PIHLAJALINNA

Health Care/Finland, August 18, 2017
Spot comment

Headwinds in the outsourcing market

Pihlajalinna's Q2'17 figures fell below estimates but continued to improve y/y. Interest in new outsourcings remains there but new deals look increasingly uncertain with Forssa and Humppila now also in the process of cancelling their outsourcing decision. Yet the long term growth potential remains intact. We reiterate "Buy" rating but lower our TP to EUR 19.0 (20.0).

Q2'17 below estimates due to C&S

Pihlajalinna's Q2'17 earnings miss originated from the Private Clinics and Specialized Care (C&S) segment. The miss in C&S was driven by continued utilization rate issues in Dental Care and also to some extent in Private Clinics, as well as increased costs in Surgical Operations and Public Specialized Care. The company aims to fix the utilization issues in Dental Care but success remains uncertain in our view given the overcapacity situation in the field. Yet divestments are unlikely to take place as Dental Care is part of the company's SOTE strategy. On the bright side, profitability in P&S remained solid and exceeded our estimates.

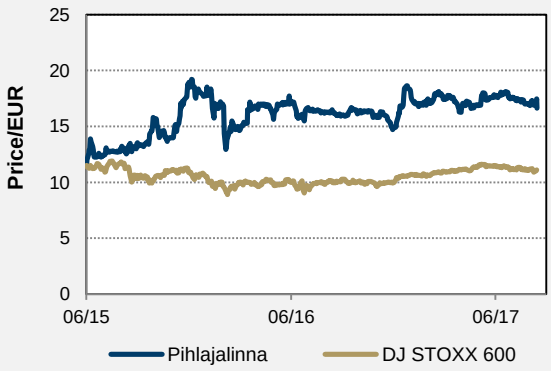
Outsourcing potential still there but increasingly uncertain

While the window for new outsourcing deals remains open until spring 2018, so far no new contracts have been struck in 2017. Hattula and Tervola were cancelled, and Forssa and Humppila are now also in the process of cancelling the outsourcing decision made in May. The outcome of the Länsi-Pohja tendering process also remains uncertain due to potential political motives behind the process. On the positive side, there remains interest in new outsourcings and some of the recently cancelled tendering processes may be restructured or modified to match regulatory requirements.

Reiterating BUY with a TP of 19.0 (20.0)

We reiterate "Buy" rating but lower our TP to EUR 19.0 (20.0) due to lower estimates and the removal of the Forssa and Suupohja outsourcing potential (at 50% prob.) from our TP methodology. Our TP continues to assume more weight on DCF than peer multiple approaches due to a solid long-term growth opportunity brought by the SOTE reform.

Rating **BUY**



Share price, EUR (Last trading day's closing price)	16.62
Target price, EUR	19.0
Latest change in recomm.	31-Mar-17
Latest report on company	17-Aug-17
Research paid by issuer:	YES
Shares outstanding, '000's	20,613
Shares fully diluted, '000's	20,613
Market cap, EURm	343
Free float, %	-
Exchange rate	0.000
Reuters code	PIHLIS.HE
Bloomberg code	PIHLIS FH
Average daily volume, EURm	Na.
Next interim report	09-Nov-17
Web site	http://investors.pihlajalinna.fi/

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2015	213	5	2.2%	2	0.07	170.5	1.3	12.0	60.8	0.00
2016	399	17	4.2%	15	0.47	39.1	1.0	11.2	25.1	0.15
2017E	433	20	4.5%	19	0.60	27.6	0.9	10.7	18.9	0.20
2018E	474	23	4.9%	23	0.74	22.4	0.8	9.6	15.9	0.25
2019E	508	27	5.4%	27	0.89	18.6	0.7	8.4	12.8	0.30

Market cap, EURm	343	BV per share 2017E, EUR	5.2	CAGR EPS 2016-19, %	23.9
Net debt 2017E, EURm	19	Price/book 2017E	3.2	CAGR sales 2016-19, %	8.4
Enterprise value, EURm	372	Dividend yield 2017E, %	1.2	ROE 2017E, %	12.2
Total assets 2017E, EURm	227	Tax rate 2017E, %	19.6	ROCE 2017E, %	12.9
Goodwill 2017E, EURm	92	Equity ratio 2017E, %	48.2	PEG, P/E 17/CAGR	1.2

All the important disclosures can be found on the last pages of this report.

