Initiation of Coverage

HANZA HOLDING AB

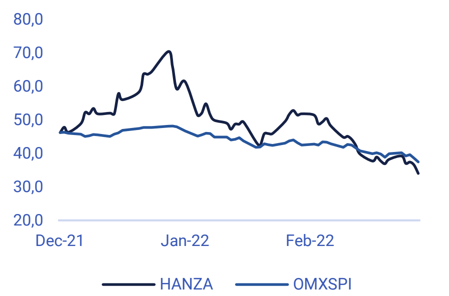
CEO: Erik Stenfors
CoB: Francesco Franzé
www.hanza.com

Bloomberg: HANZA:SS
Reuters Eikon: HANZA.ST

List: Nasdaq Stockholm Small Cap

Last: 33.4
Market cap: SEK 1 195m

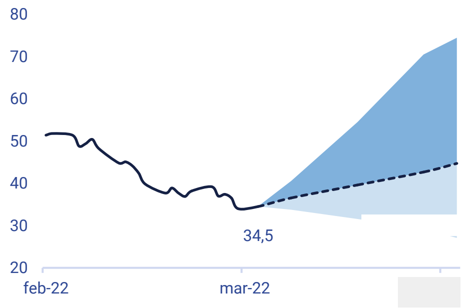
SHARE DEVELOPMENT



	12M	YTD	6M	1M
Development (%)	123	-48	8	-32

Source: S&P Capital IQ

VALUATION INTERVAL



	BEAR	BASE	BULL
Value per share (SEK)	27,1	44,2	74,5
Up-/downside (%)	-19%	32%	123%

Source: S&P Capital IQ and Carlsquare estimates

CARLSQUARE EQUITY RESEARCH

Niklas Elmhammer
Senior Equity Analyst

Markus Augustsson
Equity Analyst

Fredrik Nilsson
Associate Equity Analyst

Clustered Advantages

Carlsquare Equity Research initiates coverage of HANZA Holding. We believe HANZA is well-positioned for manufacturing trends towards increased outsourcing and shorter supply chains. We expect continued strong growth in sales and earnings in 2022. In our view, Germany will be an important driver from key customer demand bouncing back and positive effects from recent acquisitions. We calculate a fair value of SEK 44 in a base case. In a bull case of continued successful expansion via acquisitions, we see significant further upside to SEK 74.

Well-Positioned in New Manufacturing Environment

European contact manufacturers benefit from parallel long-term trends as customers move production back closer to regional end-markets and increase outsourcing. Increased focus on sustainability and risks in the supply chain are essential drivers. HANZA's expansion into manufacturing technologies and geographical clusters in several European markets puts it in a good position, we believe, and it already boasts leading European industrials among its customers. We see strong qualities in the people behind HANZA, as demonstrated by experience and track record. The major owners include former top management from some of the most successful Swedish industrial companies in the last 20 years.

German Expansion Adds to Positive Momentum

HANZA was hard hit by the pandemic, especially in the German operations, but continued to invest, and demand is now bouncing back, as demonstrated by 12 per cent organic growth in 2021. We believe, e.g., the 2021 acquisition of German electronics firm Beyer will prove timely and improve prospects. We expect increased top-line growth and profitability in the current year and the margin gap vs Nordic peers to narrow significantly. Although cost inflation is a growing concern in the industrial sector, we view HANZA as comparatively insulated. It does not sell its own products, and material costs are passed through to the customer. In sum, we expect some 40 per cent earnings growth (EPS) in 2022.

Attractive Valuation After Pullback in the Shares

Despite a tremendous share run in 2021, we believe HANZA's valuation multiples are attractive in relation to its Nordic peers. In contrast, since the beginning of 2022, the HANZA share is down 45 to 50 per cent without any negative company-specific news. Increased retail investor flows and low free float have likely contributed to high share price volatility. After the pullback, we believe the company valuation represents growth at a reasonable price, and we calculate a fair value of SEK 44 in a base case. Our SEK 74 bull case reflects significant further upside from acquisitions. We expect coming quarterly reports to be the primary catalyst for the shares on anticipated strong earnings growth. Risks include severe disturbances in the supply chain, which could negatively affect growth momentum and cash flow.

Key financial metrics (SEKm)

	2019	2020	2021	2022E	2023E	2024E
Net sales	2 068	2 155	2 515	2 985	3 111	3 236
Gross profit	947	955	1 149	1 383	1 442	1 499
EBITDA	149	139	232	286	322	343
EBITA	68	48	143	191	213	218
EBT	32	9	100	144	167	171
Earnings per share	0.75	-0.03	2.26	3.20	3.67	3.72
Growth, net sales	14.2%	4.2%	16.7%	18.7%	4.2%	4.0%
EBITDA-margin	7.3%	6.6%	8.7%	9.6%	10.3%	10.6%
EBIT-margin	2.8%	1.5%	4.8%	5.8%	6.3%	6.2%
EV/Sales	0.5x	0.4x	1.2x	0.6x	0.6x	0.6x
EV/EBITDA	7.2x	6.7x	13.0x	6.7x	5.9x	5.6x
EV/EBITA	15.8x	19.3x	21.0x	10.0x	8.9x	8.8x
P/E	20.8x	NM	28.5x	10.4x	9.1x	9.0x

Source: Company information and Carlsquare estimates

Table of content

Investment Case

We believe HANZA's manufacturing cluster strategy and sustainability focus makes it well-positioned for contract manufacturing trends in Europe. As the German cluster becomes more mature, we see the company's profitability targets within reach, implying further strong earnings growth from current levels. We argue that HANZA's proven cash-generating abilities warrant a higher valuation and that a relative valuation supports this view.

Positioned for "Slowbalization" Era

Since the early 2010s, the rate of globalisation appears to have slowed, and many multi-national companies are redirecting investments and production to regional sites, also called "back shoring" and "regionalisation". One reason is risk mitigation in the face of potential disturbances to supply chains from, e.g., trade wars and pandemics. Another reason is waning cost advantages from sourcing manufacturing from developing economies. The chart below demonstrates that growth in global trade slowed already following the great financial crisis.

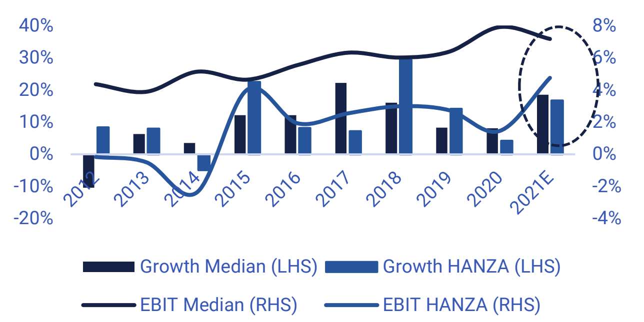
World Exports Growing Slower than GDP

Source: World Bank

Successful Expansion of Manufacturing Clusters

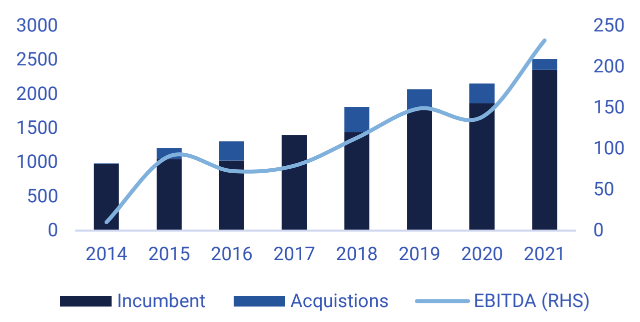
For many companies, particularly start-ups, manufacturing is not part of the strategy, and contract manufacturers are natural partners. We believe financial performance shows that the regionalisation trend has benefited regional contract manufacturers during the last decade.

Nordic Contract Manufactures Sales Growth and EBIT Margi.



Source: Company information. Median of AQ Group, Inission, Kitron, Note and Scanfil

HANZA Sales and EBITDA (SEKm)



Source: Company information and Carlsquare estimates

HANZA is a contract manufacturer founded in 2008 that has successfully built regional manufacturing clusters in the Nordics, the Baltics, and Central Europe mainly through acquisitions of sheet metal processing, heavy mechanics, and electronics operations. We believe HANZA has demonstrated that the shift from globalisation to regionalisation is advantageous. In 2019, HANZA took the first step towards expanding the cluster approach to Germany by acquiring RITTER Elektronik GmBH in Remscheid in Western Germany. In 2021, electronics firm Beyer in Mönchengladbach was added. The six manufacturing clusters are currently divided into Main Markets (Sweden, Finland, and Germany) and Other Markets (The Baltics, Central Europe, and China).

Thus, acquisitions have been, and will likely remain, vital to HANZA's growth. The main objective behind acquisitions is to add to HANZA's competitive strength. Also, we believe the Company has demonstrated solid value-enhancing qualities by acquiring companies at moderate valuations and subsequently improving margins. HANZAs philosophy is that margins and cash flow can be significantly increased by coordinating and sharing resources between sites within a cluster. The development within the Main Markets segment, especially the Swedish cluster, is strong evidence that the approach is valid.

We believe the management and board represent extensive manufacturing expertise with an established network and proven company building quality and capital allocation. They have a background in leading Swedish industrial companies, including Note, Husqvarna, Hexagon, Nibe and Systemair.

Strong Outlook

During the last three years, HANZA has entered the German market. We are optimistic that the German expansion will be a critical positive driver for growth and earnings.

Post-Pandemic Recovery Well Underway

While HANZA was initially hit hard by the pandemic from lower customer orders, the management did not panic. Instead, it launched a program ("Roadmap 2021") to expand or invest in all geographic clusters. Sticking to the strategy has paid off in 2021 as demand has rapidly recovered toward pre-pandemic levels. We expect continued strong growth in 2022, underpinned by acquisitions and a weaker SEK. We see plenty of room for margin expansion towards the group's financial target of over six per cent operating margin.

Contained Exposure to Rising Input Costs

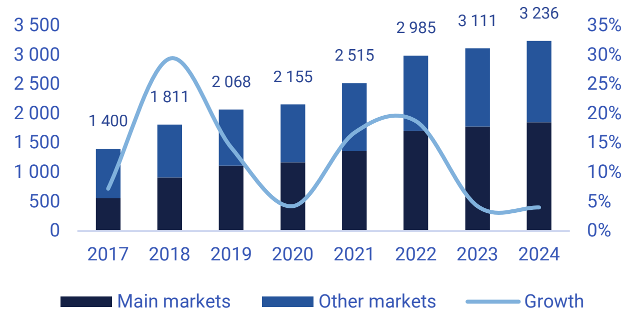
We expect cost inflation across the board in 2022. This includes HANZA purchased goods such as thin sheet steel and electronics. However, HANZA does not sell its own products and is typically compensated for input cost changes in its contracts. Hence, raw material cost increases are pushed to the customer and would theoretically be about earnings neutral. However, there might be considerable swings in margins (and cash flow) quarter-on-quarter if compensations for cost increases are delayed.

We See Main Markets Driving Strong Earnings Growth

In its Q4, 2021 report, HANZA on February 15 stated that it expects 2022 to be another year of growth with increased profitability. We subscribe to this view as we believe total margins should increase from higher profitability in Main Markets. In Other Markets, we calculate that some temporary costs related to the expansion and handling of capacity issues currently hampering earnings should abate in the second half of 2022. All in all, we forecast that strong top-line growth will translate to an EBITA growth of about 33 per cent for the group in 2022.

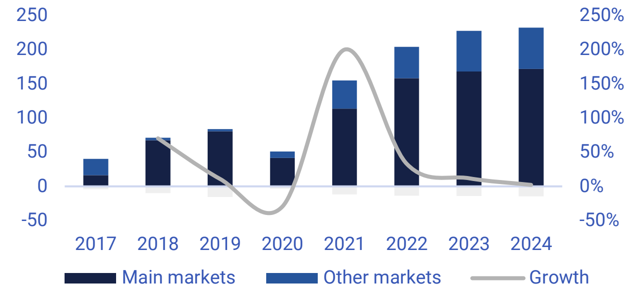
We believe the EBIT margin target of six per cent is within reach over the next two years. Improved capacity utilisation in Germany, resolving supply chain issues and finalising expansions in Other Markets are vital factors. Given an expected sales CAGR of some nine per cent from 2021 to 2024, we also calculate with solid earnings growth of some 19 per cent (net profit), on average.

