

Expecting further pickup in H2'19

Scanfil didn't meet our revenue estimate but nevertheless managed to beat in terms of EBIT. Overall Q2 was rather undramatic, yet we note that volumes need to continue to improve during H2'19 if the company is to deliver on FY guidance. We retain our EUR 4.75 TP and our BUY rating.

Scanfil expects improved customer demand during H2'19

Scanfil posted EUR 143m in Q2 revenue (vs our EUR 158m estimate), thus adding 10% q/q but losing 6% y/y. Revenues were quite evenly spread between the five segments. The y/y revenue decline was mostly attributable to the Consumer Applications segment, which decreased by 29% (a major product will fold due to low demand), however the Communication segment (e.g. base stations) was also soft, declining by 18%. Despite soft Q2 revenue Scanfil managed to top our EUR 10.0m EBIT estimate. The reported EUR 10.3m figure (7.2% EBIT margin vs our 6.3% estimate) testifies to plant network efficiency (strong EBIT margin with a normal product mix). Scanfil notably has a strong record in cost control.

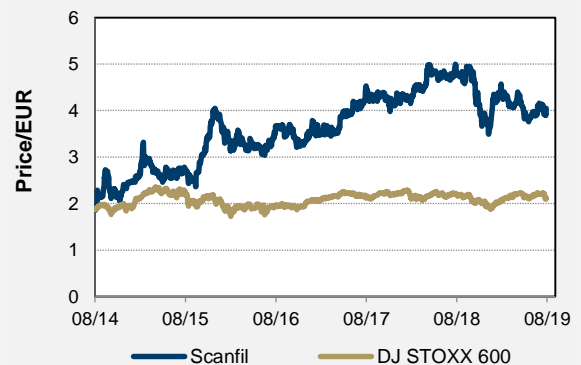
Scanfil writes down Hamburg, closes the HASEC acquisition

Scanfil's Hamburg unit has underperformed and so the company impaired the plant's goodwill. The line is now fully impaired (the write-off was EUR 3.6m), but the company still works to expand the unit's customer base and volumes. Scanfil also closed the HASEC deal near the end of Q2 (the German unit contributed EUR 1.5m to Q2 revenue). Scanfil expects HASEC to contribute EUR 20m in revenue and EUR 1m in EBIT during H2'19. We now expect EUR 321m in H2'19 revenue (EUR 301m) and EUR 22m in H2'19 EBIT (EUR 20m). Scanfil's updated guidance for FY 2019 is EUR 580-610m in revenue and EUR 39-42m in EBIT (previously EUR 560-610m and EUR 36-41m).

Minor estimate changes as the thesis remains unchanged

Scanfil's H1'19 was on the slow side (largely due to Q1) in revenue terms, meaning volumes need to improve further in H2'19 if the FY '19 guidance is to be met. The main risk is on the volume side; in our view Scanfil will have no problem reaching the EBIT target if the revenue goal is met. Scanfil still trades ca. 15-20% below its historical averages. We value Scanfil according to these multiples and thus hold our EUR 4.75 TP and BUY rating.