Estimates summary

Following lower-than-expected earnings in Q2'17 and some estimate changes our FY18E adj. EBITDA estimate is down by 6%. We have cut our profitability estimates for C&S while our estimates for P&S remain broadly intact.

NET SALES	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17	Q3'17e	Q4'17e	2017E	2018E	2019E
Private Clinics and Specialised Care (C&S)	54.1	56.1	48.6	56.8	215.6	62.7	59.0	54.8	63.7	240.2	278.7	309.2
Primary and Social Care (P&S)	46.8	47.0	46.9	49.1	189.8	49.5	49.6	49.4	51.6	200.0	203.7	207.5
Total	-0.9	-1.7	-1.5	-2.2	**-6.3**	**110.0**	**106.7**	**102.6**	**113.3**	**432.6**	**474.4**	**507.8**
NET SALES GROWTH												
Private Clinics and Specialised Care (C&S)	*80.9%*	*82.1%*	*81.3%*	*77.5%*	*80.4%*	*15.9%*	*5.2%*	*12.7%*	*12.2%*	*11.4%*	*16.0%*	*11.0%*
Primary and Social Care (P&S)	*153.0%*	*113.6%*	*89.1%*	*56.4%*	*96.3%*	*5.8%*	*5.5%*	*5.3%*	*5.0%*	*5.4%*	*1.9%*	*1.9%*
Total	***109.2%***	***95.4%***	***84.7%***	***65.4%***	***87.1%***	***10.0%***	***5.2%***	***9.1%***	***9.3%***	***8.4%***	***9.7%***	***7.0%***
EBITDA (ADJ.)												
Private Clinics and Specialised Care (C&S)	5.1	4.6	3.4	4.2	17.3	5.2	3.4	3.7	4.6	16.9	20.6	26.9
Primary and Social Care (P&S)	2.3	2.6	5.1	3.1	13.1	4.4	4.4	5.4	4.1	18.3	18.5	18.9
Total	***7.0***	***6.9***	***7.9***	***7.1***	***28.9***	***9.1***	***7.4***	***8.7***	***8.3***	***33.5***	***37.7***	***44.3***
EBITDA-MARGIN (ADJ.)												
Private Clinics and Specialised Care (C&S)	*9.4%*	*8.2%*	*7.0%*	*7.4%*	*8.0%*	*8.3%*	*5.8%*	*6.8%*	*7.2%*	*7.0%*	*7.4%*	*8.7%*
Primary and Social Care (P&S)	*4.9%*	*5.5%*	*10.9%*	*6.3%*	*6.9%*	*8.9%*	*8.9%*	*10.9%*	*7.9%*	*9.1%*	*9.1%*	*9.1%*
Total	***7.0%***	***6.8%***	***8.4%***	***6.8%***	***7.2%***	***8.3%***	***6.9%***	***8.5%***	***7.3%***	***7.7%***	***7.9%***	***8.7%***

Source: Evli Research

Timetable and CAPEX for new clinics specified

Pihlajalinna specified that the Oulu and Turku clinics will open at the turn of the year. The Seinäjoki clinic is scheduled to open in February 2018. The opening of the Tapiola clinic in Espoo will be postponed to 2018. CAPEX related to the expansion was specified to amount to less than EUR 40 million.

Outsourcing potential still there but increasingly uncertain

Pihlajalinna has recently experienced headwinds in the outsourcing market.

