

Schaffner Holding AG

Valuation report

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Introduction

TE Connectivity intends to launch a public tender offer for the publicly held shares of Schaffner

Public takeover offer

Name	Valor	Ticker	Exchange
Schaffner Holding AG	906209	SAHN	SIX

Takeover offer & legal framework

TE Connectivity Ltd. (TE Connectivity) is a company incorporated under Swiss law with its registered office in Schaffhausen.

According to the pre-announcement dated 17 August 2023, TE Connectivity intends to make a public tender offer for all publicly held registered shares of Schaffner Holding AG (Schaffner) with a nominal value of CHF 32.50 each (the Offer).

Schaffner is a public limited company registered under Swiss law with its registered office in Luterbach, Switzerland. The company was founded in 1962. Schaffner shares have been listed on the SIX Swiss Stock Exchange (SIX) since 1998.

According to the pre-announcement, the Offer for all publicly held Schaffner shares consists of a cash offer of CHF505 per Schaffner share.

Circular No. 2 of the Swiss Takeover Board (TOB) dated 26 February 2010 (Circular No. 2) sets out the provisions relating to the liquidity of an equity security within the meaning of Swiss takeover law:

- ▶ A security included in the SLI Swiss Leader Index of the SIX Swiss Exchange (SLI) shall be deemed liquid within the meaning of Art. 42, para. 4 of the Financial Market Infrastructure Ordinance-FINMA dated 3 December 2015 (FMIO-FINMA).
- ▶ A security not included in the SLI shall be deemed liquid within the meaning of Art. 42, para. 4 FMIO-FINMA if the monthly median of the daily volume of on-exchange transactions is equal to or greater than 0.04% of the tradable portion of the relevant security (free float) in at least 10 of the 12 full months preceding the publication of the offer or the pre-announcement.

The Schaffner shares are to be regarded as illiquid in accordance with the provisions of Circular No. 2. In the relevant period prior to the publication of the offer prospectus (01 August 2022 to 31 July 2023), the trading volume of Schaffner shares was below the liquidity threshold of 0.04% of the free float for nine out of twelve months (see analysis in section 2).

If the listed securities are not liquid prior to the publication of the offer or the pre-announcement, Art. 42 para. 4 of FMIO-FINMA requires an audit firm to prepare a company valuation to determine the minimum price of the share.

The report of the independent valuation expert describes the valuation methods and valuation assumptions and justifies whether and to what extent the minimum price is to be based on the stock market price or the value of the company.

Our assessment is based on information provided by Schaffner, TE Connectivity and publicly available information

Sources of information

Key documents

Financial reports

- ▶ Unaudited consolidated half-year report of 31.03.2023
- ▶ Audited consolidated annual report of 30.09.2022
- ▶ Audited consolidated annual report of 30.09.2021

Business plan

- ▶ Management business plan with planned income statement and certain balance sheet items at market division level and on a consolidated basis (until FY26/27)
- ▶ FY22/23 is based on latest forecast reflecting July results

Financial market data

- ▶ Standard & Poor's Capital IQ, SIX, Mergermarket, Oxford Economics, Kroll

Additional Information

- ▶ Publicly available information
- ▶ Market studies
- ▶ Management discussions

EY to act as independent valuation expert

Based on the presented background, TE Connectivity has commissioned Ernst & Young AG, Switzerland (EY or us) to prepare an independent valuation of the shares of Schaffner and to determine the minimum price.

The details are set out in the engagement agreement dated 16 June 2023. The valuation date is 16 August 2023 (Valuation Date).

The valuation report does not constitute a recommendation to accept or reject the Offer. The valuation report does not contain any assessment of the effects that acceptance or rejection of the Offer may have, nor does it make any statement about the future value of a Schaffner share and the price at which Schaffner shares not tendered in the Offer can be traded in the future.

The valuation report may be made publicly available.

The valuation is based on historical financial data as well as forward-looking financial data provided to us by the management of Schaffner (Management). An overview of the main documents and information received is shown in the adjacent table.

Furthermore, we were given the opportunity to ask questions to Management and to critically discuss the information received and the planned future development. Since our assessment is largely based on the information provided by Management, our responsibility is limited to the careful and professional analysis and assessment of the information provided to us. We have not carried out any revision or due diligence under stock corporation law.

The number of treasury shares held by Schaffner is excluded from the valuation per share

Shares considered in the valuation

Number of shares (#)	
Issued shares	635,940
Treasury shares	(5,127)
Outstanding shares (dividend-entitled, valuation-relevant)	630,813

Assessment procedures

Due to the illiquidity of Schaffner's share (see analysis in section 2), the value per share cannot be derived directly from the share price. The low trading volume may distort the share price since not all current and price-relevant information is eventually directly reflected in the share price.

In our valuation of Schaffner shares, the following steps were performed as part of our work:

- ▶ Obtaining and analyzing relevant information
- ▶ Conducting interviews with Management
- ▶ Market research on the industry (peer group and market analysis)
- ▶ Valuation of Schaffner's shares using appropriate valuation methods
- ▶ Overall assessment by EY (value conclusion)

This valuation has been prepared from the perspective of all public shareholders. Individual tax and other effects were not taken into account in this analysis due to the large number of different requirements of the shareholders.

Number of shares considered

At the Valuation Date, i.e. 16 August 2023, Schaffner's share capital consisted of 635,940 registered shares with a nominal value of CHF 32.50. To calculate the value per share, 630,813 shares were taken into account. The difference corresponds to the 5,127 treasury shares held by Schaffner. These are not relevant to gaining control of Schaffner and are therefore not considered in our valuation considerations.

We applied different valuation methods for the assessment

Valuation methods and value indicators

Overview

Discounted Cash Flow Method (DCF)

Trading Multiples

Transaction Multiples

Stock analyst estimates (ZKB)

Analysis of the Schaffner share price

Analysis VWAP (60 days) of the Schaffner share

Valuation approach

Schaffner's value per share as of the Valuation Date was determined assuming that Schaffner would continue its business under the current ownership structure.

The basis of our work is a stand-alone view. Therefore, any synergy potentials with an investor were not included in the valuation.

