

# A Share Cast in the Portfolio

## Significant Potential with Leading Truck Manufacturers

Over three decades since its IPO in 1993, SinterCast has truly taken off. Fourteen years of growth in the regular dividend and a major breakthrough five years ago with an order from Scania. The potential of the order from Scania was indicated to be one million Engine Equivalents (MEV) of compacted graphite iron (CGI). Now, the company sees further potential with deliveries to the other engine programs within the Traton group for Navistar and MAN. This year also marks the beginning of the first deliveries to First Automotive Works (FAW) in China, one of the world's largest truck manufacturers, with a production volume on par with the entire North American or European market.

## Good Forward Planning for the Next Five Years

Sales are largely recurring and are distributed as one-third on consumables, sampling cups, and thermocouples, and two-thirds on a production fee charged for every ton of castings delivered, based on cast weight (before machining), and an annual software fee for monitoring the casting process. A smaller portion (five percent) consists of spare parts and technical service. The company has very good visibility up to three years out. Quite good forward planning for four to five years.

## High Market Shares in a Growing Market

SinterCast holds a market share of 60–70 percent of the total available market for process control to the foundry industry for CGI casting. In 2023, the production volume with SinterCast process technology was at times up to four million Engine Equivalents (MEV) annually, ending the year at 3.7 million. For 2024, the guidance is an increase to 4.1 million MEV. The ambition is to increase the growth rate over the next five years to an annual production volume of seven million MEV. This corresponds to fifteen percent per year compared to ten percent over the last ten years.

## Retirement Departures Lead to Increased Profitability

Profitability has been affected in recent years as personnel costs, among other things, have increased due to double staffing in anticipation of retirements. Just in 2023, the number of employees decreased from 32 to 28. From today's operating margin of 31.8 percent, the company expects to be able to reach 40 percent by 2028 with further lower personnel costs and larger volumes. This means that profit growth over the next five years could be up to ten percent per year. Cash flow is expected to increase even more with reduced working capital and lower investment needs.

## SinterCast

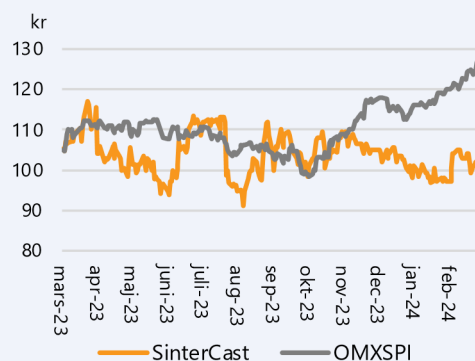
### Initieringsrapport

Datum	28 mars 2024
Analytiker	Philip Wendt

### Basfakta

Bransch	Industri
Styrelseordförande	Robert Dover
Vd	Steve Dawson
Listning	Small Cap Stockholm
Kortnamn	SINT
Aktiekurs	101,0
Antal aktier, milj.	7,1
Börsvärde, mkr	714
Nettoskuld, mkr	-12
Företagsvärde (EV), mkr	702
Motiverat värde (i dag)	145 kronor
Nästa rapport	2024-04-24

### Kursutveckling senaste året



Källa: Refinitiv

### Prognoser & Nyckeltal, MSEK

	2022	2023	2024p	2025p
Omsättning	118,7	134,5	144,4	156,6
Bruttoresultat	85,8	98,6	106,3	118,1
Rörelseres. (ebit)	25,7	42,8	45,9	52,6
Resultat f. skatt	30,3	42,6	45,9	52,7
Årets resultat	33,1	42,2	36,5	42,0
Vinst per aktie	4,68 kr	5,97 kr	5,17 kr	5,94 kr
Utd. per aktie	5,00 kr	6,10 kr	6,65 kr	7,35 kr
Omsättningstillväxt	13,1%	13,3%	7,3%	8,5%
Bruttomarginal	72,3%	73,3%	73,6%	75,4%
Rörelsemarginal	21,7%	31,8%	31,8%	33,6%
Kassaflöde, verksamh	25,4	45,5	57,1	56,3
Kassaflöde per aktie	3,6	6,4	8,1	8,0
P/e-tal	24,6	20,1	19,5	17,0
EV/ebitda	26,4	16,4	14,6	12,9
EV/omsättning	6,7	5,2	4,9	4,5
Direktavkastning	3,1%	6,0%	6,6%	7,3%

Källa: Bolaget, Analysguiden

## Investment Thesis

SinterCast is a stock with a high dividend yield and dividend growth. They have a predictable business model with long visibility. High solvency, lower working capital, and investment needs continue to provide good opportunities to return capital to shareholders. The total return, with dividends and buybacks, of seven percent provides sufficient compensation for being long-term in the stock.

### The Business is Valued at a Significant Discount

Based on a market value of SEK 714 million and cash of SEK 12 million, the business is valued at SEK 702 million (Enterprise Value, EV). With an operating result (EBITDA) of SEK 43 million, the business is valued at 16.3 times. This is close to the lowest level since the pandemic when the business was valued at a low of 14.4 times. The average valuation over three years is 24.5 times, which would correspond to a valuation per share closer to SEK 150 per share, or a 30 percent discount.

The discount, in our assessment, is because the stock market does not see any growth beyond 2028 and an operating margin of 20 percent. The company addresses this with technological developments such as support for, among others, MAN's new heavy hydrogen engine.

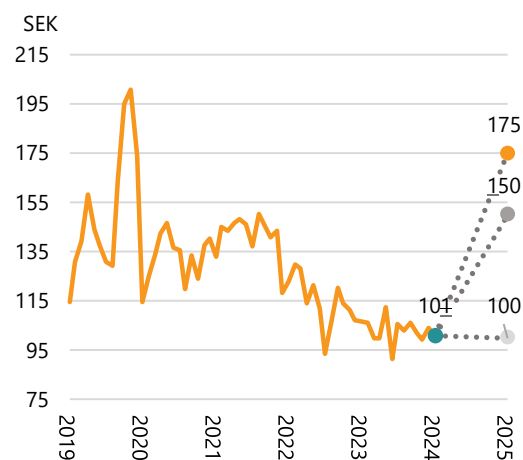
A short-term risk factor for the stock this year is that one of SinterCast's high-volume programs is expected to reach its final stage in the second half of 2024. More information is expected to be provided no later than August at the presentation of the report for the second quarter. This has been announced for a long time, so it should already be discounted.

### Scenario Analysis Gives a Justified Value of SEK 145

In our main scenario, the company's value amounts to SEK 150 per share. It is a slightly more cautious scenario than the company management's assessment of market growth, market shares, and profitability. It assumes that the company's production will increase from today's 3.7 million engine equivalents to 4.1 million in 2024 and continue with an increase rate of 11 percent until 2030, then halve to five percent. The company's profitability is expected to increase over the next five years and then decrease as growth slows. A bull scenario imagines a higher valuation at SEK 175 per share, while a bear scenario gives a value of SEK 100 per share, based on lower growth and reduced profitability. A weighted scenario gives a value of SEK 145 per share, where the main scenario is considered highly probable, and the two alternative scenarios are given equal weight.

## The Stock is Worth Buying...

The stock's upside/downside in three different scenarios



Source: Analysis Guide's bullish, base, and bearish scenarios

*No expectations for growth beyond 2028.*

*Short-term uncertainty regarding how the end of a high-volume program is received.*

*Bullish scenario: SEK 175 per share.*

*Base scenario: SEK 150 per share.*

*Bearish scenario: SEK 100 per share.*

*Weighted scenario results in SEK 145 per share.*

The stock has an attractive risk-reward ratio of 5:1, with a downside to 100 and upside to 150. A sufficiently large margin of safety with today's stock price against the justified value.

*The justified value of SEK 145 per share presents an attractive risk-reward ratio against the current stock price and potential.*

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## Fourth Quarter/Annual Report 2023

### Lower Growth in Series Production After Maintenance Stop

SinterCast reported a sales growth of 13 percent for 2023. Net sales in the fourth quarter rose to SEK 36 million (32.9) and reached SEK 134.4 million (118.7) for 2023. Despite a preliminary result presented at the end of January showing a sales increase at the same level, the share price rose significantly when the financial statements became public at the end of February.

*Positive stock price reaction to the report.*

The stock price reaction should be seen as the elimination of any uncertainty about how the result was affected by a five-week stop on a major production line. Since the operating result in the fourth quarter nearly doubled from the previous year to SEK 15.6 million (8.0) with an operating margin of 43.3 percent (24.3), the uncertainty about the earning capacity decreased and the stock rose.

*Less impact on the results than expected from a production stoppage.*

### Sales Growth Still at 13 Percent

Although production sequentially leveled out at a rate equivalent to 3.7 million engine equivalents versus 4.2 million in the third quarter, revenues in the fourth quarter increased by nine percent to SEK 36 million. Deliveries of sampling cups increased by 11.7 percent and series production by 5.6 percent. Sales growth was aided by sales at higher exchange rates. 94.5 percent of the revenues are related to recurring income from series production, where a production fee is charged for each engine equivalent, consumables, and software license fees. The business model, with a high proportion of recurring revenues, provides very good visibility for the coming quarters and years.