Rating BUY



Share price, EUR (Last trading day's closing price) 4.05

Target price, EUR 4.75

Latest change in recommendation 29-Oct-18

Latest report on company 18-Jun-19

Research paid by issuer: YES

No. of shares outstanding, '000's 63,895

No. of shares fully diluted, '000's 63,895

Market cap, EURm 259

Free float, % -

Exchange rate -

Reuters code SCANFLHE

Bloomberg code SCANFL FH

Average daily volume, EURm 0.1

Next interim report 25-Oct-19

Web site www.scanfil.com

Analyst Joonas Ilvonen

E-mail joonas.ilvonen@evli.com

Telephone +358 44 430 9071

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 |
|--------------------------|---------------|--------------|-------------------------|--------------------|------------|------------|-----------------------|-------------|----------------|------------|
| 2017 | 530 | 31 | 5.9% | 33 | 0.40 | 10.5 | 0.6 | 12.8 | 10.0 | 0.11 |
| 2018 | 563 | 38 | 6.7% | 36 | 0.44 | 10.1 | 0.5 | 8.4 | 8.1 | 0.13 |
| 2019E | 594 | 39 | 6.6% | 38 | 0.47 | 8.5 | 0.5 | 7.0 | 7.1 | 0.16 |
| 2020E | 623 | 41 | 6.5% | 40 | 0.47 | 8.6 | 0.4 | 7.1 | 6.5 | 0.16 |
| 2021E | 639 | 42 | 6.5% | 41 | 0.49 | 8.3 | 0.4 | 6.5 | 5.9 | 0.16 |
| Market cap, EURm | 259 | | BV per share 2019E, EUR | | 2.7 | | CAGR EPS 2018-21, % | | 3.9 | |
| Net debt 2019E, EURm | 17 | | Price/book 2019E | | 1.5 | | CAGR sales 2018-21, % | | 4.3 | |
| Enterprise value, EURm | 276 | | Dividend yield 2019E, % | | 3.9 | | ROE 2019E, % | | 19.0 | |
| Total assets 2019E, EURm | 329 | | Tax rate 2019E, % | | 20.7 | | ROCE 2019E, % | | 18.7 | |
| Goodwill 2019E, EURm | 10 | | Equity ratio 2019E, % | | 51.9 | | PEG, P/E 19/CAGR | | 4.1 | |

| SCANFIL PEER GROUP | MCAP MEUR | EV/EBITDA | | | EV/EBIT | | | EBIT-% | | |
|-------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | | 19 | 20 | 21 | 19 | 20 | 21 | 19 | 20 | 21 |
| Benchmark Electronics | 907 | | | | 15.2x | 12.7x | | 2.2 % | 2.6 % | |
| Celestica | 828 | 4.7x | 4.2x | 4.0x | 8.3x | 6.6x | | 2.6 % | 3.2 % | |
| exceet Group | 138 | | | | | | | | | |
| HANZA Holding | 46 | 4.6x | 3.9x | 3.6x | 10.4x | 8.1x | 6.1x | 3.8 % | 4.1 % | 5.1 % |
| Kitron | 169 | 8.6x | 7.5x | 7.0x | 11.4x | 9.9x | 9.3x | 6.3 % | 6.8 % | 6.7 % |
| Lacroix | 63 | 4.3x | 4.0x | | 7.2x | 6.1x | | 3.7 % | 4.1 % | |
| Neways Electronics Intl | 158 | 6.0x | 5.7x | | 8.5x | 8.2x | | 4.5 % | 4.5 % | |
| Plexus | 1510 | 9.6x | 8.7x | | 13.1x | 11.8x | | 4.5 % | 4.7 % | |
| Sanmina | 1870 | 4.9x | | | 6.7x | | | 4.0 % | | |
| SIIX | 491 | 6.9x | 6.0x | 5.1x | 10.2x | 8.4x | 7.5x | 3.6 % | 3.9 % | 4.1 % |
| Valuetronics | 175 | 2.5x | 2.4x | 2.2x | 3.0x | 2.9x | 2.7x | 7.7 % | 7.8 % | 8.1 % |
| Peer Group Average | 578 | 5.8x | 5.3x | 4.4x | 9.4x | 8.3x | 6.4x | 4.3 % | 4.7 % | 6.0 % |
| Peer Group Median | 175 | 4.9x | 5.0x | 4.0x | 9.3x | 8.2x | 6.8x | 3.9 % | 4.1 % | 5.9 % |
| Scanfil (Evli est.) | 259 | 5.5x | 5.1x | 4.7x | 7.1x | 6.5x | 5.9x | 6.6 % | 6.5 % | 6.5 % |

Scanfil prem./disc. to peer median

11 % 3 % 16 % -24 % -21 % -14 % 69 % 57 % 10 %

Source FactSet, Evli Research

| VALUATION RESULTS | BASE CASE DETAILS | VALUATION ASSUMPTIONS | ASSUMPTIONS FOR WACC | |
|--------------------------|----------------------------|-------------------------|--------------------------------|------|
| Current share price | 4.05 PV of Free Cash Flow | 190 Long-term growth, % | 1.5 Risk-free interest rate, % | 2.25 |
| DCF share value | 5.93 PV of Horizon value | 221 WACC, % | 8.5 Market risk premium, % | 5.8 |
| Share price potential, % | 46.4 Unconsolidated equity | 0 Spread, % | 0.5 Debt risk premium, % | 2.8 |
| Maximum value | 6.4 Marketable securities | 28 Minimum WACC, % | 8.0 Equity beta coefficient | 1.10 |
| Minimum value | 5.5 Debt - dividend | -60 Maximum WACC, % | 9.0 Target debt ratio, % | 20 |
| Horizon value, % | 53.8 Value of stock | 379 Nr of shares, Mn | 63.9 Effective tax rate, % | 20 |