Valuation methods and procedures

In principle, the stock market price of a listed company is the most reliable indicator for determining the value of a share. However, this implicitly assumes that the stock is actively traded and sufficiently liquid. As mentioned, this is not the case for Schaffner shares. Therefore, according to Swiss takeover practice, the stock market price of the Schaffner share is only suitable to a limited extent to determine the value of the share.

In order to ensure a well-founded assessment, further analysis and evaluation methods are therefore used for Schaffner's valuation. These are listed in the adjacent table.

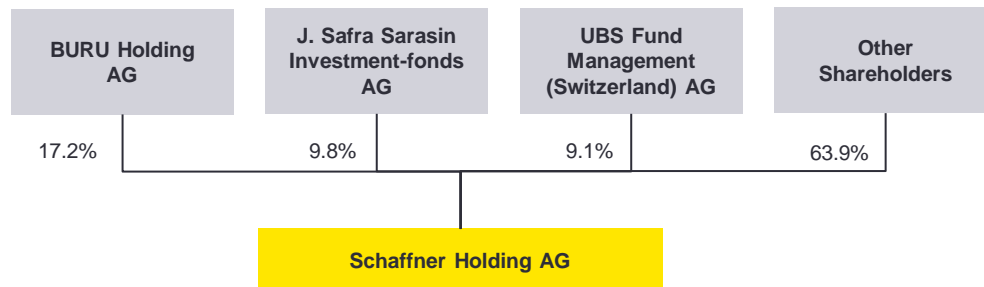
Details on the selection of the methods and the corresponding results can be found in section 3.

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Company profile

Schaffner offers electromagnetic solutions that ensure the efficient and reliable operation of electronic systems

Shareholder structure (as of 31 March 2023)



Source: SIX Swiss Exchange

Key figures (consolidated basis)

CHF 000	H1 21/22	H1 22/23	FY20/21	FY21/22
Industrial division				
Order Intake	74,984	58,755	131,780	144,079
Net Sales	63,638	67,442	108,612	128,465
Automotive division				
Order Intake	15,965	17,199	38,496	30,193
Net Sales	15,273	17,325	38,650	29,720
Group				
Order Intake	90,949	75,954	190,989	174,272
Net Sales	78,911	84,767	172,479	158,185
EBIT margin	9.0%	12.6%	8.7%	9.7%

Source: Schaffner Holding AG – consolidated annual report of 30 September 2022, consolidated half-year report of 31 March 2023

Overview of Schaffner

Schaffner Holding AG, together with its subsidiaries, develops, manufactures, and sells solutions for power electronic systems worldwide. The Group's portfolio includes electromagnetic compatibility (EMC) filters, electromagnetic components, power quality filters and related services.

The company is organized into two divisions: Industrial and Automotive.

- ▶ The Industrial division develops and manufactures EMC filters and power quality filters that protect power electronic systems against line interference from the electricity grid and ensure their reliable operation. The key markets served include energy-efficient drive systems, renewable energy, power supply systems for electronic devices, as well as machinery and robotics.
- ▶ The Automotive division develops and manufactures EMC filter solutions and magnetic components for hybrid and electric vehicles and antennas for keyless authentication systems.
- ▶ Schaffner sold its Power Magnetics division on 30 June 2021.

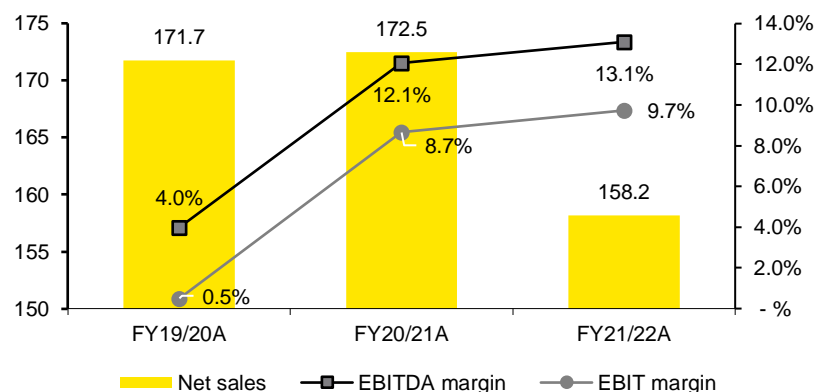
Headquartered in Luterbach (Switzerland), Schaffner serves its customers through its own engineering, manufacturing, sales and application centers, with presence in Asia, Europe and North America.

The consolidated annual financial statements of Schaffner were prepared under the Swiss GAAP FER accounting standard and were audited by BDO AG. The fiscal year-end of Schaffner is 30 September.

Schaffner has experienced decreasing sales but improved profitability during the last three financial years

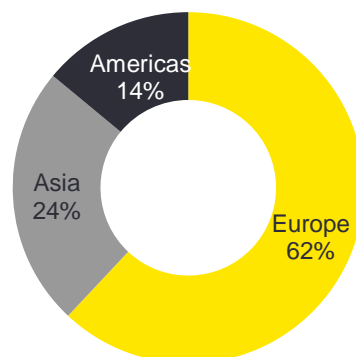
Selected historical key figures

Net sales (CHF million), EBITDA margin, EBIT margin



Source: Schaffner Holding AG – consolidated annual report of 30 September 2022 and 30 September 2021

Net sales for the first half of FY22/23 by region



Source: Schaffner Holding AG – consolidated annual report of 30 September 2022 and 30 September 2021, consolidated half-year report of 31 March 2023

Comments on the course of business

Schaffner's total sales has decreased from CHF 171.7m in FY19/20 to CHF 158.2m in FY21/22. According to the annual statements, sales were impacted by the COVID-19 lockdowns in China and the war in Ukraine which led to supply chain bottlenecks as well as price spikes in freight rates and raw materials.

In terms of profitability the development has been more positive during the last three financial years. Schaffner's EBITDA margin has developed from 4.0% to 13.1% from FY19/20 to FY21/22. In the first half of FY22/23, the EBITDA margin improved to 16.0%, from 12.1% in H1 21/22.

Correspondingly, in the wake of the COVID-19 pandemic Schaffner achieved an EBIT margin of 0.5% in FY19/20, which steadily increased to 9.7% in FY21/22. In the first half of FY22/23, the EBIT margin improved to 12.6%, from 9.0% in H1 21/22.