Revenue (SEKm) and Growth (%)



Source: Company information and Carlsquare estimates

EBITA (SEKm) and Growth (%)



Source: Company information and Carlsquare estimates

Further Acquisitions and Growth Initiatives in the Cards

For our base case, we have not assumed any additional acquisitions; however, historically, they have contributed significantly to HANZA's growth. Hence, our sales assumptions may prove conservative. HANZA's financial targets include more than ten per cent annual growth. During the Q4 2021 conference call, management hinted that they are planning for the next phase of development – a "Roadmap 2025". The company has not yet provided any details, but so far, all development phases have involved acquisitions to add manufacturing technologies or access new geographic markets. In a bull case (see below), we assume an additional five per cent growth per year from acquisitions.

Valuation

We Believe HANZA is Under-Estimated

We have combined a DCF-model with a multiple valuation model in an average to calculate a fair value per share. Our DCF valuation results in a value per share of SEK 27 to SEK 74. Our multiple valuation yields a value per share of about SEK 40. Combining the median value in the DCF model with the multiple valuation in an average, we calculate a fair value per share of SEK 44.2 after full financing and accompanied dilution.

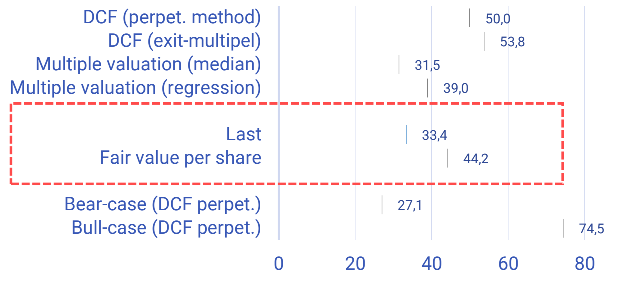
Our fair value per share in the base case represents a promising potential upside to the last paid price of some 32 per cent.

Fair value, base case (SEKm)

Multiple valuation, SEK	38.5
DCF valuation, SEK	50.0
Fair value per share, SEK	**44.2**
Potential up-/down side	32%
Shares outstanding, fully financed and diluted	36.6
Shareholder value	**1 619**
Cash (31 Dec.)	46
Debt (31 Dec.)	-758
PV cash from equity financing	14
EV	**2 318**

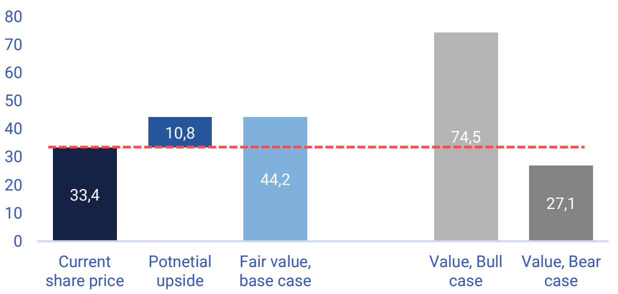
Source: Carlsquare Estimates

Fair value within an interval (DKK)



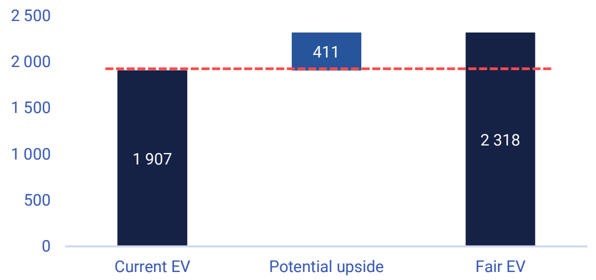
Source: Carlsquare Estimates

Fair value per share, base scenario (SEK)



Source: Carlsquare Estimates

Visualisation of EV, base scenario (SEKm)



Source: Carlsquare Estimates

Reasonability assessment, valuation base case

Our fair value in the base case corresponds to the implied multiples below.

Implied multiples, base case

	2021	2022	2023
EV/Sales	0.9x	0.78x	0.7x
EV/EBITDA	10.0x	8.1x	7.2x
EV/EBITA	16.2x	12.2x	10.9x

Source: Carlsquare Estimates

Our valuation corresponds to an EV/Sales multiple 2022E of 0.78x. The Nordic contract manufacturers reference group companies are currently trading at a median EV/Sales multiple 2022E of 0.65x. We believe a premium is justified based on our expectations of higher growth and EBITDA margin than peers.

Valuation within an interval

We have used our DCF model (perpetual method) in the bull and bear case but developed alternative growth curves and profitability targets.

In the bull case, we assume higher growth at an average of ten per cent in the forecast period, i.e., double the calculated rate in the base case scenario, propelled by acquisitions. We assume acquisitions corresponding to an EV/Sales of 0.5 valuation. On average, we also assume a one percentage point higher EBIT margin at seven per cent. We calculate a fair value of SEK 74 per share.

For the bear case, we model an average annual growth rate of 2.5 per cent, i.e., half the growth assumed in the base case. We also pencil in 1.5 per cent lower EBIT margins over the forecast period. After total financing and dilution, the more pessimistic scenario yields a fair value per share of SEK 27.

Risks and challenges

Supply Constraints and Cost Inflation

While HANZA typically should be compensated for raw material increases, earnings are potentially at risk if HANZA somehow fails to transfer costs to customers, especially in a high inflation environment. We believe that many companies expect some 20 per cent higher raw material costs for 2022. If HANZA does not get adequate compensation, there will be a significant impact on profits.

Component shortages might also affect revenue growth, margins, and cash flow. However, we do expect these issues to be resolved eventually. For instance, semiconductor producers are investing heavily in new capacity in 2021 and 2022. According to Fitch, the global chip shortage will ease H2, 2022.

Shortage of skilled labour is also a risk factor during periods of high growth.

Globalisation Strikes Back

Despite that the speed of spread has slowed, globalisation is far from over. For instance, during the pandemic, Asia's share of world exports has risen, demonstrating the resilience of Asian manufacturing operations. Despite regionalisation, merchandise trade on average still travels the same distance it did before the pandemic, according to IMF (Altman, S. et al., "DHL Global Connectedness Index 2021 Update: Globalization Shock and Recovery in the Covid-19 Crisis"). HANZA's sales are very much focused on Europe. If HANZA's European customers lose market share to, e.g., Asian and North American competitors, it could affect the growth prospects for HANZA negatively.

Margin Improvement Could Be Slower than Expected

Despite good growth during the pandemic, margins in Other Markets have remained mediocre. HANZA claims they believe the segments could achieve the same margins when Other Markets mature. However, the structural differences could make higher profitability more challenging due to, e.g., high labour intensity, not to mention cost inflation. At this stage, we have a more conservative view of Other Markets' profitability prospects than HANZA until we see more signs of margins closing the gap.

Cyclicality

The HANZA business model has not been tested in a longer cyclical down-turn. At the same time, HANZA does not rely on the success of single products and has some flexibility to adapt production to new customers if some customer industries face protracted downturns.

Company Background

HANZA is a contract manufacturer founded in 2008 that has successfully built six regional manufacturing clusters in Europe and China mainly through acquisitions of, e.g., sheet metal processing, heavy mechanics, and electronics operations. It boasts several large European industrial groups among its customers. We believe the HANZA team has demonstrated that the decentralised cluster organisation is well-positioned to benefit from regionalisation. A strong sustainability focus might help attract new business as well as institutional investors.

A Brief Introduction to HANZA

The name "HANZA" alludes to the medieval "Hanseatic League" merchant confederation that dominated trade around the Baltic Sea. It is in this particular geographical area that HANZA has its customers and conducts most of its business.

Also, the HANZA Group is a "confederation" of a wide range of manufacturing technologies such as heavy mechanics, circuit board assembly, wiring, turning, sheet metal working, milling, surface treatment, powder coating, welding, assembly and testing.

Selection of Customers

Source: Company information

For HANZA, Crisis is An Opportunity

HANZA was established on the threshold of the 2008 financial crisis with a strategy to create a leader within a four-leaf clover of manufacturing technologies: Machining, thin sheet, circuit boards and cabling, with advanced assembly on top. The financial crisis and the euro crisis that followed a few years later made market conditions very challenging from the get-go. However, it created a unique opportunity to build a manufacturing group with low initial investments. Hence, HANZA was partly built from the ashes of operations in trouble or under reconstruction in Sweden, Estonia, Finland, and Poland. HANZA had good backing from well-known entrepreneurs and investors in the Swedish contract manufacturing industry. CEO Erik Stenfors had made a similar journey before founding and leading the electronic manufacturing services company NOTE.

By 2013, HANZA had sufficient technological capacity to move into Phase 2 and relocate factories with different manufacturing technologies to geographical clusters to extract synergies and increase cost-efficiency. HANZA acquired Finnish heavy mechanics group Metalliset in 2015, partly financed by a SEK 50m rights issue. The takeover added operations in Finland, Estonia, the Czech Republic, and China. The restructuring program Frontrunner was launched, and six factories were either relocated or shut down. Underlying profit and cash flow improved during the 2015 to 2017 period.

In 2018, HANZA announced the start of the next phase to become a strategic business partner at the same time with a focus on profitable expansion. It entered new markets and customer segments by acquiring Wermech in Sweden, a complete supplier of advanced thin sheet solutions, and RITTER, a German mechanics and electronics group based in Remscheid. In 2021, HANZA expanded the German operations further by acquiring electronics manufacturer Helmut Beyers with a modern factory in Mönchengladbach. The two German sites complement each other, with RITTER focused on R&D/contract design, mechanics and final assembly and Beyer providing a state-of-the-art electronics manufacturing capacity.

Expansion of Manufacturing Clusters

Thus, acquisitions have been, and likely will remain, vital to HANZA's growth. We believe the Company has demonstrated solid value-enhancing qualities by acquiring companies at moderate valuations and subsequently improving margins. To some extent, organic growth has consequently suffered as HANZA typically exits some acquired units that are not strategic or have low profitability.

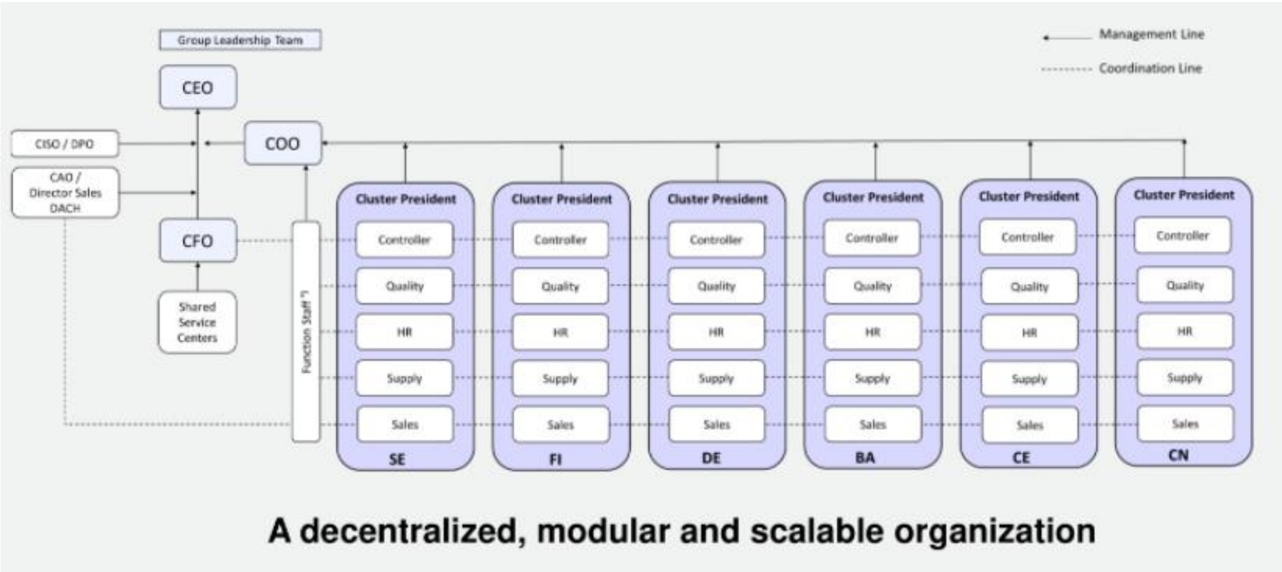
HANZA does not acquire companies just to become larger; the acquisitions should primarily help the group become a better manufacturing partner. For example, by adding new manufacturing technology, new customer segments or a new geographic area. The corporate culture also needs to be compatible with the HANZA Group in general, and ideally, HANZA wants to keep the old management in place. The acquisitions in 2021 have strengthened the presence in core clusters (Germany and Finland) has added advanced electronics (Beyers) and a modern painting capacity (SLP). The seller of Beyers has chosen to invest in HANZA.

