Enedo

Extensive report

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Inderes Corporate customer

This report is a summary translation of the report “Paremman teho lähteellä” published on 10/15/2021 at 7:55 am

At the source of better power

Enedo is currently carrying out a turnaround program that defines the future direction of the company. If the planned measures are successful and the company's own abilities are strengthened, we see significant longer-term potential for the company. However, the share price contains too much of this potential, and the risks associated with the turnaround aren't sufficiently considered. Therefore, we reiterate our Sell recommendation and EUR 0.30 target price.

Customized power supplies

Enedo designs, manufactures and develops power supplies and system solutions mainly for industrial end applications. Power supplies are devices that convert the electrical current from the network to a suitable form for the application. Power supplies are utilized in various process industry solutions (e.g. automation robots) health care diagnostic equipment and energy production. The characteristics of Enedo's power supplies vary from product to product, depending on certain technical elements such as voltage and current, and the requirements imposed by the end product itself (e.g. absolute power requirement), which makes the degree of customization quite high. This, in turn, raises customers' switching costs, increases customer proximity and improves customer retention. However, the same factors make new customer acquisition more difficult. In our view, Enedo's main strengths can be found in technological expertise and, thus, solutions for demanding environmental conditions and end-uses that require high reliability. In turn, the main weaknesses are linked to the currently too heavy cost structure and earnings potential that is burdened by it.

Toward better with turnaround program

Enedo carried out a significant financing arrangement in which the company raised EUR 12 million of new capital, agreed on write-offs of some EUR 3 million and Swedish electronics contract manufacturer Inission became its new main owner. The implemented arrangement was very critical for securing Enedo's immediate future, as the company's financial situation had become precarious due to the rather long-lasting operational difficulties. With these moves, the company created an essential amount of peace of work and a good foundation for the pursuit of structural savings of over EUR 4 million, for sustainable implementation of a turnaround program based on these savings and for more targeted development of its own core strengths. As for the current owner, the investment in Enedo is strategic. In our assessment, it can lead to interesting business opportunities that would be otherwise outside of the company's independent resources.

Price is unforgiving

For Enedo, 2021 will still be spent on fixing operational structures and laying the groundwork for a sustainable turnaround. When examining the valuation, sights should be set to 2022 and onward. By then, the measures of the turnaround program should be visible and the financial performance be closer to its potential. Based on our estimates, EV/EBITDA ratios for 2022 and 2023 are 8x and 6x, while the respective EV/EBIT ratios are 19x and 14x. The ratios for next year are very high considering Enedo's company profile, and given the major depreciations, the ratios of the lower lines of 2023 can't be described as low either. In our view, the favorable development of the next few years is already valued in the share price, while risks aren't considered sufficiently.

Recommendation

Sell
(previous Sell)

EUR 0.30
(Previous EUR 0.30)

Share price:
0.37

Key figures

	2020	2021e	2022e	2023e
Revenue	39	38	43	49
growth-%	-11%	-2%	15%	12%
EBIT adj.	-3.9	-3.9	1.5	2.0
EBIT-% adj.	-10.2 %	-10.3 %	3.5 %	4.1 %
Net Income	-6.2	-2.0	1.0	1.3
EPS (adj.)	-0.69	-0.02	0.01	0.02

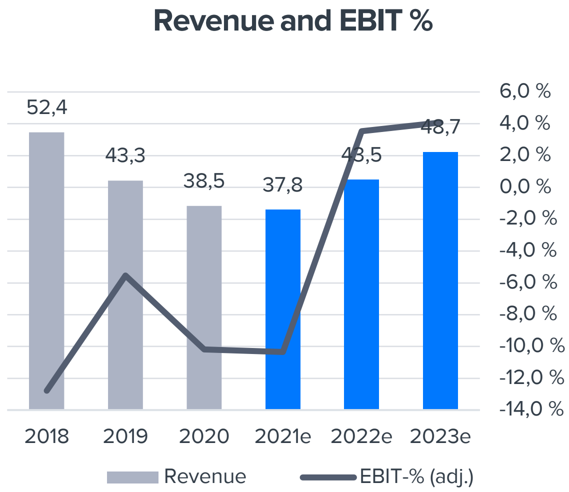
P/E (adj.)	neg.	neg.	25.9	18.6
P/B	neg.	3.2	2.8	2.5
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	19.1	13.8
EV/EBITDA	neg.	neg.	8.1	6.4
EV/S	0.6	0.8	0.7	0.6

Source: Inderes

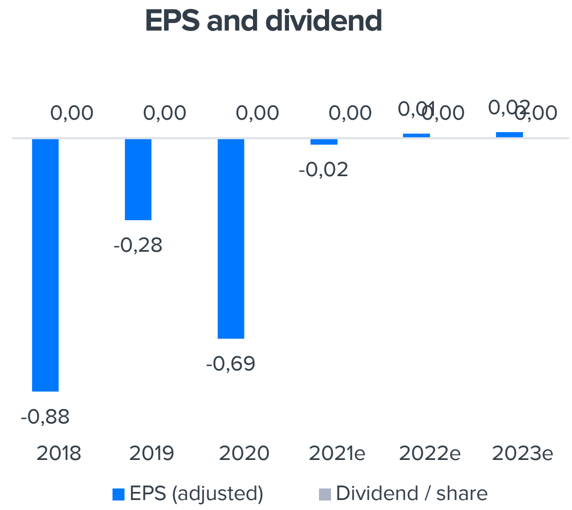
Guidance (Unchanged)

The company has decided to remove its previous guidance and won't give new guidance for 2021, because of the turnaround plan of the company and uncertainty arising from COVID.

Source: Thomson Reuters



Source: Inderes



Source: Inderes

Value drivers

- Restructuring creates preconditions for a sustainable profitability turnaround
- Full Powernet synergies and new product launches in growing customer segments
- Expanding to new industries
- Economies of scale that are realizable through organic growth

Risk factors

- Healthy profitability level takes a lot of work
- Current strategy hasn't been properly tested yet
- Failure in product development
- Availability of critical components may lead to short- and also partly medium-term supply challenges
- Unsuccessful turnaround

Valuation	2021e	2022e	2023e
Share price	0.37	0.37	0.37
Number of shares, millions	68.7	68.7	68.7
Market cap	25	25	25
EV	31	29	27
P/E (adj.)	neg.	25.9	18.6
P/E	neg.	25.9	18.6
P/FCF	neg.	12.2	10.7
P/B	3.2	2.8	2.5
P/S	0.7	0.6	0.5
EV/Sales	0.8	0.7	0.6
EV/EBITDA	neg.	8.1	6.4
EV/EBIT (adj.)	neg.	19.1	13.8
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Contents

Enedo

Enedo designs, develops and manufactures power supply solutions for demanding environments

1973
Year of establishment

2004
IPO

MEUR 37
Revenue 2021 (TTM)

MEUR 4.5
Adjusted operating loss 2021 (TTM)

60% / 40%
EMEA/other regions share of net sales 2021 (TTM)

3
Product lines

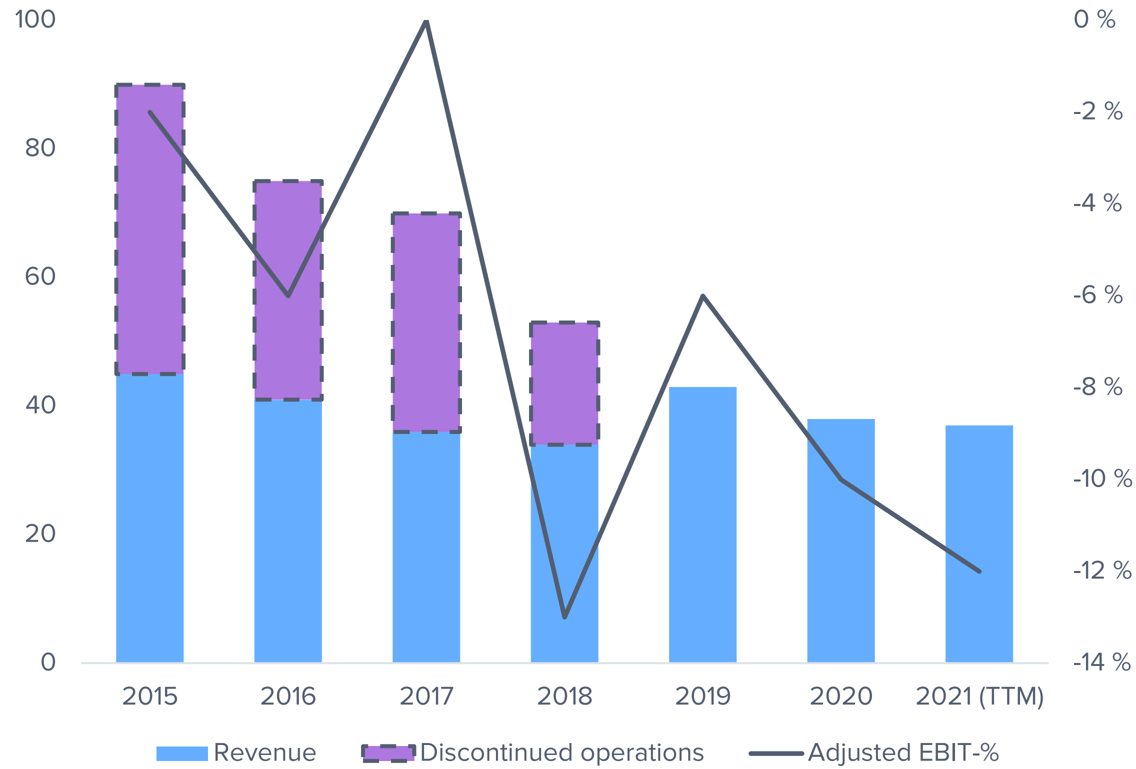
359
Personnel at the end of H1'21

Years 2015 to 2017

- Enedo is implementing a number of measures aimed at reducing fixed costs
- The actions bring temporary benefits and critical operating level is almost reached
- R&D investments in new applications (e.g. system solutions and scalable product platforms), especially in higher-power products

Years 2018 to 2021

- Rights issue and Powernet transaction are completed in late 2018
- Detaching from telecommunications operations during 2019
- COVID pandemic ruins 2020 and puts the company in a precarious financial position
- Resources needed to carry out critical turnaround work with the financial arrangement of early 2021



Source: Enedo, Inderes

Company description and business model 1/5

Company description

Designer and manufacturer of power supplies

Enedo designs, manufactures and develops power supplies and system solutions for industrial applications. To our understanding, Enedo's solutions are at best for end-uses in demanding conditions and environments that require high reliability. The end products of such environments typically have long life cycles, which for Enedo is visible in better predictability in manufacturing and product development. As actual products, power supplies are devices that convert the electrical current from the network to a suitable form for the application. Power supplies are used in various process industry solutions, such as automation robots, and in healthcare diagnostic equipment and energy production. The characteristics of individual power supplies vary from product to product, depending on certain technical elements such as voltage and current, and the requirements of the end product itself (e.g. absolute power requirement). In line with this, the degree of customization of Enedo's production is also quite high.

Enedo is headquartered in Espoo. Enedo's own product development operations are located in Finland and Italy. In addition to these two countries, the company has sales and marketing operations in the United States. Enedo has one production plant in Tunisia, on top of which several contract manufacturers are used in production. The most significant of these manufacturing partners are estimated to be in Finland and Estonia. At the end of H1'21, Enedo had a total of 359 employees.

Net sales EMEA driven

In 2021 (TTM), Enedo's net sales were EUR 37 million and adjusted operating loss was EUR 4.5 million. Low profitability can be summed up in the company's long-standing structural problems (e.g. a high fixed cost level) and the burdens caused by the COVID pandemic over the past year. Geographically, the company's net sales are strongly concentrated in the European, Middle Eastern and African (EMEA) economic area, as over the last 12 months, slightly over 60% of net sales came from this region. America accounted for about 26% of net sales and Asia-Pacific for about 14% of net sales.

The company's customer portfolio is rather concentrated, as in 2020 the two largest customers accounted for 21% of net sales. Despite this, we don't feel that Enedo's customer risk is alarming, given the customer retention that the customized product range brings, the mature development stage of the customer field and the long customer relationships that have been formed as a result of these two.

Business structure

Enedo reports its financial results only at group level. However, net sales are presented through three product lines. These lines and their main features are as follows:

Power supplies as products

Customer sectors

- Electricity transmission and distribution
- Energy industry
- Rail and maritime transport
- Process industry
- Defense sector
- Health technology
- Telecommunications sector

Applications

- Industrial testing
- Industrial automation
- LED displays
- Medical instruments
- Transport equipment
- Operationally critical backup power solutions

Enedo

- Multi-year experience in designing and manufacturing highly technical solutions that are suitable for demanding environmental conditions
- The degree of customization of the product portfolio is high, but also includes standardized and modular solutions
- Own production plant supports success in product development and thus also overall competitiveness
- Operational activities are controlled through three production lines, but sales work is harmonized

Source: Enedo, Inderes

Company description and business model 2/5

The Power supplies portfolio consists of individual power supply components, partly or fully customized for industrial product applications. Typical end-uses of the product line include diagnostic measuring instruments and LED displays, and the key markets are North America and Europe. Power supplies is the largest of the product lines and in 2021 (TTM) it accounted for about 59% of the Group's net sales. Demand for the product line is by nature quite investment-driven. However, fluctuations in demand are partly offset by the large variety of underlying end-uses and hence by asynchronous demand drivers. In turn, the longer-term growth picture is moderate. In our assessment, Enedo's key strengths in this product line are related to long operational history and the vast customer understanding that it brings.

LED Drivers product line solutions are single power supplies designed and manufactured for professional use, utilized, for example, in lighting solutions for varying and harsh weather conditions (such as stadiums). Reflecting this, demand for these solutions is somewhat more susceptible to changes in different B2C markets. The product line is spearheaded by the Strato EVO product family and higher power class (1,500W) applications. In 2021 (TTM), this product line accounted for ca. 24% of Enedo'snet sales. Demand for LED Drivers is also investment-driven, but its growth potential is high, especially driven by the progressing digital transformation.

The Power Systems portfolio consists mainly of large, highly customized power system and power supply deliveries (e.g. turnkey projects in the rail industry) with high technical requirements. Typical end uses of the product line are high-power applications such as power and backup power solutions for hospitals or energy producers. To our understanding, about half of the product line sales come from power supply systems and one half from individual power supply products. For the last 12 months, Power Systems accounted for about 16% of Enedo's total net sales. In our estimate, the relative growth potential of the product line is attractive, especially in North American market pockets, which demand both high technical features and durability. In Power Systems business, Enedo's differentiation factors culminate, in our view, to the combination of comprehensive design, technology and manufacturing expertise (i.e. position not merely of an integrator).