Schaffner achieved this profitability increase by passing on higher raw material prices, optimizing logistics costs and improving organizational efficiency. Another important driver was Schaffner's strategic focus on filter solutions for growth-oriented future markets.

Schaffner's main market based on net sales was within Europe for the first half of the year FY22/23. The strong development of the European region was due to both continued high demand from industrial markets and a gradual recovery in the automotive sector. Net sales in Asia and the Americas declined slightly because of currency effects. Overall, 62% of net sales came from Europe, 24% from Asia and 14% from the Americas.

The business plan prepared by Management until FY26/27 was updated in April 2023 to include major changes since the latest strategy update

Business plan assumptions

KPI (Management plan)	
Sales growth CAGR FY22/23-FY26/27 (%)	10.0%
Average EBIT margin FY22/23-FY26/27 (%)	16.2%
Average Capex to sales FY22/23 to FY26/27 (%)	4.2%
Average NWC to sales FY22/23 to FY26/27 (%)	28.8%
No major shift in geographical exposure over the business plan period expected	

Development of the business plan

Management has prepared a business plan under Swiss GAAP FER with a 5-year forecast period FY22/23 to FY26/27.

The original business plan was prepared at the time of Schaffner's strategy update in August 2022 and approved by the board of directors at the time. The plan was evaluated in April and May 2023 for major changes and partly approved by the board of directors. The forecast includes organic growth only, i.e., no M&A activities are considered. The FY22/23 is based on latest forecast reflecting July results.

The August 2022 business plan was built bottom-up from the local markets and in local currencies whereas the update in May 2023 has been evaluated from a top-down perspective at the division level. For the Industrial division the forecast for the topline and gross margin was approved by the board and for the Automotive division the topline is based on existing contracts for FY22/23 and FY23/24 and Management's estimate for the annual project wins based on the historical levels. Board approval for the Automotive division is outstanding and expected with the regular strategy update end of August / September 2023.

The business plan is structured as follows:

- ▶ Sales forecast and profitability forecast by Industrial division and Automotive division
- ▶ Group consolidated forecast based on the division forecasts and group costs
- ▶ Adjustments for non-recurring items in FY21/22 and FY22/23 impacting the EBITDA level
- ▶ Capex and depreciation at group and division level and growth investments
- ▶ Trade working capital plan at group level. We have adjusted the working capital forecast to include other working capital items

Management's targets over the business plan period of FY22/23 – FY26/27 are summarized in the adjacent table. For Industrial division, in addition to sales growth from the core business within EMC solutions, Management expects strategic initiatives to significantly drive the sales growth. Current strategic initiatives are related to robotics, EV charging, new distributors in Europe and Asia, expanding key accounts and active EMC filters to fulfill new norms. Management has started to execute actions for each initiative and the initiatives are reviewed quarterly.

The business plan prepared by Management until FY26/27 was updated in April 2023 to include major changes since the latest strategy update

Business plan assumptions

KPI (EY scenario)	
Sales growth CAGR FY22/23-FY26/27 (%)	5.0%
Average EBIT margin FY22/23-FY26/27 (%)	12.1%
Average Capex to sales FY22/23 to FY26/27 (%)	4.7%
Average NWC to sales FY22/23 to FY26/27 (%)	28.8%
No major shift in geographical exposure over the business plan period expected	

Growth assumptions based on market studies

Sub-industry	Time period for the growth forecast	CAGR forecast
EMC Filter	2022-2029	4.9%
EMC Component	2023-2030	4.3%
EMC Filtration	2023-2028	5.5% - 5.9%
Average (rounded)		5%

Source: Market studies; Maximize Market Research, Skyquest, Market Data Forecast, Markets and Markets

Development of the business plan

EY analysis

We analyzed the business plan assumptions in detail and discussed them with Management. Management has forecasted higher sales (10% sales versus 5% market growth) and profitability growth comparing to the market expectations and company's historical financial performance.

Therefore, we extended our analysis to include a second forecast scenario by replacing Management's planned growth rates with market expectations of 5% per year for Schaffner's industry over the period FY23/24 to FY26/27 and applying a constant EBITDA margin of 16.0% over the business plan period based on Management's current forecast level for FY22/23.

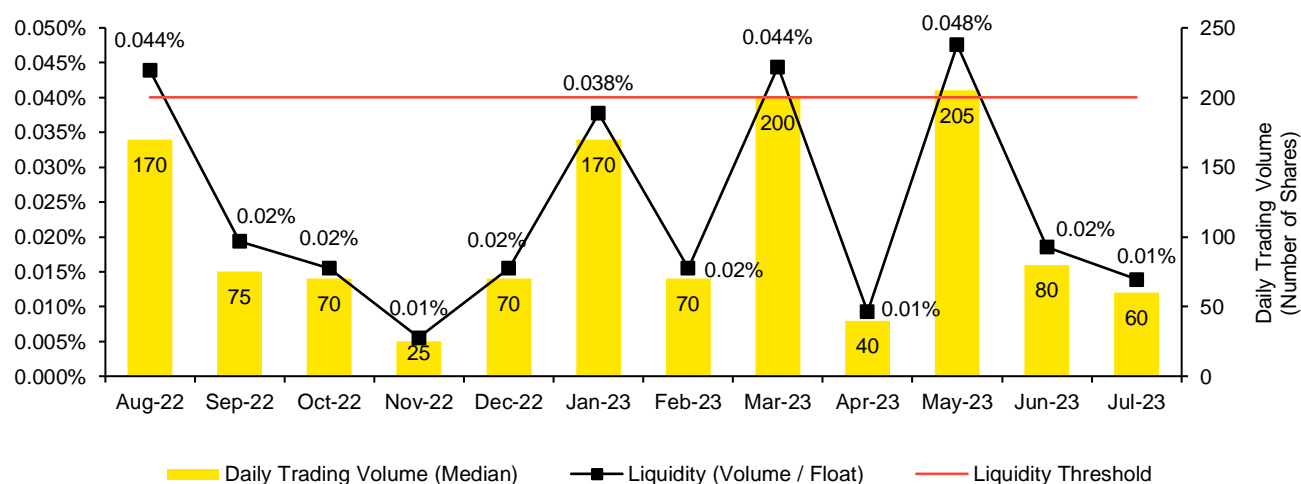
Capex and depreciation were kept at the same absolute level as in the management forecast and in the terminal value depreciation was set equal to capex. Similarly, the net working capital as of sales (average of 28.8%) was matched to the management forecast.