The decentralised organisation underlines the importance of the corporate culture.

One of the essential elements is the horizontals consisting of six manufacturing geographical clusters. The clusters in the Main markets – Nordics and Germany – mainly serve local customers, whereas the Other Markets clusters - The Baltics, Central Europe, and China – focus on export markets.

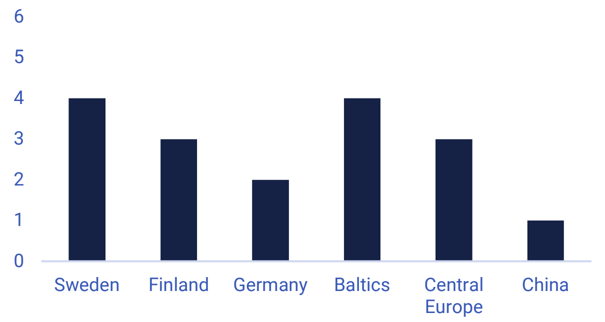
Each cluster has a similar organisation, and the Group management team is small to minimise overhead. In addition, there are also some shared services as well, e.g., consultancy and business development.

HANZA Organisation



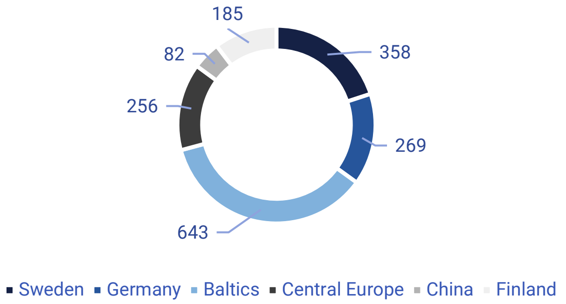
Source: Company information

Factories per Geographic Cluster



Source: Company information

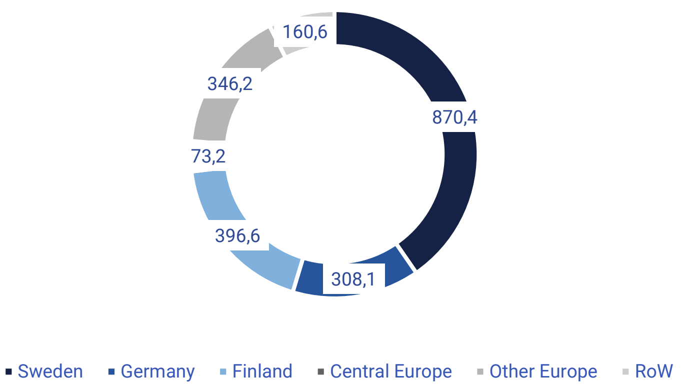
Employees per Geographic Cluster



Source: Company information. 2020 numbers adjusted for acquisitions

Sweden is the largest end market and an important export market for the clusters in Other Markets. Germany will likely become the second biggest market following the acquisition of Beyers.

Net Sales by Geographic Market (2020) (SEKm)



Source: Company information

Roadmap 2021 – Investing for a Recovery

During the pandemic, HANZA and its customers in the Main markets were initially hit hard, and underlying sales in the segment fell some 20 per cent. However, the board and management soon concluded that HANZA's offer as an alternative to complex and vulnerable global supply chains remained relevant and that demand would consequently recover. The Roadmap 2021 activity plan was launched with investments or acquisitions in all clusters except Central Europe (see below). The most significant capex investment was in Estonia. SEK 80m was invested in a complex assembly facility adjacent to the existing sheet metal production in Tartu. The factory will be completed in Q1, 2022.

In 2022, HANZA announced investments to increase electronics, cabling and assembly capacity in Poland and the Czech Republic (not included in the illustration below). In total, Roadmap 2021 includes over SEK 100m of investments in machinery and equipment (excluding Tartu).

Roadmap 2021, Investing for a Post-pandemic Recovery

Source: Company information

All You Need is One

HANZA is focusing on producing lower volume series, i.e., in the range of 1,000 to 10,000 units. Hence, it differs from "traditional", high volume, low-cost contract manufacturers of single components. Instead, HANZA seeks business where it supplies various parts for the customer, including the final assembly of modules or complete products in some rare cases. The contracts are typically small compared to the traditional contract manufacturer, which often is highly dependent on a few very large customers. In contrast, we estimate that none of HANZA's customers represents more than ten per cent of sales (despite having several multinationals on the customer list). The ten largest customers account for somewhat less than 50 per cent of sales.

This strategy is the background of the trade-marked company slogan "All You Need is One" and could help avoid some of the most severe price pressures on high-volume, low-value components. A larger share of the production means more value per customer. Increased business and closer ties with the customers also mean more stickiness and higher hurdles to replace HANZA with other suppliers. In addition, by having more control over the production, HANZA argues it can better adapt to variations in demand and allocate resources more efficiently between customer projects within the same cluster. Overall, the strategy should help drive growth with existing customers while sustaining or increasing margins. A possible drawback is a risk of becoming a local niche provider, limiting growth opportunities.

The HANZA organisation has accumulated a deep knowledge of contract manufacturing. It has a development team of some 20 people that offers consultancy services. It presents solutions to customers facing challenges in the production and logistics chains (the service is called Manufacturing Solutions for Increased Growth & Earnings, MIG). According to management, the revenue is relatively small in absolute terms but is growing and a possible door-opener to new contract manufacturing customers.

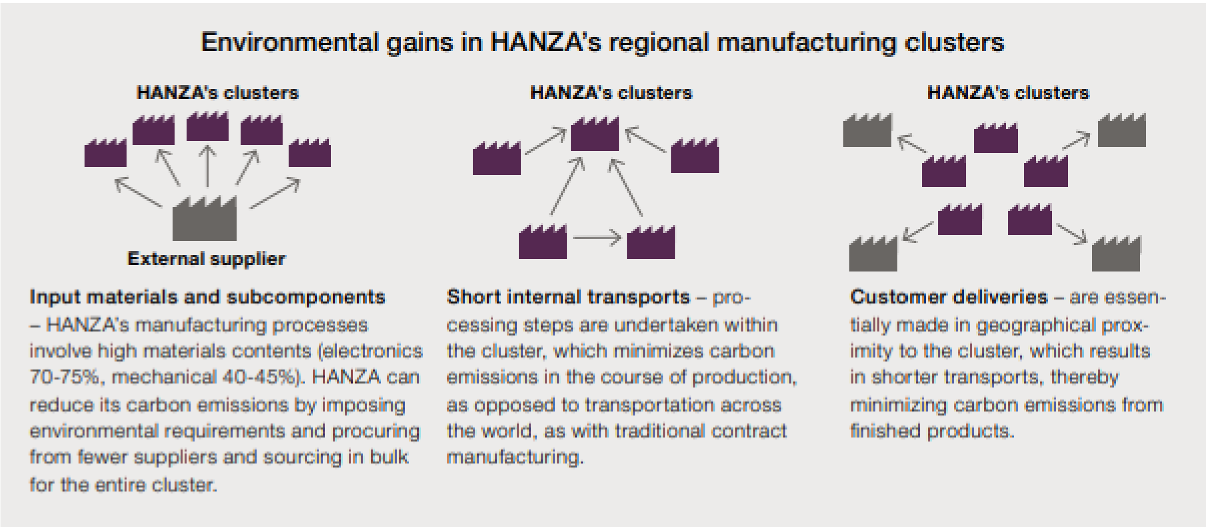
Focus on Sustainability

HANZA claims sustainability management is an integral part of its business. One aspect is that it offers manufacturing solutions to demanding customers. Failing to meet their sustainability requirements means a risk of losing business. Conversely, there is an increasing focus on the sustainability of the supply chain from customers. If HANZA can beat competitors in this respect, it is likely an important selling point. In 2019, HANZA signed a multi-year deal with construction and mining equipment giant Epiroc regarding the delivery of assembled mechanics. This customer specifically cited HANZA's manufacturing cluster as an advantage from a sustainability aspect. HANZA is proactive in its sustainability work and advises customers on solutions to comply with environmental requirements (Material Compliance Service).

Twelve out of 16 factories have been certified according to ISO 14001 and ISO 45001.

We believe sustainability brings several interesting aspects. Besides being a potential competitive strength (or weakness) for HANZA as a supplier, it could also affect the attractiveness of the HANZA share as an investment. During the last couple of years, money that flows into proclaimed ESG funds have risen multifold and global sustainable fund assets have tripled since Q4, 2019, to USDbn 2,740, according to Morningstar.

Examples of Environmental Advantages in HANZA's Clusters



Source: Company information

From an investment perspective, the EU:s SFDR (Sustainable Finance Disclosure Regulation) will create a structural change in financial markets by making sustainability reporting mandatory and will force investment firms to assess sustainability-related risks in their investments.

For companies, the Corporate Sustainability Reporting Directive (CSRD) stipulates that companies will have to disclose what percentage of revenues are in line with the EU's green taxonomy.

HANZA Might Benefit from Increased ESG Disclosure

ESG will likely play a more significant role in investment decisions from 2022 onwards, from increased disclosure requirements. Companies with a strong or even "less bad" sustainability profile will likely enjoy higher relative valuations as a result.

While one might speculate that HANZA should fare well in this context, given the strategy of local and regional production clusters, the environmental advantage needs to be confirmed in actual numbers. For example,

- How large a share of revenue is green taxonomy eligible? HANZA does not yet disclose this information. Currently, we do not find anything to suggest that HANZA stands out in this regard. However, there are clear examples of green projects in the portfolio, such as the close collaboration with Tomra, the Norwegian manufacturer of reverse vending machines, in the Swedish Wermech operations. We see it as likely that HANZA can attract more green projects in the future.
- Are emissions, energy consumption and waste demonstrably lower for the HANZA supply chain than other contract manufacturers or suppliers? We are optimistic that HANZA will rank highly in this regard, but there has been no published assessment so far. There is a challenge in comparing different companies with different manufacturing technologies, and to get the complete picture, input from suppliers and customers is probably needed.

For HANZA, institutional ownership is low, and there are no reliable signs that, e.g., ESG investing from funds have yet had any positive effect on share performance.

The Team Executing the Strategy

Many of the HANZA management team has been with the company for +10 years. Initially, the company attracted previous employees from NOTE; an electronics contract manufacturer co-founded and headed by CEO Erik Stenfors until 2006. We do not believe that the company would have come so far without deep market insight and good relationships with demanding customers. We have the impression that HANZA is a decentralised organisation and the cluster managers have significant independence to implement the corporate strategy. The organisation also reflects the local/regional nature of the business and the importance of close customer relationships.

Erik Stenfors is the CEO and founder of the company. He has a background as an entrepreneur, e.g., as a founder and CEO of contract manufacturer NOTE and founder of e-commerce company Wonderful Times Group. Erik owns 450,000 shares and 350,000 warrants.

Lars Åkerblom is the CFO and Executive Vice President. He joined the company in 2010 and previously held similar positions at, e.g., Pricer and Nocom. He also has a background as an Authorized Public Accountant and Market Manager at KPMG. Lars owns 110,210 shares and 250,000 warrants.

Andreas Nordin is the COO. He has a background as a factory CEO at Ericsson in Mexico, Brazil and Estonia. He holds 250,000 warrants.