Business model

R&D at the heart of operations

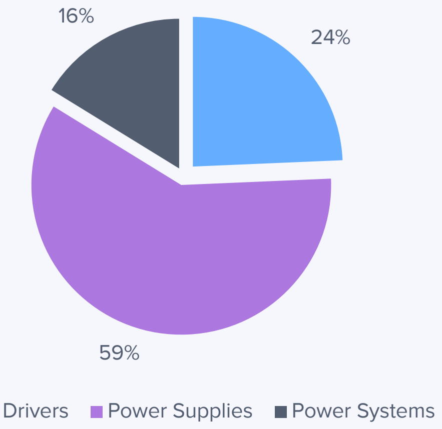
Enedo's business model is typical for a player operating in the manufacturing industry, as the company sells and manufactures (own production and through partners) mainly its own power supplies. According to our estimates, most of Enedo's products are solutions that are directly tailored to customer needs, although the portfolio also includes both standardized and modular — custom built on a standard frame — applications. A customized product portfolio requires quite a lot of personnel intense

Estimated customers*

PLANMECA, ABB, ROBE, Millog, NATIONAL INSTRUMENTS, FINGRID

*Based on Inderes' estimate of potential customers. Enedo doesn't report its customers.

Product line specific net sales distribution



Source: Enedo, Inderes

Company description and business model 3/5

development and design work, in addition to which, a high degree of customization increases the diversity of own production and makes it more difficult to optimize it to some extent. However, product-level customization increases switching costs that the customer faces and, thus, improves Enedo's customer retention. Reflecting this, we believe that a customized product portfolio opens up clearly better value chain segments for the company in relation to players with standardized solutions.

Due to the customized nature of the product portfolio, product development is the key to the functionality of the business model and, in particular, to long-term competitiveness. To our understanding, there are two different operating modes in the company's R&D depending on the final degree of customization of the product. For standard applications and, thus, partly for modular applications too, our assessment is that product development is market-driven. In practice, this means that the company itself recognizes the commercial need and potential for a particular solution and then begins to develop a solution that meets the identified needs. In this mode, the company itself bears the full risk of success in both product development and commercialization.

In turn, the development of a customized product always starts with the customer's needs and, in our opinion, also with customer's initiative, which means the cooperation is very close throughout the product's life cycle (incl. continuous development during the manufacturing phase). In this branch, part of the risk associated with product development is borne by the customer, as we estimate that Enedo has typically been able to invoice some of the realized investments after a certain development phase has been completed or after a similar pre-agreed milestone. However, a significant risk in customized product development is the possible decisions of the customer to stop product development or production as a result of a weaker-than-expected market demand for the finished product. This risk has also been historically realized in line with product development cost write-downs.

Own production plant supports R&D

In addition to product development, the second cornerstone of Enedo's business model is its own production plant in Tunisia. Through its own production plant, the company can control its product development process more effectively than in a situation where the manufacturing process would be entirely dependent on a contract manufacturing network. In our estimate, an own plant is also a basic prerequisite for achieving certain customer relationships, reflecting the demands that customers make regarding product quality assurance and maintenance. Of course, the role of Enedo's own production plant is essential for managing the order/supply chain and, therefore, also for ensuring sufficient delivery capacity.

However, an own production plant doesn't itself bring a relative advantage to the company, since we estimate that own production plants also play a key role in competitors' operations. Therefore, we see the Tunisian plant as a hygiene factor rather than a direct source of competitive advantage. Our view is supported by the fact that

Product lines

Relative growth potential

Power Systems

- Product range highly customized
- Key product: DC back-up power solution that covers power requirements if normal power supply goes out
- Often business-critical solutions
- Production mainly by contract manufacturers

LED Drivers

- Products are low or high-power lighting sources
- Customer proximity is more important in high-output power supplies
- Origins of product line expertise as well as the current core in Italy

Power Supplies

- Product platforms developed as a basis for customized products to find scalability in product development
- Larger power supply systems are built on this product line
- Product life cycles and customer relationships are typically long

Source: Enedo, Inderes

Company description and business model 4/5

the production lines of power supply manufacturers are generally highly standardized, which makes it challenging to obtain a clear lead through fixed capital investments. In line with this, we see Enedo's core strengths stemming from good technological expertise, product development that is based on it and customer understanding.

Customer's business dictates Enedo's pace

In our opinion, the product development focus of Enedo's business model and the high degree of customization in the product portfolio lead to a key success factor being not only competitive R&D and production, but also positioning for right customer relationships and retention of these accounts. In line with this, it's essential for Enedo to work closely with a customer whose final product has high competitiveness and good competitive advantages and that has longer-term demand. Therefore, long product cycles would bring certain continuity to Enedo's product development and would also reduce the risk associated with production discontinuations and write-downs of R&D investments. Naturally, customers that have wide product portfolios in proportion to Enedo's key strengths are excellent. Such accounts would provide the company with growth paths that are more attractive than those focusing internally on a narrow area.

The key to staying in business is to have sufficient price competitiveness, as well as a deep understanding of both the customer's products and their end uses. By understanding customers' end use, Enedo can improve its own product development and, to some extent, scale it by utilizing the features of existing product applications. Furthermore, a good understanding of the customers' business improves the conditions for creating long-term value, increasing the customers' switching costs, and strengthening its relative position. In our view, Enedo has also satisfactorily succeeded in these matters, when you consider its long-term customer relationships. However, most of these successes have been buried under the heavy cost structure.

Sales via two main routes

Enedo's sales model is traditional and is carried out via two main routes: 1) sales directly to equipment manufacturer (OEM) and 2) sales via wholesaler/reseller. The product's degree of customization significantly affects the choice of distribution channel. Customized products are sold directly to the customer, while standard product distribution is more efficient through third-parties.

The choice of distribution channel is a decision that is essential from the company's point of view, since the channel affects both the potential sales volume and the margin structure of the individual application. Sales directly to end-customers have the highest margin profile, but volume potential is limited to existing customers, especially in the short term. The wholesale margin profile is slightly lower, but

Enedo's value chain

Product development

- We believe that Enedo's own product development resources are extensive
- High added value function
- Highly critical function for maintaining own competitiveness and length of customer relationships
- Product development either market-driven or initiated by customers

Production

- Own production plant in Tunisia enables continuous development of products
- The Tunisian plant focuses on the production of small and medium-sized batches (HM/LW)
- Cost-effective and flexible contract manufacturers utilized in high-volume production

Sales

- Direct or third party sales
- Operations aren't dependent on the location of product development
- High customization degree extends sales cycles

Source: Enedo, Inderes

Company description and business model 5/5

sales volume is greater. However, the potential that can be realized through wholesale is limited by Enedo's positioning in customized applications.

Cost structure is scalable

Enedo’s cost structure has scalable elements, as we estimate that about 70-80% of the total company costs are variable, while fixed costs account for about 20-30%. The proportion of fixed costs is explained in particular by the R&D resources that the business model require. Overall, Enedo’s cost structure has been very rigid in spite of cost cuts that have been made over the past few years but have remained temporary. Therefore, the fixed components of the cost structure create a reasonable operational lever for Enedo and, to a certain extent, the company can increase its operating result clearly faster than net sales growth.

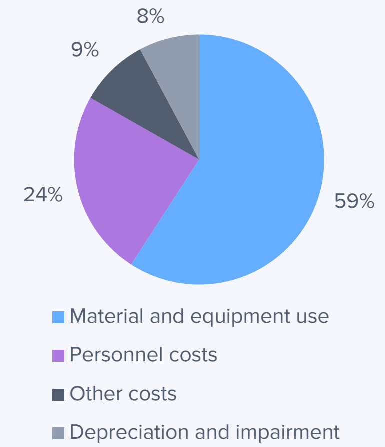
However, the company is currently carrying out a series of measures aimed at structural savings of EUR 4 million. In our estimate, a large part of the planned cost savings will be on fixed costs, reflecting which the success of the savings program would significantly reduce the cost structure and, thus, also the operational lever. At the same time, the company’s operations would become more flexible and agile, which in turn would improve both overall competitiveness and the conditions for success in a sustainable profitability turnaround. However, it’s difficult to make a sustainable turnaround just through cost savings, and a genuinely sustainable turnaround also requires net sales growth.

Capital commitment is moderate

The company's business operations don’t commit extraordinary amounts of capital, even though the company operates in the manufacturing industry. Fixed assets accounted for about 10% of net sales in 2021 (TTM), which can be considered a very moderate level. Relative to the balance sheet total, the share of fixed capital is in turn 11%. This also indicates a relatively low capital intensity of the operations. The low level of commitment of fixed capital is partly explained by the usage of contract manufacturers alongside Enedo’s own manufacturing. This will free both capital and resources to carry out higher added value activities such as sales and product development. Through contract manufacturers, the company can also meet growing demand without investing in its own production capacity. In line with this overall dynamic, we estimate that Enedo’s fixed investment demand for the coming years won’t be very big.

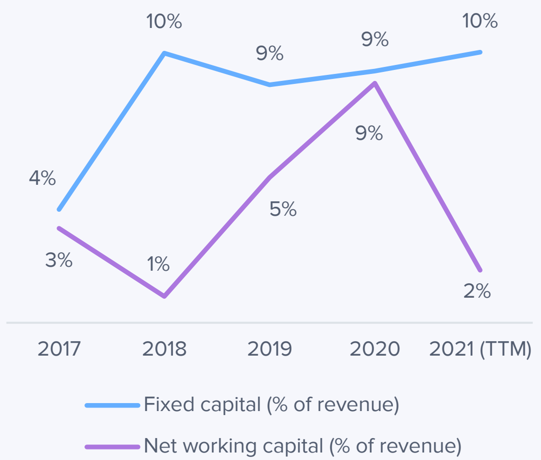
In turn, operations have historically tied around 4% of working capital. However, it’s worth noting that over the last few years, due to Enedo's difficult economic situation, the turnover of accounts payable have, in our estimate, reached an unacceptably high level. We believe that Enedo's real working capital requirement is about 10-15% of net sales. In the big picture, moderate capital commitment is a positive thing, because efficient use of capital creates healthy opportunities for the company to implement the operational turnaround also in terms of cash flow.

Cost structure 2021 (TTM)



* Adjusted for non-recurring items

Development of capital commitment



Source: Enedo, Inderes

Investment profile 1/2

Enedo is working for the turnaround

We believe that Enedo is clearly a turnaround company. In particular, we base our views on the company's difficult earnings history. Classifying Enedo as a turnaround company is also justified from the point of view of long-term value creation, as that is not possible without sustainably profitable business. However, calling Enedo a crisis company isn't currently justifiable, reflecting the large financial arrangement that was carried out at the beginning of the year and the peace of work it brings to the near future.

In addition to being a turnaround company, Enedo can also be seen as a growth company. The current savings program provides a good basis for an earnings turnaround, but the potential for improvement through cost cuts and operational efficiency alone is limited. As a result, the role of organic volume growth is very important in the development of the turnaround. Our view of Enedo's profile as a growth company is also supported by relatively favorable longer-term prospects for selected market segments.

Strengths and value drivers

In our view, Enedo's main strengths and value drivers are as follows:

Sustainable profitability turnaround: A sustained implementation of the profitability turnaround would also make the bottom rows in the income statement positive, which is necessary for creating shareholder value. Succeeding in the turnaround and bringing performance close to the set economic targets (EBITDA margin of 8-10% and EBIT margin of 2-5%), would both lower the risk profile and increase investor confidence. In turn, these factors would have a positive impact on the acceptable valuation level.

Organic growth: The market segments that are relevant to Enedo are typically growing slightly faster than GDP. Furthermore, these segments are huge in relation to the company's own size. Against this background, we believe that Enedo on its own should already have good preconditions to achieve several percent organic growth in the medium term. In addition to this, we believe that Enedo can find new business opportunities through the main owner Inission. Taking into account the more efficient cost structure and current resources (e.g. manufacturing capacity), growth should scale to the result quite well.

Technological competence: Enedo has an operational history of multiple decades, which is reflected in the company's technological expertise (incl. managing the specific characteristics of different industries), which has, in our estimate, become very strong, especially in power supply solutions suited to demanding environmental conditions. In our assessment, the company has at least the ability to meet the most challenging customer demands through its strong technological expertise. Overall, a high level of technical competence provides a good basis for strengthening existing customer relationships, growing inside of them, and also acquiring new customers. Technological expertise is a basic prerequisite for the competitiveness of a customized product portfolio and, thus, for long-term value creation. In order to maintain technological expertise and competitiveness, Enedo's own production plant in Tunisia is at the heart of the process, as mentioned before.

Weaknesses and risk factors

We believe that Enedo's main weaknesses and risk factors are:

Prolongation of / failure in the profitability turnaround: Prolongation of the profitability turnaround would cause financial hardships for the company, even if the current room for maneuver / peace of work to implement the turnaround is reasonable. In our estimate, continuation of operational losses and the turnaround moving further away would have a clear negative impact on the company's ability to acquire new financing.

Demand fluctuations: The majority of Enedo's net sales come from customer sectors whose end use demand is vulnerable to fluctuations in the global economy. Due to this and the structural shortness of the fixed order backlog (in our estimates around a quarter), the demand image may deteriorate rapidly and reduce both net sales and earnings levels. Rapid changes would have a significant impact on performance, particularly in the short term, as the cost structure's short-term flexibility is very limited. However, the customer portfolio spread to several industries and thus to different cycle stages brings a certain buffer against demand fluctuations.

Investment profile 2/2

Material availability: A significant part of the company's acquisition costs come from components (incl. contract manufacturers' services) that are sourced from global suppliers at prevailing market prices. Component prices/availability may vary strongly with changes in demand/supply balance, which exposes the company to both material price and availability risks. Especially in the short term, elevated component prices have an impact on profitability, since we believe that there's always a delay in passing them to customer prices. In turn, supply problems can lead to bottlenecks in production, burden delivery capacity and due to delayed deliveries cause slight reputational damage.

Failure in product development Failure in the business model's core function would have a significant impact on the company's competitiveness both in standard products and particularly in customized products. In turn, reduced competitiveness would have a direct impact on volume and earnings through reduced customer-specific market shares and/or completely lost accounts and more difficult new customer acquisition. Furthermore, failure in product development would have a negative impact on profitability levels and own capital, in line with the write-downs on the activations made.