According to Circular No. 2 of the TOB, the Schaffner share is not regarded as liquid

Trading volume and liquidity of Schaffner shares

The chart below shows the monthly median daily trading volume and liquidity over the observation period from 01 August 2022 to 31 July 2023.

According to TOB Circular No. 2 "Liquidity in the context of takeover law", a share is considered liquid if the monthly median of the daily volume of on-exchange transactions is equal to or greater than 0.04% of the tradable portion of the relevant security (free float) in at least 10 of the 12 full months preceding the publication of the offer or the pre-announcement. This liquidity threshold is indicated by the red line in the chart below.



Source: Capital IQ, EY analysis

Analysis

Our analysis has shown that in the relevant period prior to the pre-announcement of the Offer (01 August 2022 to 31 July 2023), the trading volume of Schaffner shares was above the liquidity threshold of 0.04% in only three out of twelve months. Thus, the Schaffner share is not liquid according to the definition of the TOB.

The low trading volume means that the share price may be distorted, since it is not reflecting all current and price-relevant information directly in the share price.

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Valuation considerations

As the primary valuation method, we applied the DCF method based on the business plan provided by Management and additional market and scenario analysis

Different valuation approaches

Income methods	Discounted Cash Flows
	Earnings power
Market methods	Trading multiples
	Transaction multiples
Cost methods	Net asset value / NAV
	Replacement value

 Primary method used

Market, income and cost approach

When valuing a company, a general distinction can be made between income methods, market methods and cost methods:

- **Income methods** evaluate a company based on the expected cash flow streams that the company is expected to generate in the future. The cash flow streams are discounted to the Valuation Date.
- **Market methods** derive value based on what market participants have actually paid or are willing to pay for comparable assets or companies in the current market environment.
- **Cost methods** are based on the consideration that a prudent investor will not pay more for an asset than the cost to replace it with a new, identical, or similar unit of equivalent utility. Cost methods are usually only used in specific circumstances in business valuations.

Primary valuation method: Discounted cash flow (DCF) method

The DCF method determines the operating value of a company by discounting the expected free cash flows (FCF) with the weighted average cost of capital (WACC). To determine the equity value, the market value of the company's debt is deducted. In addition, other assets (liabilities) that are not included in the FCF calculation are added (subtracted).

Based on the assumption of the continuation of the company, a sustainable FCF is determined after the explicit financial planning period, which forms the basis for the calculation of the residual value (perpetuity). This residual value includes the value of all future FCFs following the business plan period and is calculated using the Gordon Growth formula.

In addition, we use the market methods such as trading and transaction multiples to take the market view into consideration.

The WACC reflects the mix of market divisions as well as Schaffner's currency exposure

WACC

Weighted average cost of capital, WACC		
Base rate	a	3.0%
Market risk premium	b	6.0%
Unlevered adj. beta	c	1.01x
Relevered adj. beta	d	1.12x
Size premium	e	3.1%
Cost of equity		12.8%
Base rate		3.0%
Credit spread	f	0.8%
Cost of debt		3.8%
Equity ratio		90.3%
Debt ratio	g	9.7%
Corporate income tax rate	h	16.0%
WACC		11.8%

Source: Capital IQ, Refinitiv, Kroll, EY analysis

Key assumptions of WACC

- a** The base rate used was the sales-weighted average of 10-year government bonds reflecting Schaffner's current currency exposure. According to Management, financial figures reflected in the business plan, which are generated in foreign currencies, are translated to CHF using a single rate (i.e. no forward rates), so that discounting on a currency-weighted basis is consistent.
 - b** The market risk premium is the difference between the return of the stock market and the risk-free interest rate. The market risk premium used is based on EY market studies.
 - c** Beta reflects the systematic risk of a stock and is observed on the capital market. "Unlevering", taking into account the capital structure, results in the asset beta. Unlevering neutralizes the effects of different capital structures. The adjusted asset beta (according to Blume) was derived from the median of the peer group. Levered betas are calculated based on monthly return data over 5 years (i.e., 60 data points are used in the regression analysis; see Appendix).
 - d** The equity beta results from the "relevering" (according to the practitioner method) of the asset beta with the target capital structure (median of the peer groups capital structure).
 - e** Empirical studies show that smaller companies generate higher returns over the long-term compared to larger companies but are also associated with higher risks for which the market demands compensation. We used a size premium (micro-cap) in accordance with Kroll 2023.
 - f** Credit risk premium according to comparable corporate yield curve – z-spread (Non financials, EUR, A, 10Y) (Refinitiv).
 - g** The debt (equity) ratio takes into account the median of the debt (equity) share of the peer group. It is used to relever the asset beta and to weight the cost of debt (cost of equity) in the WACC.
 - h** Corporate income tax rate (nominal): Medium-term expected tax rate according to Management. This is used to calculate the tax benefit from debt financing.
- No business plan-specific risk premium was applied given our down-side scenario analysis.

The DCF method results in a point estimate of CHF 336.4 per Schaffner share

Overview of DCF value components

Currency: CHF 000	Mgmt. plan	EY adj. plan
Sum of discounted free cash flows	79,393	51,421
Present value of terminal value	178,431	121,853
Enterprise value	257,823	173,275
(Net debt) / net cash	(8,932)	
Equity value	248,891	164,343
Deferred tax assets (DTA)	5,593	
Equity value incl. DTA	254,484	169,936
Number of shares entitled to dividends (as of 31 March 2023)	630,813	
Share value (CHF)	403.4	269.4
Scenario weighting	50 %	50 %
Share value, mid-point	336.4	

Currency: CHF 000	31 March 2023
Excess cash	-
Other non-current financial assets	933
Current borrowings	(5,392)
Derivatives	(169)
Deferred tax liabilities	(335)
Non-current provisions	(3,969)
Net debt	(8,932)

Source: Management information, EY analysis

Key assumptions and derivation of DCF value

The valuation is carried out at a consolidated level based on Schaffner's business plan FY22/23 to FY26/27. The following main assumptions were applied:

- Valuation date: 16 August 2023
- Balance sheet date to derive net debt: 31 March 2023
- Mid-year discounting convention
- Group tax rate: 16% (medium-term expected tax rate according to Management)
- Perpetual growth rate for derivation terminal (residual) value: 2.1%, corresponding to the long-term sales-weighted expected inflation rate according to Oxford Economics
- Terminal value EBITDA margin of approx. 18% based on the average EBITDA margin for FY20/21-FY26/27

The resulting DCF value consists of the sum of the discounted unlevered FCF over the explicit planning period and the discounted terminal value.