In Q2'17 Pihlajalinna's outsourcing business faced some headwinds. Hattula and Tervola contracts were cancelled in June. In Tervola, Pihlajalinna and the municipality failed to agree on the price of the contract. Meanwhile in Hattula, the Market Court annulled the municipality's procurement decision based on Terveystalo's complaint. In addition, Terveystalo has also challenged the legality of Forssa JMWA's procurement process which Pihlajalinna won in May 2017. Now, the municipal boards of Forssa and Humppila have proposed the revoking of the procurement. While Pihlajalinna expects a new tendering process in Hattula, it is unclear if a new tendering will take place in Forssa.

Window for outsourcings remains open until spring 2018.

Pihlajalinna continues to see interest in new outsourcings and the window for new outsourcings remains open until spring 2018. However, no new contracts have been struck in 2017. We have received no news on the Suupohja or Lumijoki tenderings, either. The outcome of the Länsi-Pohja tendering process remains uncertain due to potential political motives behind the process: An agreement between the Lapland and Länsi-Pohja health care districts could lead to the cancellation of the process. However, Pihlajalinna considers such a scenario to be unlikely. Länsi-Pohja has postponed the decision until November.

Illustration of known outsourcing potential, EURm	Type	Number of people	Value per person €	Est. Value EURm	Comment
Forssa, Humppila and Ypäjä*	Partial	22 800	1 000	23	Evli est.
Suupohja excl. Teuva and Isojoki	Partial	15 200	1 000	15	Evli est.
Länsi-Pohja excl. Tervola**	Partial	60 000	1 000	60	Evli est.
Lumijoki	Complete	2100	4000	8	Evli est.
Kouvola (cancelled)	Partial	85 000	988	84	County est.
Hattula (cancelled)	Partial	9 700	722	7	County est.
Tervola (cancelled)	Complete	3 100	4 194	13	County est.
Known market potential				**106**	

***Kemi, Keminmaa, Simo, Tornio, Ylitornio* **Forssa and Humppila may revoke the procurement decision*

Potential value add from known outsourcing potential, EURm	Forssa, Humppila and Ypäjä	Suupohja	Länsi-Pohja	Lumijoki	Total
Potential sales	23	15	60	8	**106**
Assumed EBIT-margin	5.5%	5.5%	5.5%	5.5%	
EBIT	1.3	0.8	3.3	0.5	
Taxes 20%	-0.3	-0.2	-0.7	-0.1	
Net result	1.0	0.7	2.6	0.4	
Minorities 49%	-0.5	-0.3	-1.3	-0.2	
Net result for parent	**0.5**	**0.3**	**1.3**	**0.2**	
Assumed P/E	15.0	15.0	15.0	15.0	
Equity value increase (EURm)	**7.7**	**5.1**	**20.2**	**2.8**	
Per share (EUR)	**0.4**	**0.2**	**1.0**	**0.1**	**1.7**