Pricing power / value chain position: As a small company, the value chain position between Enedo's large component suppliers and demanding end customers is quite challenging. As a result, the company's pricing power in both directions of the value chain is limited. Therefore, the company may have difficulties in defending its sales margins when there's downward pressure on Enedo's own end products prices or upward pressure on component prices. Historically, however, Enedo's profit margin has been quite stable. Reflecting this, the margin defense of the top lines has been quite successful. The chronic inflation of certain personnel costs spices up defending the margin levels in the coming years. Therefore, this puts constant pressure on improving productivity, as these cost increases are typically very difficult to fully pass on to customer prices.

Customer portfolio: Enedo's customer portfolio is reasonably concentrated, as in 2020 two of the largest customers accounted for 21% of net sales. The loss of either customer or a significant decrease in market share per customer would make a significant dent in both net sales and earnings. In addition to the direct customer risk, due to its earnings logic, Enedo also carries the risk of key customers' end products losing their competitive edge. In such a scenario, customers' own businesses would most likely face challenges that would inevitably be reflected in Enedo's order and delivery flows. However, according to our estimates, the most important customers are established players in their respective sectors, delivered solutions are customized and cooperation relationships long-standing. Reflecting these factors, the share of customer risk of the overall risk level is not alarming.

SWOT analysis

Strengths

- Long operational history and high level of technological expertise
- Market position in solutions with demanding technical features
- Tunisian plant supports product development/overall competitiveness

Weaknesses

- Small size limits the bargaining power on the supply side
- Fixed cost level remains too high
- Hard order book is short and demand is investment-driven
- Pricing power is limited

Opportunities

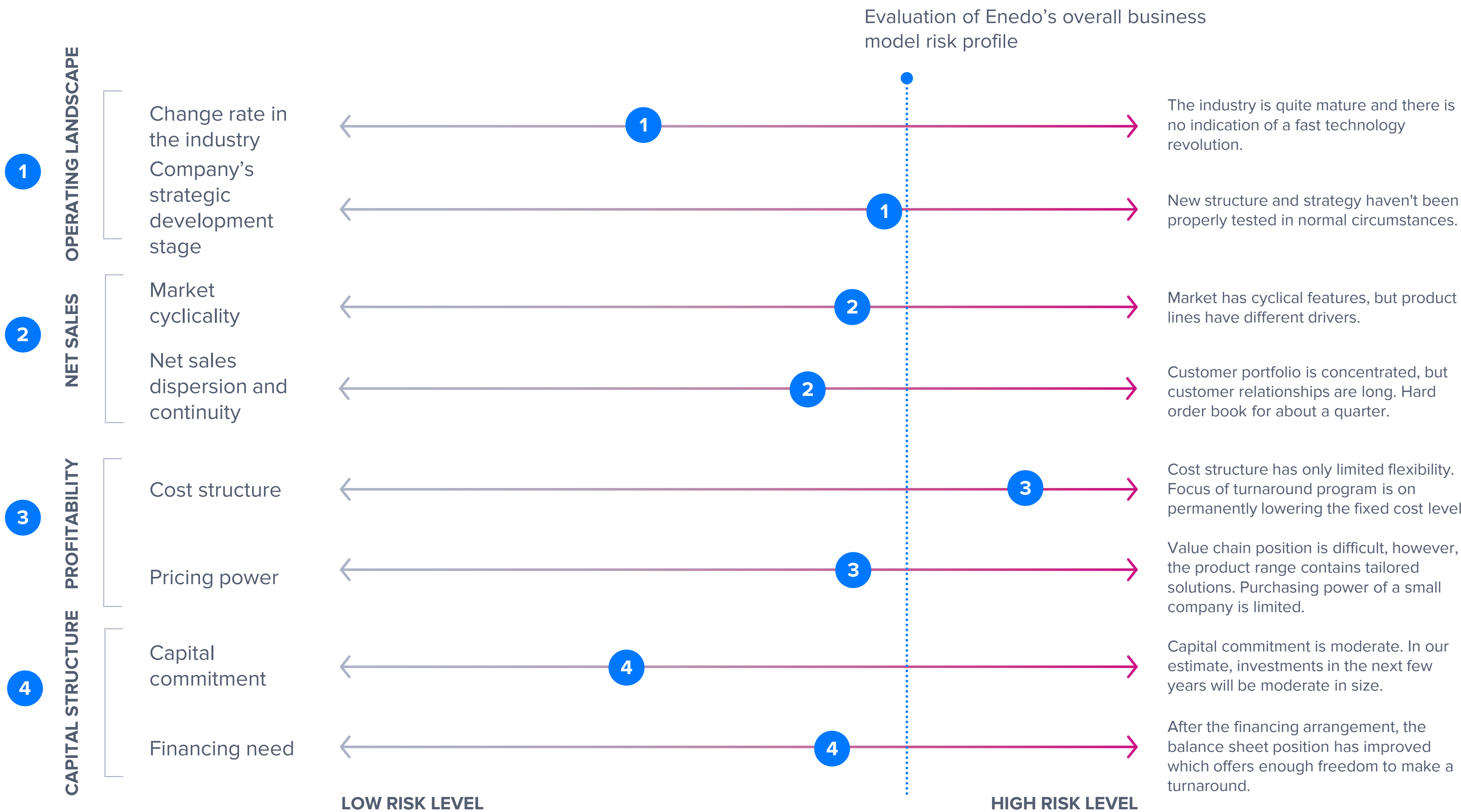
- Healthy organic growth conditions
- Sustainable implementation of the profitability turnaround
- New businesses found through Inission
- Continued success of Power Systems

Threats

- Completely losing a large customer
- Failure in product development
- Prolongation/failure of the profitability turnaround
- In the short term, global supply chain situation

Source: Enedo, Inderes

Risk profile of the business model



Source: Inderes

Industry 1/3

Asia dominates the large market

According to market research company Micro-Tech Consultants, the global power supply market in 2020 was about USD 40 billion. The market consists of a commercial segment (sales to OEM directly or via wholesaler/distributor) and a segment of power supplies manufactured by OEM's for their own end-products. As Enedo is a power supply manufacturer, the company operates only in the commercial market. In relation to the company's own size class, the market is huge and shouldn't place structural obstacles for growth in the foreseeable future.

The commercial market is estimated to account for about 74% of the total power supply market. Geographically, the industry is dominated by the Asia-Pacific region, where over 45% of all power supply solutions are manufactured and sold. Of the individual market areas, America is the second largest with a share of 32% and Europe, the Middle East and Africa account for ca. 22% market share. In our estimate, the geographical structure of the power supply market is largely explained by cost competitiveness, as in Asia, for example, labor costs have typically been significantly lower than in the Western world. As a result, large electronics clusters of OEM companies have formed in Asia, which power supply manufacturers have been partly forced follow (i.e. the desire to maintain own competitiveness) and relocated their operations.

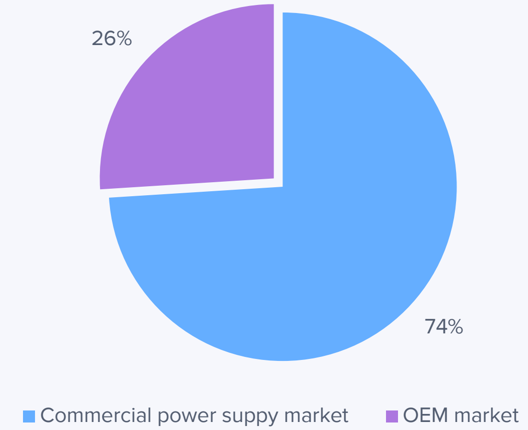
Due to the challenging value chain positions of power supply manufacturers and constant price pressures, we believe that in particular the production of high-volume products (e.g. consumer sector solutions) will remain in low-cost areas in the future. Therefore, the role of units located in the regions with higher costs is, according to our assessment, mainly to focus on product development and, to some extent, to produce products with smaller batch sizes and more challenging technical requirements.

There are two ways of dividing the market

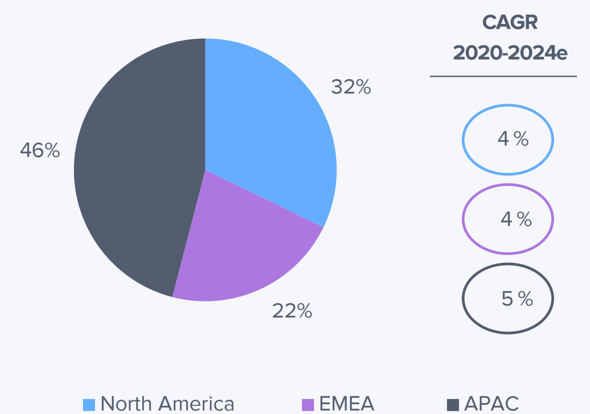
On product level, the market can be divided into standard products, modular products and fully customized products. Standard products don't require separate customer-specific changes, while modular products contain elements from both standard and customized products. Customized solutions are the largest single product group with about 71% market share. The share of standard products is about 20% and that of modular products about 9%. In recent years, the market share of customized products has increased. In our view, market share gains have been based on the fact that OEM companies have sought to differentiate themselves through technical attributes, which in practice has meant gradual increases in customization requirements throughout the product value chain. In our estimate, these drivers and therefore the change in the market structure will remain similar in the coming years.

In addition to product types, the market can be divided

Distribution of total power supply market 2020



Commercial power supply market geographically 2020



Source: Micro-Tech Consultants

Industry 2/3

to eight customer segments. These are: LED lighting, industry, healthcare, transport, defense, consumer products, computer and business products, and telecommunications. Enedo is positioned in industrial segments and, for example, isn't involved in direct consumer applications. We believe that Enedo's positioning is justified, as especially in consumer products the delivery volumes are high, products largely standardized, product cycles short, and margins low as a result of these factors. In industrial segments, product cycles are much longer and margin profiles are more attractive due to, among other things, higher customization needs.

Growth pictures for the segments are different

In particular, the growth of the power supply market is driven by increased demand for electrical equipment and electrical solutions. Their demand is driven by digitalization, rising living standards and increasing energy efficiency in industrial applications. Supported by megatrend-like drivers, different research companies have estimated that the overall market growth has been around 3% during recent years. In the next few years, market growth has also been estimated to be in line with GDP, although in the short term the global allocation of components and the resulting impacts on supply chains are likely to slightly slow down the pace. However, in the big picture, the power supply market's growth outlook is favorable and offers healthy business opportunities for manufacturers.

The growth outlook for each segment varies quite significantly, as for example the growth rate of LED lighting has been estimated to be well above GDP for the next few years. Reflecting this, it's possible to find the right kind of expansion opportunities by positioning in the fastest growing pockets in the industry.

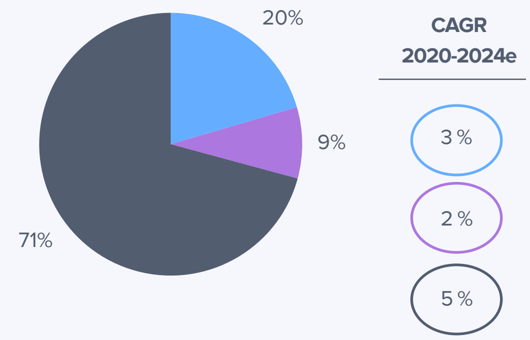
Investments as demand drivers

The demand for the industry, and especially for the segments that are important for Enedo, is on the cyclical side, as the customer's end product is typically some kind of investment commodity. However, the degree of cyclicality varies considerably from one customer sector to another, as, to our understanding, demand for certain LED lighting and medical equipment is much more defensive than demand for rail and maritime applications. Of course, the investment stages of different customer segments are asynchronous, which partly balances the cycle sensitivity of Enedo's product portfolio. However, this doesn't bring clear counter-cyclical elements.

Fragmented structure

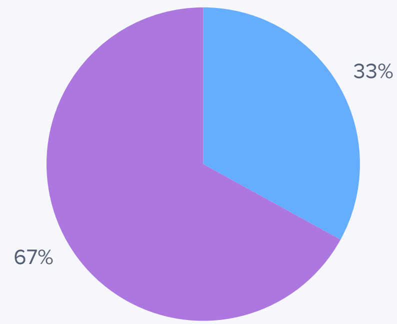
According to different market sources, the market for commercial power supplies is very fragmented with more than a thousand operators. The total market share of the ten largest companies is estimated to be about one third, with the remaining share is split between the other players. To our understanding, the sector is rather polarized with large, genuinely global players with major product development muscles and manufacturing resources, as well as small

Commercial power supply market by product type 2020



■ Standard products ■ Modular products
■ Tailored products

Market shares of the commercial power supply market 2020



■ 10 largest players ■ some 1,000 other players

Source: Micro-Tech Consultants

Industry 3/3

companies that focus on local and narrow product and customer portfolios. In line with the fragmented structure of the industry, some M&A transactions have been seen in the market. In our estimate, the industrial logic of these moves has been the pursuit of economies of scale in procurement, expansion to new industries (incl. specific skills in certain niche markets), expansion of the customer portfolio, and strengthening of the own value chain position, which comes with these fundamental benefits. In line with the performance of the above factors, we believe that M&A transactions will continue to be a shaping force for the structure of the industry and the relative competitive positions.

Positioning to the right customers is important

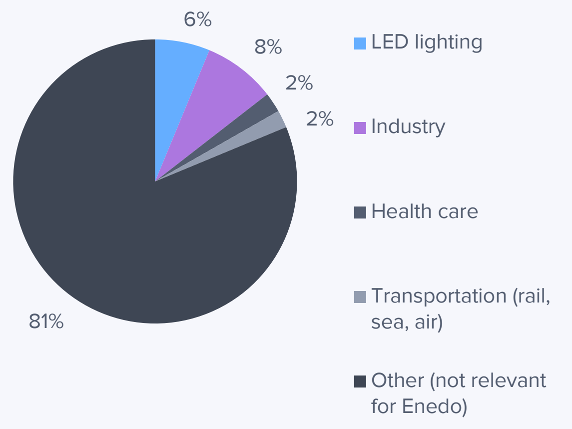
In our view, the most important factor in the industry is the positioning to the right customers, since demand for power supply is always a derivative of demand for an actual end product and, thus, the customer's success in its own operations. Therefore, the manufacturing of power supplies with superior technical characteristics or having cost-effective production operations doesn't directly guarantee success, even if a high-quality, price-competitive product is important for long-term success.