In addition, we extended our analysis to include a second forecast scenario based on the following assumptions:

- Market growth estimates for Schaffner's industry over the period of FY23/24-FY26/27
- Constant EBITDA margin of 16.0% based on Management's current forecast level for FY22/23, which was also applied to the terminal value

Enterprise value to equity value

Schaffner's net debt consists of bank loans, finance leases and other financial debt items and was deducted to derive the equity value. Cash is considered fully operational and part of net working capital. According to Management, there are no non-operating assets/liabilities that would be relevant for the valuation. There are also no contingent liabilities. However, the company has accrued tax loss carry forwards over the years and recognized a deferred tax asset (DTA) of CHF 5.6m as at 31 March 2023. Therefore, we have adjusted the DTA when deriving the equity value. The company's subsidiaries are fully owned and thus no minority interests were adjusted in the equity value.

Based on the underlying assumptions described, the information provided by Management, as well as our own considerations, and by applying a second forecast scenario, we have determined an equity value range of CHF 269.4 to 403.4 per share for Schaffner using the DCF method. Giving equal weight to the Management plan and the EY adjusted plan results in a value of CHF 336.4 per Schaffner's share.

Based on our sensitivity analysis, Schaffner's concluded DCF value ranges from CHF 318.7 to 355.2 per share

Overview of sensitivities

Per share value, mid-point based on DCF

CHF 000		Sensitivity WACC				
		11.3%	11.6%	11.8%	12.1%	12.3%
TV growth rate	1.6%	343.0	334.5	326.4	318.7	311.4
	1.8%	348.5	339.7	331.3	323.3	315.7
	2.1%	354.3	345.1	336.4	328.1	320.2
	2.3%	360.5	350.9	341.8	333.2	325.0
	2.6%	367.0	357.0	347.5	338.5	330.0

CHF 000		Sensitivity WACC				
		11.3%	11.6%	11.8%	12.1%	12.3%
TV EBITDA (%)	16.7%	333.6	325.1	317.0	309.4	302.1
	17.2%	344.0	335.1	326.7	318.7	311.2
	17.7%	354.3	345.1	336.4	328.1	320.2
	18.2%	364.7	355.2	346.1	337.5	329.3
	18.7%	375.1	365.2	355.8	346.9	338.4

Source: EY analysis

Derivation of the value range

Further to the mid-point DCF per share value, we have analyzed two sensitivities regarding the value per Schaffner share. The analyses show the sensitivities of the share value to changes in fundamental assumptions of the valuation (see adjacent tables).

In the first sensitivity analysis, which presents both DCF scenarios combined, we determined a value range of CHF 323.3 to CHF 350.9 per Schaffner share by changing the WACC and terminal growth rate by +/- 0.25 percentage points.

The second sensitivity analysis with both scenarios combined shows a value range of CHF 318.7 to CHF 355.2 per Schaffner share with a change of the WACC by +/- 0.25 and the terminal EBITDA margin rate by +/- 0.5 percentage points, respectively.

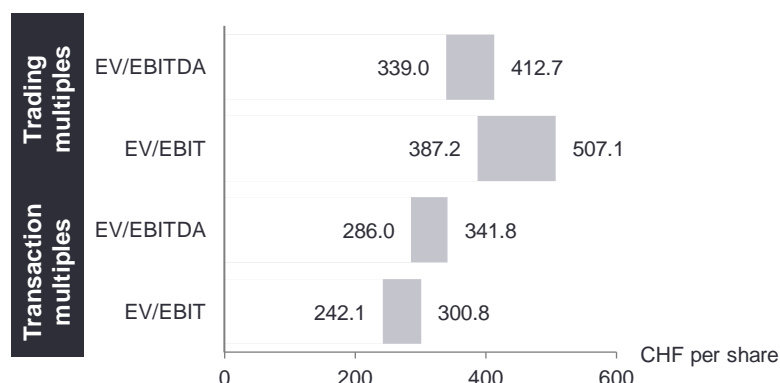
Taking into account both sensitivity analyses, we determine a value range of CHF 318.7 to CHF 355.2 per Schaffner share.

The market method results in a value range between CHF 242.1 to CHF 507.1 per Schaffner's share

Market method

Currency: CHF 000						
Multiple	Trading multiples			Trading multiples		
	EV/EBITDA		FY22/23	EV/EBIT		FY22/23
	FY21/22	LTM		FY21/22	LTM	
Multiple	9.8x	10.1x	8.9x	15.2x	16.3x	13.2x
EBIT(DA)	20,718	24,724	25,000	15,399	18,986	19,400
Share value (CHF)	339.0	412.7	367.5	387.2	507.1	421.2

Currency: CHF 000						
Multiple	Transaction multiples			Transaction multiples		
	EV/EBITDA		FY22/23	EV/EBIT		FY22/23
	FY21/22	LTM		FY21/22	LTM	
Multiple	8.2x	8.2x	8.2x	9.3x	9.3x	9.3x
EBIT(DA)	20,718	24,724	25,000	15,399	18,986	19,400
Share value (CHF)	286.0	338.2	341.8	242.1	294.7	300.8



Source: Capital IQ, Merger market, Management materials, EY analysis

Overview of the multiples valuation range

Trading multiples

To derive the trading multiples, we relied on the same peer group as for the derivation of the cost of capital. For details, please refer to the Appendix.

Our analysis is based on EBITDA and EBIT as a relative benchmark. The use of EBIT(DA) multiples is widely used and accepted in valuation practice.

To derive the total enterprise value (EV), we applied EV/EBITDA multiples of 9.8x, 10.1x, and 8.9x (FY22, LTM, and FY23, respectively) and EV/EBIT multiples of 15.2x, 16.3x, and 13.2x (FY22, LTM, and FY23, respectively), based on the median peer multiples to Schaffner's Management adjusted EBITDA and EBIT of FY21/22, LTM, and FY22/23.