Source: Company information

There are 850,000 outstanding warrants with a strike price of SEK 20 per share and a subscription period between June and September 2023. The warrants are currently well in the money, and if fully subscribed, they will carry a dilution of 2.4 per cent.

Board of Directors

HANZA has an impressive board representing significant experience in successful Swedish industrial and consumer companies. Moreover, the board has significant ownership of the company.

Francesco Franzé has been Chairman since 2019 and a member of the Board since 2015. He is the second-largest shareholder and owns ten per cent of the company. He has been a member of Husqvarna Group Management and Senior VP at Industrial Operations of Electrolux group.

Gerald Engström is the largest shareholder and the co-founder, previous CEO, current Chairman and the largest shareholder of Systemair. He owns 8.6 million shares.

Håkan Halén is one of the largest shareholders and was previously the CFO of Hexagon between 2001 and 2013. Håkan joined the board in 2015 and holds 2.4 million shares.

Helen Richmond is the CEO of Heating products manufacturer Enertech, part of the NIBE group. She owns 39,000 shares.

Sofia Axelsson is VP, Consumer unit of Electrolux and was previously the CEO of Svedbergs. She holds 4,000 shares.

Source: Company Information

The Ten Largest Owners

As mentioned, Gerald Engström is the largest shareholder via Färna Invest. He started to build his position in 2015 in conjunction with a convertible bond issue and has continuously added to his holdings. According to Holdings.se, HANZA is

Engström's second-largest share position (albeit much smaller than his ownership in Systemair at SEK 8bn+).

Overall, the ownership is dominated by entrepreneurs and people with extensive experience in manufacturing and growing through acquisitions (e.g., Systemair, Hexagon, Husqvarna and NIBE). That is, many have already achieved the success that HANZA is targeting. We see it as a stamp of quality that they have considered HANZA a promising investment and are also on the Board.

So Far, Institutional Interest is Lacking

Another significant shareholder is RITTER Beteiligung GmbH, who became the third-largest owner after getting paid partially in shares for RITTER Elektronik. The lack of institutional shareholders is a bit surprising. A relatively low free float has probably contributed. The HANZA share was uplisted to the Nasdaq Stockholm main market in March 2019. The higher valuation could help attract institutional shareholders.

Ten Largest Shareholders

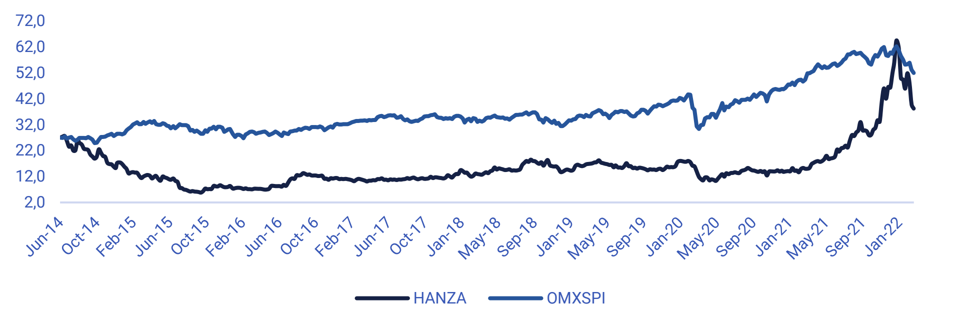
Owner	Capital	Votes
Gerald Engström	23.9%	23.9%
Francesco Franzé	10.0%	10.0%
Ritter Beteiligungs Gmbh	8.8%	8.8%
Håkan Halén	6.6%	6.6%
Massimiliano Franzé	5.8%	5.8%
Nordnet Pensionsförsäkring	5.0%	5.0%
Svenska Handelsbanken AB for PB	4.9%	4.9%
Avanza Pension	3.3%	3.3%
Eugen Steiner	2.8%	2.8%
Bankinter	1.9%	1.9%

Source: Holdings.se

Share Development

Below is the share development compared to OMXSPI.

HANZA Share Development, SEK



Source: S&P Capital IQ and Carlsquare

The HANZA share had a poor start after listing on Nasdaq Stockholm First North in 2014, a challenging year for many customers, particularly in Finland and Norway. A couple of years later, the shares recovered as restructuring and cluster expansion progressed and cash flow improved. In 2019 the shares were uplisted to Nasdaq Small Cap.

The shares had a tremendous run in 2021. The acquisition of Beyers in 2021 was well received by investors, possibly intrigued by the renewed expansion in Germany.

Several contract manufacturers also gained as the stars aligned in their favour. Customers scramble for new capacity, and simultaneously, reshoring and outsourcing trends are strong. Many contract manufacturers have reported record growth in orders and revenue in the last twelve months, and HANZA is no exception.

The most significant ownership changes during last year were Gerald Engström increasing his position by 20 per cent and Protector divesting all its shares (about three per cent). The number of shareholders increased substantially in 2021 from 1,772 to 6,800 (according to Holdings.se).

Markets and competition

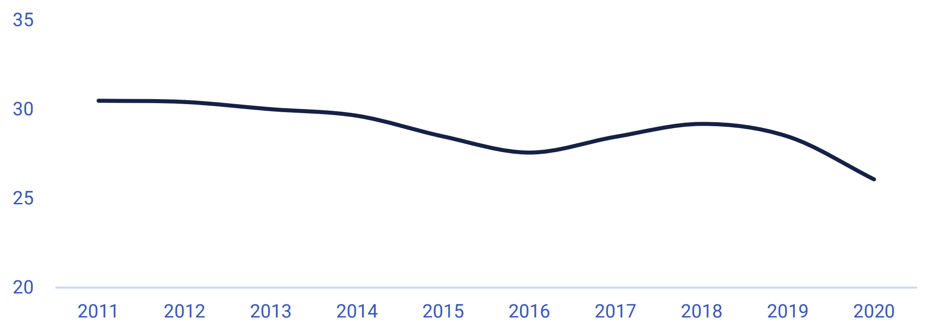
The market for contract manufacturers is virtually limitless; however, competition is fierce in high volume products. The Nordic players are relatively small but have thrived by focusing on niche growth segments and product development services. A comparison indicates that HANZA is closing in on its listed peers in terms of growth and profitability.

A Competitive but Healthy Market

Since the early 2010s, the rate of globalisation appears to have slowed, and many multi-national companies are redirecting investments and production to regional sites, also called "back shoring". One reason is risk mitigation in the face of potential disturbances to supply chains from, e.g., trade wars and pandemics. Another reason is waning cost advantages from sourcing manufacturing from developing economies. According to a survey by McKinsey in 2020, nearshoring and regionalising of suppliers were among the top priorities (following dual sourcing and increased inventory) among supply chain executives to improve resilience to disruptions (Lund, S. et al., "Risk, resilience, and rebalancing in global value chains", *McKinsey Global Institute*, August 2020).

The chart below demonstrates that growth in global trade slowed already following the great financial crisis.

World Exports Growing Slower than GDP



Source: World Bank

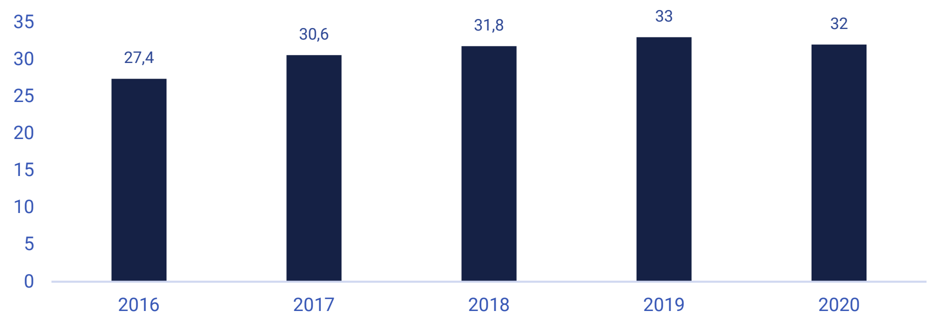
An Ongoing Boom in Electronics Contract Manufacturing?

HANZA states that the total market for contract manufacturing is difficult to estimate as it comprises many different segments. Also, HANZA is competing with in-house manufacturing.

There are no clear limits to growth opportunities; however, the competition is fierce, especially for high volume products.

HANZA considers the European electronics contract manufacturing market as the most relevant benchmark. It is valued at EUR 32bn (2020). With electronics sales of SEK 845m, HANZA's market share was about 0.25 per cent.

European Market for Contract Manufacturing of Electronics (EURbn)



Source: HANZA/Reed Electronics Research

The market has grown at three to four per cent annually. However, growth has picked up in 2021 and order books have expanded rapidly. According to contract manufacturer NOTE, market growth in Europe could rise to above seven per cent over the next couple of years. This will be driven by, e.g., increased electrification and smart applications and increased outsourcing as companies become less integrated.

One of the industry leaders, Flex, has a more conservative view and aims to grow at or above GDP. Norwegian bellwether Kitron cites estimates of four to five per cent growth over the next three years.

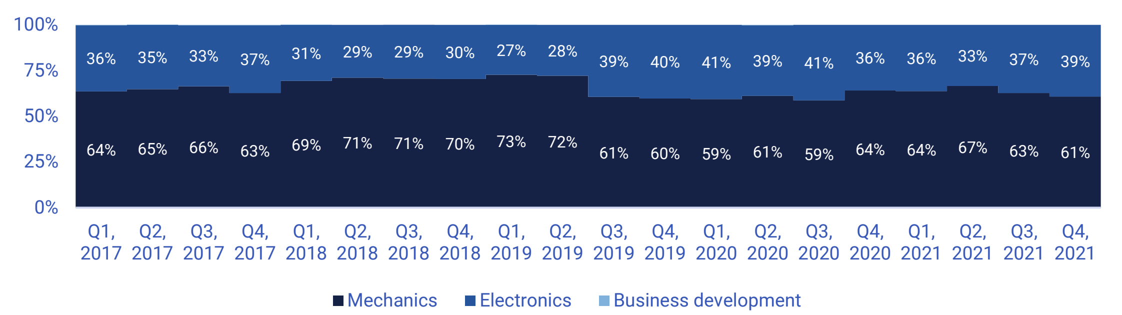
Competition

The contract manufacturing market is quite fragmented, with many local players. However, some huge Asian players are active in the European electronics contract manufacturing market, such as Foxconn and Flex. According to *EMS Now*, the top ten companies account for about 45 per cent of the market.

HANZA has historically generated most sales from mechanics. However, the share of electronics has grown via the expansion into Germany. The competitive landscape is likewise heterogeneous and difficult to assess in mechanics. HANZA typically has visibility of six to twelve months for order intake.

According to management, no customer has yet cancelled a contract nor left for a competitor. We believe this is evidence of the competitive quality of the HANZA operations. However, there have been cases where the customers have eventually decided to source in high volume production.

HANZA Sales Distribution per Manufacturing Technology



Source: HANZA

Nordic listed peers (electronics and mechanics) include AQ Group, Inission, Kitron, Note, and Scanfil. Not all companies are direct competitors, but we believe a comparison is relevant from a capital markets perspective.

AQ Group

Formed in Västerås in 1994 as a spin-off from ABB, AQ Group has successfully expanded in electric cabinets, inductive components, wiring, sheet metal and thermoplastics parts. It has a global presence, including the US, China and South America. Like HANZA, it has quite a broad offering of manufacturing technologies. AQ Group has a turnover of SEK 5.2bn (R12M per September 2021). The customer mix includes Automotive and Telecommunications equipment, segments where HANZA is not active currently.

Inission

Inission is a smaller (~SEK 1bn) Nordic electronics and mechanics manufacturing services group. It serves engineering, marine, safety technology, MedTech, control technology, instruments, offshore, environment, and vehicle industries. Inission AB (publ) was founded in 1973 and is based in Karlstad, Sweden. Inission sales have been hampered by components shortages in 2021.