In our estimate, the most targeted customer relationships in the industry are companies that operate in growing and relatively stable areas (e.g. healthcare) with long-term competitive advantages (e.g. patent rights or a leading player in a niche market) and with continuous product demand. However, competition is extremely fierce in such customer relationships and, in our assessment, the customer's bargaining power toward the power supply manufacturers is high. Furthermore, in our opinion, these customer relationships are long-term, which will increase the customer's switching costs and difficulties, which, in addition to the fierce competition, makes reaching these customer relationships hard.

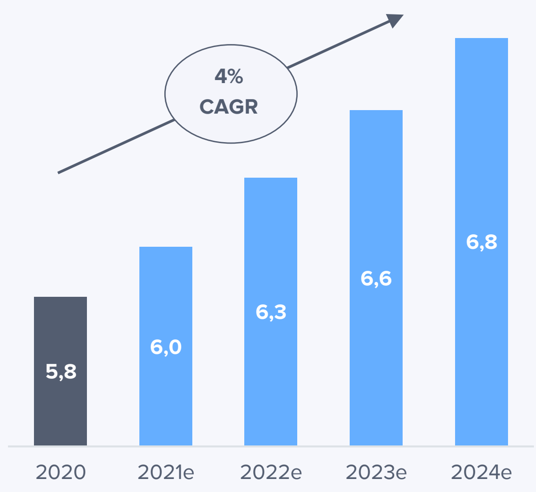
The market has different growth and profitability pockets

The division of the industry into several product types and customer segments has created niche pockets with attractive growth and profitability profiles within the overall market. In these pockets, the barriers to entry are estimated to be higher than in the whole power supply market, reflecting among other things more customized product ranges (i.e. higher differentiation rates). According to our estimates, these pockets are very attractive for the agile business models of small and medium-sized companies, while they aren't sufficiently interesting for large operators. Thus, by positioning into the right product areas and into successful customer relationships in these areas, it's possible for smaller players to create essential value, even if these companies don't generally have the resources of larger players and, thus, economies of scale in product development, procurement and manufacturing. With this in mind, we believe that Enedo's positioning in the areas it has chosen is justified.

Market shares of the commercial power supply market 2020



Estimated development of Enedo's target market (USD billion)



Source: Micro-Tech Consultants

Competition 1/3

The competitive environment is tough

Although the power supply's role is essential for the functionality and fault tolerance of the customer's end product, the added value created by the power supply manufacturer for the end product manufacturer and users is, to our understanding, rather moderate. As a result, the power supply manufacturer's negotiating and pricing power is limited toward both the customer and component supplier fields, reflecting which we believe that manufacturers' value chain positions are also challenging. When this value chain dynamic is combined with the price-sensitive nature of OEM companies and the resulting cost and efficiency pressures, the competitive environment becomes rather harsh. In turn, the toughness of the competitive environment has been reflected in the average and typically relatively low profit margins of the industry. In our view, there are no such drivers (e.g. vertical integration) behind the sector's earnings or value chain dynamics, which would substantially change the competitive situation over the next few years. Therefore, we expect competition to remain largely unchanged.

Balance between supply and demand

Considering the constraints of wall and floor space, power supply manufacturers have typically been able to make capital investments with a relatively fast schedule. In line with this, we estimate that power supply manufacturers have been able to push their investments through almost linearly in relation to increased demand, and manufacturers have also made significant use of contract manufacturers' production resources in their capacity management. Due to this, the industry has, in our opinion, avoided margin-destroying overcapacity situations (cf. basic industry). In our estimate, closing down an individual plant is also relatively simple and reasonably cheap, as production lines and machinery are relatively mobile parts due to the capital-light nature of the industry. Moreover, in low-cost countries letting labor force go is flexible and cost-effective.

Given the above factors, we believe that the overall picture suggests that there is a very good balance between the sector's demand and supply side. Looking at the industry's dynamic and present market outlook, we consider the current equilibrium to be the most likely end result, even though external burdens and different development stages of customer segments may cause temporary discrepancies in the underlying structure.

Battle on four levels

We believe that competition between power supply manufacturers can be seen as a four-level battle, as competition is taking place at product-technical, design flexibility (i.e. ability to tailor products), price and product availability levels. In our view, the first two of these levels are rely highly on the functionality of product development and, given the industry's earnings logic,

Enedo's selected competitors

Global companies with major operations

Companies that are smaller, but operate internationally

Vertically integrated OEM's

Source: companies, Inderes

Competition 2/3

are key drivers also for competitiveness. In turn, the latter levels are more closely linked to operational efficiency (e.g. cost-efficiency and management of distribution). However, it's important to note that product development and, thus, success in the first two levels create a critical basis for success in the following areas. In the longer term, too, harmony between levels is emphasized, as for example sovereign product technology features don't guarantee a place in the industry's limelight (i.e. the amount of shareholder value created), if their benefits are buried under inefficient production and distribution processes.

Competitive situation varies from region to region

Despite the global nature of the power supply market, competition is also tough at regional level. According to our estimates, the increase in regional competition is a result of electronics clusters that have been formed in low-cost countries over the last decade. In order to safeguard their own operations and to remain competitive, power supply manufacturers that are in challenging value chain positions have relocated production close to these clusters, which has had a significant impact on creating regional competitive environments. As a result, we estimate that Enedo's competitive field is not universal, but the company competes with different companies in Europe, North America and Asia. In addition to regional factors, the delivered solution and the customer's size also affect the competitive situation.

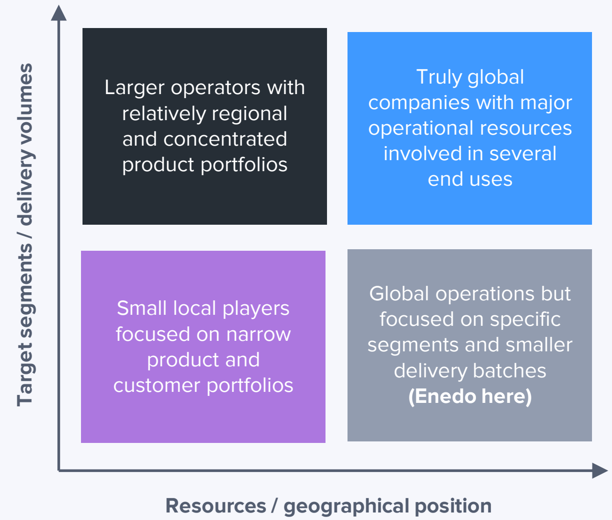
Despite the tough competitive situation, our estimates show that the industry's customer retention is relatively good. Customer retention is supported by the fact that, especially in custom and modular products, power supply manufacturer switching costs can be high, which means that customers try to keep to the same manufacturer for as long as possible and to switch suppliers only for serious reasons (e.g. poor quality or constant supply difficulties). High switching costs bring continuity and a small competitive advantage for power supply companies. On the other hand, the same factors make new customer acquisition more difficult.

Different competitor profiles

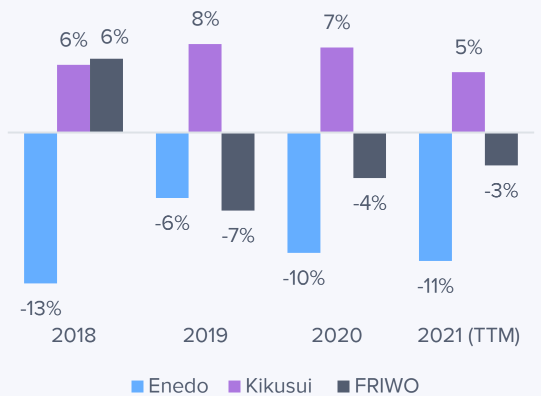
Given the fragmented structure of the industry, it's only logical that the competitive field is also fragmented. According to our estimates, the fragmented structure of the competitive field and the efforts of players to improve their challenging value chain positions have been key drivers behind the recent consolidation in the industry. In our assessment, consolidation will also continue to be a force that shapes the structure of the competitive field and the relative positions of operators as companies higher in the food chain (i.e. larger companies) complement their technological expertise and/or break to new product and market areas by purchasing more concentrated players.

Due to the structure of the competitive field, we believe that Enedo's competitors also vary by product and segment. Thus, our assessment is that the company's competitors include both small players

Structure of competitive field



Development of adjusted EBIT %



Source: Inderes, Thomson Reuters

Competition 3/3

that driven by limited technological and production resources (incl. R&D) have focused on operating mainly with narrow product and customer portfolios, as well as large global players operating with large product development and manufacturing muscles. Reflecting their large operational resources, Enedo's main competitors have typically focused on achieving operational economies of scale and, thus, producing batches of higher volume. As for the smaller competitors, the focus is estimated to be on product and customer segments that have significantly lower volume levels and require closer customer proximity, which makes their profitability potential more attractive.

According to our estimates, Enedo's direct competitors include big Taiwanese companies Delta Electronics and Mean Well, Japanese TDK and Kikusui, American Artesy, Italian TCI, Austrian Tridonic and German FRIWO. In addition to these competitors, we estimate that Enedo has a number of local competitors who, due to their narrow product portfolios, operate only in individual product areas. In addition to actual power supply suppliers, the company also competes to some extent with vertically integrated OEM companies such as Osram and Philips.

Of Enedo's main competitors, only European TCI and FRIWO, as well as Japanese Kikusui, are roughly the same size as Enedo.. Strengths of larger companies include, in particular, extensive product development and production resources, economies of scale that come with them and improved bargaining power toward customers and component suppliers.

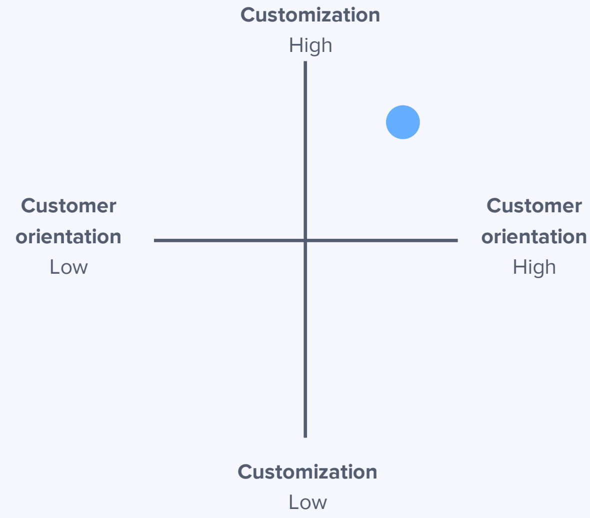
Weaknesses of larger companies include certain production and structural rigidities, which decreases the relative competitiveness of large companies when production is diversified and batch size is reduced.

Competitors are polarized

In terms of profitability, the competitive field is rather polarized. To our understanding, this is mainly explained by the players' different market positions and the chronically challenging value chain positions. Thus, in relation to the industry context, the competitive field is quite clearly divided to power supply manufacturers with very good profitability levels (operating profit 6-10%), healthy levels (> 3%) and low-levels or even profitability challenges (< 0%).

In recent years, due to several challenges, Enedo's operations have faced difficulties and it has become one of the least profitable companies in the industry. However, the financing arrangement that was carried out in H1, the launched savings program and the benefits that will gradually come from it should provide the company with sufficient conditions for turning the operational course around. With this, underlying strengths and the growth and profitability pockets within the industry, we can't find any structural reasons why the company couldn't become at least a company with healthy profitability levels in the long run. However, this will require success with both cost savings and organic growth objectives.

Positioning and competitive factors



Competitive factors

- \+ Long operational history and high level of technological expertise
- \+ Good know-how of end applications in demanding conditions
- \+ Own production capacity capable of handling more than current production
- \+ Long-term customer relationships
- \- Small size limits the potential customer base and reduces the bargaining power in procurement
- \- Resources narrower than those of larger players
- \- Cost structure hurts price competitiveness

Source: Inderes

Strategy 1/4

Long history and competence as the backbone

Enedo has a long operational history, despite the relatively new name and extensive structural arrangements that have been implemented recently. In our estimate, it's not possible to have a long operational history without high technological expertise and creating customer-specific added value. In our view, Enedo also has a good reputation in particular as a supplier of technically advanced power supplies and complete power supply systems.

Reflecting the above factors, we also see that the backbone of the company's strategy and, thus, its value proposition are strongly based on both the long operational history and the expertise and know-how accumulated during this period. Therefore, we see that Enedo's real value proposition is to act as a problem-solving, comprehensive and reliable power supply supplier, and to strengthen its position in customers' value chains through these actions. In turn, realization of the value proposition and implementation of the strategy are based on four pillars of action:

1. Life cycle thinking
2. Smart customization
3. Partnerships
4. Cost-efficiency

Product development at the heart of life cycle thinking

We estimate that the focus of life-cycle thinking is on continuous investments in own R&D and innovation work. Through these efforts, Enedo aims to deepen its cooperation with key customers, especially on the front of fully customized products, but also to some extent on that of modular products. We believe that it's justified to put product development to the heart of the business, since with the support of own product development resources it's possible to break into wider segments in the customers' value chains than those players whose internal priorities are strongly or purely in production activities / third party equipment integrations.

Investment in product development is also in line with the company's market positioning, as we estimate that operating competitively in the pockets of mainly high customization levels isn't possible without continuous investments in product development expertise (incl. optimization of product's total costs), especially in the longer term. Overall, however, the economic incentive for life-cycle thinking is strongly based on retention of current customer relationships, development of the customer's operations in the right direction, successful new customer acquisition and, thus, sufficient production volumes. Without these factors, the input/output ratio of product development will inevitably be too low, which may, reflecting the rigidity of the R&D function's cost structure, have the most significant impact on operational profitability.

Smart customization for scalability

The second wave of strategy implementation includes intelligent customization of the product portfolio. In our estimate, smart customization aims to streamline both product development and production processes utilizing a product platform approach. In our view this means at the operational level that the focus of the product design phase is strongly on the product's universality, i.e. that the same solution can be applied in the future in connection with other applications (incl. different industries). In line with this dynamic, we believe that the key angle of smart customization is to find scalability in product development and to achieve a more cost-effective overall process.

A key area for the operational implementation of smart customization is a broad understanding of the end-product uses and business nature of the customer field. Without this expertise, understanding the customer's problem and the features required from the power supply would remain too superficial. Reflecting good customer retention and long-term customer relationships, we understand that the company has historically managed these matters at least satisfactorily.

Partners as a resource lever

The third cornerstone of Enedo's strategy is the use of partnerships. The strategic driver for partnerships is the allocation of own resources to functions that generate the most added value.