After deduction of financial debt of CHF 8.9m and DTA adjustment of CHF 5.6m an equity value range of CHF 213.8m to CHF 319.9m for Schaffner as of 16 August 2023 results. Taking into account the number of shares outstanding, this results in a value range of CHF 339.0 to CHF 507.1 per Schaffner's share with a mid-point of CHF 423.0.

Transaction multiples

For transaction multiples, we have analyzed comparable transactions within Schaffner's industry with sufficient valuation data available. The transactions were selected primarily based on the business description of the target and only majority transactions were included to the final range.

Similarly to the trading multiples, our analysis was based on EV/EBITDA and EV/EBIT multiples.

To derive the total enterprise value, we applied median EV/EBITDA and EV/EBIT multiples of 8.2x and 9.3x, respectively to Schaffner's Management adjusted EBITDA and EBIT of FY21/22, LTM, and FY22/23.

After deduction of financial debt of and DTA adjustment, this results in an equity value range of CHF 152.7m to CHF 215.6m for Schaffner. Taking into account the number of shares outstanding, this results in a value range of CHF 242.1 to CHF 341.8 per Schaffner's share with a mid-point of CHF 291.9.

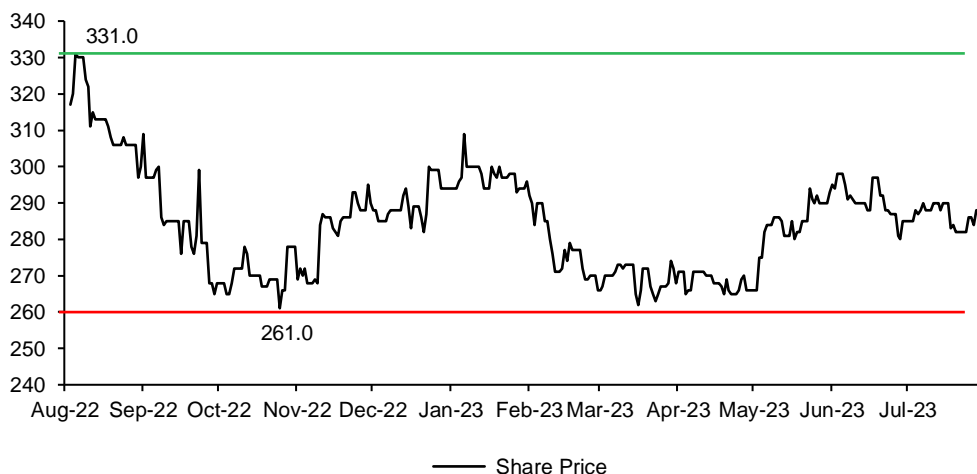
Over the past twelve months, Schaffner's share price has been within the range of CHF 261.0 to CHF 331.0

Development of the share price

The chart below shows the performance of the Schaffner share price over the period under review from 01 August 2022 to 31 July 2023.

The lowest closing price in the last twelve months was CHF 261.0 and was observed on 24 October 2022. The highest closing price in the last twelve months was CHF 331.0 and was observed on 04 August 2022.

On 31 July 2023, the closing price of the Schaffner share was CHF 287.0.



Source: Capital IQ, EY analysis

Stock analyst estimates

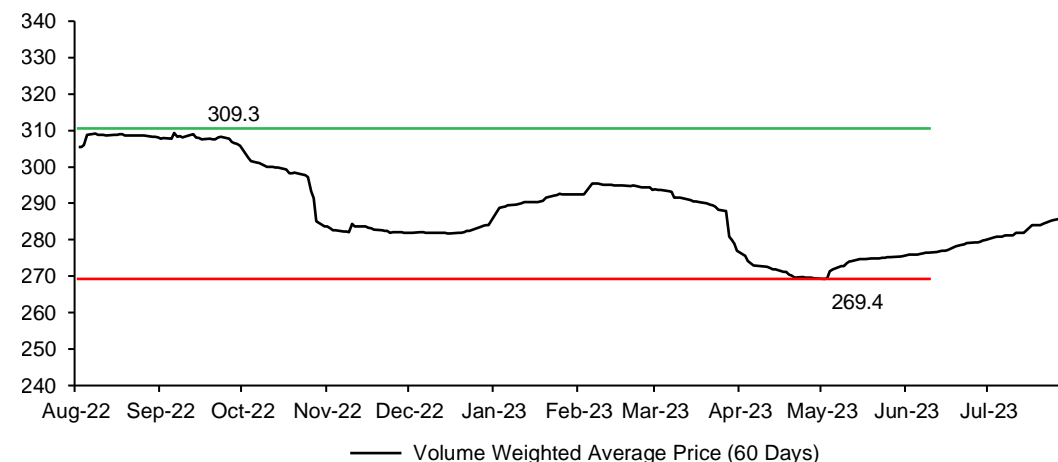
The Schaffner share is not heavily researched by banks and brokers. We were not able to retrieve any stock analyst estimate via Refinitiv. However, on 04 May 2023 (after the publication of *the half-year results*) *Zürcher Kantonalbank* set a fair value of the shares of CHF 318 applying their «normalized» DCF model.

Development of the VWAP(60)

The chart below shows the 60-day volume-weighted average price (VWAP(60)) of Schaffner's shares over the period under review from 01 August 2022 to 31 July 2023.

The lowest value of the VWAP(60) over the last twelve months was CHF 269.4 and was measured on 02 May 2023. The highest value of the VWAP(60) was CHF 309.3 over the last twelve months and was measured on 06 September 2022.

On 31 July 2023, the VWAP (60) of the Schaffner share stood at CHF 286.9.

