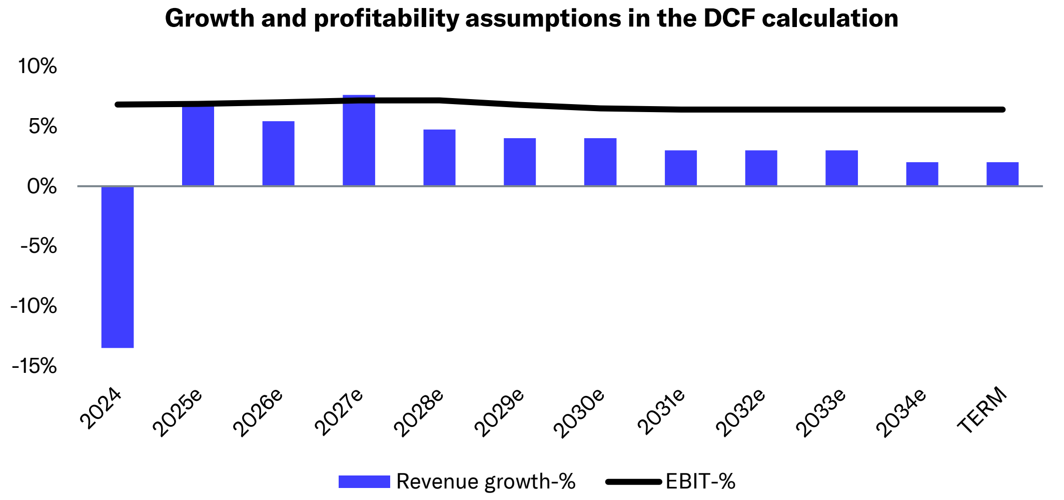


DCF sensitivity calculations and key assumptions in graphs









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

Climate target and taxonomy analysis

Taxonomy classification of core activities difficult due to the nature of the business

As a contract manufacturer, Scanfil does not always know how its products are used. Scanfil's customer delivery can also be part of the customer's larger product range. Thus, the taxonomy assessment is difficult for the company in all respects, although Scanfil has reported preliminary taxonomy figures. Therefore, we will wait for the reporting practices of contract manufacturers to become more established before drawing more significant conclusions. We do not believe that the low taxonomy rate puts immediate upward pressure on, for example, Scanfil's cost or availability of financing, or result in other business challenges.

There are no significant environmental policy issues related to Scanfil

We believe the direct environmental policy elements related to Scanfil's business are relatively small, as the company's business is assembly industry with very light energy intensity that also does not use any hazardous substances. Scanfil also manufactures products for its customers that mitigate climate change, such as air-source heat pumps and other green energy technology. Therefore, we do not see any greater risks or threats to Scanfil from regulation in the foreseeable future.

We do not expect significant investment needs from pursuing climate goals

Scanfil updated its climate program as part of its strategy update in spring 2024. Scanfil's climate program aims to halve carbon dioxide emissions (Scope 1 and Scope 2) in 2030 compared to 2020, which is the target level under the Greenhouse Gas Protocol. Scanfil aims to reduce its Scope 3 emissions in the value chain by 25% by 2030 compared to 2022 levels. The target also includes a goal to increase Scanfil's share of fossil-free energy use from 28% in 2020 to 60% by 2030.

Scanfil also stated in its Q1'24 report that it is committed to the Science Based Targets initiative's (SBTi) targets to achieve net-zero by 2050. Furthermore, in September 2024, the SBTi validated Scanfil's commitment in line with the Paris Climate Agreement.

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

Taxonomy eligibility	2023	2024
Revenue	11%	7%
OPEX	11%	7%
CAPEX	11%	9%

Taxonomy alignment	2022	2023
Revenue	0.4%	0%
OPEX	0.4%	0%
CAPEX	0.4%	0%

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

We are starting to increase the visibility of sustainability assessments by looking at the climate target and taxonomy impacts because we believe that they are currently, on average, most significant in the company's value formation. Visibility to other factors will be gradually increased. The analyst considers the impact of all sustainability factors on the company's growth and profitability potential and risk (i.e. the required return) when forming the investment view.

NB! Taxonomy eligibility % is shown in the table without taxonomy-aligned activities.

