

Incap Group's Business Review for January-September 2019: Good growth in revenue and profitability continued

Key figures in January-September 2019

- The Group's revenue amounted to EUR 54.8 million, up 29% on the corresponding period of the previous year (January-September 2018: EUR 42.5 million).
- The Group's operating profit (EBIT) amounted to EUR 8.0 million, up 45% on the corresponding period (EUR 5.5 million).
- Net profit for the period amounted to EUR 6.1 million, up 56% on the corresponding period (EUR 3.9 million).
- Guidance for 2019: The Group's revenue and operating profit (EBIT) in 2019 will be clearly higher than in 2018. The Group specifies that the estimated revenue in 2019 will be approximately EUR 70-72 million and the operating profit (EBIT) approximately EUR 9.5-10.5 million.

The information in this business review concerns the development of Incap Group in January-September 2019 and in the corresponding period of 2018, unless otherwise stated. The figures are unaudited.

Key figures (Unaudited)	1-9/ 2019	1-9/ 2018	Change, %	7-9/ 2019	7-9/ 2018	Change, %	4-6/ 2019	1-3/ 2019	1-12/ 2018
Revenue, EUR million	54.8	42.5	+29%	17.6	15.5	+13%	18.7	18.5	59.0
Operating profit (EBIT), EUR million	8.0	5.5	+45%	2.2	2.4	-8%	2.9	2.8	8.6
EBIT, % of revenue	14.6%	12.9%		12.7%	15.6%		15.7%	15.3%	14.6%
Profit for the period, EUR million	6.1	3.9	+56%	1.8	1.8	-3%	2.2	2.2	5.8

Key events of the period

Electronics contract manufacturer Incap Group's business continued its good growth pace. In January-September 2019, both revenue and profitability improved. Revenue improved by 29% compared to the corresponding period a year ago and amounted to EUR 54.8 (42.5) million. Revenue improved thanks to the growing demand from established customers as well as increased volumes from new customers. The company has managed to broaden its customer base especially in light vehicles, IoT and industrial electronics applications.

Revenue for the third quarter of 2019 amounted to EUR 17.6 (15.5) million, which is slightly less than in the earlier quarters of 2019.

Operating profit (EBIT) in January-September 2019 was EUR 8.0 (5.5) million and profit for the period totalled EUR 6.1 (3.9) million. Operating profit (EBIT) increased by 45% and profit for the period by 56% compared to the comparison period. The share of operating profit out of revenue increased from 12.9% to 14.6%



EBIT for the third quarter of 2019 was impacted by EUR 0.2 (0.0) million non-recurring costs relating to business development. Operating profit (EBIT) was EUR 2.2 (2.4) million. EBIT was also slightly impacted by timing difference in export incentive payments from Indian government. The share of operating profit (EBIT) out of revenue was 12.7% (15.6%).

Strict cost management and growth in revenues resulted favourably in profitability. In addition to this, the expansion of production facility in India and the development of production lines in Estonia, implemented already in 2018, have resulted in efficiency gains as anticipated.

In the third quarter the Group decided on further increases in its production facility in India and in upgrade of its production capability in Estonia.

The company's financing position is strong and the equity ratio further improved and stood at the end of September 2019 at 57.4% (44.5%).

Outlook for 2019

The company updated its guidance on 13 September 2019. The Group's revenue and operating profit (EBIT) in 2019 will be clearly higher than in 2018.

The Group specifies that the estimated revenue in 2019 will be approximately EUR 70-72 million and the operating profit (EBIT) approximately EUR 9.5-10.5 million. The Group's revenue in 2018 amounted to EUR 59.0 million and the operating profit (EBIT) to EUR 8.6 million.

The estimations assume that there are no major changes in currency exchange rates or component availability. Incap's estimates for future business development are based both on its customers' forecasts and on the company's own assessments.

Otto Pukk, President and CEO of Incap Group:

"The third quarter of 2019 showed again a strong sales performance for Incap. In January-September our revenue grew by 29% from the corresponding period a year ago.

The revenue increased mainly thanks to the growing demand from our established customers, and especially in the earlier part of 2019, from the increased volumes for new customers.

Operating profit (EBIT) grew by 45% and was 14.6% out of revenues, increasing from 12.9% year-on-year. Despite the rapid growth in revenue, we continue our strict management of costs and keeping our organization structure lean. Thanks to these actions, as well as the efficiency improvements on our production lines, our profitability has remained at a good level.

After the exceptionally good first half of the year, I see that the net growth will continue but growth percentages are going back to more normal levels moving forward as the size of the business has grown. Considering third quarter is also holiday & vacation season, I'm happy how the quarter turned out.

In order to improve our production capabilities, we decided to increase our production facilities in India and expand our rental contracts in Kuressaare facility in Estonia.

In Tumkur, India, the development actions are made into the expansion of the production facility from 8,640 sqm to approximately 12,500 sqm. This expansion is expected to be completed by spring 2020.



In Estonia, we are developing our production lines by upgrading our SMT (surface mount technology) -production capability. This helps us to provide our customers more value and to help them in their specific needs with even more flexibility than before. These actions are expected to be completed already by November 2019.

The competition in contract manufacturing is harsh. The shortages in component availability still persist, however, the situation seems to be easing up. We are looking optimistic towards the future. Our financial position is strong and we are able to grow our business also by mergers and acquisitions should right opportunities arise.”

Impacts of the adoption of IFRS 16

The Group adopted IFRS 16 on 1 January 2019 using the modified retrospective method where comparative information will not be restated.

The adoption of IFRS 16 has no material impact on group’s EBIT even though the interest component on the lease payments is recognized in financial income and expenses. The impact of IFRS 16 adoption on the level of total equity is not material.

The amendment increases the volumes of rental contracts and liabilities recorded in the consolidated balance sheet by EUR 2.6 million in January-September of 2019. This is reported in non-current interest-bearing liabilities (EUR 1.9 million) and in current interest-bearing liabilities (EUR 0.7 million). The increase in depreciations due to this change was EUR 0.5 million for January-September period.

Incap will not adapt IFRS 16 to leasing agreements with rental period 12 months or less or when the contracts notice period is less than 12 months without sanctions. Most of Incap's leasing commitments are short term or low value agreements, which are handled as operating lease contracts. Incap has, at the moment, no activities as a lessor.

Limitations for dividend distribution ended

Due to the share capital reduction of Incap Oyj, carried out in 2016, there have been limitations for distribution of dividends. These limitations have ended as of 31 August 2019, and there are no limitations for distribution of dividends.

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INCAP IN BRIEF

Incap Corporation is an international contract manufacturer. Incap's customers are leading suppliers of high-technology equipment in their own business segments, and Incap increases their competitiveness as a strategic partner. Incap has operations in Finland, Estonia, India and Hong Kong, and the company currently employs approximately 830 people. Incap's share is listed on the Nasdaq Helsinki Ltd. as from 1997. Additional information: www.incapcorp.com.