Source: Evli Research

Relative valuation

PIHLAJALINNA PEER GROUP	Security identifier	MCAP Local FX	EV/EBITDA 17	EV/EBITDA 18	EV/EBITDA 19	EV/EBIT 17	EV/EBIT 18	EV/EBIT 19	P/E 17	P/E 18	P/E 19
Attendo AB	ATT-SE	16364	15,6x	13,6x	12,3x	19,8x	17,2x	15,3x	21,2x	19,2x	17,5x
Cambian Group Plc	CMBN-GB	400	23,6x	19,0x	16,1x	113,8x	52,5x	34,6x	42,5x	31,2x	23,1x
Capio AB	CAPIO-SE	6268	8,4x	7,5x	6,9x	16,0x	13,7x	12,2x	13,8x	12,1x	11,1x
CareTech Holdings PLC	CTH-GB	319	11,6x	10,5x	9,9x	13,5x	12,0x	11,2x	12,5x	11,8x	11,2x
Fresenius SE & Co. KGaA	FRE-DE	38635	8,8x	8,1x	7,2x	11,5x	10,4x	9,3x	20,6x	18,9x	16,8x
GHP Specialty Care AB	GHP-SE	656	18,3x	9,0x	8,0x	24,2x	13,5x	12,0x	106,7x	18,8x	17,1x
Humana AB	HUM-SE	2803	9,8x	8,4x	7,3x	11,3x	9,6x	8,4x	11,3x	9,8x	8,8x
Korian SA	KORI-FR	2387	10,8x	10,1x	9,2x	17,0x	15,6x	14,0x	25,0x	21,7x	18,0x
Le Noble Age SA	LNA-FR	517	13,6x	12,1x	10,6x	16,9x	15,1x	13,1x	23,1x	20,5x	17,4x
Luz Saude S.A.	LUZ-PT	301									
MEDICLIN AG	MED-DE	272	7,8x	6,9x	6,2x	14,3x	12,4x	11,0x	16,4x	14,6x	13,5x
Mediclinic International Plc	MDC-GB	5389	12,8x	12,0x	10,9x	17,7x	16,2x	14,6x	20,5x	18,1x	16,0x
Orpea SA	ORP-FR	5998	18,1x	16,5x	14,9x	24,3x	21,9x	19,7x	30,0x	25,8x	23,0x
Ramsay Generale de Sante SA	GDS-FR	1139									
RHON-KLINIKUM AG	RHK-DE	1844	16,0x	13,4x	11,9x	38,1x	27,5x	23,0x	53,8x	40,5x	34,5x
Spire Healthcare Group PLC	SPI-GB	1348	11,3x	10,3x	9,4x	17,3x	15,8x	14,3x	19,7x	17,9x	16,1x
Peer Group Average		**5290**	**13,3x**	**11,2x**	**10,1x**	**25,4x**	**18,1x**	**15,2x**	**29,8x**	**20,1x**	**17,4x**
Peer Group Median		**1596**	**12,2x**	**10,4x**	**9,6x**	**17,2x**	**15,4x**	**13,5x**	**20,9x**	**18,8x**	**17,0x**
Pihlajalinna (Evli est.)		**356**	**11,5x**	**10,3x**	**8,3x**	**19,6x**	**16,5x**	**13,4x**	**28,7x**	**23,3x**	**19,3x**
Pihlajalinna premium/discount to peer median			*-6 %*	*-1 %*	*-14 %*	*14 %*	*8 %*	*-1 %*	*37 %*	*24 %*	*14 %*

Source: Factset, Evli Research

Peer multiples implied valuation

	EV/EBITDA			P/E		
	17	18	19	17	18	19
Pihlajalinna metric	33,6	37,7	44,3	12,4	15,3	18,4
Multiple (peer median)	12,2x	10,4x	9,6x	20,9x	18,8x	17,0x
EV	411	391	427	-	-	-
Net debt 100%	19	22	1	-	-	-
Value of equity 100%	392	369	425	-	-	-
Minorities (4x P/B on 2016A minority BS value)	12	12	12	-	-	-
Minorities (10x P/E on 2018E minority net profits)	27	27	27	-	-	-
Per share (minorities valued at EUR 12m)	**18,5**	**17,3**	**20,1**	**12,6**	**14,0**	**15,2**
Per share (minorities valued at EUR 27m)	**17,7**	**16,6**	**19,3**	**12,6**	**14,0**	**15,2**

Source: Factset, Evli Research

Valuation summary

Our DCF model implies EUR 21-22 fair value per share depending on how much value is placed on minority holdings

Our DCF model implies EUR 22 fair value per share assuming EUR 12m (EUR 0.6 per share) market value for the minority holdings, which corresponds to ~4x P/B on the EUR 3.2m 2016A balance sheet value. If, however, one applies a P/E of 10x for the 2017E minority share of profits (EUR 2.7m), minority holdings would be valued at EUR 27m and our DCF fair value would be EUR 21 per share.

We retain "Buy" rating with TP of EUR 19.0 (20.0).

We reiterate "Buy" rating but lower our TP to EUR 19.0 (20.0) due to lower estimates and the removal of the Forssa and Suupohja outsourcing potential from our TP methodology. The two potential outsourcings were formerly included in the TP methodology with a 50% weight each (totaling EUR 0.4 per share). Our TP continues to assume more weight on DCF than peer multiple approaches due to a solid long-term growth opportunity brought by the SOTE reform.