Incap

Incap Oyj, together with its subsidiaries, provides electronics manufacturing services in Europe, North America, South America, Asia, Africa, and Australia. The company offers, e.g., CB assembly and manufacturing and box-build assembly. The company serves aerospace, automotive, consumer electronics, data storage and media, defence, environment/green energy, food and vending, industrial controls and automation, medical, oil and gas mining, power, security, scientific/ instrumentation, telecom, and transport and infrastructure sectors. In 2020, Incap acquired AWS Electronics.

Kitron

Kitron ASA is a Norwegian electronics manufacturing services company focused on electronics for the energy/telecoms, defence/aerospace, offshore/marine, medical device, and industry sectors. It manufactures electronics embedded in the customers' products; and box-built electronic products. Kitron fared very well during the pandemic due to its exposure to, e.g., respiratory medical devices. In 2021, it faced supply chain constraints affecting the capacity to deliver and lowered the outlook in the Q3 report. Kitron has revenues of NOK 3.7bn.

Note

Note is an electronics manufacturing services provider and a leader in PCB assembly and box build of subassemblies for high-end products. It has shown substantial growth from, e.g., Greentech customers and record margins in recent years. In 2021, it reported sales of SEK 2.6bn.

Scanfil

One of the largest listed Nordic contract manufacturers, offering system solutions for the electronics industry. It reports revenues of EUR 658m and includes former listed Swedish peer Partnertech.

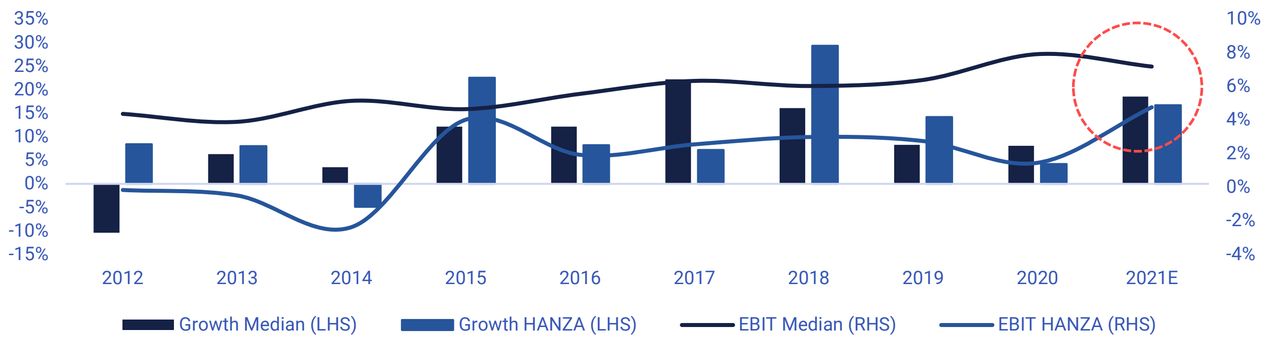
HANZA Ranks High on Growth but Lags on Margins

For many companies, particularly start-ups, manufacturing is not part of the strategy, and contract manufacturers are natural partners. There is evidence that the regionalisation trend has benefited regional contract manufacturers during the last decade.

Good Performance in 2021 Despite Supply Chain Issues

For example, Nordic contract manufacturers have performed well over the past decade, and the profitability is generally reasonable. Margins have doubled, a scene change compared to the cut-throat competition at the beginning of the century. A comparison indicates that HANZA has expanded in line with the peer group mentioned above. However, thus far, its margins have been lagging, and HANZA was harder hit by the pandemic. An optimistic interpretation is that there is room for improvement, and margins increased significantly in 2021, albeit from low levels. In contrast, despite solid revenue growth, many of its peers saw contracting margins in 2021 due to supply chain constraints and related costs.

Growth (left) and EBIT-margins



Source: Company information. Median of AQ Group, Inission, Kitron, Note and Scanfil

In contrast, HANZA's gross margins are high in comparison (however, NOTE has a function-based financial reporting that explains the low levels). One reason for the gap in EBIT margins is that HANZA operations are relatively labour-intense, especially in Other Markets clusters. Also, HANZA has relatively high depreciation compared to peers.

Peer Comparison, Gross Margins

Company	2012	2013	2014	2015	2016	2017	2018	2019	2020
Note	9%	8%	11%	11%	12%	12%	12%	12%	12%
Scanfil	31%	31%	33%	33%	33%	31%	32%	33%	31%
Kitron	39%	39%	36%	36%	36%	34%	33%	33%	33%
AQ Group	48%	47%	49%	50%	54%	50%	51%	51%	54%
Median	**35%**	**35%**	**35%**	**35%**	**34%**	**32%**	**33%**	**33%**	**32%**
HANZA	43%	39%	40%	41%	45%	42%	44%	46%	44%

Source: S&P Capital IQ and Company Information

Valuation of Reference Group

We conclude that HANZA is valued at a slight discount compared to its peer group regarding valuation multiples. The comparison is distorted as we do not have consensus estimates for AQ Group and NOTE, two of the most successful peers. We view the valuation as supportive as we expect HANZA to have better earnings growth than its peers in general.

Summary table, the reference group

Category/Ticker	HQ	Mcap (SEKm)	CAGR, 2020-2023	µEBITDA-marg., 2021-2023	EV/SALES	EV/EBITDA	P/E
Contract Manufacturers					2022	2022	2022
AQ Group AB (publ)	SE	4 574	-100%	#DIV/0!			
NOTE AB (publ)	SE	4 539					
Inission AB (publ)	SE	489	9%	8%	0.5x	6.0x	10.7x
Kitron ASA	NO	4 228	28%	10%	0.7x	7.0x	13.5x
Scanfil Oyj	FI	4 487	6%	9%	0.6x	7.2x	11.8x
Incap Oyj	FI	3 795	16%	17%	1.5x	8.8x	13.5x
Median		**4 357**	**13%**	**9.0%**	**0.65x**	**7.1x**	**12.6x**
Average		3 685	15%	10.9%	0.8x	7.2x	12.4x
HANZA (consensus)	**SE**	**1 195**	**8%**	**10.4%**	**0.6x**	**5.6**	**10.3**
HANZA (CSQ)	**SE**	**1 195**	**13%**	**9.5%**	**0.6x**	**6.5x**	**10.4x**

**Estimates are Carlsquare estimates. Source: S&P Capital IQ and Carlsquare estimates*

Financial History and Carlsquare Estimates

In the last decade, HANZA sales have expanded eleven per cent annually on average. We see growth above trend during 2021-2022 from German recovery, increased market share and acquisitions. We expect good operating leverage as HANZA should be relatively insulated from increasing material costs. While operating margins are lower than peers, HANZA has demonstrated competitive cash-generating capacity.

Expansion of Clusters

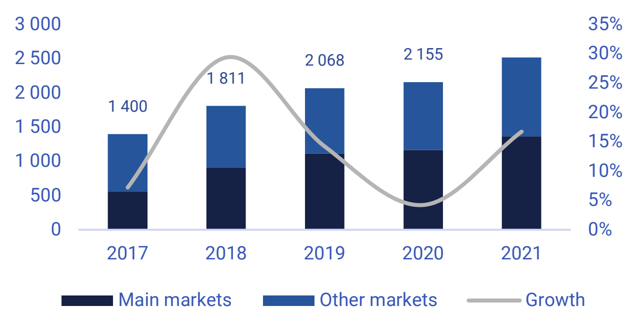
Acquisitions the Main Growth Strategy

Historically HANZA has on average achieved double-digit growth. Between 2011 and 2021, the CAGR in sales was about eleven per cent. Acquisitions have contributed to the lion's share of the growth, with, e.g., RITTER, Wermech and Metalliset representing some SEK 1.25bn in sales in total.

At the same time, restructuring and HANZA exiting non-strategic units and businesses have negatively impacted top-line growth. One example is the Frontrunner program (2015-2017), where HANZA closed manufacturing representing ~SEK 150m in sales. In addition, HANZA also phased out single component production for the telecoms industry of some SEK 100m in sales. In 2020, HANZA exited around SEK 100m in sales under the "Resistor" restructuring program.

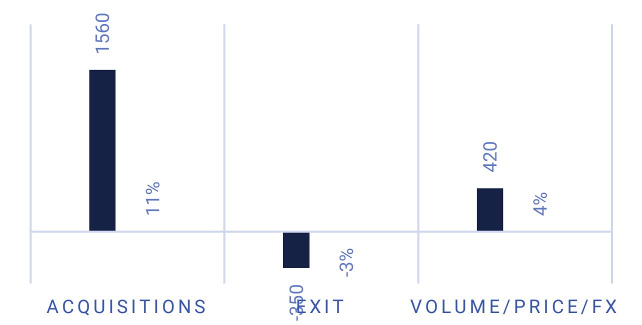
Adjusting for these factors, we calculate an organic growth of about four per cent (CAGR) between 2011 and 2021 (including currency effects). According to our estimates, this is in line with major industrial customers such as ABB, Atlas Copco, Epiroc and Oerlikon.

Net sales (SEKm) and Growth



Source: Company information

Growth Components 2011-2021, SEKm and CAGR (%)



Source: Carlsquare Estimates

Margins are Improving

Cluster Model Resilient to Demand Shock

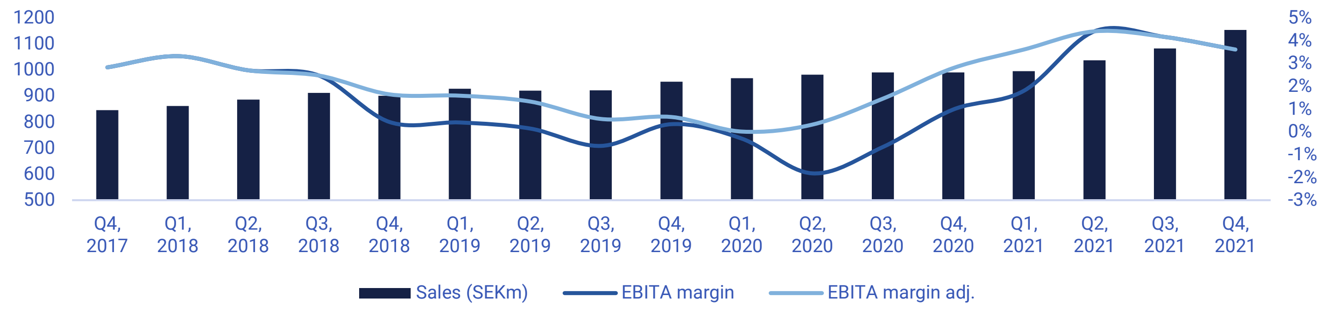
HANZA has an EBIT target of at least six per cent as an average over a business cycle. This goal has not yet been achieved on a group level. However, the underlying trend has been positive, at the same time as items affecting comparability, including non-cash amortisations, have repeatedly burdened margins. More importantly, operating cash flow has exceeded operating earnings. Margins have become more stable over time. In 2020, the cluster model faced a stress test as orders dived during the pandemic. Despite the demand shock, the operating result was stable adjusted for restructuring costs.

Other Markets Key to Reaching Target

The reported margin is lower than other prominent Nordic contract manufacturers such as Kitron, Note, Scanfil and AQ Group. For such peers, it is at least twice as high. While margins in the Main Markets are not far off HANZA's main peers, the low profitability in the Other Markets segment is a drag.

Hence, improving margins in Other Markets is a priority. The ongoing cyclical recovery should be helpful, and in 2021, the margin (EBITA) improved to 3.6 per cent (1.0) as sales increased by 16.5 per cent. From a historical perspective, these are high levels. The pickup in margins also reflects that the segment historically has been burdened by restructuring costs and write-downs. The chart below illustrates sales, margin development, and margins, excluding write-downs and restructuring.

Other Markets, Sales and EBITA Margin rolling 12m



Source: Company information and Carlsquare estimates

Other Markets consists of the Baltics cluster (two sites in Estonia; Tartu and Narva), the Central Europe cluster (Poland and the Czech Republic) and China. In Poland and the Czech Republic, HANZA operates electronics manufacturing and cabling, and assembly. It provides some mechanics in the Czech Republic as well. Narva is a centre for heavy mechanics, while Tartu has thin sheet metal and Mechanics operations. Compared to other Swedish contract manufacturers, HANZA is relatively labour-intense, especially in the Other Markets segment.