| DCF valuation, EURm | 2018 | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | Horizon |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Net sales | 563 | 594 | 623 | 639 | 655 | 671 | 685 | 698 | 709 | 719 | 730 | 741 |
| <i>Sales growth, %</i> | <i>6.2</i> | <i>5.4</i> | <i>5.0</i> | <i>2.5</i> | <i>2.5</i> | <i>2.5</i> | <i>2.0</i> | <i>2.0</i> | <i>1.5</i> | <i>1.5</i> | <i>1.5</i> | <i>1.5</i> |
| Operating income (EBIT) | 38 | 39 | 41 | 42 | 43 | 44 | 44 | 45 | 46 | 47 | 47 | 48 |
| <i>EBIT margin, %</i> | <i>6.7</i> | <i>6.6</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> | <i>6.5</i> |
| + Depreciation+amort. | 9 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 12 | 12 | 12 | |
| - Income taxes | -9 | -8 | -10 | -10 | -10 | -10 | -11 | -11 | -11 | -11 | -11 | |
| - Change in NWC | -5 | -5 | -5 | -3 | -3 | -3 | -2 | -2 | -2 | -2 | -2 | |
| <i>NWC / Sales, %</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | <i>17.5</i> | |
| + Change in other liabs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| - Capital Expenditure | -11 | -21 | -11 | -11 | -12 | -12 | -12 | -13 | -13 | -13 | -14 | -14 |
| <i>Investments / Sales, %</i> | <i>2.0</i> | <i>3.6</i> | <i>1.8</i> | <i>1.8</i> | <i>1.8</i> | <i>1.8</i> | <i>1.8</i> | <i>1.8</i> | <i>1.8</i> | <i>1.9</i> | <i>1.9</i> | <i>1.9</i> |
| - Other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| = Unlevered Free CF (FCF) | 22 | 16 | 25 | 28 | 29 | 29 | 30 | 31 | 32 | 32 | 33 | 474 |
| = Discounted FCF (DFCF) | | 15 | 22 | 23 | 22 | 20 | 20 | 18 | 17 | 16 | 15 | 221 |
| = DFCF min WACC | | 15 | 23 | 24 | 22 | 21 | 20 | 19 | 18 | 17 | 16 | 249 |
| = DFCF max WACC | | 15 | 22 | 23 | 21 | 20 | 19 | 18 | 17 | 16 | 15 | 198 |