*Sales increase despite the stoppage.*

### New Highest Level of Series Production During the Year

For 2023, a new record was set in series production at 3.7 million engine equivalents, an increase of 6.3 percent. SinterCast estimates that with their process technology, "SinterCast Inside," approximately 1.5 million engines were produced during 2023. The distribution of series production with a share of 51 percent rests on long product life cycles for heavy vehicles. Series production of engine equivalents for heavy vehicles increased by 16 percent during the year.

*1.5 million vehicles with SinterCast Inside.*

SinterCast sees heavy vehicles as the great growth opportunity ahead as more and more engines for heavy vehicles are developed towards compacted graphite iron for increased fuel efficiency and performance. The other half of the series production was made up of Super-Duty pickups with 30 percent of the volume, followed by large pickups ten percent, medium-sized pickups and

*Heavy vehicles are the future.*

SUVs five percent, off-road equipment four percent, and passenger cars one percent.

### Cleaner Transport with CGI

The use of CGI enables the manufacturing of smaller, more efficient, higher performing, and more durable engines that have lower fuel consumption, reduced carbon emissions, and lower engine noise. SinterCast technology saved approximately nine million tons of CO<sub>2</sub> during 2023 and about 59 million tons of CO<sub>2</sub> since the first series production of castings began in 1999. Thus, the company is on track to reach the goal of 100 million tons by 2028.

*The SinterCast technology saved nine million tons of carbon dioxide equivalents during 2023...*

*...which corresponds to two-thirds of the greenhouse gas emissions from domestic transport in Sweden.*

### Reduced Number of Employees

A savings program was initiated in the third quarter and helped to compensate for lower results due to volume reductions in the fourth quarter. Fewer employees, with two retirements and reduced redundancy, led to lower costs, which resulted in an increase in the gross margin by three percentage points to 70.8 percent for the quarter. Increased turnover contributed to an improvement in the annual gross margin by a few tenths to 73.3 percent (73.1). This is the second year in a row that the gross margin has improved post-pandemic, and it is from this level we expect the company to continue in the next couple of years.

*Very high gross margin.*

### Doubled Operating Result in the Fourth Quarter

The operating result increased in the fourth quarter to SEK 15.6 million (8.0). Primarily because the gross margin rose, but also thanks to currency exchange changes that resulted in unrealized translation gains. For the whole of 2023, the operating result increased to SEK 42.7 million (30.6) mainly thanks to increased sales and stable gross margin. Higher sales costs from participation in the foundry trade fair GIFA, severance payments, and higher wage costs in foreign currency were balanced out by other lower costs. The after-tax result for 2023 increased less than the improvement in the gross result as the tax revenues were lower this year compared to the year before. SinterCast has a recorded deferred tax asset which is gradually being worked off. During 2022, a revaluation of the deferred tax asset resulted in a tax income. Per share, the after-tax result corresponds to a profit of SEK 5.95 (4.68).

*Earnings per share SEK 5.94 (from SEK 4.68).*

### High Conversion of Profit to Cash Flow

A result with a corresponding improvement in cash flow is often a sign that profit generation is of high quality. During 2023, cash flow from operations increased by SEK 20.1 million to SEK 45.5 million (25.4). In addition to the improvement in operating result, SEK 7.0 million was released from working capital through a reduction in the inventory of wire feeders and an increase in operational liabilities. Customer receivables increased during

*Reduced inventory.*

2023 but according to the company, it was due to late payments from customers, not non-payment. Investments amounted to SEK 5.6 million (1.7) and are mainly of a one-time nature and related to the replacement of new production tools in Sweden and investment in a second production facility for sampling cups in Slovakia.

The company has a dividend policy to distribute all the free cash flow. After the dividend of SEK 39 million, the total cash flow amounted to –SEK 1.9 million (–13.3). A significant improvement, which, among other things, resulted in the company initiating a buyback program of the equivalent of SEK 5.0 million, of which SEK 1.2 million was completed by the end of 2023.

### Positive Future Outlooks

After a slight disappointment regarding the growth in series production with maintenance stops at the end of the fourth quarter, the outlook looks good for the first half of 2024. The goal of returning to a series production pace exceeding four million engine equivalents and heading towards five million is likely to mean that series production in the coming years should at least be able to reach up to ten percent. The first half is likely to benefit from some recovery from the production halt at the end of last year. In the second half, one of their high-volume programs reaches its final phase, which is expected to cause a temporary decrease in volumes starting from the third quarter. Guidance on the extent will be provided at the latest in connection with the report for the second quarter at the end of August.

### Forecast of Higher Gross Margin

SinterCast's costs are largely related to personnel. In 2023, the company initially had 32 employees, of whom two retired during the year, three became redundant with the discontinuation of traceability technologies, and Vítor Anjos was recruited as the new Operations Director. The year ended with 28 employees. Higher personnel costs due to double staffing largely explain the lower gross margins in recent years. Going forward, we expect gross margins to continue to improve with fewer employees and increased series production. The operating margin, which last year was burdened with severance payments and sales costs associated with the foundry fair, is expected to be at the same or a higher level in 2024.

*The entire profit is distributed.*

*Recovery in production volume in the first half of 2024.*

*Gross margin increases with fewer employees.*



## Reduced Inventory and Receivables Increase Cash Flow

In relation to turnover, the inventory accounted for 10.5 percent (14.1) of sales. It is reasonable to assume that the inventory level will continue to decrease, thereby freeing up more capital. Before 2022 and the temporary inventory buildup of wire feeders, inventory relative to turnover amounted to seven percent. In the long term, it is reasonable to reach those levels again. Customer receivables are volatile and increased in 2023 due to a customer's late payments, while they fell back from another customer who agreed to shorter payment terms. Bringing customer receivables back to under 30 percent of sales this year should not be unreasonable. Investments were unusually large last year and are expected to return to significantly lower levels. No taxes on profits are expected to be paid in the coming years, so the cash flow before dividends and buybacks could exceed the after-tax profit significantly more than the previous year.

*Customer receivables return to normal levels.*

*Lower investment needs.*

## The Balance Sheet is Exceptionally Strong

The balance sheet total amounts to SEK 131.6 million (130.5). The solvency ratio is 86 percent (86). SinterCast had no loans at the end of the financial year. Liquidity amounted to SEK 12 million (14.2). In addition to this, there is an overdraft facility of SEK 12.5 million, giving the company available liquidity of SEK 24.8 million. The largest asset on the balance sheet is a deferred tax asset that will be reduced until late 2027 or early 2028, when the company is estimated to start paying taxes. Since SinterCast does not manufacture the sampling cups themselves, no capital is tied up in fixed assets, but the company ties capital in customer relationships with inventory and receivables. Hence, short-term receivables are the second-largest asset after the tax asset. The assets are financed by equity and operational liabilities.

*Assets are financed by equity and operating liabilities. No loans.*

## High Dividend Payout

In connection with the quarterly report, it was announced that the board proposes a dividend of SEK 6.10 per share. This corresponds to a dividend of SEK 43.1 million (39) to be paid on two occasions during 2024. The regular dividend is SEK 5.50 per share and represents 92.5 percent of earnings per share. The proposal for an additional SEK 0.6 per share beyond the regular dividend, due to released working capital, reflects the board's positive assessment of how the coming year may develop.

*A regular dividend of SEK 5.5 per share plus a bonus dividend of SEK 0.5.*

## Buyback Program Initiated

In addition to dividends, a buyback program was initiated at the end of last year, which could only be partially completed. Of the SEK 5 million authorized at the spring 2023 meeting, only SEK 1.2 million worth of shares were bought back. In 2024, the repurchases have started again, and shares worth approximately SEK 1.1 million were bought back by the end of February. There remains SEK 2.7 million worth of shares to be repurchased. Five

*A buyback program for the equivalent of five million SEK.*



million corresponds to 0.7 percent of the market value of SEK 709 million.

A new buyback program is likely to be initiated after this year's meeting in May and contributes to increased liquidity in the stock, stabilizes price development, and marginally increases earnings per share. We believe that it is value-creating to buy back shares when it occurs, as in this case, below the justified value.

The report for the first quarter will be presented on April 24.

*Next report on April 24.*

## Introduction

### Business Basics

SinterCast earns money by providing technology and services in the foundry industry, particularly in the casting of engine blocks and cylinder heads. The primary application is for large vehicles such as commercial vehicles, pickup trucks, and construction machinery.

*A cast business for large vehicles.*

They have developed and patented a process called the "SinterCast Process," which is used by their foundry customers to manufacture high-quality products in a new type of cast iron called Compacted Graphite Iron (CGI).

*The SinterCast Process.*

CGI is stronger and stiffer than conventional cast iron or aluminum alloys. The higher strength and stiffness allow car manufacturers to reduce the size and weight of their engines. CGI engines can also operate at higher pressures and temperatures, resulting in improved performance, along with better fuel efficiency and lower CO<sub>2</sub> emissions.

*Enables the reduction of size and weight of engines.*

Primarily, SinterCast earns revenue by selling licenses to foundries around the world that want to use their patented process to produce CGI products. This generates income through production royalties, the exclusive sale of test consumables, and software licensing fees. Together, these three recurring revenue streams usually account for more than 90 percent of annual revenues.

*The business model generates a high proportion of recurring revenues.*

In addition to licenses, SinterCast also provides its customers with process control equipment, spare parts, and expert services to effectively implement and operate the SinterCast Process. The process control equipment is usually sold as a one-time sale but can also be leased.