The obvious question is how margins are going to improve further? One initiative is by further implementing the cluster approach to Other Markets, with, e.g., the Swedish operations as a model. In 2021, HANZA invested in a complex assembly facility in Estonia close to the existing sheet metal factory in Tartu. In addition to offering and growth capacity, sharing resources within the cluster could increase capacity utilisation and cost-efficiency and help improve margins over time.

Contained Exposure to Rising Input Costs

We expect cost inflation across the board in 2022. This includes HANZA purchased goods such as thin sheet steel and electronics. However, HANZA does not sell its own products and is typically compensated for input cost changes in its contracts. Hence, raw material costs can be pushed to the customer and theoretically be about earnings neutral. However, we cannot rule out that some customers might nevertheless be reluctant to accept rapid price changes from its suppliers. There might also be considerable swings in margins (and cash flow) quarter-on-quarter if there is a delayed compensation for cost increases.

We believe the argument of relative margin insulation from raw material changes is supported by the steady gross margin increase over the long term. There have been exceptions, in 2017 when HANZA said margins were negatively affected by restructuring programs and customer mix. However, there were probably cost inflation effects (many contract manufacturers reported a cost headwind that year).

Sweden Is the Most Successful Cluster So Far

Historically, the cluster strategy has been validated, particularly in Sweden. HANZA does not reveal margins for individual clusters but indicates that the Swedish margins are double-digit. This is high compared to the industry and a scene change compared to 5-10 years ago when the implementation of the cluster strategy had recently started, and group margins were below three per cent. HANZA has made acquisitions in Sweden along the way, e.g., Wermech, but most of the improvement has been internal. Overall, HANZA Sweden has significantly increased, perhaps doubled, margins during this period. Sweden is the oldest cluster and demonstrates a positive correlation between maturity and margins.

Growth Picked Up in 2021

In 2021 HANZA achieved its highest organic growth in at least a decade. To some extent, it was to be expected from a rapid bounce towards pre-pandemic levels in an almost v-shaped cyclical recovery. However, HANZA reports that new customers also drive sales while some old customers have not yet fully recovered. Organic growth was about 30 per cent in the fourth quarter and twelve per cent for the full year 2021.

Assumptions and Estimates

Acquisitions

Historically, acquisitions have been very significant to HANZA's sales growth. According to our calculations, they represent the lion's part of the growth in the last decade, about 11 per cent annually.

We expect further acquisitions in the future. We believe further expansion in Germany is high on the agenda. HANZA is still a tiny player and would benefit from a broader customer base in the country, and there are still many potential targets. We would not be surprised to see further acquisitions in the electronics industry as this is a large and growing space.

In the short term, we predict the focus will lie on integrating Beyers and SLP. However, we see room for acquisitions to add significant growth over time, provided that our estimates are accurate and HANZA can identify good targets at a reasonable price. Below we have listed the essential acquisitions since 2011. We conclude that HANZA pays around 0.5x sales for its targets. We have not included additional acquisitions in our base case estimates and valuation. However, we see valuation upside from acquisitions in a bull case scenario.

HANZA's Reported Acquisitions

Target	Sales (SEKm)	EBIT (SEKm)	Consideration (SEKm)	EV/Sales (x)	EV/ EBIT (x)	Date	Comment
KA Elektronik	75		29	0.39		Nov-14	
Metalliset Oy	375	45	152	0.40	3.4	Jul-15	
Wermech	366.2	27.3	237	0.65	8.7	Feb-18	
Ritter	430	29.9	229	0.53	7.7	Jul-19	Including post-employment benefits
Toolfac	80	9	45	0.56	5	Jan-19	
SLP	150	7.9	72	0.48	9.1	Mar-21	
Beyers (MEUR)	18		7	0.40		Oct-21	Excluding EUR 2.5m earn-out
Median				0.48	7.7		

Source: Company information and Carlsquare estimates

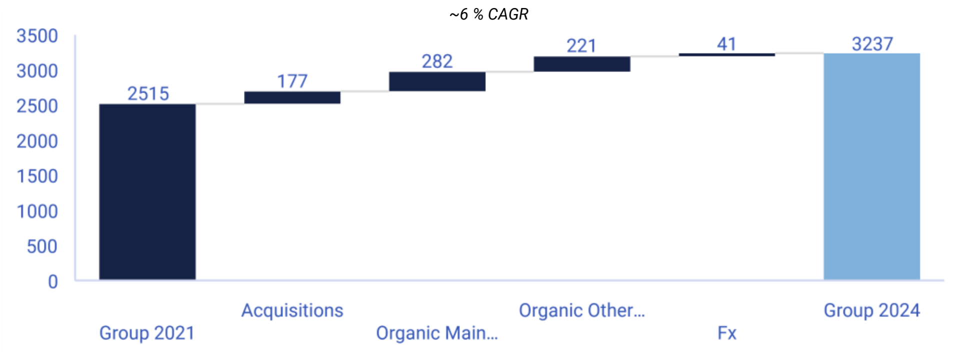
We Expect Growth, Margins to Improve in 2022

We expect a good demand increase in Main Markets. Recovery is already ongoing in the key German market that was hard hit in the pandemic, and HANZA has reported strong order intake in recent quarters. The outlook from customer companies is strong, with supply chain disruptions and long lead times as main caveats. As a result, we see organic growth pick up, from some five per cent in 2021 to about ten per cent in 2022.

For Other markets, the organic growth in 2021 was even more impressive at 17 per cent (31 per cent in Q4) despite capacity and component supply issues. To us, it appears like the HANZA organisation made a considerable effort to meet the sudden surge in demand in a short period. Since HANZA is in parallel investing for expansion, there is a temporary need for extra resources that negatively affect margins. While new capacity will be coming online over the next twelve months, e.g., the assembly operations in Estonia, we do expect growth to come down. We assume ten per cent organic growth, in line with Main markets, driven by exports to the Nordics and Germany.

For 2023 and 2024, we have assumed an average organic growth in line with the historical trend of four per cent. In sum, we arrive at a sales CAGR of about ten per cent for Main Markets (including acquisitions) and six per cent for Other Markets from 2021 to 2024.

Sales bridge 2021 to 2024 (SEKm)



Source: Company information and Carlsquare estimates

Improved Outlook in the German Cluster

With the German cluster representing ~1/5 of sales, margin development clearly impacts group profitability. Historically, RITTER has demonstrated margins of eleven per cent, but it has suffered from weak demand from a customer exposed to the textile industry during the pandemic. However, Oerlikon (the company in question) saw strong order intake in 2021, and we believe RITTER most likely will benefit in 2022.

While the new acquisition Beyers had a zero margin in 2021, HANZA has stated that it expects a positive effect on growth and margins in 2022. The earnings slump is partly due to exposure to the sports events industry. In the Q3 conference call, HANZA management clarified that one reason for the acquisition was to add capacity as demand for electronics in Germany was higher than HANZA could provide at the time.

Margin Target To be Reached in 2023

In its Q4, 2021 report, HANZA stated that it expects 2022 to be another year of growth with increased profitability.

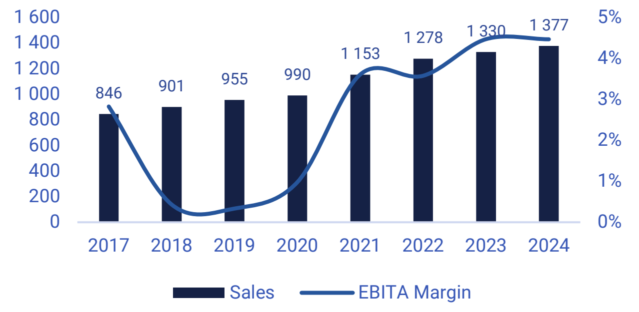
We subscribe to this view as we believe total margins should increase from higher profitability in Main markets. As stated above, we expect accelerating volume growth in 2022 for this segment to provide for operating leverage.

In Other Markets, we calculate that some temporary costs related to the expansion and handling of capacity issues that hampered earnings in the latter half of 2021 should abate in the second half of 2022.

Other cost inflation will most likely work in the other direction. There will probably also be swings in the gross margin from material costs increases between quarters. For Other Markets, we have assumed stable margins. Hence, we believe a large margin difference will prevail between the segments.

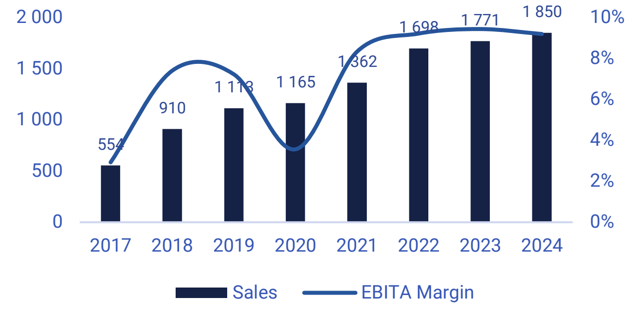
All in all, we forecast that robust top-line growth will translate to an EBITA growth of about 33 per cent for the group.

Other Markets Revenue (SEKm) and margin (%)



Source: Company information

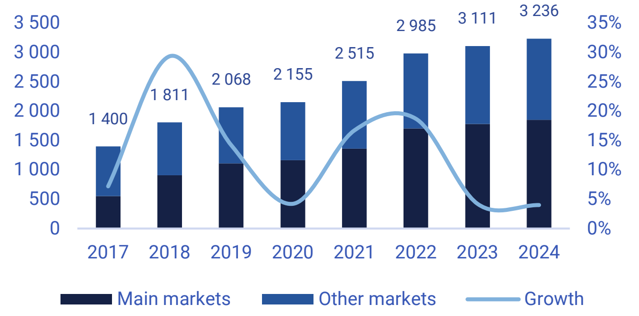
Main Markets Revenue (SEKm) and margin (%)



Source: Company information

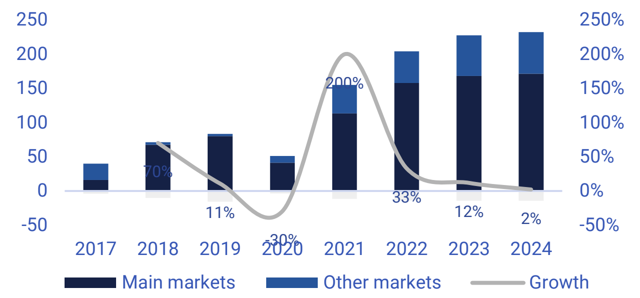
We believe the EBIT margin target is within reach over the next two years. Improved capacity utilisation in Germany, resolving supply chain issues, and finalising expansions in *Other markets* are key factors. Given an expected sales CAGR of some nine per cent from 2021 to 2024, we also calculate with solid earnings growth of some 19 per cent (net profit), on average.

Revenue (SEKm) and Growth (%)



Source: Company information and Carlsquare estimates

EBITA (SEKm) and Growth (%)

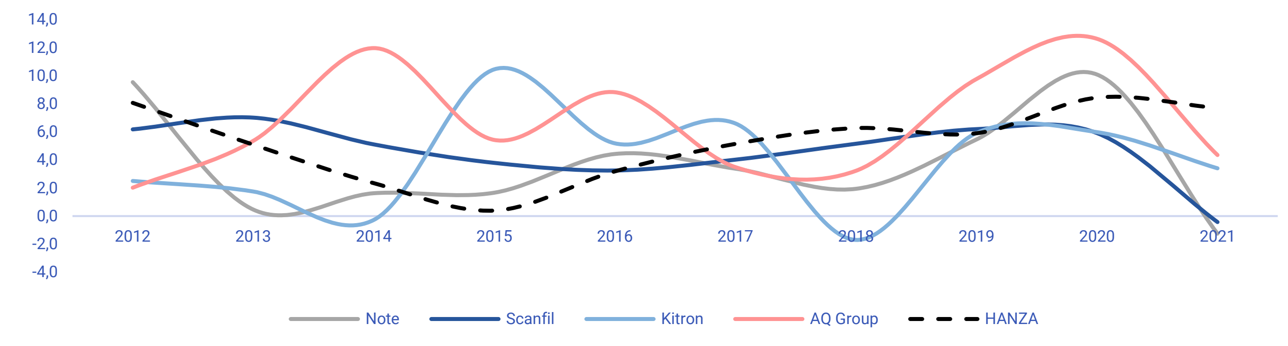


Source: Company information and Carlsquare estimates

Competitive Operating Cash Flow

Historically, HANZA's somewhat mediocre operating margin has masked a good underlying operating cash flow in the last five years. For instance, operating cash flow margins are much closer to peers (in fact, in 2021, it exceeded most listed Nordic contract manufacturers) than, e.g., the EBIT margin. This partly reflects good working capital management.