INTERIM FIGURES

| EVLI ESTIMATES, EURm | 2018Q1 | 2018Q2 | 2018Q3 | 2018Q4 | 2018 | 2019Q1 | 2019Q2 | 2019Q3E | 2019Q4E | 2019E | 2020E | 2021E |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net sales | 140 | 152 | 132 | 140 | 563 | 130 | 143 | 163 | 158 | 594 | 623 | 639 |
| EBITDA | 12 | 14 | 11 | 10 | 47 | 10 | 13 | 14 | 13 | 50 | 51 | 52 |
| <i>EBITDA margin (%)</i> | <i>8.9</i> | <i>9.0</i> | <i>8.6</i> | <i>7.0</i> | <i>8.4</i> | <i>7.7</i> | <i>9.4</i> | <i>8.5</i> | <i>8.2</i> | <i>8.5</i> | <i>8.3</i> | <i>8.2</i> |
| EBIT | 10 | 11 | 9 | 8 | 38 | 7 | 11 | 11 | 10 | 39 | 41 | 42 |
| <i>EBIT margin (%)</i> | <i>7.4</i> | <i>7.4</i> | <i>6.7</i> | <i>5.3</i> | <i>6.7</i> | <i>5.2</i> | <i>7.4</i> | <i>7.0</i> | <i>6.6</i> | <i>6.6</i> | <i>6.5</i> | <i>6.5</i> |
| Net financial items | -1 | -1 | 1 | 0 | -2 | -1 | 0 | 0 | 0 | -1 | -1 | -1 |
| Pre-tax profit | 9 | 10 | 9 | 7 | 36 | 6 | 11 | 11 | 10 | 38 | 40 | 41 |
| Tax | -2 | -2 | -2 | -2 | -8 | -1 | -2 | -2 | -2 | -8 | -10 | -10 |
| <i>Tax rate (%)</i> | <i>18.3</i> | <i>20.0</i> | <i>26.6</i> | <i>28.4</i> | <i>23.0</i> | <i>20.0</i> | <i>20.2</i> | <i>20.2</i> | <i>22.2</i> | <i>20.7</i> | <i>24.0</i> | <i>24.0</i> |
| Net profit | 8 | 8 | 7 | 5 | 28 | 5 | 9 | 9 | 8 | 30 | 30 | 31 |
| EPS | 0.12 | 0.13 | 0.11 | 0.08 | 0.44 | 0.08 | 0.14 | 0.14 | 0.12 | 0.47 | 0.47 | 0.49 |
| EPS adjusted (diluted no. of shares) | 0.12 | 0.13 | 0.11 | 0.08 | 0.44 | 0.08 | 0.14 | 0.14 | 0.12 | 0.47 | 0.47 | 0.49 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 | 0.13 | 0.00 | 0.00 | 0.00 | 0.00 | 0.16 | 0.16 | 0.16 |
| SALES, EURm | | | | | | | | | | | | |
| Group | 140 | 152 | 132 | 140 | 563 | 130 | 143 | 163 | 158 | 594 | 623 | 639 |
| Total | 140 | 152 | 132 | 140 | 563 | 130 | 143 | 163 | 158 | 594 | 623 | 639 |
| SALES GROWTH, Y/Y % | | | | | | | | | | | | |
| Group | 14.2 | 14.5 | 0.5 | -2.9 | 6.2 | -6.9 | -6.0 | 24.0 | 12.7 | 5.4 | 5.0 | 2.5 |
| Total | 14.2 | 14.5 | 0.5 | -2.9 | 6.2 | -6.9 | -6.0 | 24.0 | 12.7 | 5.4 | 5.0 | 2.5 |
| EBIT, EURm | | | | | | | | | | | | |
| Group | 10 | 11 | 9 | 8 | 38 | 7 | 11 | 11 | 10 | 39 | 41 | 42 |
| Total | 10 | 11 | 9 | 8 | 38 | 7 | 11 | 11 | 10 | 39 | 41 | 42 |
| EBIT margin, % | | | | | | | | | | | | |
| Group | 7.4 | 7.4 | 6.7 | 5.3 | 6.7 | 5.2 | 7.4 | 7.0 | 6.6 | 6.6 | 6.5 | 6.5 |
| Total | 7.4 | 7.4 | 6.7 | 5.3 | 6.7 | 5.2 | 7.4 | 7.0 | 6.6 | 6.6 | 6.5 | 6.5 |