Valuation approaches	Implied value
DCF	21-22
Peer EV/EBITDA (FY18E)	17
Peer P/E (FY18E)	14
Target price (EUR)	**19**

Source: Evli Research

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VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	16.62	PV of Free Cash Flow	175	Long-term growth, %	2.5	Risk-free interest rate, %	2.25
DCF share value	21.82	PV of Horizon value	313	WACC, %	7.0	Market risk premium, %	5.8
Share price potential, %	31.3	Unconsolidated equity	-10	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	24.7	Marketable securities	28	Minimum WACC, %	6.5	Equity beta coefficient	0.80
Minimum value	19.5	Debt - dividend	-55	Maximum WACC, %	7.5	Target debt ratio, %	20
Horizon value, %	64.1	Value of stock	450	Nr of shares, Mn	20.6	Effective tax rate, %	25

DCF valuation, EURm	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	Horizon
Net sales	399	433	474	508	533	560	588	617	648	680	697	715
Sales growth, %	*87.0*	*8.4*	*9.7*	*7.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*2.5*	*2.5*
Operating income (EBIT)	17	20	23	27	32	34	35	37	39	34	35	36
EBIT margin, %	*4.2*	*4.5*	*4.9*	*5.4*	*6.1*	*6.0*	*6.0*	*6.0*	*6.0*	*5.0*	*5.0*	*5.0*
+ Depreciation+amort.	13	14	14	17	15	15	15	15	15	15	16	
- Income taxes	-2	-4	-5	-6	-6	-7	-7	-7	-8	-7	-7	
- Change in NWC	7	2	3	2	2	2	2	2	2	2	1	
NWC / Sales, %	*-6.9*	*-6.9*	*-6.8*	*-6.8*	*-6.8*	*-6.8*	*-6.8*	*-6.8*	*-6.8*	*-6.8*	*-6.8*	
+ Change in other liabs	1	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-27	-19	-31	-12	-13	-14	-15	-16	-17	-18	-19	-19
Investments / Sales, %	*6.8*	*4.4*	*6.5*	*2.4*	*2.4*	*2.5*	*2.6*	*2.6*	*2.6*	*2.6*	*2.7*	*2.7*
- Other items	-1	-1	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	6	12	5	29	30	29	30	30	31	27	26	591
= Discounted FCF (DFCF)		12	4	25	24	22	21	20	19	15	14	313

= DFCF min WACC		12	4	25	24	22	21	20	20	16	14	367
= DFCF max WACC		12	4	24	23	21	20	19	18	15	13	270