*Advanced technological solutions.*

The company also collaborates with its foundry customers and OEM end-users to develop new applications for CGI. Applications for hybrid power and range extension, as well as engines using net-zero fuels or hydrogen. SinterCast typically invests about ten percent of its revenue in R&D to maintain its position as a leading player in its field.

*Ten percent of revenues to R&D.*

## Compacted Graphite Iron (CGI)

Compacted Graphite Iron (CGI) is 75 percent stronger and 50 percent stiffer than conventional cast iron or aluminum alloys. It also has good thermal conductivity, meaning it is efficient at transferring heat. Therefore, the best application for CGI is in components that are simultaneously subjected to mechanical and thermal stresses. This leads to its use in cylinder blocks and heads, where there are significant mechanical stresses from engine compression, along with heat from fuel combustion.

The need for CGI depends on the engine type. Small engines for passenger cars typically use a spark plug to ignite the fuel. For these engines, the compression is usually low, and aluminum is often used. As the engine size increases, especially for diesel engines, the combustion pressure becomes exponentially higher, making CGI the preferred choice.

Demands for improved engine performance and reduced CO<sub>2</sub> emissions over the past thirty years have required significant increases in combustion pressure and temperatures within engines to ensure more complete combustion of fuel. These requirements have driven the growth of CGI. CGI now constitutes more than a third of the market for heavy commercial vehicles, and this is expected to grow to more than 75 percent by the end of the decade. Aluminum is simply not strong enough for applications in diesel engines for commercial vehicles.

### Advantages of CGI

Compacted graphite iron allows engines to be made smaller and lighter than conventional engines. The combustion pressure and temperature can also be increased to provide higher power and torque while improving the engine's durability. CGI's high stiffness also reduces vibrations, leading to a noticeable reduction in engine noise. The higher strength also means that fewer threads are needed to fasten bolts, so bolt lengths can be reduced. This provides measurable savings for OEM manufacturers who often purchase millions of bolts per year for an engine program. CGI is also significantly cheaper than aluminum.

### Disadvantages or Limitations of CGI

Due to the narrow processing window for CGI production, manufacturing is more expensive than other cast iron materials, and scrap prices can be higher, especially in the absence of meticulous process control. CGI's higher strength and stiffness also make it more difficult to machine than some other materials, which can affect manufacturing costs. CGI is not always the best choice for all engines or situations. Some engines may perform just as well or even better with other materials.

*Applied for components that are subjected to mechanical and thermal stresses...*

*...particularly for diesel engines that are exposed to high pressure.*

*CGI in one-third of engines for heavy commercial vehicles, on the way to three-quarters of the market.*

*Higher power and torque.*

*Manufacturing is more expensive than other cast iron materials.*

## The Casting Process

Compacted Graphite Iron (CGI) is produced through casting. The process typically involves melting steel scrap and pig iron along with small amounts of carbon, silicon, and other alloying elements to create the desired composition of the cast iron. More than 90 percent of the raw materials usually come from recycled sources.

The raw materials are melted in a furnace at high temperatures, usually above 1450°C. The molten iron alloy is then poured into sand molds that have a cavity in the shape of a negative of the intended component.

The casting process is the same as for conventional ductile iron, with the addition of having very precise control of magnesium and inoculant additions. Large infrastructure investments are not needed to introduce CGI in an existing foundry.

After casting, the cast metal cools slowly in the sand molds to avoid stresses and deformations. Once cooled, the castings are removed from the sand molds, and the sand is recycled in a closed loop within the foundry to produce new molds. The products are then blasted to remove baked sand and cleaned of burrs and other defects to achieve precise dimensions and surface finish.

Several foundries around the world specialize in the production of CGI. Among the more well-known companies in the cast iron industry that produce CGI is the Brazilian Tupy. Tupy has positioned itself as the largest volume producer of CGI in the world.

## High-Tech Process Technology

SinterCast specializes in process control systems for cast components, particularly for automotive manufacturing. The company was founded in 1983 by Lennart Bäckerud and Lars Bruce. SinterCast's history traces back to Bäckerud's research at Stockholm University on the thermal analysis of the solidification of liquid metals. The SinterCast process is a classic example of technology successfully developed from academia to be embraced by the industry.

Compacted Graphite Iron was first observed in 1948, but it was not until 1999 that the first series-produced engine block was manufactured using the SinterCast process. The reason for the fifty-year development cycle is that the stable area for producing CGI is incredibly small. During series production, at temperatures above 1400°C, the magnesium content in the molten iron must be controlled within a window of less than 0.01%.

To achieve this precision, SinterCast has developed a patented sampling unit to measure the solidification of the iron and has

*Scrap iron, steel, small amounts of carbon, silicon, and other alloying elements...*

*...are melted in a furnace at high temperatures.*

*Controlled level of magnesium and inoculant.*

*Cooling in sand molds.*

*Brazilian Tupy is the world's largest volume producer of CGI.*

*From academia to industrial success.*

*It took five decades until the first series production in 1999.*

*Patented sampling unit.*

established a two-step production process that allows the foundry to measure and correct the iron before casting. The average addition of magnesium in the final correction step is about 35 grams per ton, providing pharmaceutical levels of precision to the harsh foundry industry.

Liquid cast iron contains 3–4 percent carbon atoms and 2–3 percent silicon atoms in a sea of iron atoms. Upon solidification, the carbon atoms bind together to form graphite particles. It is the shape of these 'compacted' graphite particles that gives CGI its unique properties and its name. Essentially, SinterCast technology controls the crystallization of the carbon atoms to ensure that the graphite grows in the compacted form.

Over the years, SinterCast has established itself as the leading provider of process control systems for CGI. SinterCast technology is used by many major foundries and automotive companies around the world.

### Engine Equivalents

SinterCast's system processes more than fifty components in series production. These components range in size from less than 5 kg (turbo housings for passenger cars) to more than 2,000 kg (cylinder liners for large ships).

Their engine blocks vary from 50 kg (2.7 liters gasoline engine) to over 450 kg (16 liters engine block for commercial vehicles). Since the production fee is a royalty based on the total weight of the CGI components delivered by the foundry, it is meaningless to discuss the number of components produced.

Therefore, SinterCast has introduced the term "Engine Equivalents," so that each Engine Equivalent weighs 50 kg. For a 5 kg turbo housing for passenger cars, ten units must be produced to yield one Engine Equivalent. For the 450 kg 16-liter cylinder block, each unit gives nine Engine Equivalents.

The use of Engine Equivalents allows SinterCast's production to be consolidated and reported in a single comparable metric. It also enables investors to easily visualize the production volume.

A typical engine block for a passenger car weighs about 50 kg. Therefore, each Engine Equivalent can be visualized as a car on the road. In 2023, SinterCast technology was used for the production of 3.7 million Engine Equivalents, equivalent to the sales of 3.7 million cars. The total number of cars sold in Sweden during 2023 was 289,827.

*Controls the precipitation of carbon atoms.*

*The leading supplier of process control systems for CGI.*

*Engine Equivalents, a central concept.*

*The production fee is based on the total weight of CGI components.*

*One Engine Equivalent corresponds to the weight of a passenger car engine, 50 kg.*

*Engine Equivalents are used to communicate production volume.*

*SinterCast technology in the production of 3.7 million Engine Equivalents in 2023.*

## Customers

### 57 Installations in 13 Countries

SinterCast boasts a diverse customer base, with 57 installations across 13 countries. Of these, 25 are complete production installations for the series production of Compacted Graphite Iron (CGI), and 25 are so-called "Mini-Systems," used to support product development, prototype manufacturing, and niche volume production.

The remaining seven systems are SinterCast Ladle Tracker® or SinterCast Cast Tracker®, developed to provide traceability according to Industry 4.0 for the cast iron foundry industry.

Although the traceability technologies have bolstered SinterCast's technical reputation within the foundry industry, they currently account for less than one percent of recurring revenues and are thus not the focus of this report.

In addition to its varied customer base, SinterCast also has a global presence and a multinational workforce. The Technical Centre in Katrineholm serves as the organization's base, housing 19 of the 29 employees.

Beyond Sweden, SinterCast has a local presence in China, Korea, Germany, Portugal, the United Kingdom, the USA, and Mexico. This international presence is based on its own employees, rather than distributors or agencies.

SinterCast counts twelve different nationalities among its 29 employees, taking pride in embracing diversity even before it became a widely recognized concept.

### Tupy is SinterCast's Largest Customer

According to SinterCast's annual report, the majority of sales are to Brazil and Mexico, attributed to the company's key customer, the Brazilian Tupy.

Tupy is a Brazilian multinational in the metallurgy sector that manufactures cast iron components of high geometric and metallurgical complexity. These technical solutions are applied in the transportation of goods, infrastructure, agriculture, and energy production sectors.

Technical innovation in production and the creation of these applications are the company's specialties, in its more than 80-year history. Production is concentrated in factories in Joinville, Betim, and Maua in Brazil, Saltillo and Ramos in Mexico, and Portugal. Additionally, they have commercial offices in Brazil, Germany, the Netherlands, the USA, and Italy.