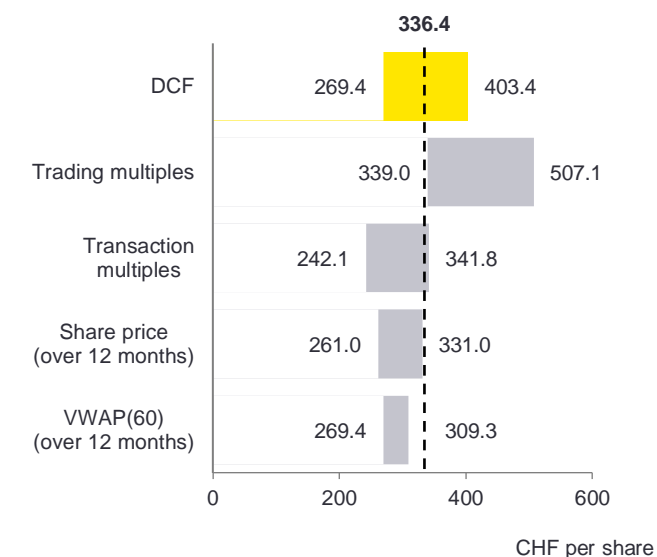


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Value conclusion

Based on our valuation assessment, Schaffner's minimum price is CHF 336.4 per share

Overview of valuation results



Source: EY analysis

Primary method used

--- Minimum price

Valuation conclusion

The football field on the left shows our valuation results as of 16 August 2023.

When using the DCF method with the two scenarios, a value range of CHF 296.4 to CHF 403.4 per Schaffner share results. The DCF method as our primary valuation method is based on the going concern and, in contrast to market methods, allows company-specific factors to be taken into account.

The application of the market method leads to a value range of the Schaffner share from CHF 339.0 to CHF 507.1 for the trading multiples and from CHF 242.1 to 341.8 for the transaction multiples. The results obtained from the market methods support the value conclusion based on the DCF method. In addition, giving equal weights to the DCF method and market methods, the resulting share value supports our final value conclusion.

In addition to our own considerations, the chart on the left shows the twelve-month range of the share price and the volume-weighted average price (VWAP(60)). However, due to the insufficient liquidity of the security, these values have only limited significance and are therefore not taken into account for determining the value of a Schaffner's share. The share price and VWAP(60) as of 31 July 2023 are CHF 287.0 and CHF 286.9, respectively.

Based on the valuation methods applied and the considerations above, we assume the result of the DCF valuation as a value-determining basis and therefore determine a point estimate of CHF 336.4 per Schaffner share as the minimum price in accordance with Art. 42 para. 4 of FMIO-FINMA.

The valuation report was completed on 15 August 2023.

Ernst & Young AG

Marc Filleux, CFA
Partner

Hannes Schobinger, CFA
Partner

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Appendix

Beta and capital structure as of 31 July 2023

Company name	Country	Currency	Filing date	Market Cap (in CHFm)	Market Cap	Minority interests	Preferred equity	Total debt	Debt / total capital	Adj. beta	Unlevered adj. beta
TE Connectivity Ltd.	Switzerland	USD	06/30/23	39,099	45,047	107	-	4,246	8.6%	1.22	1.12
Murata Manufacturing Co., Ltd.	Japan	JPY	06/30/23	32,014	5,242,448	(239)	-	159,170	2.9%	1.06	1.03
TDK Corporation	Japan	JPY	06/30/23	12,593	2,062,265	5,692	-	799,895	27.9%	1.18	0.85
Yageo Corporation	Taiwan	TWD	06/30/23	5,298	192,127	-	-	14,392	7.0%	1.68	1.57
Vishay Intertechnology, Inc.	United States	USD	07/01/23	3,413	3,932	4	-	773	16.4%	1.20	1.00
Taiyo Yuden Co., Ltd.	Japan	JPY	06/30/23	3,222	527,591	-	-	133,385	20.2%	1.16	0.92
ESCO Technologies Inc.	United States	USD	06/30/23	2,248	2,590	-	-	185	6.7%	1.09	1.02
Huber+Suhner AG	Switzerland	CHF	12/31/22	1,395	1,395	3	-	-	0.0%	1.09	1.09
CTS Corporation	United States	USD	06/30/23	1,215	1,399	-	-	107	7.1%	0.81	0.75
Bel Fuse Inc.	United States	USD	06/30/23	594	685	-	-	83	10.8%	1.48	1.32
King Core Electronics Inc.	Taiwan	TWD	06/30/23	68	2,462	-	-	617	20.0%	1.23	0.99
InTiCa Systems SE	Germany	EUR	06/30/23	29	31	-	-	30	49.1%	0.89	0.45
Min									0.0%	0.81	0.45
Max									49.1%	1.68	1.57
Mean									14.7%	1.18	1.01
Median									9.7%	1.17	1.01

Note: Levered betas are calculated based on monthly return data over 5 years (i.e., 60 data points are used in the regression analysis).

Source: Capital IQ, EY analysis

Trading multiples as of 31 July 2023

Company name	Ticker	Country	Currency	Market Cap (CHFm)	Market Cap	EV/EBITDA FY22	EV/EBITDA LTM	EV/EBITDA FY23	EV/EBIT FY22	EV/EBIT LTM	EV/EBIT FY23
TE Connectivity Ltd.	NYSE:TEL	Switzerland	USD	39,099	45,047	12.9x	13.8x	14.0x	16.3x	17.8x	18.0x
Murata Manufacturing Co., Ltd.	TSE:6981	Japan	JPY	32,014	5,242,448	10.6x	11.5x	10.4x	16.4x	18.8x	16.7x
TDK Corporation	TSE:6762	Japan	JPY	12,593	2,062,265	6.2x	6.3x	5.7x	14.1x	14.8x	11.2x
Yageo Corporation	TWSE:2327	Taiwan	TWD	5,298	192,127	3.6x	4.2x	4.6x	4.5x	5.6x	6.4x
Vishay Intertechnology, Inc.	NYSE:VSH	United States	USD	3,413	3,932	4.5x	4.5x	5.2x	5.7x	5.8x	6.6x
Taiyo Yuden Co., Ltd.	TSE:6976	Japan	JPY	3,222	527,591	8.2x	8.9x	8.5x	17.1x	30.1x	17.0x
ESCO Technologies Inc.	NYSE:ESE	United States	USD	2,248	2,590	16.8x	15.0x	14.8x	24.2x	20.9x	20.3x
Huber+Suhner AG	SWX:HUBN	Switzerland	CHF	1,395	1,395	9.5x	9.5x	9.3x	12.1x	12.1x	12.2x
CTS Corporation	NYSE:CTS	United States	USD	1,215	1,399	10.1x	10.7x	10.7x	13.1x	14.2x	14.1x
Bel Fuse Inc.	NasdaqGS:BELF.A	United States	USD	594	685	8.0x	6.3x	7.7x	9.7x	7.1x	8.2x
King Core Electronics Inc.	TWSE:6155	Taiwan	TWD	68	2,462	18.6x	29.4x	N/A	26.1x	49.7x	N/A
InTiCa Systems SE	XTRA:IS7	Germany	EUR	29	31	10.9x	13.5x	N/A	39.7x	123.8x	N/A
Min						3.6x	4.2x	4.6x	4.5x	5.6x	6.4x
Max						18.6x	29.4x	14.8x	39.7x	123.8x	20.3x
Mean						10.0x	11.1x	9.1x	16.6x	26.7x	13.1x
Median						9.8x	10.1x	8.9x	15.2x	16.3x	13.2x