Operating Cash Flow Margins (%), Peer Comparison



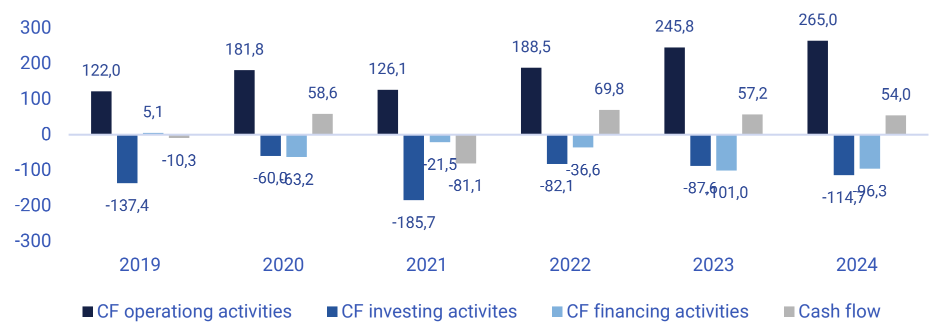
Source: Company information and Carlsquare estimates

Capex increased significantly in 2021 from SEK 60m to SEK 140m, mainly due to the *Roadmap 2021* expansion program. The program includes investments in:

- A complex assembly facility in Tartu, Estonia of SEK 80m
- Upgraded mechanics equipment and new electronics coating and mounting machines in Sweden (about SEK 25m)
- Electronics production equipment in China (SEK 10m)

We expect lower capex in 2022 to 2023 in the region of 2.5 to three per cent of sales.

Cash flow (SEKm)



Source: Company information and Carlsquare estimates

By the end of 2021, HANZA had SEK 46m (121) in cash. The cash reduction was due to acquisitions and Capex. As illustrated in the figure above, we see a significant improvement in cash flow in 2022.

The equity ratio was 30 per cent, i.e., at the lower bound of HANZA's financial targets following the expansion last year.

Dividend Policy

The policy is to return about 30 per cent of net profit after tax as a dividend. HANZA paid its first dividend (SEK 0.25 per share) in 2019. In 2020, the dividend was withdrawn due to the pandemic. In 2021, a dividend of SEK 0.25 was reinstalled, and for 2022, the board has proposed a raise to SEK 0.5.

Valuation

Combining a DCF valuation with a multiple valuation in an average, a fair value per share is calculated to SEK 46, after total financing and accompanied dilution. Our valuation corresponds to an EV/Sales multiple 2022 of 0.8x. The companies in the reference group are currently trading at a median EV/Sales multiple 2022 of 0.67x. The premium is partially based on our expectations of higher growth and higher EBITDA margin than peers.

Fair value within an interval

Low valuation given the earnings potential and reference group

We have combined a DCF-model with a multiple valuation model in an average to calculate a fair value per share. Our DCF-model results in a value per share of between SEK 27 to SEK 74. Our multiple valuation yields a value per share of about SEK 38.5. Combining the median value in the DCF model with the multiple valuation in an average, we calculate a fair value per share of SEK 44 after full financing and accompanied dilution.

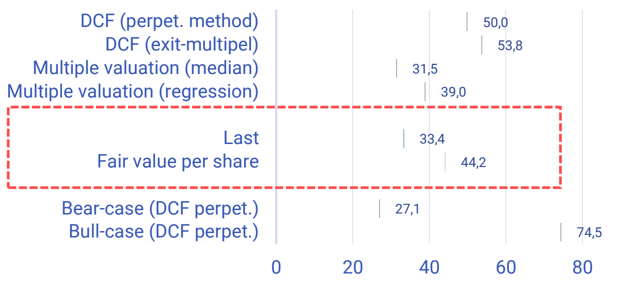
Our fair value per share in the base case represents a promising potential upside to the last paid price of +30 per cent.

Fair value, base case (SEKm)

Multiple valuation, SEK	38.5
DCF valuation, SEK	50.0
Fair value per share, SEK	**44.2**
Potential up-/down side	32%
Shares outstanding, fully financed and diluted	36.6
Shareholder value	**1 619**
Cash (31 Dec.)	46
Debt (31 Dec.)	-758
PV cash from equity financing	14
EV	**2 318**

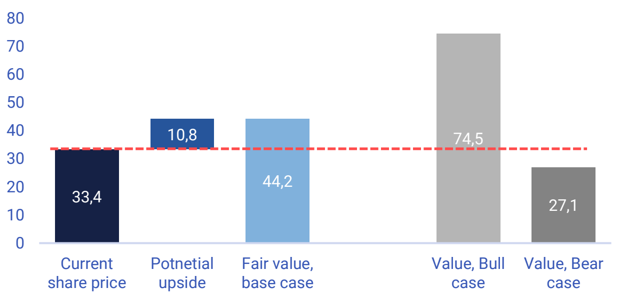
Source: Carlsquare Estimates

Fair value within an interval (DKK)



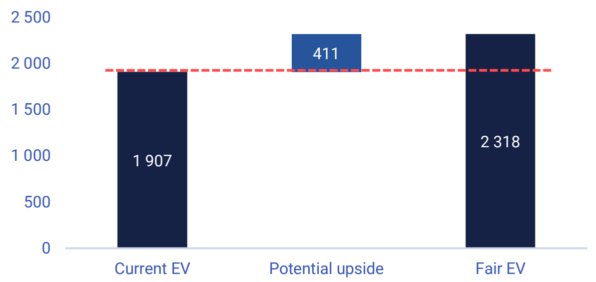
Source: Carlsquare Estimates

Fair value per share, base scenario (SEK)



Source: Carlsquare Estimates

Visualisation of EV, base scenario (SEKm)



Source: Carlsquare Estimates

Reasonability assessment, valuation base case

Our fair value in the base case corresponds to the implied multiples below.

Implied multiples, base case

	2021	2022	2023
EV/Sales	0.9x	0.78x	0.7x
EV/EBITDA	10.0x	8.1x	7.2x
EV/EBITA	16.2x	12.2x	10.9x

Source: Carlsquare Estimates

Our valuation corresponds to an EV/Sales multiple 2022E of 0.78x. The Nordic contract manufacturers reference group companies are currently trading at a median EV/Sales multiple 2022E of 0.65x. We believe a premium is justified based on our expectations of higher growth and EBITDA margin than peers.

DCF valuation

For our DCF-valuation, we assume an average sales growth of five per cent until 2031. For the terminal value, we have assumed a long-term development of two per cent and an EBIT margin lightly below the company target of six per cent.

By discounting assumed future cash flow to its present value in a DCF model with a weighted discount rate (WACC) of 9.5 per cent, we calculate a fair value of about SEK 50 per cent share after full financing and dilution.

DCF assessment summary, base case

DCF valuation		Discount rate		Assumptions	
PV(UFCF)	1 215.8	Risk-free rate	0.7%	CAGR, 2021-2031	5.0%
PV(TV)	1 310	Market risk premium	6.7%	EBITDA-margin, 2031	10.2%
Enterprise value	**2 526**	Size premium	2.4%	EBIT-margin, 2031	5.9%
Net debt (31-Dec)	-712.1	Beta	1.2x	Tax rate	20.6%
Shareholder value	**1 814**	Req. return on equity	11.6%		
PV(equity financing proceeds)	13.5			Implied multiples	
Shareholder value, after financing	**1828**	Tax adjust. interest on debt	3.4%	EV/Sales, NTM	0.9x
Current shares outstanding	35.8	Leverage	25.0%	EV/Sales 2022	0.8x
New shares	0.9	WACC	9.5%	EV/EBITDA, NTM	9.0x
Shares outstanding after financing and dilution	36.6			EV/EBITDA 2022	8.8x
Value per share (before financing and dilution)	50.7	Company spec. premium	0.0%	EV/EBIT NTM	14.9x
Value per share (after financing and dilution)	**49.9**	**Discount rate**	**9.5%**	EV/EBIT, 2022	14.5x

Source: Carlsquare Estimates

Below is a sensitivity analysis with the variables discount rate and assumed growth rate for calculating the terminal value.

Sensitivity analysis (SEKshare)

	1.0%	**2.0%**	**3.0%**	**4.0%**
7.5%	66.4	75.8	89.4	110.6
8.5%	54.5	60.9	69.5	82.0
9.5%	45.4	**49.9**	55.8	63.8
10.5%	38.2	41.5	45.7	51.1
11.5%	32.5	34.9	38.0	41.8

Source: Carlsquare Estimates

Multiple valuation

We have derived a motivated EV/Sales multiple from a regressions analysis of a peer group with forward EBITDA-margin and expected growth as variables for a multiple valuation.

With expected sales growth of 18.7 per cent and an EBITA margin of 9.6 per cent, the multiple valuation yields a motivated EV/Sales multiple of 0.75. This corresponds to a value per share of SEK 40 after total financing and dilution.

Multiple valuation, case case

Contract Manufacturers	HQ	Mcap (SEKm)	Growth 2022E	EBITDA-marg., 2022E	EV/Sales, 2022E
AQ Group AB (publ)	SE	4 574	NA	NA	NA
NOTE AB (publ)	SE	4 539	NA	NA	NA
Inission AB (publ)	SE	489	6%	8%	0.49x
Kitron ASA	NO	4 228	14%	10%	0.67x
Scanfil Oyj	FI	4 487	4%	9%	0.62x
Incap Oyj	FI	3 795	12%	17%	1.52x
Median		**4 357**	**8.8%**	**9.0%**	**0.65x**
Average		3 685	9%	11%	0.8x

Discount	0%
Applied EV/Sales multiple	**0.71x**
Exp. sales 2022 (DKKm)	2 985
Enterprise value	**2 107**
Net debt (31-Dec)	-712
PV(Cash from equity financing)	14
Shareholder value, after financing	**1 409**
Current shares outstanding (m)	35.8
New shares	0.9
Shares outstanding after financing and dilution	36.6
Value per share (before financing and dilution)	39.0
Value per share (after financing and dilution)	**38.5**

Source: S&P Capital IQ and Carlsquare estimates

Valuation Interval

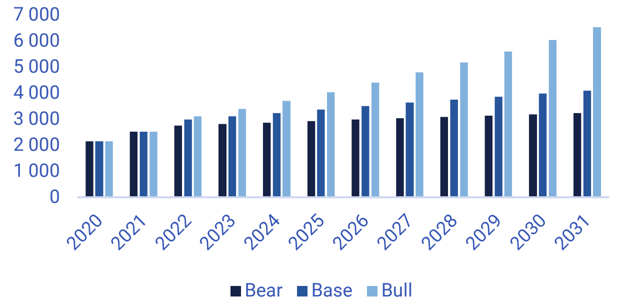
We have used our DCF model (perpetual method) in the bull and bear case but developed alternative growth curves and profitability targets.

In the bull case, we assume higher growth at an average of ten per cent in the forecast period, i.e., double the calculated rate in the base case scenario. In this scenario, the higher growth is propelled by acquisitions. We assume acquisitions corresponding to an EV/Sales of 0.5 valuation. On average, we assume a one percentage point higher EBIT margin at seven per cent. We calculate a fair value of SEK 74 per share.

For the bear case, we model an average annual growth rate of 2.5 per cent, i.e., half the growth assumed in the base case. We also pencil in 1.5 per cent lower EBIT margins over the forecast period. After total financing and dilution, the more pessimistic scenario yields a fair value per share of SEK 27.