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INTERIM FIGURES

EVLI ESTIMATES, EURm	2016Q1	2016Q2	2016Q3	2016Q4	2016	2017Q1	2017Q2	2017Q3E	2017Q4E	2017E	2018E	2019E
Net sales	100	101	94	104	399	110	107	103	113	433	474	508
EBITDA	7	7	8	7	29	9	7	9	8	34	38	44
EBITDA margin (%)	*7.1*	*7.2*	*8.5*	*6.8*	*7.4*	*8.4*	*6.9*	*8.5*	*7.3*	*7.8*	*7.9*	*8.7*
EBIT	4	4	5	4	17	6	4	5	5	20	23	27
EBIT margin (%)	*4.2*	*3.8*	*5.0*	*3.7*	*4.2*	*5.2*	*3.7*	*5.1*	*4.2*	*4.5*	*4.9*	*5.4*
Net financial items	0	0	0	0	-1	0	0	0	0	-1	-1	-1
Pre-tax profit	4	4	5	4	15	5	4	5	5	19	23	27
Tax	-1	-1	-1	-1	-3	-1	-1	-1	-1	-4	-5	-5
Tax rate (%)	*26.3*	*17.1*	*18.2*	*17.1*	*19.7*	*18.9*	*19.4*	*20.0*	*20.0*	*19.6*	*20.0*	*20.0*
Net profit	2	2	3	2	10	4	2	3	3	12	15	18
EPS	0.10	0.11	0.15	0.11	0.47	0.18	0.11	0.16	0.15	0.60	0.74	0.89
EPS adjusted (diluted no. of shares)	0.10	0.11	0.15	0.11	0.47	0.18	0.11	0.16	0.15	0.60	0.74	0.89
Dividend per share	0.00	0.00	0.00	0.00	0.15	0.00	0.00	0.00	0.00	0.20	0.25	0.30
SALES, EURm												
Private Clinics and Specialised Care	54	56	49	31	190	63	59	55	64	240	279	309
Primary and Social Care	47	47	47	75	216	50	50	49	52	200	204	208
Unallocated & Eliminations	-1	-2	-1	-2	-6	-2	-2	-2	-2	-8	-8	-9
Total	100	101	94	104	399	110	107	103	113	433	474	508
SALES GROWTH, Y/Y %												
Private Clinics and Specialised Care	*80.9*	*82.1*	*81.3*	*-3.1*	*58.8*	*15.9*	*5.2*	*12.7*	*105.6*	*26.6*	*16.0*	*11.0*
Primary and Social Care	*153.0*	*112.7*	*89.9*	*137.8*	*122.7*	*5.8*	*5.5*	*5.3*	*-31.2*	*-7.2*	*1.9*	*1.9*
Unallocated & Eliminations	*50.0*	*88.9*	*114.3*	*214.3*	*117.2*	*144.4*	*11.8*	*6.7*	*-9.1*	*22.2*	*3.9*	*12.5*
Total	*109.2*	*95.0*	*85.0*	*65.1*	*87.0*	*10.0*	*5.2*	*9.1*	*9.3*	*8.4*	*9.7*	*7.0*
EBIT, EURm												
Private Clinics and Specialised Care	3	2	1	2	8	3	1	1	2	7	10	14
Primary and Social Care	2	2	5	3	11	4	4	4	3	15	15	15
Unallocated & Eliminations	0	0	-1	0	-2	-1	0	0	0	-2	-2	-2
Total	4	4	5	4	17	6	4	5	5	20	23	27
EBIT margin, %												
Private Clinics and Specialised Care	*5.4*	*3.9*	*1.4*	*5.5*	*4.0*	*4.5*	*1.7*	*2.2*	*3.3*	*3.0*	*3.7*	*4.5*
Primary and Social Care	*3.8*	*4.5*	*9.8*	*3.3*	*5.1*	*7.1*	*7.1*	*9.1*	*6.2*	*7.3*	*7.4*	*7.4*
Unallocated & Eliminations	*55.6*	*23.5*	*40.0*	*18.2*	*30.2*	*27.3*	*26.3*	*31.3*	*25.0*	*27.3*	*25.0*	*22.2*
Total	*4.2*	*3.8*	*5.0*	*3.7*	*4.2*	*5.2*	*3.7*	*5.1*	*4.2*	*4.5*	*4.9*	*5.4*