Strategy 2/4

When the company's business model and strategic cornerstones are considered, activities that create the most added value are clearly oriented toward the product development side. Therefore, we estimate that the role of partners in implementing the strategy add leverage to the company's own production resources (i.e. utilization of contract manufacturers), especially in higher volume-level product applications.

The utilization of contract manufacturers is also justified in terms of the flexibility that can be achieved in the cost structure. In our estimate, the financial impact of demand falling would be smaller through a functioning contract manufacturer network than if production was entirely on Enedo's own shoulders. It's also reasonable to use contract manufacturers in terms of capital allocation, as their capacity makes it possible for Enedo to respond to a rapidly growing demand with a reasonably short response time without significant investment in its own production capacity.

Cost-efficiency ties the strategy together

The fourth element of the strategy is cost-efficiency, which in our opinion ties the whole strategy together. Cost-efficiency is a fundamental prerequisite for achieving a sustainable profitability turnaround. The industry's value chain dynamics and the relatively price sensitive nature of demand cause constant cost-efficiency pressures. In line with this, cost-efficiency will also be emphasized in the longer term. Against this background, we estimate that the company will aim to continuously improve its operations by developing, among other things, the supply chain and streamlining certain parts of the production process (incl. design and control). However, it should be stressed that given the limited bargaining power that is a result of the company's small size and the relatively concentrated nature of the component market, the scope of direct measures in the supply chain (e.g. volume discounts or better payment terms) is limited. Therefore, we believe that the supply side measures will focus in the short and medium term on managing the supply network, ensuring the availability of components and adjusting certain bottlenecks in the order/supply chain.

As a whole, the reduction of group level fixed costs is also high on the company's current priority list. Our view of this is supported by the savings program presented at the beginning of the year and the sought structural cost savings of over EUR 4 million. In the longer term in particular, reducing fixed costs from the current level is a logical choice, as a lighter cost structure increases flexibility for demand fluctuations and also increases safety margins against possible setbacks in product development (i.e. write-downs).

The strategy is geared toward growth

In its strategy, Enedo aims to increase the size of its business. According to our estimates,

Cornerstones of the strategy 1/2

Life cycle thinking

- Enedo's long operational history and high levels of technological expertise support success in product development
- Focus of new solutions on life cycle management and overall cost optimization
- Close and continuous customer collaboration are pivotal (i.e. efforts to increase switching costs)

Smart customization

- In addition to the scalability of product development, the strategic logic of smart customization is based on faster response times
- Working in a variety of end uses brings depth to product development and strengthens the prerequisites for implementing smart customization
- A platform-based approach takes the standard product range away from traditional bulk products
- Examples of differentiation factors include remote control and programmability

Source: Inderes

Strategy 3/4

the company aims to grow through existing accounts, cross-sales (incl. opportunities via Inission) and new customer acquisition. Given the dynamics of the industry, the development of customers' own operations in particular is critical to growing existing accounts. Naturally, the competitiveness of the company's product and service range is also important in defending customer-specific market shares and in realizing growth paths offered by existing customers. If the customer's own operations develop favorably, but the competitiveness of Enedo's own solutions weaken, we believe it would be unlikely that the customer would allocate its increased power supply needs to a supplier that is losing competitiveness. In relation to strategic cornerstones, we believe that particularly life-cycle thinking and smart customization are at the heart of both growing with existing customers and winning new customers.

In new customer acquisition, we estimate that the focus will be on customers that have end products with sustainable long-term competitive advantages, and whose demand will hit the widest possible sector in proportion to the company's core competencies. According to our estimates, and as previously stated, companies operating in demanding environmental conditions such as energy and rail operators are among these customers. However, we believe that new customer acquisition can be hindered by the fact that a high degree of customization can increase the customer's switching costs to quite high levels. Thus, new customer acquisition doesn't necessarily guarantee the company rapid organic growth, and in the short term, volume growth must be based first and foremost on growing order volumes of established customers and success in cross-selling projects.

Seeking growth is logical

We believe that the company's growth-oriented approach is highly justified and in practice the only choice, as organic growth is a critical component of the profitability turnaround. In our estimate, the company's own product development and production resources are currently sufficient to meet significantly higher demand than in recent years, and organic growth shouldn't therefore require significant investments in fixed assets or personnel. In our opinion, no significant structural bottlenecks to growth should be found either in the company's own production capacity or in the contract manufacturing network. Furthermore, to our understanding, the company doesn't have any other internal development projects in addition to the current turnaround program. Therefore, operational resources should be freely available for moving forward, implementing the strategy and thus building a basis for longer-term value creation.

Aiming at market share gains

In connection with the announced financing arrangement in H1, the company stated that it will aim for annual net sales growth of 5-10% by 2023.

Cornerstones of the strategy 2/2

Partnerships

- Utilization of partnerships increases the available resource mass
- Use of contract manufacturers provides flexibility for capital management and demand changes, and optimizes the allocation of own resources
- Risk of vertical integration of partners is not high
- Ensuring the quality of selected partners is a key risk

Cost-efficiency

- The element that ties the growth strategy together
- On the variable costs side, focus on streamlining processes (e.g. development of supply chain and production planning)
- For fixed costs, focus is on improving sales and support functions (e.g. renewing production control system)
- The improving cost structure increases flexibility and agility and increases competitiveness

Source: Inderes

Strategy 4/4

The medium-term growth rate of market segments relevant to Enedo is estimated to be around 4% under normal operating conditions. Therefore, achieving the growth target would require the company to capture small market share gains. We also believe that the company has good conditions for doing this, given the improved financial situation as a result of the financing arrangement, new opportunities recognized through the new major owner and core strengths of Enedo. However, in line with the earnings logic of the industry, it should be noted that the growth of the underlying market alone doesn't automatically guarantee the development of Enedo's business. The company's pace is mainly decided by the development of customers' operations, changes in customer-specific market shares, and winning entirely new customer relationships.

Although the COVID pandemic that is still visible in industrial value chains, particularly through component availability, may affect short- and partly medium-term growth potential, the pandemic shouldn't leave traces in the industry's structural growth drivers (e.g. electrification of production). Therefore, we believe that the longer-term growth picture is favorable. Successful growth and implementation of the profitability turnaround are also the main drivers for Enedo's shareholder value creation.

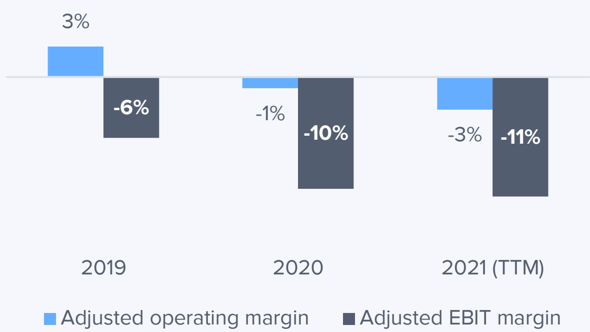
In terms of profitability, the company has stated that it will seek a 8-10% adjusted EBITDA margin and a 2-5% adjusted EBIT margin. We believe that these objectives are reasonable given the company's operational structure, size class, positioning, challenging value chain position of the industry, and thus bargaining position which is limited toward both directions.

In order to meet the profitability targets, the company needs both organic volume growth and to improve its basic operational play (i.e. the cost-benefitplan). Organic volume growth would provide the company with sufficient tools to realize the scalability that can be found in the fixed cost structure, and thus, enable earnings growth that is larger than net sales growth. In addition to growth, it's essential that the company continues to streamline operations, otherwise the benefits of volume growth are in risk of being buried under growing cost levels that follow net sales growth. The operating culture of the new main owner is very cost-aware and the track record of successful implementation of similar turnaround programs is convincing. This background also increases our trust in Enedo's turnaround.

The company has commented that it seeks a clear improvement of its balance sheet position. With the major financial arrangement, the current balance sheet position is stable (H1'21: equity ratio of 27 % and gearing of 59 %) and we believe that it should provide the necessary peace of work to proceed with the turnaround. In our estimate, a clear improvement from these levels could mean an equity ratio of ca. 40% and a net debt ratio of 10-20%. Naturally, the balance sheet position will improve as the turnaround progresses.

Financial objectives

- **Growth:** Annual net sales growth 5-10%
- **Profitability** : Adjusted EBITDA margin of 8-10 % and adjusted EBIT margin of 2-5 %.
- **Cost level:** Annual savings of more than EUR 4 million in 2021-2023 compared to the 2020 cost level
- **Financial structure:** A clear improvement in the capital structure



Source: Enedo, Inderes

Financial position 1/3

Sales margin remained historically stable

Enedo's largest single item of expenditure is materials and supplies, which have historically accounted for about 59-61% of total costs. Material and supply costs are almost completely variable and therefore not scalable. However, to some extent, the relative proportion always depends on the current product mix. Relative to net sales, the share of material and supply costs has been between 64-67%. As a result, the company's historical sales margin has moved in 33-36% range, which can be considered quite good when the operating dynamic is taken into account. Another important consideration is that despite the challenging value chain position and chronic price pressure, the sales margin has remained very stable. This is positive for defending the sales margins of the coming years too.

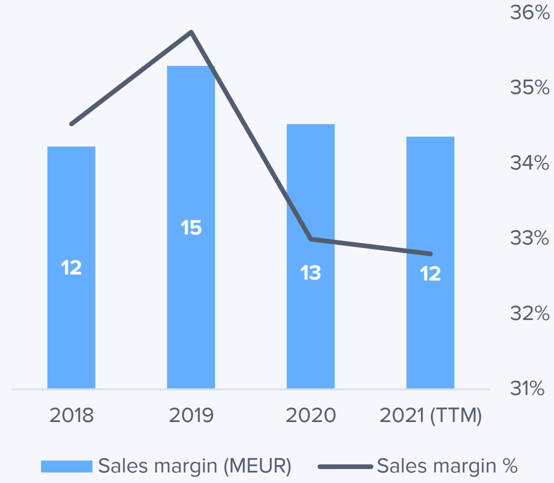
Personnel the second largest item of expenditure

The second largest item of expenditure in Enedo's cost structure is personnel costs, which accounted for 24% of the total cost of 2021 (TTM). Relative to net sales, the share of personnel costs was 27% in the last 12 months. The company's operations are highly personnel-intensive, although we believe that the degree of automation of own production has increased in recent years and that contract manufacturers' abilities have been increasingly utilized. The relatively high proportion of personnel costs is largely due to the company's earnings model, which requires a significant amount of fixed-wage R&D resources in order to function. The added value created by product development in the end product is significantly higher than that of assembly work, which is why its unit costs are higher. Because of this, we estimate that a large part of Enedo's personnel costs are fixed, even if in absolute terms a larger proportion of the staff works in production. After all, its own production function is located in a very low-cost area, which contributes to lowering the relative proportion of variable personnel costs. Reflecting this logic, the personnel cost structure has a clear scaling potential, since we believe that the company has the prerequisites (e.g. benefits of smart customization) to grow without significant investments in product development resources. However, the current flexibility offered by personnel costs is limited in view of short-term demand changes.

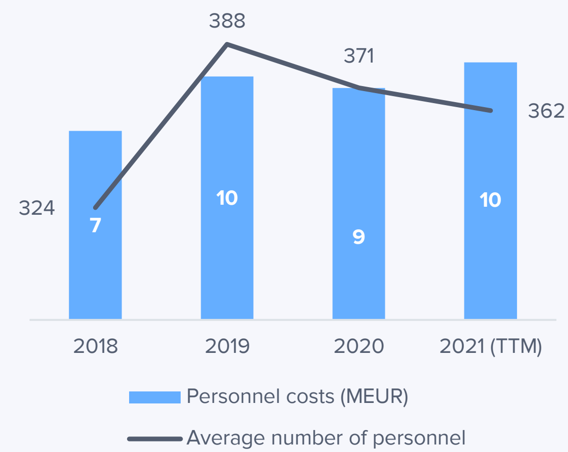
There's scalability in other costs too

The share of other costs in Enedo's net sales has historically been around 12 to 16%. Other costs are primarily fixed even though there are also some variable elements. Over the past few years, the relative share of other costs has remained very stable, although at the same time the level of net sales has swayed significantly. We estimate that this is a result of the efficiency measures taken by the company over the last few years and their effects that compensated for the lower net sales. As already mentioned, the company is currently carrying out a program which aims at structural savings of over EUR 4 million. According to our estimates, some of these savings are sought

Sales margin development



Development of personnel costs and number of personnel



Source: Enedo, Inderes

Financial position 2/3

from other operating costs, reflecting which the absolute level of other costs should decrease. Although the absolute baseline for other costs is likely to decrease with the measures taken under the savings program, the very nature of the other costs won't change. This means that these costs will retain slight scalability, and we believe that other costs will develop in the coming years at a slower pace than net sales growth.

No problems with capital efficiency

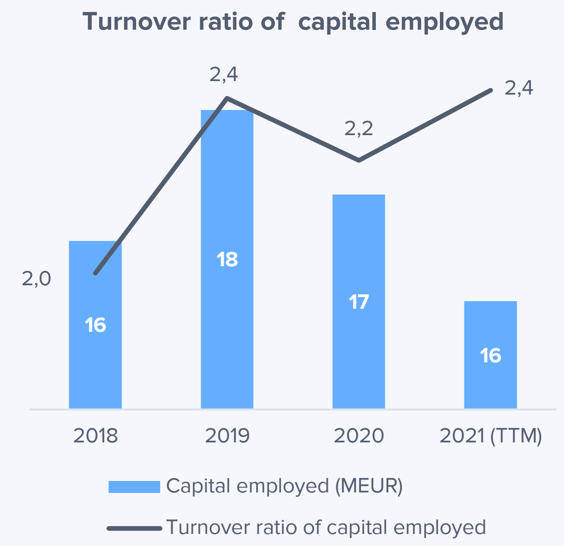
Due to the moderate capital intensity of operations, Enedo's capital has been in efficient use in recent years and the average turnover rate of return on capital employed has been healthy at around 2.3x. Against this background, we believe that the company has structurally reasonable conditions to reach a rate of return on capital employed, which would create shareholder value, despite of the chronically low profit margins. With Enedo's historical capital efficiency and current capital return requirement (WACC 10%), achieving this would mean reaching a sustained operating profit margin of over 4% and, thus, reaching the better side of the set profitability target. In turn, with a cost structure that enjoys all the benefits of the savings program, this margin level is estimated to require a net sales load of about EUR 46-49 million (2021e: EUR 38 million). Thus, from this point of view, volume growth is also a critical driver of value creation.

Balance sheet position provides the necessary peace of mind

At the end of H'21, Enedo's equity ratio was 27% and net gearing 59%. At the end of H1'21, the company had EUR 3.6 million in cash, which is a very supportive level in relation to the current size and the earnings logic of the business. The balance sheet total was some EUR 33 million.