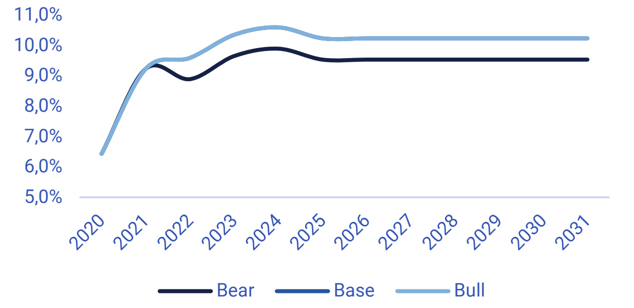
The assumed development in the three scenarios EBITDA-margin is below.

Net sales (SEKm), three scenarios



Source: Company information and Carlsquare estimates

EBITDA-margins, three scenarios



Source: Company information Carlsquare estimates

Metrics and financials

Key metrics (SEK)

	2019	2020	2021	2022E	2023E	2024E
Per share						
EPS	0.68	0.78	0.75	-0.03	2.26	3.20
DPS	0.3	0.0	0.3	0.5	0.8	1.0
BVPS	20.6	15.9	17.2	20.6	23.5	26.8
Valuation (current)						
P/E	20.8x	NM	28.5x	10.4x	9.1x	9.0x
P/B	2.7x	2.8x	2.3x	1.7x	1.4x	1.2x
EV/Sales	0.5x	0.4x	1.2x	0.6x	0.6x	0.6x
EV/EBITDA	7.2x	6.7x	13.0x	6.7x	5.9x	5.6x
EV/EBIT	15.8x	19.3x	21.0x	10.0x	8.9x	8.8x
Other						
Dividend yield	0.7%	0.0%	0.7%	1.5%	2.2%	3.0%
FCF yield	9.6%	8.0%	14.5%	18.9%	22.0%	23.7%

Source: Company information and Carlsquare estimates

Income statement (SEKm), quarterly

	Q1, 21	Q2, 21	Q3, 21	Q4, 21	Q1, 22E	Q2, 22E	Q3, 22E	Q4, 22E
Sales	567	634	597	717	736	788	701	760
Gross profit	260	298	271	320	346	371	325	342
EBITDA	43	63	59	67	68	79	67	73
EBITA	23	40	38	43	45	56	43	48
EBIT	19	36	33	39	41	52	38	44
EBT	12	31	26	32	33	44	31	36
Net profit	9	26	20	25	26	35	25	29
EPS (SEK)	0.27	0.73	0.56	0.70	0.74	0.98	0.69	0.80
Growth	Q1. 21	Q2. 21	Q3. 21	Q4. 21	Q1. 22E	Q2. 22E	Q3. 22E	Q4. 22E
Sales	-5.3%	13.4%	18.7%	45.1%	29.7%	24.4%	17.4%	6.0%
Gross profit	-6.4%	25.5%	28.7%	39.9%	32.8%	24.4%	19.8%	7.0%
EBITDA	2.9%	228.3%	55.2%	69.3%	58.1%	26.3%	12.5%	8.0%
EBIT	13.1%	324.8%	119.7%	152.6%	114.3%	42.6%	15.0%	12.3%
EBT	24.2%	251.2%	181.3%	198.1%	181.2%	44.2%	20.8%	13.7%
Net profit	42.2%	232.7%	201.5%	382.5%	189.5%	35.2%	23.4%	13.7%
Margins	Q1. 21	Q2. 21	Q3. 21	Q4. 21	Q1. 22E	Q2. 22E	Q3. 22E	Q4. 22E
Gross margin	45.9%	47.0%	45.4%	44.6%	47.0%	47.0%	46.3%	45.0%
EBITDA margin	7.5%	9.9%	9.9%	9.4%	9.2%	10.0%	9.5%	9.6%
EBIT margin	3.3%	5.7%	5.6%	5.4%	5.5%	6.5%	5.5%	5.7%
EBT margin	2.1%	4.8%	4.3%	4.4%	4.5%	5.6%	4.4%	4.7%
Profit margin	1.6%	4.1%	3.3%	3.5%	3.6%	4.5%	3.5%	3.8%

Source: Company information and Carlsquare estimates

Income statement (SEKm)

	2017	2018	2019	2020	2021	2022E	2023E	2024E
Sales	**1 400**	**1 811**	**2 068**	**2 155**	**2 515**	**2 985**	**3 111**	**3 236**
COGS	-807	-1 006	-1 121	-1 200	-1 366	-1 602	-1 670	-1 737
Gross profit	**593**	**805**	**947**	**955**	**1 149**	**1 383**	**1 442**	**1 499**
Other operating expenses	-514	-692	-798	-816	-917	-1 097	-1 120	-1 157
EBITDA	**79**	**113**	**149**	**139**	**232**	**286**	**322**	**343**
Dep. and amort.	-43	-59	-92	-107	-105	-112	-125	-141
EBIT	**36**	**54**	**57**	**31**	**128**	**174**	**197**	**202**
Net financial items	-10	-25	-25	-22	-28	-30	-30	-30
EBT	**26**	**29**	**32**	**9**	**100**	**144**	**167**	**171**
Tax	-10	-20	-30	-34	-35	-35	-37	-39
Net loss/profit	**15**	**10**	**3**	**-25**	**64**	**109**	**130**	**133**
Earnings per share	**0.68**	**0.78**	**0.75**	**-0.03**	**2.26**	**3.20**	**3.67**	**3.72**
Shares. EoP	24.2	29.9	34.0	34.0	35.8	35.8	36.6	36.6
Shares. avg.	24.2	27.0	31.9	34.0	34.9	35.8	36.2	36.6

Growth	2017	2018	2019	2020	2021	2022E	2023E	2024E
Sales	7.2%	29.4%	14.2%	4.2%	16.7%	18.7%	4.2%	4.0%
Gross profit	0.9%	35.8%	17.6%	0.9%	20.3%	20.4%	4.2%	4.0%
EBITDA	8.8%	43.1%	31.6%	-7.0%	67.5%	23.3%	12.5%	6.4%
EBIT	41.7%	51.5%	5.0%	-44.9%	307.3%	36.8%	13.0%	2.3%
EBT	631.4%	14.1%	10.6%	-72.4%	1020.2%	44.7%	15.6%	2.7%
Net loss/profit	1089.5%	-8.0%	13.5%	-105.9%	5820.7%	43.1%	15.6%	2.7%
Earnings per share	722.2%	14.7%	-3.8%	-104.5%	-6794.1%	41.6%	14.7%	1.2%
Margins	2017	2018	2019	2020	2021	2022E	2023E	2024E
Gross profit	42.3%	44.5%	45.8%	44.3%	45.7%	46.3%	46.3%	46.3%
EBITDA margin	5.7%	6.3%	7.2%	6.4%	9.2%	9.6%	10.3%	10.6%
EBIT margin	2.6%	3.0%	2.7%	1.5%	5.1%	5.8%	6.3%	6.2%
EBT margin	1.8%	1.6%	1.6%	0.4%	4.0%	4.8%	5.4%	5.3%
Profit margin	1.1%	0.5%	0.1%	-1.2%	2.6%	3.7%	4.2%	4.1%

Source. Company information and Carlsquare estimates

Balance sheet (SEKm)

	2019	2020	2021	2022E	2023E	2024E
Tot. intangible assets	416	396	464	449	448	447
Tot. tangible assets	279	270	407	454	481	519
Tot. other fixed assets	177	165	210	210	210	210
Total fixed assets	871	830	1 081	1 114	1 139	1 176
Inventories	423	342	663	586	610	634
Accounts Receivables	122	77	107	169	176	183
Other current assets	45	44	55	63	65	68
Cash	67	121	46	134	209	281
Total current assets	657	584	870	952	1 060	1 166
Total assets	**1 528**	**1 414**	**1 951**	**2 066**	**2 199**	**2 342**
Shareholder equity	498	475	586	701	841	958
Total equity	**498**	**475**	**586**	**701**	**841**	**958**
Debt to creditors	210	175	245	245	245	245
Lease liabilities	93	81	133	133	133	133
Other long-term liabilities	155	154	154	154	154	154
Tot. long-term liabilities	457	409	531	531	531	531
Debt to creditors	203	169	241	284	259	265
Accounts payable	232	200	373	321	334	348
Lease liabilities	46	43	42	42	42	42
Other short-term liabilities	93	118	178	188	193	198
Tot. short-term debt	573	530	835	834	828	852
Total debt	**1 030**	**939**	**1 366**	**1 365**	**1 359**	**1 383**
Tot. equity and debt	**1 528**	**1 414**	**1 951**	**2 066**	**2 199**	**2 342**

Liquidity	2019	2020	2021	2022E	2023E	2024E
Current ratio	1,1	1,1	1,0	1,1	1,3	1,4
Cash ratio	0,1	0,2	0,1	0,2	0,3	0,3
Leverage	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Net debt(-)/Net cash(+)	-543	-450	-712	-668	-565	-496
Net debt/EBITDA	3,6x	3,2x	3,1x	2,3x	1,8x	1,4x
Net debt/Equity	1,1x	0,9x	1,2x	1,0x	0,7x	0,5x
Net debt/Equity	109%	95%	122%	95%	67%	52%
Assets/Equity	33%	34%	30%	34%	38%	41%
Efficiency	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
ROA	1,0%	0,7%	0,1%	Neg.	2,9%	4,7%
ROE	3,1%	2,0%	0,5%	Neg.	8,4%	12,1%
ROIC	3,1%	5,2%	4,2%	2,0%	7,5%	9,4%

Source: Company information and Carlsquare estimates

Cash flow (SEKm)

	2019	2020	2021	2022E	2023E	2024E
CF operating activities	128	106	194	226	263	283
Delta WC	-6	76	-67	-38	-17	-18
CF operating activities	122	182	126	188	245	265
CF investing activities	-137	-60	-186	-82	-88	-115
CF financing activities	5	-63	-22	-37	-101	-96
Cash flow	-10	59	-81	70	57	54
Exchange differences	-1	-4	6	18	18	18
Cash, BoP	78	67	121	46	134	209
Cash, EoP	67	121	46	134	209	281

Key ratios	2019	2020	2021	2022E	2023E	2024E
CF operating activities/Sales	6%	8%	5%	6%	8%	8%
CF operating activities/Total assets	8%	13%	6%	9%	11%	11%

Source: Company information and Carlsquare estimates

Disclaimer

Carlsquare AB, www.carlsquare.se, hereinafter referred to as Carlsquare, conducts business with regard to Corporate Finance and Equity Research in which areas it, among other things, publishes information about companies including analyzes. The information has been compiled from sources that Carlsquare considers to be reliable. However, Carlsquare cannot guarantee the accuracy of the information. Nothing written in the analysis should be regarded as a recommendation or invitation to invest in any financial instrument, option or the like. Opinions and conclusions expressed in the analysis are intended only for the recipient.

The content may not be copied, reproduced or distributed to another person without the written approval of Carlsquare. Carlsquare shall not be held responsible for any direct or indirect damage caused by decisions made on the basis of information contained in this analysis. Investments in financial instruments provide opportunities for value increases and profits. All such investments are also subject to risks. Risks vary between different types of financial instruments and combinations of these. Historical returns should not be considered as an indication of future returns.

The analysis is not directed to U.S. persons (as defined in Regulation S of the United States Securities Act and interpreted in the United States Investment Company Act 1940) nor may it be disseminated to such persons. The analysis is also not directed to such natural and legal persons where the distribution of the analysis to such persons would result in or entail a risk of a violation of Swedish or foreign law or constitution.

The analysis is a so-called Commissioned Research Report where the analyzed Company has signed an agreement with Carlsquare for analysis coverage. The analyzes are published on an ongoing basis during the contract period and for a usual fixed remuneration.

Carlsquare may or may not have a financial interest in the subject of this analysis. Carlsquare values the assurance of objectivity and independence and has established procedures for managing conflicts of interest for this purpose.

The analyst Niklas Elmhammer, Markus Augustsson and Fredrik Nilsson does not own and is not allowed to own shares in the Company analyzed.