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INCOME STATEMENT, EURm	2012	2013	2014	2015	2016	2017E	2018E	2019E
Sales	47	104	149	213	399	433	474	508
Sales growth (%)	*0.0*	*120.8*	*42.6*	*43.3*	*87.0*	*8.4*	*9.7*	*7.0*
Costs	-43	-92	-135	-201	-370	-399	-437	-463
Reported EBITDA	5	12	14	13	29	34	38	44
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*10.1*	*11.6*	*9.3*	*6.0*	*7.4*	*7.8*	*7.9*	*8.7*
Depreciation	-1	-4	-6	-8	-13	-14	-14	-16
EBITA	3	8	8	5	17	20	24	28
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	3	8	8	5	17	20	23	27
EBIT margin (%)	*7.2*	*7.3*	*5.4*	*2.2*	*4.2*	*4.5*	*4.9*	*5.4*
Net financials	-1	-2	-3	-2	-1	-1	-1	-1
Pre-tax profit	2	6	5	2	15	19	23	27
Extraordinary items	0	0	-2	-1	-1	-1	0	0
Taxes	-1	-1	-1	0	-3	-4	-5	-5
Minority shares	0	0	0	-1	-3	-3	-3	-3
Net profit	1	5	1	1	8	12	15	18
BALANCE SHEET, EURm								
Assets								
Fixed assets	33	34	47	69	67	73	90	86
% of sales	*69*	*32*	*31*	*32*	*17*	*17*	*19*	*17*
Goodwill	45	47	56	76	92	92	92	91
% of sales	*96*	*45*	*38*	*36*	*23*	*21*	*19*	*18*
Inventory	1	1	1	2	2	2	2	3
% of sales	*2*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Receivables	8	13	14	20	27	29	32	34
% of sales	*17*	*12*	*10*	*9*	*7*	*7*	*7*	*7*
Liquid funds	8	11	11	15	28	30	33	35
% of sales	*17*	*11*	*7*	*7*	*7*	*7*	*7*	*7*
Total assets	95	106	131	185	218	227	250	250
Liabilities								
Equity	30	38	10	93	101	110	121	134
% of sales	*63*	*37*	*7*	*44*	*25*	*25*	*25*	*26*
Deferred taxes	4	4	4	5	6	6	6	6
% of sales	*9*	*3*	*3*	*2*	*1*	*1*	*1*	*1*
Interest bearing debt	48	42	88	42	52	49	54	36
% of sales	*101*	*40*	*59*	*20*	*13*	*11*	*11*	*7*
Non-interest bearing current liabilities	13	22	27	42	55	60	65	70
% of sales	*28*	*21*	*18*	*20*	*14*	*14*	*14*	*14*
Other interest free debt	0	1	1	3	3	3	3	3
% of sales	*0*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Total liabilities	95	106	131	185	217	227	250	250
CASH FLOW, EURm								
+ EBITDA	5	12	14	13	29	34	38	44
- Net financial items	-1	-2	-3	-2	-1	-1	-1	-1
- Taxes	-1	-1	-1	0	-3	-4	-5	-5
- Increase in Net Working Capital	5	4	4	9	7	2	3	2
+/- Other	0	0	-2	-1	-1	-1	0	0
= Cash flow from operations	7	13	11	19	30	31	35	40
- Capex	-79	-7	-28	-48	-27	-19	-31	-12
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-72	5	-17	-29	3	12	4	28
+/- Change in interest-bearing debt	48	-6	46	-46	10	-3	6	-18
+/- New issues/buybacks	27	4	-26	83	0	0	0	0
- Paid dividend	0	0	0	0	0	-3	-4	-5
+/- Change in loan receivables	0	1	0	1	1	0	0	0
Change in cash	4	5	0	8	13	5	6	5