| INCOME STATEMENT, EURm | 2014 | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|--|-------------|-------------|-------------|------------|------------|------------|------------|------------|
| Sales | 215 | 377 | 508 | 530 | 563 | 594 | 623 | 639 |
| <i>Sales growth (%)</i> | <i>13.8</i> | <i>75.9</i> | <i>34.6</i> | <i>4.3</i> | <i>6.2</i> | <i>5.4</i> | <i>5.0</i> | <i>2.5</i> |
| Costs | -194 | -347 | -475 | -490 | -516 | -543 | -572 | -586 |
| Reported EBITDA | 21 | 30 | 33 | 40 | 47 | 50 | 51 | 52 |
| Extraordinary items in EBITDA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>EBITDA margin (%)</i> | <i>9.7</i> | <i>8.1</i> | <i>6.5</i> | <i>7.5</i> | <i>8.4</i> | <i>8.5</i> | <i>8.3</i> | <i>8.2</i> |
| Depreciation | -5 | -11 | -11 | -9 | -9 | -11 | -11 | -11 |
| EBITA | 16 | 20 | 22 | 31 | 38 | 39 | 41 | 42 |
| Goodwill amortization / writedown | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reported EBIT | 16 | 20 | 22 | 31 | 38 | 39 | 41 | 42 |
| <i>EBIT margin (%)</i> | <i>7.6</i> | <i>5.2</i> | <i>4.4</i> | <i>5.9</i> | <i>6.7</i> | <i>6.6</i> | <i>6.5</i> | <i>6.5</i> |
| Net financials | 0 | 0 | -1 | 1 | -2 | -1 | -1 | -1 |
| Pre-tax profit | 16 | 19 | 21 | 33 | 36 | 38 | 40 | 41 |
| Extraordinary items | 0 | -6 | -15 | 0 | 0 | 0 | 0 | 0 |
| Taxes | -4 | -5 | -6 | -7 | -8 | -8 | -10 | -10 |
| Minority shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 12 | 8 | 0 | 26 | 28 | 30 | 30 | 31 |
| BALANCE SHEET, EURm | | | | | | | | |
| Assets | | | | | | | | |
| Fixed assets | 32 | 68 | 57 | 62 | 64 | 74 | 75 | 75 |
| <i>% of sales</i> | <i>15</i> | <i>18</i> | <i>11</i> | <i>12</i> | <i>11</i> | <i>13</i> | <i>12</i> | <i>12</i> |
| Goodwill | 6 | 11 | 11 | 10 | 10 | 10 | 10 | 10 |
| <i>% of sales</i> | <i>3</i> | <i>3</i> | <i>2</i> | <i>2</i> | <i>2</i> | <i>2</i> | <i>2</i> | <i>2</i> |
| Inventory | 36 | 91 | 85 | 101 | 96 | 101 | 106 | 109 |
| <i>% of sales</i> | <i>17</i> | <i>24</i> | <i>17</i> | <i>19</i> | <i>17</i> | <i>17</i> | <i>17</i> | <i>17</i> |
| Receivables | 41 | 107 | 92 | 108 | 104 | 109 | 115 | 117 |
| <i>% of sales</i> | <i>19</i> | <i>28</i> | <i>18</i> | <i>20</i> | <i>18</i> | <i>18</i> | <i>18</i> | <i>18</i> |
| Liquid funds | 19 | 22 | 20 | 21 | 28 | 30 | 31 | 32 |
| <i>% of sales</i> | <i>9</i> | <i>6</i> | <i>4</i> | <i>4</i> | <i>5</i> | <i>5</i> | <i>5</i> | <i>5</i> |
| Total assets | 134 | 302 | 267 | 307 | 306 | 329 | 341 | 348 |
| Liabilities | | | | | | | | |
| Equity | 95 | 100 | 108 | 125 | 148 | 170 | 191 | 212 |
| <i>% of sales</i> | <i>44</i> | <i>27</i> | <i>21</i> | <i>24</i> | <i>26</i> | <i>29</i> | <i>31</i> | <i>33</i> |
| Deferred taxes | 0 | 3 | 3 | 5 | 5 | 5 | 5 | 5 |
| <i>% of sales</i> | <i>0</i> | <i>1</i> | <i>1</i> | <i>1</i> | <i>1</i> | <i>1</i> | <i>1</i> | <i>1</i> |
| Interest bearing debt | 9 | 88 | 60 | 61 | 52 | 47 | 34 | 17 |
| <i>% of sales</i> | <i>4</i> | <i>23</i> | <i>12</i> | <i>12</i> | <i>9</i> | <i>8</i> | <i>5</i> | <i>3</i> |
| Non-interest bearing current liabilities | 29 | 105 | 88 | 113 | 99 | 104 | 109 | 112 |
| <i>% of sales</i> | <i>13</i> | <i>28</i> | <i>17</i> | <i>21</i> | <i>18</i> | <i>18</i> | <i>18</i> | <i>18</i> |
| Other interest free debt | 1 | 4 | 1 | 2 | 2 | 2 | 2 | 2 |
| <i>% of sales</i> | <i>0</i> | <i>1</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> |
| Total liabilities | 134 | 302 | 267 | 307 | 306 | 329 | 341 | 348 |
| CASH FLOW, EURm | | | | | | | | |
| + EBITDA | 21 | 30 | 33 | 40 | 47 | 50 | 51 | 52 |
| - Net financial items | 0 | 0 | -1 | 1 | -2 | -1 | -1 | -1 |
| - Taxes | -3 | -4 | -5 | -8 | -8 | -8 | -10 | -10 |
| - Increase in Net Working Capital | -5 | -8 | -6 | -6 | -5 | -5 | -5 | -3 |
| +/- Other | -1 | -6 | -4 | -7 | 0 | 0 | 0 | 0 |
| = Cash flow from operations | 11 | 13 | 16 | 21 | 32 | 36 | 36 | 39 |
| - Capex | -8 | -52 | -5 | -21 | -11 | -21 | -11 | -11 |
| - Acquisitions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| + Divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| = Net cash flow | 3 | -39 | 11 | 1 | 21 | 15 | 24 | 28 |
| +/- Change in interest-bearing debt | -9 | 79 | -28 | 1 | -9 | -5 | -13 | -17 |
| +/- New issues/buybacks | 5 | 1 | 13 | -4 | 3 | 0 | 0 | 0 |
| - Paid dividend | -3 | -4 | -5 | -6 | -7 | -8 | -10 | -10 |
| +/- Change in loan receivables | 0 | 1 | 2 | 10 | 0 | 0 | 0 | 0 |
| Change in cash | -4 | 38 | -7 | 2 | 8 | 2 | 1 | 1 |