## Volume distribution, 2023

*Heavy-duty vehicles account for 51 percent of the volume.*

*Super Duty pickups account for 30 percent of the volume.*

*Full-size pickups account for 10 percent of the volume.*

*Mid-size pickups, SUVs, and crossovers account for 5 percent of the volume.*

*Industrial engines account for 4 percent of the volume.*

Source: SinterCast, Annual Report 2023

*SinterCast has a global presence.*

*Diversity with 12 nationalities.*

*Majority of sales to Brazil and Mexico.*

*Main customer, Brazilian Tupy.*

*Founded in Brazil 80 years ago.*



## Founded in 1938

Tupy was founded in 1938 in the city of Joinville in the state of Santa Catarina, Brazil. The company started as a small workshop for casting metals, primarily producing parts for the local industry.

Over the subsequent decades, Tupy experienced steady growth and evolved into a significant player in metallurgy and the manufacturing of cast components. The company expanded its operations and diversified its product portfolio to serve various sectors, including industrial power, automotive, and construction machinery.

Tupy has expanded internationally and established a presence outside Brazil. Through exporting its products and corporate acquisitions, Tupy has grown into a global player in the field of cast metal components. They have continuously invested in research and development to enhance their product quality and manufacturing processes. The company is recognized for its technological innovation in foundry technology and has consistently strived to be at the forefront of the industry.

Tupy continues to grow and diversify its business through organic growth and strategic partnerships. The company has strengthened its market position by offering high-quality products and services to its customers worldwide. The company has undergone an impressive development from its humble beginnings to becoming a leading global supplier in metallurgy and the manufacturing of cast components. Its history is marked by continuous growth, technological innovation, and a commitment to meeting the needs of its customers.

## Varied Customer Base

They have a varied customer base across different sectors and geographical regions. Tupy provides cast components to several automotive companies worldwide, including manufacturers of passenger cars, trucks, and heavy vehicles. Tupy also supplies cast parts to the off-road sector, including rail, agriculture, construction, and mining. Tupy also has agreements with distributors and dealers who act as intermediaries to deliver their products to end customers.

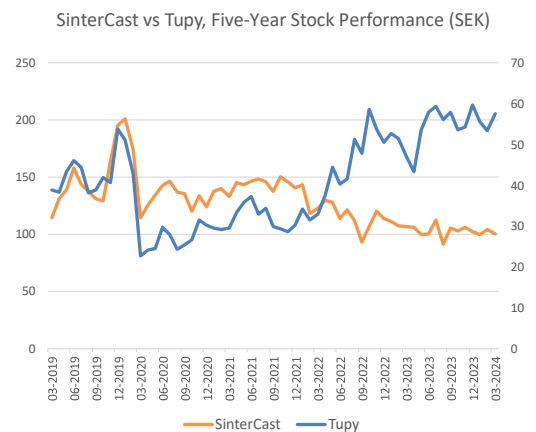
## A Public Company Listed in São Paulo

Tupy is a public company, and its ownership is spread among various investors and institutions. Tupy is listed on the São Paulo Stock Exchange (Bolsa de Valores de São Paulo), the primary stock market in Brazil where many of the country's large companies are traded publicly. Being listed on B3 gives the company access to capital markets to finance its growth and expansion, which also allows investors to own shares in the company and participate in its economic successes.

*A leading global supplier...*

*...in metallurgy and manufacturing of cast components.*

*Tupy is listed on the stock exchange in Brazil. Since 2022, it has had better performance than the SinterCast stock.*



## Collaboration with SinterCast

Tupy is a key customer for SinterCast, and the collaboration between the two companies has been successful for many years. SinterCast provides technology and services to support Tupy's manufacturing of cast components, especially in the engine blocks and cylinder heads segment. By utilizing the SinterCast process, Tupy can produce high-quality CGI components that meet the demands of customers in the automotive and off-road sectors.

*Tupy utilizes the SinterCast process.*

Tupy and SinterCast have a close relationship and collaborate regularly to enhance production processes and deliver innovative solutions to the market. Tupy benefits from SinterCast's expertise in foundry technology and process control to ensure that their cast components meet high-quality standards and performance requirements. The partnership between Tupy and SinterCast has helped to strengthen both companies' market positions and contribute to their success.

*Benefiting from SinterCast's expertise.*

## Brazil, Mexico, Korea, and Sweden

Brazil, Mexico, Korea, and Sweden are key markets for SinterCast. The Brazilian market is the largest for SinterCast, and the company has a strong presence with an established customer network in the country. Germany is also a market for SinterCast, with several major foundries and automotive manufacturers using their technology and services. China is one of the fastest-growing markets for SinterCast, and the company has invested significant resources to expand its presence and increase its market share in the country.

*Joint processing of customers.*

Brazil is the largest market for Tupy, and the company has a strong presence with an established customer network in the country. Germany and China are also important markets for Tupy. The company has invested significant resources to expand its presence and increase its market share in these countries. Tupy has established manufacturing facilities and sales offices in both Germany and China to serve its customers in the markets.

*Tupy is present in key markets for SinterCast.*

## Casting Collaboration

SinterCast and Tupy are two companies operating in the foundry industry, offering technology and services for the manufacturing of cast components. Both companies have a strong market presence and an established customer base worldwide. Through their collaboration, both companies have strengthened their market positions and contributed to each other's success. With a focus on technical innovation and customer satisfaction, both SinterCast and Tupy continue to be leading players in the foundry industry, delivering high-quality products and services to their customers.

*Focus on technical innovation and customer satisfaction.*



## Vehicle Manufacturers

Several truck manufacturers have started using Compacted Graphite Iron (CGI) in engine blocks to enhance performance and durability. Scania, a leading truck manufacturer, uses CGI extensively across its engine range. Their utilization of CGI aims to improve fuel efficiency, reduce weight, and increase engine durability.

*Scania has often been innovative with new technology.*

Other truck manufacturers, such as Volvo Trucks and other major manufacturers in the heavy vehicle segment, have also begun exploring and implementing compacted graphite iron in some of their engine blocks for similar benefits in terms of durability and performance. The penetration rate of CGI today is below 50 percent but is expected to increase to over 80 percent within the forecast period. Their decision to use CGI can vary depending on the model, market, and specific customer requirements.

*Volvo is evaluating.*

The use of compacted graphite iron in heavy truck engines has been a strategy for achieving higher performance and efficiency, especially given the advantages this material offers, such as higher strength and resistance to deformation compared to other cast iron materials.

*CGI is a strategy to achieve higher performance and efficiency in truck engines.*

Regarding car manufacturers that use compacted graphite iron in their engines, it's important to note that not all manufacturers use this material in all their engines or models. The use of CGI can vary depending on the model, type of engine, and the specific technical strategies of the manufacturer.

Audi has utilized compacted graphite iron in the Audi 3.0 Liter V6 for Audi, Porsche, and Volkswagen, especially in high-performance models where the material's strength and heat resistance are crucial to meet performance requirements.

*Audi has used CGI for a 3.0-liter V6 engine.*

Chevrolet, part of General Motors (GM), has also used compacted graphite iron in some of its engine blocks for SUVs and pickups. GM has implemented CGI in some of its engines across various model series, including their SUV series such as the Chevrolet Tahoe, Suburban, and pickups like the Chevrolet Silverado.

*GM has used CGI for engines in its SUVs and pickups.*

The use of CGI in their engines can vary depending on the model and engine options. Like many other car manufacturers, Chevrolet and GM strive to use materials and technologies that can enhance the engines' performance, durability, and fuel efficiency. CGI is one of the materials they have used to achieve these goals within certain engine variants.

Ford has utilized compacted graphite iron in some of its engine blocks for SUVs and pickups. They have implemented CGI in some of their engines to improve the durability and performance of the engines used in vehicles like the F-Series Super Duty pickups and certain models of their SUV series.

*Ford was the first to implement the SinterCast process control system in the series production of CGI in 1999.*

Ford's use of CGI varies between different models and engines. They aim to use materials and technologies that can enhance fuel efficiency, durability, and performance for their vehicles, and CGI is one of the materials they have explored and utilized to meet these goals.

Stellantis, a merger of several car manufacturers including brands like Chrysler, Jeep, Dodge, Ram, Fiat, Alfa Romeo, and many more, uses CGI in some of their engines for SUVs and pickups. It's important to note that the choice of materials in engines may differ between various models, model years, and engine options within their extensive range of vehicles.

According to SinterCast, compacted graphite iron is used in their engine blocks VM Motori 3.0 Liter V6 cylinder block and base plate for Chrysler, Jeep, Lancia, Maserati, and Ram. SinterCast has also supplied measurement equipment for casting CGI to Cummins for 6.7 Litre In-Line 6 for Ram Heavy Duty Pickup Trucks.

## Commercial Vehicles

CGI is often used in the manufacturing of engine blocks and cylinder heads due to its high strength, thermal conductivity, and heat resistance. These components must withstand the high temperatures and pressures generated by the combustion process in the engine.

In the exhaust area, CGI is also used to manufacture components like turbo housings and exhaust manifolds, where heat resistance and strength are crucial.

## Traton Benefits from CGI

By using CGI in these various applications, Traton can take advantage of its benefits, such as high strength, heat resistance, and light weight, to produce engines and exhaust systems that meet strict performance and emission standards while improving the fuel efficiency of their commercial vehicles.