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KEY FIGURES	2013	2014	2015	2016	2017E	2018E	2019E
M-cap	0	0	256	380	343	343	343
Net debt	31	77	27	25	19	22	1
Enterprise value	31	77	286	416	372	374	352
Sales	104	149	213	399	433	474	508
EBITDA	12	14	13	29	34	38	44
EBIT	8	8	5	17	20	23	27
Pre-tax	6	5	2	15	19	23	27
Earnings	5	4	2	10	12	15	18
Book value	37	9	92	98	106	117	131
Valuation multiples							
EV/sales	0.3	0.5	1.3	1.0	0.9	0.8	0.7
EV/EBITDA	2.5	5.6	22.5	14.2	11.1	9.9	8.0
EV/EBITA	4.0	9.6	60.8	25.1	18.7	15.6	12.6
EV/EBIT	4.0	9.6	60.8	25.1	18.9	15.9	12.8
EV/operating cash flow	2.3	4.8	13.4	12.3	11.6	10.5	8.6
EV/cash earnings	3.7	7.7	28.6	15.8	12.8	11.6	9.2
P/E	0.0	0.0	170.5	39.1	27.6	22.4	18.6
P/E excl. goodwill	0.0	0.0	170.5	39.1	27.0	21.7	18.1
P/B	0.0	0.0	2.8	3.9	3.2	2.9	2.6
P/sales	0.0	0.0	1.2	1.0	0.8	0.7	0.7
P/CF	0.0	0.0	12.0	11.2	10.7	9.6	8.4
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*21.0*	*17.8*	*14.4*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*31.5*	*25.6*	*21.2*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*3.7*	*3.3*	*3.0*
Per share measures							
Number of shares	0	13,399	20,613	20,613	20,613	20,613	20,613
Number of shares (diluted)	0	13,399	20,613	20,613	20,613	20,613	20,613
EPS	0.00	0.26	0.07	0.47	0.60	0.74	0.89
EPS excl. goodwill	0.00	0.26	0.07	0.47	0.61	0.77	0.92
Cash EPS	0.00	0.75	0.49	1.28	1.41	1.56	1.85
Operating cash flow per share	0.00	1.21	1.03	1.64	1.55	1.73	1.99
Capital employed per share	0.00	6.52	5.68	5.95	6.10	6.78	6.43
Book value per share	0.00	0.70	4.47	4.74	5.16	5.70	6.34
Book value excl. goodwill	0.00	-3.50	0.78	0.26	0.70	1.26	1.93
Dividend per share	0.00	0.00	0.00	0.15	0.20	0.25	0.30
Dividend payout ratio, %	0.0	0.0	0.0	31.9	34.0	34.0	34.0
Dividend yield, %	0.0	0.0	0.0	0.8	1.2	1.5	1.8
Efficiency measures							
ROE	14.9	15.1	3.0	10.2	12.2	13.6	14.9
ROCE	9.6	9.0	4.0	11.7	12.9	14.3	16.1
Financial ratios							
Capex/sales, %	6.9	18.9	22.3	6.8	4.4	6.5	2.4
Capex/depreciation excl. goodwill,%	117.6	329.0	346.6	85.2	138.7	226.3	73.4
Net debt/EBITDA, book-weighted	2.5	5.6	2.1	0.8	0.6	0.6	0.0
Debt/equity, market-weighted	0.0	0.0	0.2	0.1	0.1	0.2	0.1
Equity ratio, book-weighted	36.0	7.9	50.5	46.4	48.2	48.3	53.6
Gearing	0.80	7.42	0.28	0.24	0.17	0.18	0.01
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

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COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Lahitapiola Keskinäinen Vakuutusyhtio	3,208,891	53.332	15.6%
Mww Yhtio Oy	2,227,060	37.014	10.8%
Tapiola Keskinainen Henkivakuutusyhtio	1,618,973	26.907	7.9%
Elo Pension Company	1,267,161	21.060	6.1%
Niemisto Leena Katriina	703,475	11.692	3.4%
Fondita Nordic Micro Cap	594,000	9.872	2.9%
Varma Mutual Pension Insurance Company	545,500	9.066	2.6%
Fennia Mutual Insurance Company	530,000	8.809	2.6%
Ilmarinen Mutual Pension Insurance Company	490,000	8.144	2.4%
Evli Finnish Small Cap Fund	311,831	5.183	1.5%
Ten largest	11,496,891	191.078	56%
Residual	9,116,255	151.512	44%
Total	20,613,146	342.590	100%

EARNINGS CALENDAR

November 09, 2017 Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Aarne Aktan
CFO: Niclas Köhler
IR: Siri Markula

Kehräsaari B, 33200 Tampere
Tel:

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value − share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt − financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balance sheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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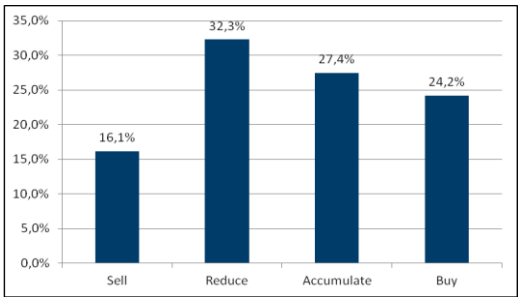

The graph above shows the distribution of ERP's recommendations of companies under coverage in 22nd of February 2017. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Häyhä, Pöyhönen

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Spot comment

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