| KEY FIGURES | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| M-cap | 220 | 223 | 272 | 281 | 259 | 259 | 259 |
| Net debt | 66 | 40 | 41 | 24 | 17 | 3 | -15 |
| Enterprise value | 286 | 263 | 312 | 305 | 276 | 261 | 244 |
| Sales | 377 | 508 | 530 | 563 | 594 | 623 | 639 |
| EBITDA | 30 | 33 | 40 | 47 | 50 | 51 | 52 |
| EBIT | 20 | 22 | 31 | 38 | 39 | 41 | 42 |
| Pre-tax | 19 | 21 | 33 | 36 | 38 | 40 | 41 |
| Earnings | 14 | 15 | 26 | 28 | 30 | 30 | 31 |
| Book value | 100 | 108 | 125 | 148 | 170 | 191 | 212 |
| Valuation multiples | | | | | | | |
| EV/sales | 0.8 | 0.5 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 |
| EV/EBITDA | 9.4 | 7.9 | 7.8 | 6.5 | 5.5 | 5.1 | 4.7 |
| EV/EBITA | 14.6 | 11.8 | 10.0 | 8.1 | 7.1 | 6.5 | 5.9 |
| EV/EBIT | 14.6 | 11.8 | 10.0 | 8.1 | 7.1 | 6.5 | 5.9 |
| EV/operating cash flow | 22.4 | 16.0 | 14.7 | 9.1 | 7.5 | 7.2 | 6.1 |
| EV/cash earnings | 11.1 | 9.9 | 9.2 | 8.2 | 6.7 | 6.4 | 5.8 |
| P/E | 15.8 | 14.7 | 10.5 | 10.1 | 8.5 | 8.6 | 8.3 |
| P/E excl. goodwill | 15.8 | 14.7 | 10.5 | 10.1 | 8.5 | 8.6 | 8.3 |
| P/B | 2.2 | 2.1 | 2.2 | 1.9 | 1.5 | 1.4 | 1.2 |
| P/sales | 0.6 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| P/CF | 17.2 | 13.5 | 12.8 | 8.4 | 7.0 | 7.1 | 6.5 |
| Target EV/EBIT | 0.0 | 0.0 | 0.0 | 0.0 | 8.2 | 7.6 | 6.9 |
| Target P/E | 0.0 | 0.0 | 13.2 | 10.5 | 10.0 | 10.1 | 9.7 |
| Target P/B | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | 1.6 | 1.4 |
| Per share measures | | | | | | | |
| Number of shares | 57,730 | 63,670 | 63,895 | 63,895 | 63,895 | 63,895 | 63,895 |
| Number of shares (diluted) | 57,730 | 63,670 | 63,895 | 63,895 | 63,895 | 63,895 | 63,895 |
| EPS | 0.24 | 0.24 | 0.40 | 0.44 | 0.47 | 0.47 | 0.49 |
| EPS excl. goodwill | 0.24 | 0.24 | 0.40 | 0.44 | 0.47 | 0.47 | 0.49 |
| Cash EPS | 0.45 | 0.42 | 0.53 | 0.58 | 0.65 | 0.64 | 0.66 |
| Operating cash flow per share | 0.22 | 0.26 | 0.33 | 0.53 | 0.58 | 0.57 | 0.62 |
| Capital employed per share | 2.87 | 2.33 | 2.59 | 2.70 | 2.94 | 3.03 | 3.08 |
| Book value per share | 1.74 | 1.70 | 1.95 | 2.32 | 2.67 | 2.98 | 3.32 |
| Book value excl. goodwill | 1.55 | 1.53 | 1.79 | 2.16 | 2.51 | 2.82 | 3.15 |
| Dividend per share | 0.08 | 0.09 | 0.11 | 0.13 | 0.16 | 0.16 | 0.16 |
| Dividend payout ratio, % | 33.1 | 37.9 | 27.2 | 29.9 | 33.0 | 33.0 | 33.0 |
| Dividend yield, % | 2.1 | 2.6 | 2.6 | 3.0 | 3.9 | 3.8 | 4.0 |
| Efficiency measures | | | | | | | |
| ROE | 14.3 | 14.5 | 22.2 | 20.4 | 19.0 | 16.7 | 15.5 |
| ROCE | 13.4 | 12.5 | 17.7 | 19.6 | 18.7 | 18.3 | 18.3 |
| Financial ratios | | | | | | | |
| Capex/sales, % | 13.7 | 1.0 | 3.9 | 2.0 | 3.6 | 1.8 | 1.8 |
| Capex/depreciation excl. goodwill,% | 431.1 | 49.6 | 240.1 | 120.3 | 190.5 | 104.7 | 104.7 |
| Net debt/EBITDA, book-weighted | 2.2 | 1.2 | 1.0 | 0.5 | 0.3 | 0.1 | -0.3 |
| Debt/equity, market-weighted | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| Equity ratio, book-weighted | 33.2 | 40.6 | 40.6 | 48.4 | 51.9 | 55.9 | 60.9 |
| Gearing | 0.65 | 0.37 | 0.33 | 0.16 | 0.10 | 0.01 | -0.07 |
| Number of employees, average | 2,641 | 3,483 | 3,254 | 3,414 | 3,414 | 3,414 | 3,414 |
| Sales per employee, EUR | 142,862 | 145,843 | 162,846 | 164,909 | 173,843 | 182,535 | 187,099 |
| EBIT per employee, EUR | 7,421 | 6,403 | 9,619 | 11,072 | 11,453 | 11,865 | 12,161 |