Traton, a leading company in the automotive industry, uses compacted graphite iron (CGI) in various ways across its different brands, such as Scania, MAN, and Navistar, in the manufacturing of engines, cylinder heads, and engine blocks.

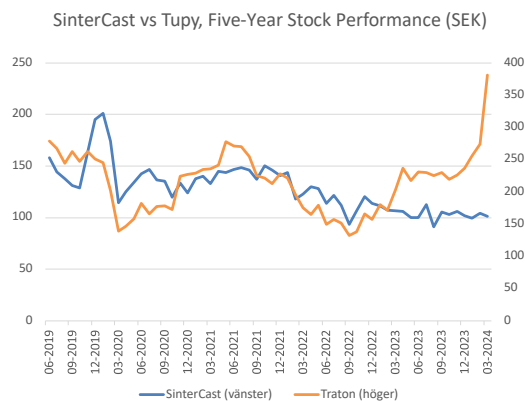
For the production of a 13-liter engine, Scania purchased a first SinterCast system in 2013. Their follow-up order six years later for series production can be seen as an endorsement of SinterCast technology. At that time, a potential of one million MEVs was indicated to Traton. Scania's 13-liter engine has driven growth in SinterCast's production volume. With the production of this engine for Scania and Navistar, SinterCast has barely reached halfway, and now an additional increase in engine volumes is expected as MAN's trucks are included.

*Cummins has a significant volume program for RAM Heavy Duty Pickup trucks.*

*CGI provides high strength and is heat resistant.*

*Compacted graphite iron is stronger and stiffer than gray iron and aluminum alloys.*

*The stock market has been bullish on Traton.*



*Significant first major order to Scania in 2019.*

## SinterCast has Initiated a Collaboration with FAW

First Automobile Works (FAW) is one of China's oldest and largest automobile manufacturers. Founded in 1953, FAW has since been a significant player in China's automotive industry. It has various subsidiaries and divisions that produce passenger cars, trucks, buses, and commercial vehicles.

FAW has collaborated with several international car manufacturers to produce and sell cars under different brands. They have had partnerships with companies such as Volkswagen, Toyota, and Mazda, resulting in joint ventures and the production of vehicles sold both in the Chinese market and internationally.

FAW is known for its broad portfolio of vehicles, including both passenger and commercial vehicles. They have also engaged in research and development within the automotive industry and strive to continue developing new technologies and models to meet market demands and expectations.

In 2024, the first contributions to sales from FAW will occur. With a production volume on par with the European or North American truck markets, the potential is significant for the decade.

*Chinese FAW is one of the world's largest truck manufacturers.*

*It has joint ventures with several international car manufacturers, including Volkswagen, Toyota, and General Motors.*

*In 2024, Chinese FAW's volumes will benefit SinterCast's sales growth.*

## Customer Relationships in Key Markets



Source: SinterCast, Annual Report 2022

## Corporate Governance

SinterCast adheres to the Swedish Code of Corporate Governance and presents a corporate governance report in accordance with the code, including the board's report on internal control regarding financial reporting. The corporate governance report contains no major deviations from the Swedish Code of Corporate Governance.

*SinterCast adheres to the Swedish Code of Corporate Governance.*

### Shareholders Engaged in the Nomination Committee

The process for appointing the Nomination Committee is established at the Annual General Meeting. The Nomination Committee is represented by the largest shareholders. Their role is to evaluate the board and, in consultation with the shareholders, propose a board for the Annual General Meeting, among other duties. Ulf Stenbeck, the second-largest shareholder, is the chairman. The institutional capital is represented by David Walton, a fund manager at Canaccord Genuity Wealth Management, along with Einar Ahlström and Torbjörn Gustafsson. The board's chairman, Robert Dover, is co-opted to the Nomination Committee without voting rights.

*Ulf Stenbeck, the second largest shareholder, serves as the chairman of the nomination committee.*

### Long and Solid Experience in the Board

The board consists of five members with an unusually large share of international representation. Four out of five members have a foreign background. They also have extensive experience from leading positions in the automotive industry. Technical competence in powertrains and metallurgy is provided in the board. Networks in Asia, Europe, and North America are well catered for. Robert Dover, a British citizen, is the chairman of the company's board. He has been chairman and CEO of Jaguar and Land Rover. Jun Arimoto is Japanese with experience from ISUZU as a board member of its subsidiaries in Europe and China. Stephen Gill, also British, with a background from Ford. Anna-Maria Heidmark-Green, a Swedish lawyer elected to the board in 2023. CEO, Steve Dawson is Canadian and is part of the board, which is in accordance with the Swedish Code of Corporate Governance.

*The board consists of an international team with extensive experience in the automotive industry.*

*Robert Dover serves as the chairman of the board.*



### The Board Members from Left to Right:

Steve Dawson, CEO

Jun Arimoto

Robert Dover, chairman of the board

Stephen Gill

Anna-Maria Heidmark Green



## Executive Management with Extensive Experience

CEO Steve Dawson was hired in 1991 when SinterCast had its headquarters in Detroit. He has a background with a PhD in process metallurgy from the University of Toronto. As Technical Director, he was responsible for preparations for the first series production in 1999. Three years later, in 2002, he was appointed CEO and has served in that role ever since. Steve Dawson has overall responsibility for technology, sales and marketing, quality and performance, reporting to the board, and representing the company to customers, shareholders, and the media. The CEO's shareholding amounts to 42,500 shares, with the latest registered acquisition being on November 17, 2023, when the share price was at the same level as now.

The industry is characterized by long product life cycles, and Steve Dawson's commitment to the company has undeniably been among the longest in the Swedish stock market. Over the past decades, he has built up impressive customer relationships with world-leading companies within the foundry and automotive industry. The CEO does not receive any remuneration for his role as a board member. Besides a fixed salary, he has a variable compensation that is partly based on achieved sales and personal goals.

## Succession Initiated

In September last year, it was announced that Steve Dawson intends to step back in 2026 after 24 years as CEO. SinterCast announced in September 2023 the recruitment of Vitor Anjos as the new Operations Director starting from 2024. His appointment creates an internal opportunity for the future succession of the current CEO. Initially, he will focus on ongoing technical projects, daily operations, and messaging for investors and sustainability issues. The plan is to then introduce him to the company's network of customers, partners, and suppliers.

Vitor Anjos is Portuguese, born in 1982, and joined SinterCast as a specialist in the process control of cast iron. He holds a PhD in the solidification mechanism of cast iron and thermal analysis from the University of Duisburg-Essen in Germany. He was most recently Chief Operations Officer at AAPICO Águeda iron foundry in Portugal, where he was responsible for production and quality and actively participated in business development. At the same time, he is General Manager for the Centre for Innovation and Technology N Mahalingham (CITNM) in Portugal, focusing on innovation and technology transfer to the automotive and foundry industries.

The company's Swedish CFO, Daphner Uhmeier, joined the company in 2004 from Alfa Laval, where he had served as CFO and business controller, among other roles. His shareholding amounts to 17,100 shares, with the latest acquisition being in June 2023 at a price of SEK 98.

## Expanded Corporate Leadership



From left, COO Vitor Anjos, CEO Steve Dawson, and CFO Daphner Uhmeier.

*Steve Dawson will step down as CEO in 2026.*

*Vitor Anjos represents an internal opportunity for the position of CEO.*

*Daphner Uhmeier, CFO for 20 years.*

## Business Model

SinterCast possesses several enduring competitive advantages that contribute to its leading position in process control for cast components, especially within the automotive industry:

The company has a long history of research and development in casting processes and cast iron materials. Their technology for CGI (Compacted Graphite Iron) is groundbreaking and has established a strong brand in the automotive industry for high-performance engine blocks and components.

They own several patented technologies and processes that provide them with an exclusive advantage in the market. Their process control systems for monitoring and managing the casting process are well-established and considered industry leading.

SinterCast's systems enable foundries to produce cast components of high quality and uniformity. This results in reduced waste as well as high and consistent quality, which in turn enhances the reliability and durability of the final products.

They have established strong relationships with many leading automotive companies and foundries worldwide. Their systems are used by a range of well-regarded customers, providing them with a stable customer base and opportunities for long-term growth.

SinterCast continues to invest in research and development to improve and expand its technologies and products. Their ability to stay at the forefront of industry development makes them an attractive partner for companies seeking to enhance their casting process and product quality.

In summary, SinterCast combines technical expertise, patented technology, strong customer relationships, and a focus on innovation to maintain a lasting competitive edge in process control for cast components.

## Potential for Positive Growth Prospects

With the automotive industry's ongoing quest for lighter and more fuel-efficient vehicles, the demand for high-performance materials like CGI, where SinterCast has an established position, is increasing. The company has the opportunity to expand its presence and market shares in regions where the demand for high-performance cast iron components is growing, such as in growth markets in Asia and Latin America.

Through continued research and development, SinterCast can keep enhancing its process control systems and technologies to meet the growing needs and expectations of its customers. Beyond the automotive industry, SinterCast can explore and exploit opportunities in other sectors where cast components are used and where the demand for high-performance materials is

## Business Model

### Production Fee

A fee is charged for each ton of delivered castings, based on the cast weight (before machining).

### Consumables for Sampling

Consumables consist of the measuring cup and the pair of thermocouples. One measuring cup is consumed with each measurement. The pair of thermocouples is used for approximately 250 measurements.