Source: Inderes

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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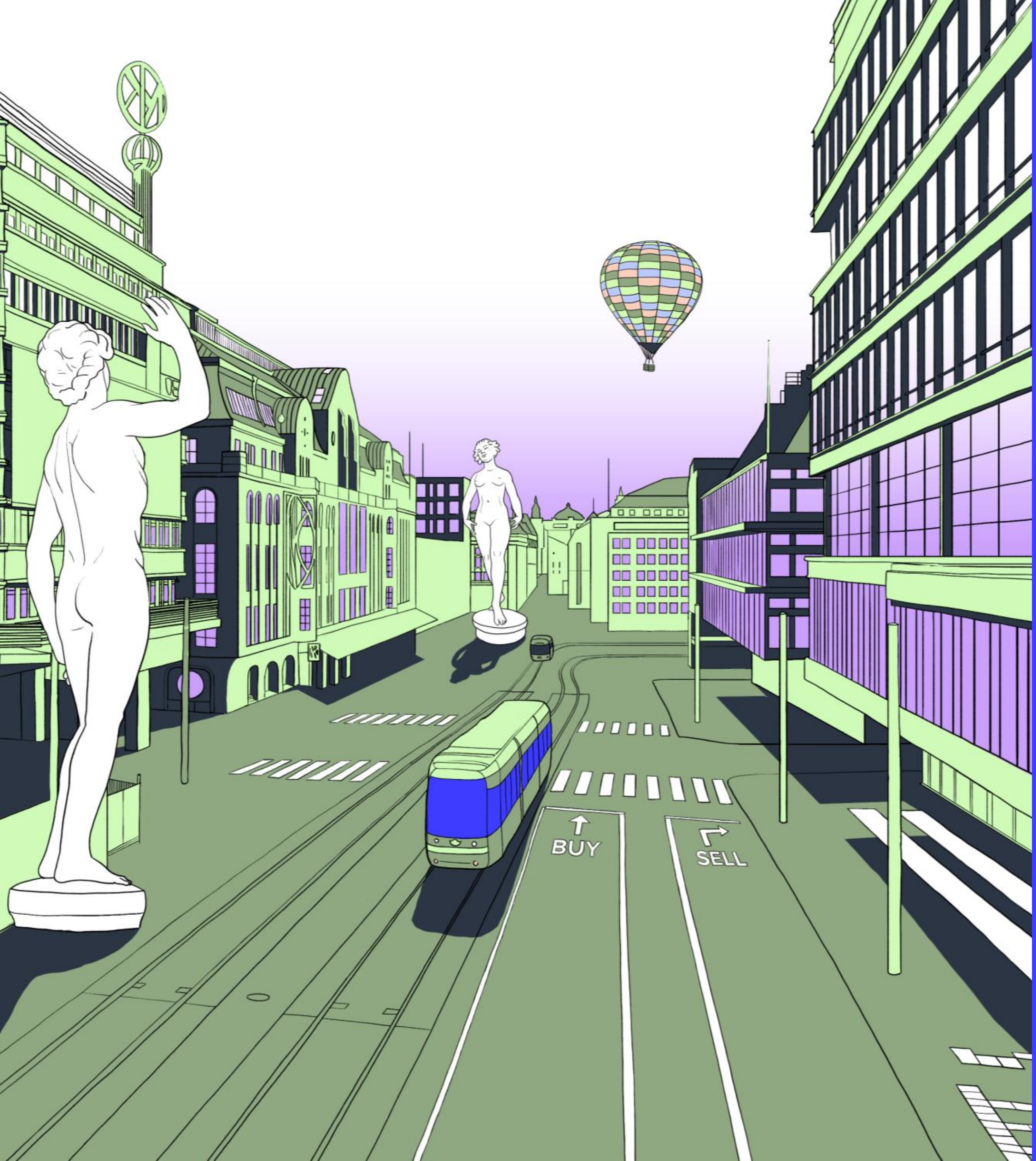
Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
4/26/2019	Accumulate	4.50 €	4.20 €
8/12/2019	Accumulate	4.50 €	4.04 €
10/28/2019	Accumulate	4.75 €	4.35 €
1/17/2020	Accumulate	5.25 €	4.94 €
2/20/2020	Accumulate	5.60 €	5.20 €
3/23/2020	Accumulate	4.25 €	3.73 €
4/25/2020	Accumulate	5.00 €	4.48 €
8/5/2020	Accumulate	5.50 €	5.18 €
8/10/2020	Accumulate	6.00 €	5.56 €
10/28/2020	Buy	6.00 €	5.14 €
12/15/2020	Accumulate	6.30 €	5.96 €
3/19/2021	Accumulate	7.30 €	6.90 €
4/9/2021	Accumulate	8.00 €	7.56 €
4/26/2021	Accumulate	8.60 €	8.08 €
6/14/2021	Accumulate	8.60 €	8.06 €
8/8/2021	Accumulate	8.75 €	8.30 €
10/14/2021	Accumulate	8.75 €	7.94 €
10/27/2021	Accumulate	8.75 €	7.78 €
12/13/2021	Reduce	8.30 €	7.96 €
2/16/2022	Accumulate	8.00 €	7.08 €
2/23/2022	Accumulate	8.00 €	6.84 €
4/19/2022	Accumulate	8.00 €	7.04 €
6/1/2022	Accumulate	7.60 €	6.66 €
7/14/2022	Accumulate	7.60 €	6.98 €
8/8/2022	Accumulate	7.60 €	6.76 €
10/27/2022	Buy	7.25 €	5.84 €
2/22/2023	Accumulate	8.25 €	7.74 €
4/23/2023	Reduce	9.00 €	9.13 €
4/26/2023	Reduce	9.00 €	9.67 €
7/6/2023	Reduce	9.50 €	10.38 €
7/31/2023	Reduce	10.00 €	10.56 €
8/7/2023	Reduce	10.00 €	10.64 €
9/14/2023	Accumulate	10.00 €	8.51 €
10/16/2023	Accumulate	9.00 €	7.64 €
10/30/2023	Accumulate	9.00 €	7.38 €
2/25/2024	Accumulate	9.00 €	7.71 €
4/25/2024	Accumulate	9.00 €	7.78 €
6/11/2024	Accumulate	9.00 €	7.48 €
8/7/2024	Accumulate	9.00 €	7.35 €
10/7/2024	Accumulate	9.00 €	7.38 €
10/28/2024	Accumulate	8.70 €	7.87 €
2/24/2025	Accumulate	9.40 €	8.76 €
4/9/2025	Accumulate	9.00 €	8.08 €



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