COMPANY DESCRIPTION:

INVESTMENT CASE:

| OWNERSHIP STRUCTURE | SHARES | EURm | % |
|--|------------|---------|-------|
| Takanen Harri | 9,776,664 | 39.595 | 15.3% |
| Takanen Jarkko | 8,511,169 | 34.470 | 13.3% |
| Varikot Oy | 7,606,442 | 30.806 | 11.9% |
| Takanen Jorma | 6,079,305 | 24.621 | 9.5% |
| Tolonen Jonna | 3,351,950 | 13.575 | 5.2% |
| Pöllä Reijo | 3,328,745 | 13.481 | 5.2% |
| Laakkonen Mikko | 2,531,187 | 10.251 | 4.0% |
| Takanen Martti | 1,947,018 | 7.885 | 3.0% |
| Foundation of Riitta and Jorma J.Takanen | 1,900,000 | 7.695 | 3.0% |
| Sijoitusrahasto Aktia Capital | 1,528,000 | 6.188 | 2.4% |
| Ten largest | 46,560,480 | 188.570 | 73% |
| Residual | 17,334,959 | 70.207 | 27% |
| Total | 63,895,439 | 258.777 | 100% |

EARNINGS CALENDAR

October 25, 2019

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Petteri Jokitalo

Yritystie 6, FI-85410 Sievi

CFO: Kai Valo

Tel: +358 8 48 82 111

IR:

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 |

Important Disclosures

Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at <https://research.evli.com/JasperAllModels.action?authParam=key:461&authParam=x:G3rNagWrtf7K&authType=3>

Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is updated at least 2 timer per year.

| Recommendation | Percentage |
|----------------|------------|
| Sell | 8% |
| Hold | 53% |
| Buy | 39% |

The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Ilvonen

This research report has been prepared by Evli Research Partners Plc ("ERP" or "Evli Research"). ERP is a subsidiary of Evli Bank Plc. Production of the investment recommendation has been concluded on [12.8.2019, 8:40]. This report has been published on [12.8.2019, 8:55].