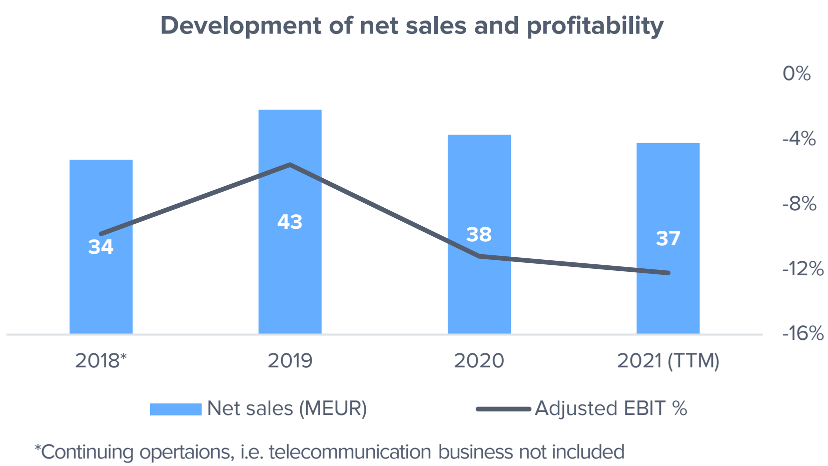
The company's balance sheet position has been significantly patched by financial arrangements (incl. write-off of liabilities) implemented during H1. At the beginning of the year, the equity ratio was still -7% and cash assets only slightly over EUR 1 million. Therefore, the company's financial room for maneuver prior to the arrangement was practically non-existent and, according to our estimates, it would've been almost impossible to take the necessary measures to ensure a sustainable turnaround. With this in mind, the financing arrangement was naturally a legitimate strategic move, even though the cost was the unfortunate dilution of old shareholders' holdings. On the other hand, for the old shareholders, one realistic alternative cost in the situation could've also been a total destruction of capital.

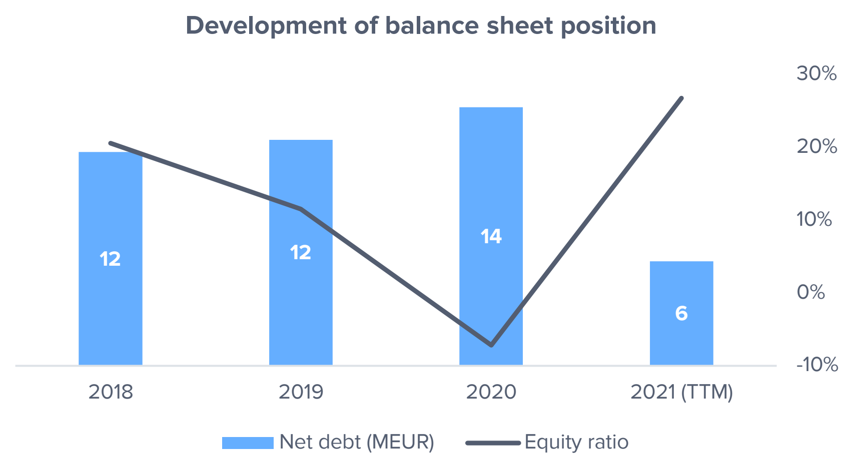
At the moment, the company's balance sheet position is stable and we believe that it provides the necessary tools and peace to carry out the actions required for the turnaround. However, the fact that the balance sheet position (e.g. higher growth investments) doesn't include a full degree of freedom underlines how important the correct development (incl. cash flow) of the operational turnaround is. In the event of a significant delay in the turnaround or, in the worst case scenario, a complete failure, obtaining new financing in a situation like this and, because of long-standing economic difficulties would be quite difficult.

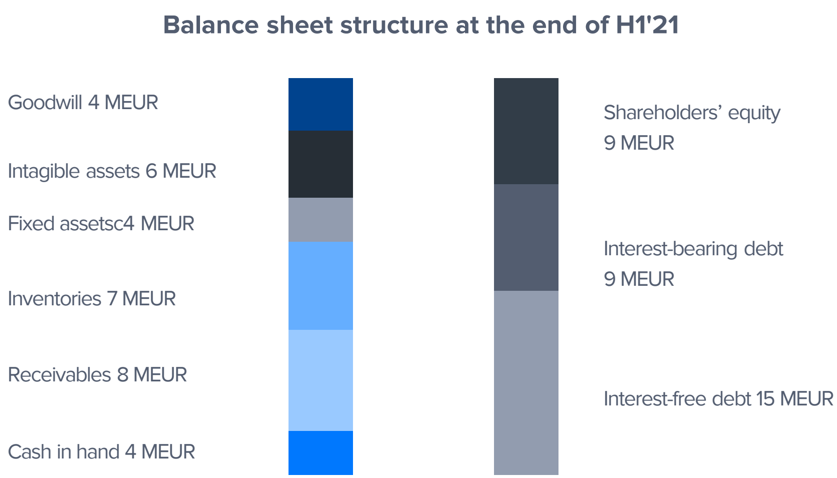


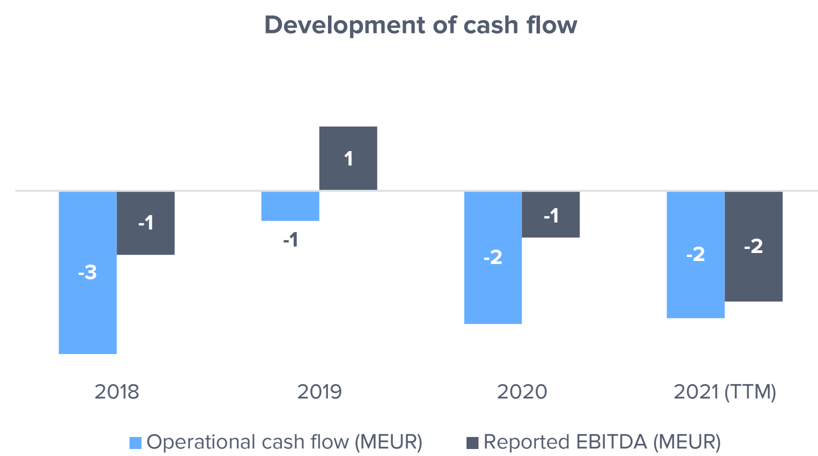
Source: Inderes

Financial position 3/3









Source: Enedo, Inderes

Estimates 1/3

Estimate model

We forecast the short- and medium-term development of Enedo's net sales based on expected market growth, outlook of key customer segments and estimated customer-specific market share changes. In the longer term, our forecasts are based on estimated growth in the end markets that are relevant to Enedo, which, in turn, are quite closely in line with the overall development of the national economy. In the short term, the main risks to our growth forecasts are largely related to the development of customer order volumes and the condition of Enedo's delivery capacity. Of course, the same variables apply in the longer term, although success in the pursuit of growth will be much more dependent on the development of the company's own competitiveness and the implementation of the strategy as planned.

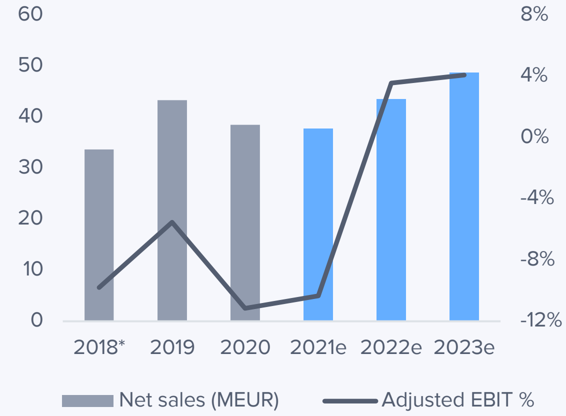
In short- and medium-term profitability, we focus on modeling growth, sales margin, gradual future efficiency gains from the savings program and, thus, on fixed cost structure. In the long term, in turn, we estimate profitability through the sustainable margin level that we expect for the company. The main uncertainties regarding operational profitability are related in line with the cost profile to both organic growth and the success of the savings program and the actual pace at which it progresses.

Laying the foundations in 2021

The first half of 2021 was very twofold for Enedo, and in operational terms in particular, it can be described as a huge challenge. On the demand side, the role of the COVID pandemic remained essential and caused visible effects especially on the final demand of Power Supplies and LED Drivers. In Power Systems, however, the situation was different, as the product line that performed well during the pandemic continued to progress on a healthy growth path. Additional trouble couldn't be avoided on the supply side either. The main challenges faced in this area were quite unsurprisingly because of the availability problems caused by the global allocation of components. These problems were reflected in the vulnerability of production capacity through extended delivery times (e.g. delivery delays). Enedo also faced slightly smaller challenges with the capacity constraints imposed on the Tunisian production plant. The combined effect of the two above factors brought Enedo's net sales down by 4% in H1 and operating loss more than quadrupled from the already low level in the comparison period.

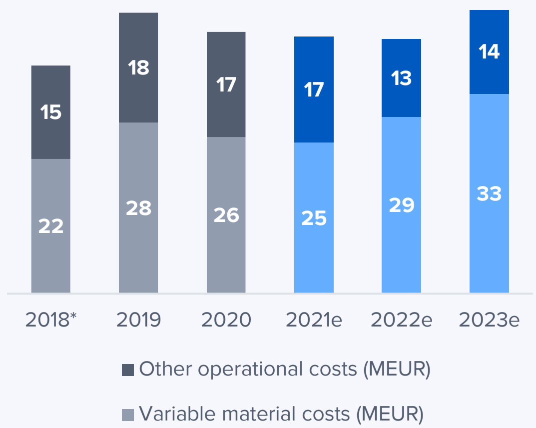
From a strategic point of view, H1 was considerably better and the moves made were essential for securing the future. Of course, the financial arrangement which was followed by the launch of the turnaround program were the clearest milestones at the strategic level. In relation to the turnaround program, this year will be mostly spent on laying the foundations. In line with this, it's reasonable

Development of net sales and profitability



* Continuing operations

Development of operational costs



* Continuing operations

Source: Enedo, Inderes

Estimates 2/3

to expect the actual benefits materializing from next year onward. Key measures taken in the name of the turnaround program were e.g., redistribution of responsibilities of operations, moving Italy's production management to Tunisia and implementing a new ERP system. In the big picture, the industrial logic of these measures is summed up in the streamlining of the underlying processes, which in operational terms means future efficiency and cost improvements and through them, improved overall competitiveness.

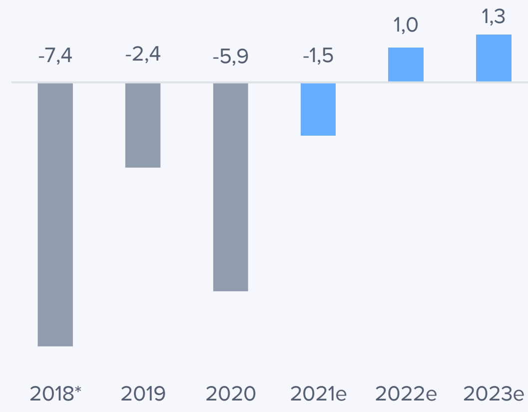
In connection with its H1 report, Enedo withdrew its previous guidance. Therefore, there's no valid estimate for the company's financial development in 2021. The withdrawal of the guidance reflects the uncertainty surrounding the implementation of the turnaround plan (incl. additional costs from it) as well as the pandemic and its consequences. For 2021, we expect that Enedo's net sales decrease 2% to EUR 38 million, as in H2, the reviving market makes up for the difficult H1. In general, we estimate that the improving operating environment should be reflected especially in the final demand for Power Supplies and LED Drivers. Naturally, the reviving overall picture should also support the generally more stable solutions of Power Systems.

We expect that adjusted operating loss remains at the level of the comparison period at EUR 3.9 million, driven by the annual volume decrease, major losses during H1 and the net impact of the first small benefits of the turnaround program. In our estimate, the financial items for the whole year amount to EUR 2.3 million positive, reflecting the financial expenses we estimate for the current capital structure and the non-recurring profit of EUR 3.3 million realized in H1. After these and small tax items that we anticipate, we expect Enedo's adjusted operating loss to be EUR -1.5 million for the financial year and EPS to be EUR -0.02 . Due to the loss, we expect the balance sheet position at the end of the year to be somewhat weaker than at the end of H1'21 (2021e: equity ratio of 22% and gearing of 76%).

Back to profit in 2022

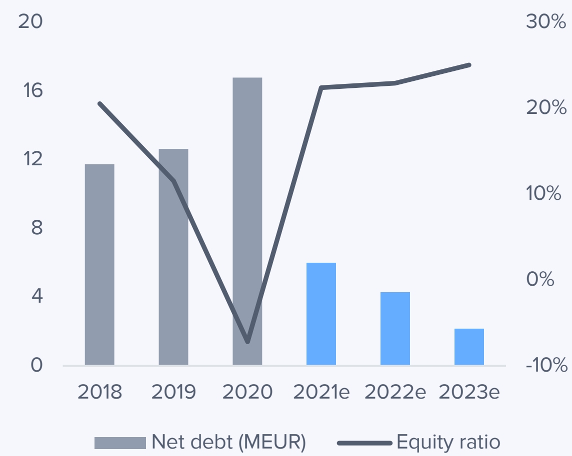
In 2022, we expect Enedo's performance to rise to a new level and net sales to increase by 15% to ca. EUR 43 million. The main drivers of net sales growth are the recovering end use demand in relevant target markets (i.e. increase in investment activities in different industries) and Enedo's continued technological competitiveness. Furthermore, we also expect the company to find the first new businesses from opportunities offered by the current main owner Inission. In our estimate, a concrete example of such opportunities is offering Enedo's portfolio to such Inission customers who have positioned in areas of Enedo's core competencies, such as demanding end uses for industrial electronics.