Source: Capital IQ, EY analysis

Transaction multiples

Target company	Country	Acquisition date	Bidder	Currency	Deal value	Percentage acquired	Implied EV	Implied EV/Revenue	Implied EV/EBITDA	Implied EV/EBIT
Schurter Holding AG	Switzerland	01/09/23	Capvis AG	CHF	511	n/a	511	n/a	n/a	n/a
Excelpoint Technology Ltd.	Singapore	04/13/22	WT Semiconductor Pte. Ltd.	USD	170	100 %	256	0.2x	7.9x	8.7x
C&K Components LLC	United States	04/08/22	Littelfuse, Inc.	CHF	505	100 %	505	2.7x	n/a	n/a
KEMET Corporation	United States	11/11/19	Yageo	USD	1580	100 %	1693	1.2x	6.7x	8.4x
Brightking Holdings Limited	China	04/27/18	Yageo Corporation	USD	111	73 %	106	1.2x	8.3x	9.8x
Laird Ltd	United Kingdom	03/01/18	Advent International Corp	GBP	999	100 %	1,163	1.2x	11.6x	18.2x
Aero Stanrew Limited	United Kingdom	12/21/15	TT Electronics plc	GBP	42	100 %	42	2.6x	13.2x	n/a
TE Connectivity Ltd. (Circuit Protection Devices Business)	Switzerland	11/09/15	Littelfuse, Inc.	USD	348	100 %	348	1.8x	9.2x	n/a
Cobham Inmet; Cobham Weinschel	United States	04/23/15	API Technologies Corp	GBP	54	100 %	74	1.7x	7.3x	8.0x
Noratel AS	Norway	06/05/14	DiscoverIE Group plc	GBP	30	100 %	74	1.0x	8.2x	10.6x
Min								0.2x	6.7x	8.0x
Max								2.7x	13.2x	18.2x
Mean								1.5x	9.0x	10.6x
Median								1.2x	8.2x	9.3x

Source: Capital IQ, Mergermarket, EY analysis

Consolidated balance sheet – assets and liabilities

Currency: CHF 000	FY19/20	FY20/21	FY21/22	H1 22/23
Intangible assets	981	1,363	912	699
Property, plant and equipment	32,986	25,594	25,004	24,897
Other non-current financial assets	1,011	1,032	904	933
Deferred tax assets	8,465	6,467	6,154	5,593
Total non-current assets	43,443	34,456	32,974	32,122
Prepaid expenses and deferred income	1,036	1,143	1,166	1,855
Inventories	31,602	29,578	38,202	31,594
Other current financial assets	2,020	1,476	526	911
Other receivables	2,892	3,650	2,294	2,211
Trade receivables	32,907	25,621	30,703	26,447
Cash and cash equivalents	14,219	24,026	14,960	13,519
Total current assets	84,676	85,494	87,851	76,537
Total assets	128,119	119,950	120,825	108,659
Deferred tax liabilities	312	251	283	335
Non-current provisions	4,498	4,157	3,987	3,969
Non-current borrowings	34,374	12,105	284	-
Total non-current liabilities	39,184	16,513	4,554	4,304
Accrued expenses	9,772	11,749	8,693	7,725
Current provisions	1,367	942	589	415
Other payables	4,439	2,743	3,079	3,416
Trade payables	15,772	19,936	23,328	12,708
Current borrowings	222	233	10,583	5,392
Derivatives	412	261	145	169
Total current liabilities	31,984	35,864	46,417	29,825
Total liabilities	71,168	52,377	50,971	34,129

Source: Schaffner Holding AG – consolidated annual report of 30 September 2022 and 30 September 2021, consolidated half-year report of 31 March 2023

Consolidated income statement

Currency: CHF 000	FY19/20	FY20/21	FY21/22	H1 22/23
Net sales of goods and services	171,736	172,479	158,185	84,768
Cost of sales	(125,413)	(116,910)	(107,815)	(55,483)
Gross profit	46,323	55,569	50,370	29,285
Marketing and selling expense	(16,297)	(15,013)	(13,584)	(7,740)
Research and development expense	(16,073)	(15,260)	(12,445)	(6,091)
General and administrative expense	(9,283)	(8,966)	(8,942)	(4,761)
Other operating expense	-	(13,008)	-	-
Operating profit (EBIT)	4,670	3,322	15,399	10,692
Net finance expense	(1,033)	(1,420)	(1,231)	386
Earnings before tax (EBIT)	3,638	1,901	14,168	11,078
Income tax	(923)	(4,195)	(1,550)	(1,274)
Net (-loss)/profit for the period	2,715	(2,295)	12,618	9,804

Source: Schaffner Holding AG – consolidated annual report of 30 September 2022 and 30 September 2021, consolidated half-year report of 31 March 2023

Abbreviations

AG	Public limited company
CAGR	Compound annual growth rate
Capex	Capital expenditures
CHF	Swiss franc
CHFm	Swiss francs in million
DCF	Discounted cash flow
DTA	Deferred tax assets
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EY	Ernst & Young AG, Switzerland
FCF	Free cash flow
FY	Financial year
KPI	Key performance indicator
LTM	Last twelve months
Management	Management of Schaffner Holding AG
n/a	not available / not applicable
NAV	Net asset value
NPV	Net present value
SIX	Swiss Stock Exchange
SLI	Swiss Leader Index of the SIX Swiss Exchange
TOB	Swiss Takeover Board
TV	Terminal value
VWAP	Volume-weighted average price
WACC	Weighted Average Cost of Capital