### Software License Fee

SinterCast charges an annual license fee for the right to use the software but retains ownership of the software.

### Installation Revenue

€400,000–€600,000 for a standard System 4000 or a System 4000 Plus, and €75,000–€125,000 for a Mini-System 4000, depending on configuration and scope of installation. Leasing options are also available.

### Technical Support

Includes support for new installations, customer demonstrations, metallurgical consultation, and ongoing customer service.

Source: SinterCast, Annual Report 2023

*Increased focus on China.*

high, such as the railway sector, energy sector, and industrial equipment.

By establishing collaborative agreements and partnerships with leading players across various industries, SinterCast can leverage synergies and opportunities for joint growth and innovation.

In summary, several factors suggest that SinterCast has good growth prospects, but it's important to note that the growth potential could be influenced by factors such as market trends, the competitive landscape, and the company's ability to continue delivering innovative solutions and technical services that meet customer needs.

### A Very High Proportion of Recurring Revenue

The company's growth is exclusively organic. No acquisitions have been made or are expected. The company primarily guides based on volume assumptions since it receives production fees based on the amount of CGI delivered, in millions of equivalents (MEV).

*Organic growth expressed in million engine equivalents (MEV).*

The company receives recurring revenues from production fees, consumables, and license fees for rented software. In the latest quarter, 92.5 percent of total revenue was recurring. Series production (MEV) has grown by an average of eleven percent per year over the last ten years. A larger deviation occurred in 2020 due to the pandemic. They receive a production fee on series production when casting compacted graphite iron. Parts and components are manufactured by subcontractors, so costs are primarily fixed in relation to revenue.

*High growth in MEV over the past ten years.*

### Deferred Tax Asset as the Largest Asset

In 2023, the company had a balance sheet total covering SEK 131.6 million (130.5). Since SinterCast uses contract manufacturing, the company has no significant fixed assets. The largest asset on the balance sheet is a deferred tax asset, which is expected to be utilized by the end of 2027 or the beginning of 2028, meaning that the company is not expected to pay tax until the end of 2027 or 2028.

*SinterCast's tax receivable extends until the end of 2027.*

### Receivables as a Key Balance Sheet Item

As SinterCast mainly handles the customer relationship, short-term receivables constitute perhaps the most important asset on the balance sheet. At the end of 2023, these were SEK 43.6 million (37.4), or 32.4 percent (31.5) of revenue. This is higher than in recent years, mainly due to a late payment at the year-end. The crucial factor for capital tied up is how many days customers take to pay the invoice. Normally, SinterCast has been paid within 60 days. There have been instances where customers have taken longer payment terms but have later returned to normal. We see potential that as FAW grows as a customer, the capital

*Accounts receivable is the second largest asset on the balance sheet.*



tied up relative to revenue could decrease since they pay within 30 days.

### Inventory is Decreasing in Relation to Revenue

Inventory temporarily increased as the company boosted its stock of wire feeders but is now gradually decreasing as it's sold. Before the pandemic, inventory amounted to 7–8 percent of revenue, rising to as much as 15 percent of revenue in 2022. In 2023, it was SEK 14.1 million or ten percent of revenue. Moving forward, we expect inventory to continue decreasing in relation to revenue back to pre-pandemic levels.

*Temporary increase in inventory.*

### A Cash Reserve of Ten Million is Deemed Sufficient

Liquidity is strong, and short-term investments, cash, and bank balances total SEK 12.3 million (14.2) or equivalent to ten percent of revenue. A level of just over SEK 10.0 million is considered a sufficient liquidity level going forward.

*Sufficient liquidity.*

### Assets Financed by Equity

The company's assets are primarily financed by its own capital, SEK 113.6 million (111.9), and short-term liabilities of SEK 17.5 million (17.1). SinterCast has no loans. Since the company distributes all its profits, no funds are retained in the company. With this year's dividend proposal, the company has since 2011 paid SEK 325.5 million in dividends to shareholders, equivalent to SEK 46 per share.

*SinterCast has no loans.*

### Revenue Grow with Increased Adoption of CGI

Revenues grow in line with, in particular, the truck manufacturers' increased adoption of CGI. Over the past ten years, the production volume measured in MEVs has grown by eleven percent per year. Revenues have increased more due to the favorable USD to SEK exchange rate.

*The favorable dollar exchange rate increased sales revenue.*

The assessment going forward is that volume growth continues at the same pace throughout the 2020s. The company's guidance for this is the potential from primarily Traton, with a demand for an additional one million MEVs, and from Chinese FAW and Dongfeng. According to a 2023 McKinsey report, Chinese truck manufacturing is expected to recover from a post-pandemic low of 700 thousand heavy trucks to a total of one million by 2025. The increase is equivalent to the entire production of heavy trucks in North America in one year.

*Great potential in China with a truck market estimated to be twice as large as North America and Europe combined.*

In the short term, the company has provided information that one of their high-volume programs reaches its end phase in mid-2024. Despite this, the assessment is that volume growth will still reach ten percent during the current year.

*A high-volume program reaches its final stage after the mid-year shift.*

In addition to production fees, installation revenues are expected to amount to just over SEK 8 million per year. This is in line with

*Eight million in annual installation revenue in the coming years.*

the average sales over the past ten years. From 2029, they are expected to decrease to SEK 5 million per year.

### High and Stable Gross Margin

The gross margin is very high and stable. In 2023, it was 73.3 percent, up marginally from the year before. Over the past ten years, it has averaged 74.8 percent, with a variation of just under three percentage points. The slightly lower margin is explained by higher staffing intended to handle the recently completed retirements. The number of employees in 2023 decreased to 28 from 32 the year before. The assessment is that the gross margin has room to expand back to the pre-pandemic level of 77 percent.

*Lower gross margin in the past couple of years due to double staffing ahead of retirements.*

### The Operating Margin Increases to 40 Percent

The management's guidance for the operating margin is that it will remain stable at 32 percent this year and next year. As the CEO retires in 2026, it will begin to increase, reaching up to 40 percent by 2028. This level is then expected to be maintained into the 2030s. Sales and administrative costs are estimated to be stable relative to revenue, but there is a long-term increasing trend.

*40 percent operating margin by 2028.*

### Swedish Corporate Tax from the End of 2027

The utilization of a deferred tax asset means that the company does not pay Swedish income tax. It is only at the end of 2027 and for 2028 that we expect SinterCast to pay Swedish income tax at a rate of 20.6 percent on profits.

*The deferred tax asset extends well into 2027.*

### Continued High Cash Flow

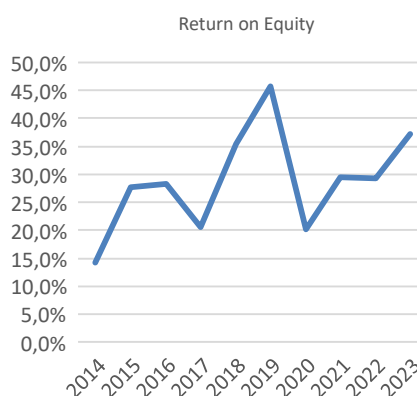
For 2023, the cash flow from operating activities amounts to SEK 45.5 million (25.4). Changes in cash flow have been affected by changes in receivables and inventory in recent years, partly through changes in how many days customers take to pay and a temporary buildup of wire feeder inventory. The assessment is that there is further opportunity in 2024 to reduce inventory. After that, we see no significant changes in the need for working capital.

*Normalization of working capital releases distributable capital.*

### Decreasing Investment Needs

Investments were somewhat higher in 2023 in connection with the establishment of an additional supplier for sampling cups in Slovakia. The total investments amounted to SEK 5.6 million (1.7). For the current year, they are estimated to be slightly lower, to further decrease in the coming years. This is somewhat higher than the depreciations until 2026. From 2027/2028, investments are expected to be at the same level as depreciations.

*Increasing return on equity.*



## High Return on Capital

The return on equity in 2023 was 37.3 percent (29.4), which is higher than the average return over the past decade. The company retains no capital but distributes or repurchases shares with the profits. Hence, the equity remains low relative to earnings. Since the company has no loans, the high return is not a function of leverage.

## The Stock

### Listed on the Stock Exchange for Over 30 Years

SinterCast has been listed on Nasdaq Stockholm on the Small Cap list since the spring of 1993. At the last year-end, there were 7.08 million shares. Up until February 28 of this year, 11,263 shares have been repurchased, leaving 7.07 million shares remaining. There is a mandate to repurchase shares for an additional SEK 2.7 million, corresponding to 27 thousand shares. A new mandate for an equally large repurchase program is likely to be given at the annual general meeting. The repurchase program corresponds to 0.7 percent of the number of outstanding shares.

*SinterCast has a market capitalization of 714 MSEK.*

### High Dividend Share

The board's proposal for this year's general meeting is to pay out an ordinary dividend of 5.5 SEK per share and an extra dividend of 0.6 SEK. Slightly more than the entire profit is distributed. The first dividend was paid out in May 2011 for the fiscal year 2010, and since then, an increasing ordinary dividend has been paid out each year. With a dividend of 6.1 SEK per share, the direct yield at today's price is six percent.