Development of adjusted net profit (MEUR)



* Continuing operations

Development of balance sheet position



Source: Enedo, Inderes

Estimates 3/3

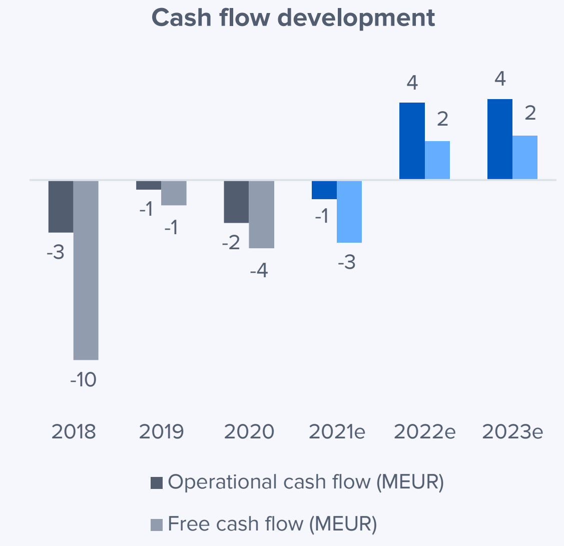
The adjusted operating profit is expected to reach EUR 1.5 million next year, driven by the growth in net sales, it scaling up and the efficiency gains from the turnaround program that will come through at the same time — a kind of operating double lever with sales going up and costs going down. Such an earnings level would correspond to an EBIT margin of 3.5%, which is clearly within the financial targets and quite strong in the context of the industry. After the bottom lines in the income statement, we expect the adjusted net result to improve to EUR 1.0 million and earnings per share to EUR 0.01. In line with this trajectory, we expect that the final line of the income statement isn't in the red for the first time since 2011.

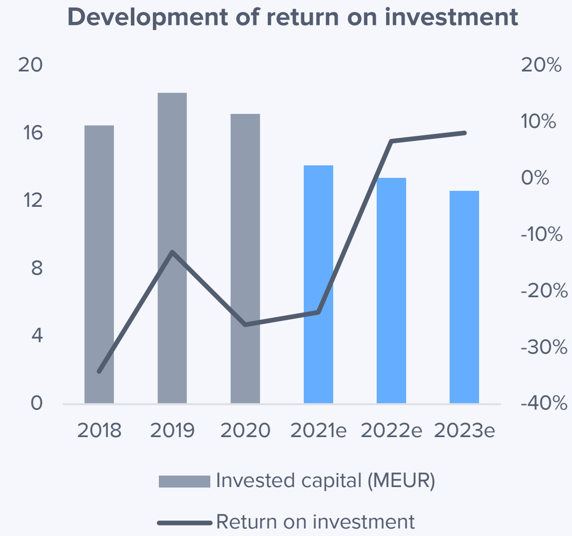
We estimate the operational cash flow to increase through improved earnings and more efficient management of working capital (incl. small purchasing synergies via Inission) to clearly higher levels than the previous year. We expect this to be visible as usual in the equity ratio rising to 23% and the net debt rate falling to 48% before the end of the year. In its capital allocation, we believe that the company will prioritize sustainable stabilization of the capital structure and small investments required for longer-term growth. Given this, we don't see any form of profit distribution likely in the near future, even though in our forecasts the company's operational direction improves and theoretical conditions for profit distribution return.

Longer-term estimates

With improved operational efficiency, we expect Enedo to continue healthy growth from 2022 onward. In our longer-term forecast, we estimate that the company will remain in good growth supported by the demand drivers guiding the target segments, as well as by its own key strengths. In line with this, we predict that Enedo's net sales will grow by 3-4% in the long term, which is in line with the expected growth rates of the end uses that the company positions for. Therefore, our longer-term forecast isn't extraordinarily demanding per se, especially given the completely new business opportunities that very likely come through Inission at some point. However, Enedo's own track record of recent years — which were partly due to unusual conditions — aren't particularly convincing, which is why we consider the caution in our longer-term forecasts to be justified.

The adjusted EBIT margin is expected to reach 4-5% in the long run, which is in line with the company's financial targets. Key long-term profitability drivers are net sales growth, sustainable and thus successful implementation of the turnaround program and typical efficiency gains. Main risks are familiar and related to the opposites of the drivers mentioned above.





Source: Enedo, Inderes

Income statement

Income statement	H1'19	H2'19	2019	H1'20	H2'20	2020	H1'21	H2'21e	2021e	2022e	2023e	2024e
Revenue	**23.0**	**20.3**	**43.3**	**19.7**	**18.8**	**38.5**	**18.1**	**19.7**	**37.8**	**43.5**	**48.7**	**53.6**
Enedo	23.0	20.3	43.3	19.7	18.8	38.5	18.1	19.7	37.8	43.5	48.7	53.6
EBITDA	**0.9**	**0.2**	**1.1**	**-0.1**	**-0.6**	**-0.7**	**-1.2**	**-0.2**	**-1.4**	**4.2**	**4.7**	**5.2**
Depreciation	-2.0	-1.7	-3.7	-1.8	-1.8	-3.6	-1.7	-1.4	-3.1	-2.7	-2.7	-2.7
EBIT (excl. NRI)	**-0.9**	**-1.5**	**-2.4**	**-1.7**	**-2.2**	**-3.9**	**-2.3**	**-1.6**	**-3.9**	**1.5**	**2.0**	**2.5**
EBIT	**-1.1**	**-1.5**	**-2.6**	**-1.9**	**-2.4**	**-4.3**	**-2.9**	**-1.6**	**-4.5**	**1.5**	**2.0**	**2.5**
Net financial items	0.0	-0.1	-0.1	-0.6	-0.5	-1.1	2.5	-0.2	2.3	-0.4	-0.3	-0.3
PTP	**-1.1**	**-1.6**	**-2.7**	**-2.4**	**-2.9**	**-5.4**	**-0.4**	**-1.8**	**-2.2**	**1.1**	**1.7**	**2.2**
Taxes	0.0	0.2	0.2	0.1	-0.9	-0.8	0.0	0.2	0.2	-0.2	-0.3	-0.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**-1.1**	**-1.5**	**-2.6**	**-2.4**	**-3.8**	**-6.2**	**-0.4**	**-1.6**	**-2.0**	**1.0**	**1.3**	**1.8**
EPS (adj.)	**-0.11**	**-0.17**	**-0.28**	**-0.27**	**-0.42**	**-0.69**	**0.00**	**-0.02**	**-0.02**	**0.01**	**0.02**	**0.03**
EPS (rep.)	**-0.13**	**-0.17**	**-0.30**	**-0.27**	**-0.46**	**-0.74**	**-0.01**	**-0.02**	**-0.03**	**0.01**	**0.02**	**0.03**

Key figures	H1'19	H2'19	2019	H1'20	H2'20	2020	H1'21	H2'21e	2021e	2022e	2023e	2024e
Revenue growth-%	202.6 %	82.9 %	-17.4 %	-14.3 %	-7.4 %	-11.1 %	-8.1 %	4.8 %	-1.8 %	15.0 %	12.0 %	10.0 %
Adjusted EBIT growth-%	-78%	-44%	-64%	94%	45%	63%	31%	-25%	-0.4 %	-139.4 %	28.9 %	28.0 %
EBITDA-%	3.9 %	1.0 %	2.5 %	-0.5 %	-3.0 %	-1.7 %	-6.5 %	-1.2 %	-3.7 %	9.8 %	9.6 %	9.8 %
Adjusted EBIT-%	-3.9 %	-7.4 %	-5.5 %	-8.8 %	-11.6 %	-10.2 %	-12.6 %	-8.3 %	-10.3 %	3.5 %	4.1 %	4.7 %
Net earnings-%	-4.8 %	-7.1 %	-5.9 %	-12.1 %	-20.4 %	-16.2 %	-2.1 %	-8.1 %	-5.2 %	2.2 %	2.8 %	3.4 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	**17.7**	**15.6**	**14.8**	**14.8**	**14.4**
Goodwill	4.3	4.3	4.3	4.3	4.3
Intangible assets	7.0	6.0	6.6	5.9	5.5
Tangible assets	3.7	3.5	2.2	2.8	2.9
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.3	0.3	0.3	0.3	0.3
Deferred tax assets	2.4	1.5	1.5	1.5	1.5
Current assets	**14.4**	**13.6**	**20.5**	**24.0**	**26.4**
Inventories	7.6	6.6	6.0	6.5	6.8
Other current assets	0.1	0.1	0.1	0.1	0.1
Receivables	5.6	5.8	6.0	6.5	7.3
Cash and equivalents	1.1	1.1	8.3	10.9	12.2
Balance sheet total	**32.1**	**29.2**	**35.3**	**38.8**	**40.8**

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	**3.7**	**-2.1**	**7.9**	**8.9**	**10.2**
Share capital	15.0	0.1	0.1	0.1	0.1
Retained earnings	-50.5	-56.3	-58.3	-57.3	-56.0
Hybrid bonds	-2.4	-2.4	-2.4	-2.4	-2.4
Revaluation reserve	2.7	2.7	2.7	2.7	2.7
Other equity	38.9	53.8	65.8	65.8	65.8
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**8.2**	**11.4**	**6.8**	**7.0**	**6.8**
Deferred tax liabilities	0.3	0.2	0.2	0.2	0.2
Provisions	0.2	0.2	0.2	0.2	0.2
Long term debt	6.5	9.8	5.2	5.4	5.2
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.3	1.2	1.2	1.2	1.2
Current liabilities	**20.2**	**19.9**	**20.6**	**22.8**	**23.8**
Short term debt	7.3	8.1	9.1	9.7	9.1
Payables	12.5	11.3	11.0	12.6	14.1
Other current liabilities	0.5	0.5	0.5	0.5	0.5
Balance sheet total	**32.1**	**29.2**	**35.3**	**38.8**	**40.8**

Valuation 1/3

Valuation is based on earnings and volume

We believe that it's best to look at Enedo's valuation through both earnings and volume-based multiples. For the current development phase, we consider the EV/EBITDA and EV/EBIT multiples that consider balance sheet structure to be the most useful indicators. In the longer term and as the profitability turnaround progresses, it's also possible to apply the P/E multiple to the lower lines of the income statement. In contrast, the sales-based EV/S multiple is a good supporting method, especially in the short term, given the loss-making/low-income result lines, which thus reflect the limited grip offered by earnings-based multiples. Simultaneously, the EV/S multiple also acts as a kind of control point for examining the share's growth and profitability expectations. As absolute multiples, we have used the acceptable earnings multiples that we have defined, based on our view of the company's growth, profitability and risk profile.

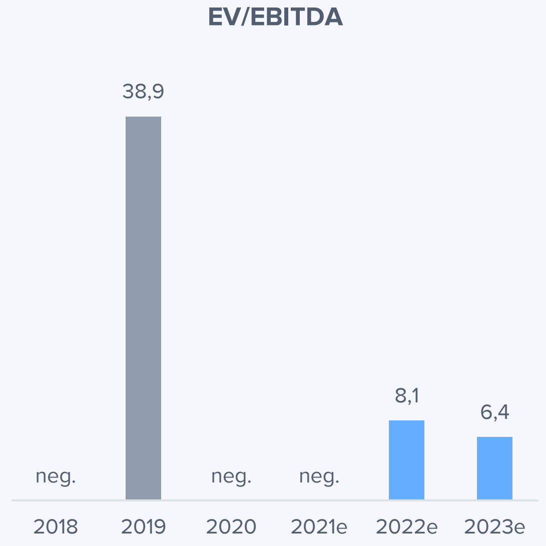
Factors to be considered in valuation

We believe the following factors affect Enedo's valuation:

- **Profitability turnaround progressing and its successful implementation** would reduce the company's fixed cost structure and ensure sustainable conditions for achieving a reasonable profitability level. In the longer term, this is a fundamental prerequisite for creating shareholder value. A good progression of the turnaround would naturally also reduce the share's relatively high risk profile, which in turn would support the acceptable valuation level.
- **Organic growth outlook is healthy** and we believe that Enedo has proven its technological competitiveness. As a result of a streamlined cost structure, the turnaround progressing should improve the company's price competitiveness and contribute to strengthening organic growth conditions. In our estimate, Enedo also has interesting and, to some extent, non-independent opportunities from the current owner.
- **Due to Enedo's challenging performance history**, investors' confidence in the company is inevitably weak. This makes it difficult to rely on the good situation after the turnaround program possibly succeeding and reduces the acceptable valuation level for the current development phase.
- **Challenging value chain position** between component suppliers and customers both limits bargaining power and creates cost pressures. These factors limit the longer-term margin potential and, thus, the ability to create value.
- **Demand drivers are investment-driven**, which exposes Enedo to cyclical fluctuations in the economy. However, operations cover of different industries and several end uses, which contribute to balancing/limiting cycle dependency.

Valuation	2021e	2022e	2023e
Share price	0.37	0.37	0.37
Number of shares, millions	68.7	68.7	68.7
Market cap	25	25	25
EV	31	29	27
P/E (adj.)	neg.	25.9	18.6
P/E	neg.	25.9	18.6
P/FCF	neg.	12.2	10.7
P/B	3.2	2.8	2.5
P/S	0.7	0.6	0.5
EV/Sales	0.8	0.7	0.6
EV/EBITDA	neg.	8.1	6.4
EV/EBIT (adj.)	neg.	19.1	13.8
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes



Source: Enedo, Inderes

Valuation 2/3

Based on these factors, we believe that Enedo's acceptable post-turnaround valuation could mean an EV/EBITDA ratio of 5x-7x and correspondingly an EV/EBIT ratio of 8x-10x. For volume-based valuation, we see 0.5x-0.6x as a reasonable range for the company. The midpoints of these levels are lower than the historical median of the Helsinki Stock Exchange. In view of the company's difficult operational history and relatively low structural profitability potential, we consider this to be justified, even if we generally don't examine pricing in relation to the overall level of the stock exchange.

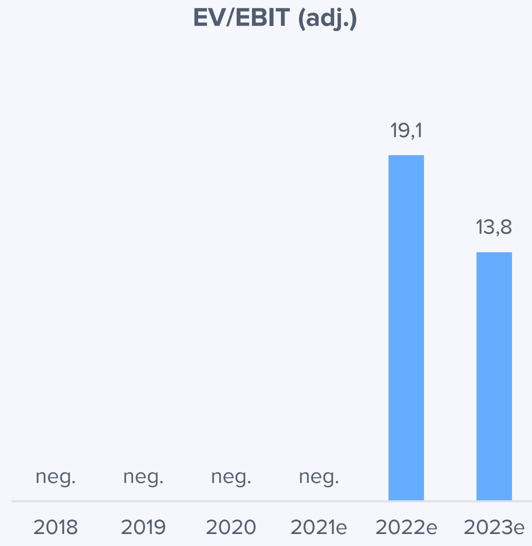
The acceptable valuation multiple ranges that we estimate for Enedo aren't set in stone. If the turnaround program proceeds faster and/or is better than we expected (with higher growth rate than in our current forecasts), the valuation levels have upside. In contrast, the same logic works both ways. If the turnaround program were to lag behind or fail entirely, it would decrease the already quite low level of absolute valuation.