*With an additional repurchase program this year, seven percent of the market capitalization will be returned to the shareholders.*

### Volume-Weighted Price This Year 102 SEK per Share

Over the past year, the highest stock price was 119, the lowest 88, the average 104.3, the most recent 100. The most traded was 38K shares in one day, and the least was 300 shares. The average daily trading volume on the stock exchange is 4.1 thousand shares or just under 0.5 MSEK. Which is almost half the level of the last five years. The volume-weighted price so far this year is 101.9, with a volume of 390.7 thousand shares traded. That the stock is trading above that level indicates a positive net purchase of the stock.

*The average daily trading volume on the stock exchange is only 4,000 shares.*

### Swedish Ownership to 90 Percent

As of March this year, there were 3,704 shareholders. Over 90 percent of the ownership is Swedish. 32 shareholders hold 65 percent of the capital, with the same voting share. The largest shareholder is Avanza Pension with an ownership stake of 13 percent representing 1,916 different owners. The second-largest owner is Ulf Stenbeck with an ownership stake of 9.4 percent.

*The share of institutional ownership is over ten percent.*

Strategic owners hold 53.5 percent of the number of shares, which gives a "free float" of 46.5 percent. The proportion of institutional owners, often a sign of confidence capital, is 11.4 percent. Insider ownership, including the board, management, and employees, according to previous notation, amounts to one percent. This may seem quite low considering the favorable conditions the company has going forward.

### The Operation is Valued at a Significant Discount

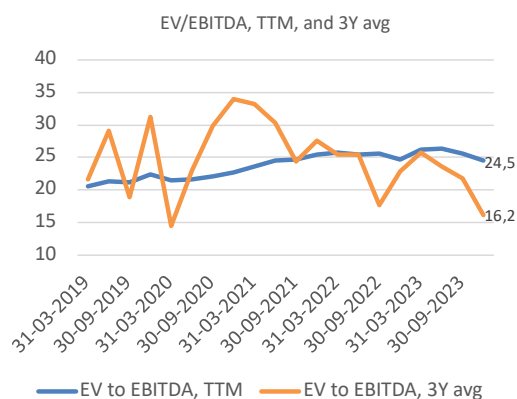
Based on a market value of SEK 714 million and assets of SEK 19 million, the operation (Enterprise Value, EV) is valued at SEK 690 million. With an operating result (EBITDA) of SEK 43 million, the operation is valued at 16.3 times. This is close to the lowest level since the pandemic, when the operation was valued at the lowest at 14.4 times. The average valuation over three years is 24.5 times, which would correspond to a valuation per share closer to SEK 150 per share, or a 30 percent discount.

### Earnings per Share also Valued Low

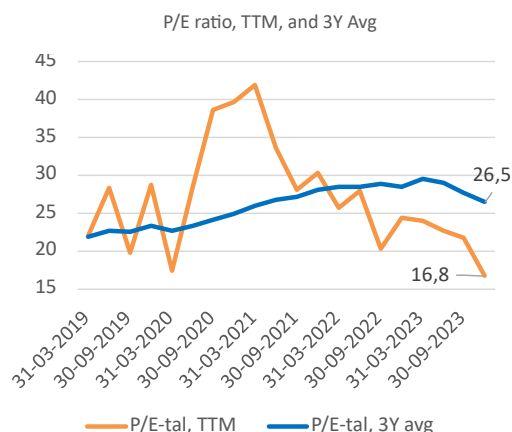
The earnings per share, SEK 5.94 per share for 2023, are valued at 16.8 times (P/E ratio). With an average over the last three years of 26.5 times, the share would trade at SEK 157 per share. Applying the average P/E ratio to this year's earnings per share, SEK 6.60 per share, results in a value per share of SEK 175.

### The Discounted Value is 150 SEK per Share

Discounting the company's guided future scenario also yields a valuation of just over SEK 150 per share. Which means that the stock market has a completely different scenario for SinterCast going forward. Probably not fully updated on the fact that the major American car manufacturers are no longer as enthusiastic about electric cars or that the European electric car subsidies have been more or less abolished. Considering the foresight that SinterCast has with Traton and the Chinese truck manufacturers' production plans, it is more reasonable to believe in a scenario closer to the company's guidance than what is discounted by the market.



*EV/EBITDA at 16.2 compared to the three-year average.*



*P/E ratio at 16.8 compared to the three-year average.*

*The discounted present value of the company's future cash flow amounts to 150 SEK per share.*

## SinterCast at the Top of Analysguiden's List

At Stora Aktiedagen in March, the Analysis Guide's chief analyst, Mikael Näslund, presented on the theme of how to put together a winning stock portfolio. A winning investment strategy is to find low-valued companies with high returns. Mikael showed the result of such a selection of Swedish companies on the stock exchange. SinterCast then ended up at the top of the list.

Namn	Kurs	Börsvärde (M...)	ROC-Fa(%)	EBIT/EV(%)	Magic Rank ▲
Sintercast	105,00	744	28,4	169,8	1
Evolution	1319,6	284 512	23,0	16171,6	2
engcon B	77,25	11 726	37,2	120,6	3
INVISIO	218,00	9 939	23,1	206,7	4
Fortnox	76,88	46 877	25,4	163,0	5
Revolutionrace	63,90	7 216	21,6	203,7	6
Anoto Group	0,2800	93	28,9	105,2	7
Sleep Cycle	34,70	704	24,6	153,9	8
Softronic B	23,75	1 250	22,7	154,0	9
OEM International B	96,50	13 415	26,7	108,4	10
Eolus Vind B	70,75	1 762	27,2	105,4	11
Industrivärden A	353,8	152 806	17,1	342,3	12
Industrivärden C	354,2	152 806	17,1	342,3	13
Arctic Paper	53,60	3 714	25,9	71,0	14
HMS Networks	449,0	21 022	25,0	77,1	15

*In a selection process aimed at finding undervalued companies with high returns, SinterCast ranks at the top of Analysguiden's list among Swedish companies.*

## Scenario Analysis

### The Main Scenario Gives a Justified Value of 150 SEK

The main scenario is based on the company management's assessment of market growth, market share, and the company's profitability.

Starting from today's volume, expressed in millions of engine equivalents at 3.7 million, the company management assesses that the volume affected by last autumn's maintenance shutdown should be recoverable during 2024. It's possible that a production volume of five million in annual rate could be reached during the first half of the year before the volume program previously announced concludes.

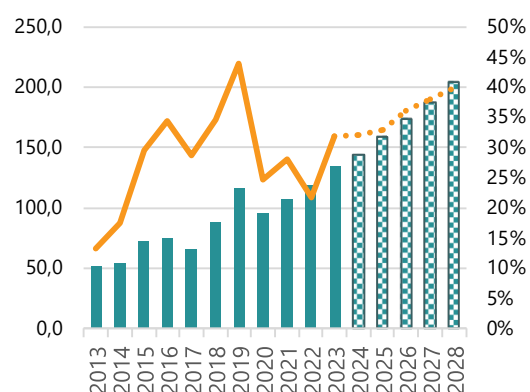
Our assumption is that the company reaches 4.1 million MEVs in 2024, an increase of eleven percent. We assume that production continues to increase at that pace through 2030. For the following five years, we assume a halved growth rate, five percent. No growth is assumed thereafter.

In this scenario, the company reaches a production rate of six million MEVs by 2028, an annual growth rate of 10–11 percent. The company's ambition is then to reach a production rate of seven million MEVs. We assume sales growth to be slightly lower, at nine percent, as we account for the USD to SEK rate being 5–10 percent lower than today's level over the long term.

Profitability is expected to be marginally higher in the next two years with an operating margin of 33–35 percent. The doubling of staff that the company had in recent years will decrease during 2024 as the number of employees reduced from 32 to 28 in the

### Continued High Growth

Sales, MSEK (left) and operating margin (right)



Source: Analysguiden's base scenario

*The main scenario assumes that production volumes reach six million MEVs by 2028.*

*That the operating margin reaches 40 percent.*



previous year. From the second half of 2026, when CEO Steve Dawson steps down, the operating margin is expected to increase to 40 percent by 2028. As growth slows in the 2030s, we assume the company can adjust staffing and thus achieve an operating margin of 35 percent.

The main scenario gives a justified value of 150 SEK per share.

### A Bull Scenario Gives a Justified Value of 175 SEK

In a bull scenario, the company reaches its ambition of a production rate of seven million MEVs by 2028. This corresponds to a growth rate of 15 percent per year. Sales growth then increases by twelve percent, assuming a lower dollar. Afterward, the same growth rate as in the main scenario, 5.5 percent. Profitability follows the same profile as in the main scenario.

*In the bull scenario, the company achieves its ambition with a production volume of seven million MEVs.*

One factor not included in our assumptions, which could really draw the stock market's attention to SinterCast, is if Volvo in its next engine generation chooses to use compacted graphite iron in engine blocks and/or cylinder heads.

The bull scenario gives a justified value of 175 SEK per share. This corresponds to a P/E ratio of this year's earnings at the average level of the last three years.

### A Bearish Scenario Corresponds to Today's Stock Price

In a bearish scenario, reversing calculations from today's stock price of SEK 100, what does the stock market then discount? It's reasonable to assume that growth over the next few years follows the ten-percent annual growth that company management with good market knowledge should be able to judge with high probability, but thereafter, no further growth occurs. If the operating margin also halves from the company's target of 40 percent in 2028 to 20 percent in the longer perspective, the bearish scenario matches today's stock price.

*In the bearish scenario, there is no growth beyond 2028.*

The bearish scenario gives a justified value of SEK 100 per share.

### A Weighted Scenario Gives a Value of SEK 145

An arbitrary weighting of the various scenarios gives a justified value per share closer to SEK 150. In doing so, we attribute high probability to the main scenario and equal value to the two alternative scenarios.

*Great potential to reach the justified value of the weighted scenario.*

## Risk Management

Investing in stocks and corporate ventures is associated with risk-taking. Our analyses attempt to explain and clarify which risks are significant to consider when assessing investments in individual stocks. Each shareholder should make their own assessment of different risk factors and their significance for

*Risk exposure is divided into strategic, operational, and financial risks.*

investment decisions. SinterCast categorizes risk exposure into strategic, operational, and financial risks.

### Strategic Risks

Among the strategic risks are market risks such as engine program lifespan, economic cycles, and new car sales. The risks are diversified with product diversification of measurement equipment for the production of diesel and petrol engines for passenger cars, engine components for heavy vehicles, and other applications such as exhaust components, base plates, and components for industrial power. Furthermore, a production mix is distributed equally between heavy commercial vehicles, Super-Duty pickups, large and medium pickups, SUVs, and off-road equipment. Sales are also distributed across about 30 customers over five continents.

Alternative technologies and emissions legislation are a significant risk factor when assessing SinterCast's operations since 90 percent of the production volume is for sectors that benefit the most from combustion engines. Initially, stricter environmental legislation requiring more efficient engines is to the company's advantage since CGI is a solution for reduced emissions. For transportation needs with heavy vehicles over longer distances, which represents the biggest growth opportunity for CGI, diesel engines have a market share of over 95% and are expected to remain the dominant driveline technology well past 2030. For the remaining production volume of pickups and SUVs, the uncertainty about which propulsion technology car manufacturers will choose in the future naturally increases. Our assessment is that this is more than well reflected in today's stock price.

### Operational Risks

Among the operational risks, customer concentration poses perhaps the greatest risk. Although SinterCast has 57 installations in 13 countries, net sales are concentrated to just over 81 percent to three customers and 89 percent to five customers. Two of the three largest are Tupy in Mexico and Brazil. Even though they, in turn, supply engine programs to several customers, capacity problems or production stops of an engine program could significantly affect SinterCast's revenues and costs. Such a stop for maintenance reasons was evident in the fourth quarter when production fell by 300 thousand MEVs on an annual rate.

### Dependence on Key Personnel is Not Insignificant

A not insignificant risk factor is the dependence on key personnel. The succession of the CEO in the coming years is crucial. Hopefully, today's CEO, Steve Dawson, remains in the company even after he hands over to Vítor Anjos.

*Strategic risks are diversified through new applications in new markets.*

*CEO, Steve Dawson - The cumulative contribution since the start of our series production increased to 59 million tons in 2023, which represents a significant step towards our goal of 100 million tons of CO2 reduction by 2028.*

*The diesel engine lives well beyond 2030.*

*Customer concentration is an operational risk.*

*Steve Dawson as a key person is of great importance.*



## Financial Risks

Among the financial risks, receivables pose one of the bigger risks. Out of a balance sheet total of SEK 131.2 million, receivables account for 28 percent or SEK 36.6 million. Not because there is a risk of customer losses, but rather that customers pay late or require longer payment terms. To reduce this risk, the company keeps bank funds of SEK 12.3 million and has an equal-sized overdraft facility.

*Accounts receivable tie up a lot of capital and represent a financial risk.*

## Significant Dollar Exposure is Hedged Regularly

Currency is, of course, a risk factor when billing is primarily in US dollars (USD) and expenses are in Swedish kronor. During the previous year, a net of 11.2 MUSD was exchanged to SEK equivalent to SEK 110 million or 82 percent of revenue. This means that a change in USD SEK of ten percent impacts sales by nearly SEK 12 million. To reduce the currency risk, 70 percent of the net currency exposure is hedged regularly.

*The net flow of currency exposure is hedged at 70 percent.*

Sales growth is an important parameter when the justified stock price is calculated, both in SEK compared to USD. In our scenario analysis, we have calculated that the krona reaches its equilibrium rate against the dollar over five years, 9.75. If we instead maintain today's exchange rate of 10.60, it gives twelve SEK higher justified stock price.

*Sales growth is of great significance for calculating the intrinsic value.*

The return requirement has a significant impact on the justified value. A change in the cost of capital due to, for example, a half percent higher bond interest rate impacts the justified value per share by SEK 30.

*Räntekänsligt nuvärde av framtida kassaflöde.*

### SinterCast – Financial History and Forecasts

#### Income Statement (SEK million)

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
<b>Revenue</b>	65.6	87.7	116.5	95.4	107.4	118.7	134.5	144.4	156.6	171.4
<i>adjustment</i>	-13%	34%	33%	-18%	13%	11%	13%	7%	8%	9%
<b>Gross Result</b>	<b>50.4</b>	<b>68.7</b>	<b>88.8</b>	<b>68.2</b>	<b>75.9</b>	<b>85.8</b>	<b>98.6</b>	<b>106.3</b>	<b>118.1</b>	<b>132.3</b>
<i>gross margin</i>	77%	78%	76%	71%	71%	72%	73%	74%	75%	77%
<b>Operating Result (ebit)</b>	<b>18.8</b>	<b>30.3</b>	<b>51.1</b>	<b>23.5</b>	<b>30.1</b>	<b>25.7</b>	<b>42.8</b>	<b>45.9</b>	<b>52.6</b>	<b>62.3</b>
<i>operating margin</i>	29%	35%	44%	25%	28%	22%	32%	32%	34%	36%
<i>Financial Net</i>	-1.1	0.0	-0.2	0.6	-0.4	-0.3	-2.0	0.0	1.0	1.0
<b>Result Before Income Tax</b>	<b>17.7</b>	<b>29.4</b>	<b>39.9</b>	<b>22.3</b>	<b>29.0</b>	<b>30.3</b>	<b>42.6</b>	<b>45.9</b>	<b>52.7</b>	<b>62.4</b>
Income tax	0.9	3.3	8.3	-0.1	3.9	2.9	-0.4	-9.4	-10.8	-12.7
<b>Result for the Year</b>	<b>18.6</b>	<b>32.7</b>	<b>48.2</b>	<b>22.2</b>	<b>32.9</b>	<b>33.1</b>	<b>42.2</b>	<b>36.5</b>	<b>42.0</b>	<b>49.7</b>

## Balance Sheet (SEK million)

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
<b>ASSETS</b>										
Cash and Cash Equivalents	30.1	32.8	32.9	26.3	27.5	14.2	12.3	12.8	14.0	15.6
Current Assets	22.5	31.7	38.9	38.6	39.1	54.1	57.7	51.6	51.8	57.0
Non-Current Assets	42.1	45.7	55.8	62.8	64.9	62.2	61.6	53.1	42.8	29.7
<b>TOTAL ASSETS</b>	<b>94.7</b>	<b>110.2</b>	<b>127.6</b>	<b>127.7</b>	<b>131.5</b>	<b>130.5</b>	<b>131.6</b>	<b>117.5</b>	<b>108.7</b>	<b>102.3</b>

## Equity & Liabilities

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
<b>Equity</b>	85.8	99.2	111.7	108.8	113.8	111.9	113.2	109.4	109.4	109.4
Short Term Liabilities	8.9	11.0	14.0	15.7	15.3	17.1	18.0	7.7	-1.1	-7.4
Long Term Liabilities	0.0	0.0	1.9	3.2	2.4	1.5	0.4	0.4	0.4	0.3
<b>Total Liabilities</b>	8.9	11.0	15.9	18.9	17.7	18.6	18.4	8.1	-0.7	-7.1
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>94.7</b>	<b>110.2</b>	<b>127.6</b>	<b>127.7</b>	<b>131.5</b>	<b>130.5</b>	<b>131.6</b>	<b>117.5</b>	<b>108.7</b>	<b>102.3</b>

## Cash Flows (SEK million)

	2017	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p
Operating Cash Flow	0.0	31.6	43.0	25.4	32.1	35.6	48.7	48.0	54.5	63.9
Change in Working Capital	0.0	-6.8	-5.2	-3.3	0.9	-10.2	-3.2	9.2	1.9	-3.5
<b>Cash Flow from Operations</b>	0.0	24.8	37.8	22.1	33.0	25.4	45.5	57.1	56.3	60.5
Financing	0.0	-19.5	-36.5	-25.9	-29.1	-37.1	-41.8	-55.1	-54.6	-58.9
Investments	0.0	-2.6	-1.2	-2.8	-2.7	-1.7	-5.6	-2.0	-1.7	-1.6
<b>TOTAL CASH FLOW</b>	0.0	2.7	0.1	-6.6	1.2	-13.3	-1.9	3.2	1.9	1.5
<b>Number of Employees at the End of the Year</b>	20	21	23	28	30	32	28	29	28	28

Source: The company and Analysguiden

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The analyst Philip Wendt does not own and is not allowed to own shares in the analyzed company.

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### Responsible Analyst:

Philip Wendt