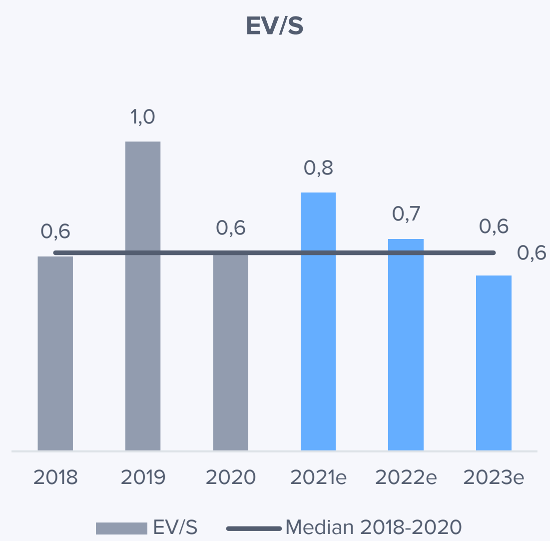
Valuation is very demanding

As mentioned before, Enedo will still spend 2021 on fixing operational structures and laying the groundwork for a sustainable turnaround. Because of this, analyzing the valuation with 2021 multiples is not meaningful. When considering valuation, sights should be fully set to 2022 and beyond. By then, the measures of the turnaround program should be visible and, thus, financial performance should be significantly better than now.

Based on our estimates, EV/EBITDA ratios for 2022 and 2023 are 8x and 6x, while the respective EV/EBIT ratios are 19x and 14x. Given Enedo's overall company profile (e.g. challenging value chain position and structurally short visibility), these levels are high, even though our estimates already include a significant earnings improvement. Moreover, the volume-based EV/S ratio at 0.7x next year cannot be considered as an actual support structure or as a safety net. However, it isn't completely unreasonable, although there are uncertainties around the strong organic growth that we expect. This big picture shows that Enedo's valuation narrative hasn't virtually changed at all during the last few months. Therefore, we believe that the share price remains future-optimistic and contains successes in the post-turnaround period.

For the current valuation to be reasonable and an investment made at this price to be profitable to a shareholder, the company would have to, frankly put, smash our expectations. In practice, this would mean both faster growth than the volume development we anticipated and better efficiency of the ongoing turnaround measures at the same time. With regard to volume development, our current pre-estimate (2021e-2024e: CAGR 9%) could prove to be too cautious if, for example, the current main owner Inission





Source: Enedo, Inderes

Valuation 3/3

would succeed in locating a meaningful number of opportunities that Enedo could independently utilize. However, we estimate that Enedo should be competitive enough in applications that require tolerance of demanding conditions and high-level technology (e.g. Power Systems' solutions). The current major owner's track record in turning around companies with profitability problems is strong, which increases confidence in Enedo succeeding in its turnaround.

If Enedo reached EUR 73 million in net sales (50% more than our current estimate) in 2023, had excellent profitability for the industry context and operating profit of EUR 4 million (100% more than our current estimate), the company's valuation would with a 9x EV/EBIT ratio, which we estimate to be justifiable, and a net debt free balance sheet be ca. EUR 35 million. Such a scenario would mean ca. 12% annual return (cf. COE requirement of some 11%), when the current market cap of EUR 25 million, is considered and translated into an annual return expectation. In our opinion, this is an apt concretization of how much future optimism the share price contains at the moment.

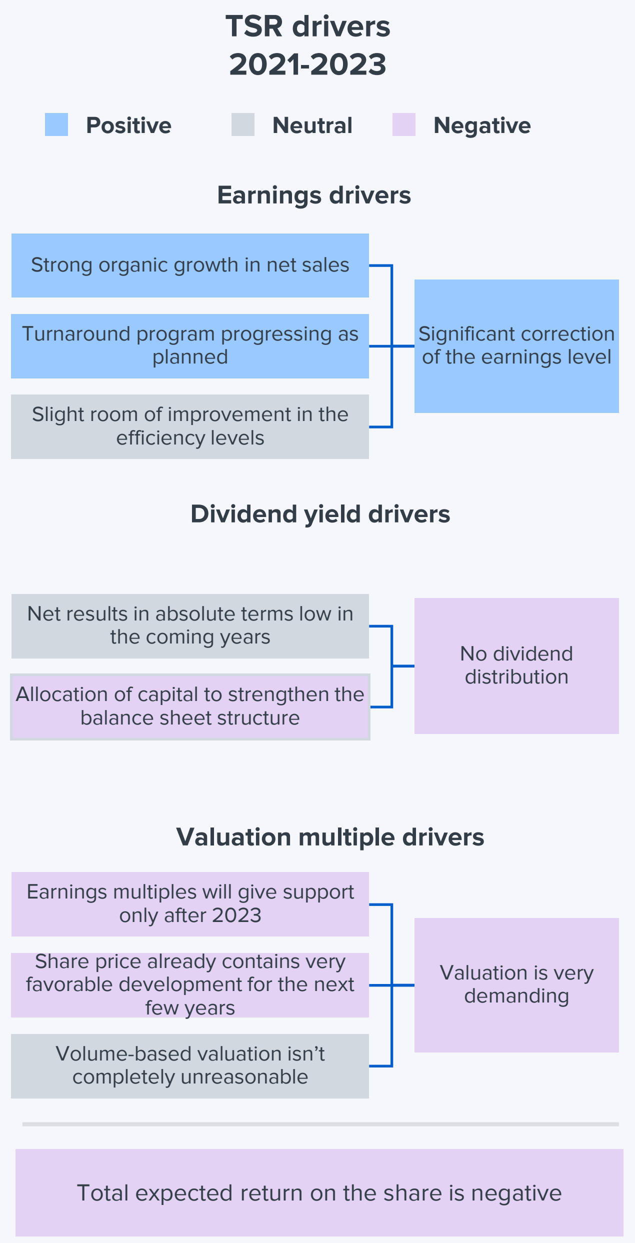
DCF model

In our valuation, we also give weight to the DCF model despite it being very sensitive to variables during the terminal period. However, we have used realistic parameters for the variables during the terminal period. In line with this, we feel that the model provides adequate support for share price valuation. The value of the share in our DCF model is EUR 0.22, which confirms our view of the oversized future expectations of the share.

In our model, the company's net sales growth will stabilize in the long term to 3-4% and EBIT margin to 4 to 5%. In comparison to the last few years, this performance is significantly better and the performance level of the model depends on the success of the turnaround program. In our model, the weight of the terminal period is a bearable 64%. The average cost of capital (WACC) used is 9.6% and the cost of equity is 11.1%. We have applied a risk-free interest rate of 2% and similarly a market risk premium of 4.75%.

The return/risk ratio is not rewarding

The combination of different valuation methods is very clear and indicates that the valuation is challenging. We believe that the share is priced with the expectations of a highly favorable operational situation, which is much better than in our estimates. Additionally, key risks aren't adequately considered. This discrepancy keeps the return/risk ratio very weak. Therefore, we reiterate our Sell recommendation and EUR 0.30 target price.



Source: Inderes

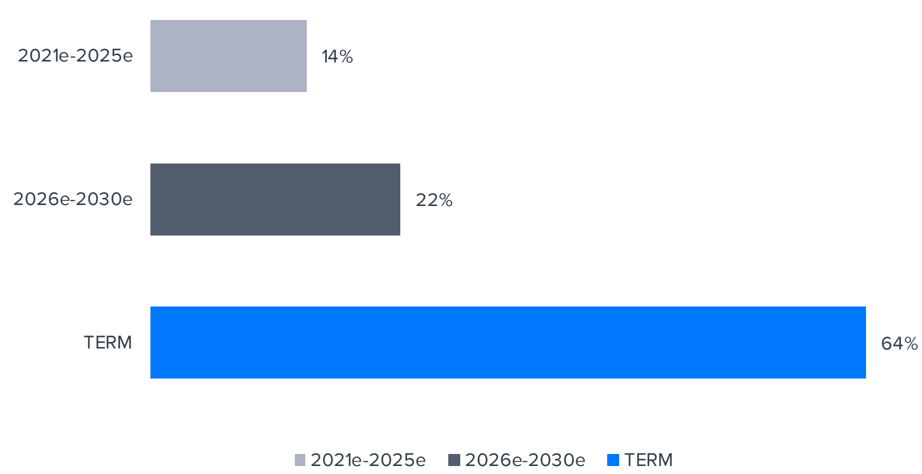
DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	**-4.3**	**-4.5**	**1.5**	**2.0**	**2.5**	**2.6**	**2.9**	**3.0**	**3.3**	**3.4**	**3.5**	
+ Depreciation	3.6	3.1	2.1	2.3	2.2	1.9	1.8	1.8	1.8	1.8	1.8	
- Paid taxes	0.0	0.2	-0.2	-0.3	-0.4	-0.5	-0.5	-0.5	-0.6	-0.6	-0.7	
- Tax, financial expenses	0.2	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-0.3	0.0	0.7	0.4	0.0	1.1	0.0	0.0	0.0	0.7	0.1	
Operating cash flow	**-0.8**	**-1.0**	**4.1**	**4.3**	**4.2**	**5.1**	**4.1**	**4.2**	**4.4**	**5.2**	**4.6**	
+ Change in other long-term liabilities	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-2.4	-2.3	-2.1	-2.0	-2.0	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	
Free operating cash flow	**-3.3**	**-3.3**	**2.1**	**2.4**	**2.3**	**3.3**	**2.4**	**2.5**	**2.7**	**3.4**	**2.9**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-3.3	-3.3	2.1	2.4	2.3	3.3	2.4	2.5	2.7	3.4	2.9	47.4
Discounted FCFF		**-3.3**	**1.8**	**1.9**	**1.7**	**2.3**	**1.5**	**1.4**	**1.4**	**1.6**	**1.2**	**20.4**
Sum of FCFF present value		32.0	35.2	33.4	31.5	29.8	27.5	26.0	24.6	23.3	21.6	20.4
Enterprise value DCF		**32.0**										
- Interesting bearing debt		-17.9										
+ Cash and cash equivalents		1.1										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**15.2**										
Equity value DCF per share		**0.22**										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	4.5 %
Equity Beta	1.55
Market risk premium	4.75%
Liquidity premium	1.75%
Risk free interest rate	2.0 %
Cost of equity	**11.1 %**
Weighted average cost of capital (WACC)	**9.6 %**

Source: Inderes

Cash flow distribution



Summary

Income statement	2018	2019	2020	2021e	2022e
Revenue	52.4	43.3	38.5	**37.8**	**43.5**
EBITDA	-2.9	1.1	-0.7	**-1.4**	**3.6**
EBIT	-7.2	-2.6	-4.3	**-4.5**	**1.5**
PTP	-8.5	-2.7	-5.4	**-2.2**	**1.1**
Net Income	-7.8	-2.6	-6.2	**-2.0**	**1.0**
Extraordinary items	-0.5	-0.2	-0.4	**-0.6**	**0.0**

Balance sheet	2018	2019	2020	2021e	2022e
Balance sheet total	45.7	32.1	29.2	**35.3**	**38.8**
Equity capital	9.4	3.7	-2.1	**7.9**	**8.9**
Goodwill	4.3	4.3	4.3	**4.3**	**4.3**
Net debt	9.4	12.7	16.8	**6.0**	**4.3**

Cash flow	2018	2019	2020	2021e	2022e
EBITDA	-2.9	1.1	-0.7	**-1.4**	**3.6**
Change in working capital	1.3	-1.8	-0.3	**0.0**	**0.7**
Operating cash flow	-1.2	0.3	-0.8	**-1.0**	**4.1**
CAPEX	-9.8	0.9	-2.4	**-2.3**	**-2.1**
Free cash flow	-10.3	0.0	-3.3	**-3.3**	**2.1**

Valuation multiples	2018	2019	2020	2021e	2022e
EV/S	0.6	1.0	0.6	**0.8**	**0.7**
EV/EBITDA (adj.)	neg.	38.9	neg.	**neg.**	**8.1**
EV/EBIT (adj.)	neg.	neg.	neg.	**neg.**	**19.1**
P/E (adj.)	neg.	neg.	neg.	**neg.**	**25.9**
P/E	2.5	8.1	neg.	**3.2**	**2.8**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2018	2019	2020	2021e	2022e
EPS (reported)	-0.92	-0.30	-0.74	**-0.03**	**0.01**
EPS (adj.)	-0.88	-0.28	-0.69	**-0.02**	**0.01**
OCF / share	-0.15	0.03	-0.09	**-0.01**	**0.06**
FCF / share	-1.22	0.00	-0.39	**-0.05**	**0.03**
Book value / share	1.11	0.44	-0.25	**0.12**	**0.13**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2018	2019	2020	2021e	2022e
Revenue growth-%	-25%	-17%	-11%	**-2%**	**15%**
EBITDA growth-%	-183%	-138%	-160%	**112%**	**-359%**
EBIT (adj.) growth-%	3250%	-64%	63%	**0%**	**-139%**
EPS (adj.) growth-%	1133%	-68%	145%	**-97%**	**-165%**
EBITDA-%	-5.5 %	2.5 %	-1.7 %	**-3.7 %**	**8.4 %**
EBIT (adj.)-%	-12.8 %	-5.5 %	-10.2 %	**-10.3 %**	**3.5 %**
EBIT-%	-13.7 %	-6.0 %	-11.2 %	**-11.9 %**	**3.5 %**
ROE-%	-94.9 %	-38.9 %	-778.9 %	**-68.2 %**	**11.5 %**
ROI-%	-34.2 %	-13.0 %	-25.9 %	**-23.7 %**	**6.7 %**
Equity ratio	20.6 %	11.5 %	-7.2 %	**22.4 %**	**22.9 %**
Gearing	100.0 %	341.9 %	-800.0 %	**76.0 %**	**48.4 %**

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Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

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

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
19-06-19	Sell	2.50 €	2.90 €
01-08-19	Sell	2.50 €	3.15 €
16-08-19	Sell	2.55 €	3.05 €
25-02-20	Sell	1.80 €	2.41 €
27-05-20	Sell	1.00 €	1.23 €
14-08-20	Sell	1.00 €	1.30 €
19-10-20	Sell	1.00 €	1.17 €
19-02-21	Sell	0.60 €	0.70 €
12-03-21	Subscription right detached		
12-03-21	Sell	0.23 €	0.28 €
29-04-21	Sell	0.30 €	0.49 €
13-08-21	Sell	0.30 €	0.42 €
15-10-21	Sell	0.30 €	0.37 €

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