None of the analysts contributing to this report, persons under their guardianship or corporations under their control have a position in the shares of the company or related securities.

The date and time for any price of financial instruments mentioned in the recommendation refer to the previous trading day's closing price(s) unless otherwise stated in the report.

Each analyst responsible for the content of this report assures that the expressed views accurately reflect the personal views of each analyst on the covered companies and securities. Each analyst assures that (s)he has not been, nor are or will be, receiving direct or indirect compensation related to the specific recommendations or views contained in this report.

Companies in the Evli Group, affiliates or staff of companies in the Evli Group, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

Neither ERP nor any company within the Evli Group have managed or co-managed a public offering of the company's securities during the last 12 months prior to, received compensation for investment banking services from the company during the last 12 months prior to the publication of the research report.

ERP has signed an agreement with the issuer of the financial instruments mentioned in the recommendation, which includes production of research reports. This assignment has a limited economic and financial impact on ERP and/or Evli. Under the assignment ERP performs services including, but not limited to, arranging investor meetings or –events, investor relations communication advisory and production of research material.

ERP or another company within the Evli Group DOES not have an agreement with the company to perform market making or liquidity providing services.

For the prevention and avoidance of conflicts of interests with respect to this report, there is an information barrier (Chinese wall) between Investment Research and Corporate Finance units concerning unpublished investment banking services to the company. The remuneration of the analyst(s) is not tied directly or indirectly to investment banking transactions or other services performed by Evli Bank Plc or any company within Evli Group.

This report has not been disclosed to the company prior to its dissemination.

This report is provided and intended for informational purposes only and may not be used or considered under any circumstances as an offer to sell or buy any securities or as advice to trade any securities.

This report is based on sources ERP considers to be correct and reliable. The sources include information providers Reuters and Bloomberg, stock-exchange releases from the companies and other company news, Statistics Finland and articles in newspapers and magazines. However, ERP does not guarantee the materialization, correctness, accuracy or completeness of the information, opinions, estimates or forecasts expressed or implied in the report. In addition, circumstantial changes may have an influence on opinions and estimates presented in this report. The opinions and estimates presented are valid at the moment of their publication and they can be changed without a separate announcement. Neither ERP nor any company within the Evli Group are responsible for amending, correcting or updating any information, opinions or estimates contained in this report. Neither ERP nor any company within the Evli Group will compensate any direct or consequential loss caused by or derived from the use of the information represented in this publication.

All information published in this report is for the original recipient's private and internal use only. ERP reserves all rights to the report. No part of this publication may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, or stored in any retrieval system of any nature, without the written permission of ERP.

This report or its copy may not be published or distributed in Australia, Canada, Hong Kong, Japan, New Zealand, Singapore or South Africa. The publication or distribution of this report in certain other jurisdictions may also be restricted by law. Persons into whose possession this report comes are required to inform themselves about and to observe any such restrictions.

Evli Bank Plc is not registered as a broker-dealer with the U. S. Securities and Exchange Commission ("SEC"), and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Evli Bank is not a member of the Financial Industry Regulatory Authority ("FINRA"). It and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance and disclosure of potential conflicts of interest. This research report is only being offered in U.S. by Auerbach Grayson & Company, LLC (Auerbach Grayson) to Major U.S. Institutional Investors and is not available to, and should not be used by, any U.S. person or entity that is not a Major U.S. Institutional Investor. Auerbach Grayson is a broker-dealer registered with the U.S. Securities and Exchange Commission and is a member of the FINRA. U.S. entities seeking more information about any of the issuers or securities discussed in this report should contact Auerbach Grayson. The securities of non-U.S. issuers may not be registered with or subject to SEC reporting and other requirements.

ERP is not a supervised entity but its parent company Evli Bank Plc is supervised by the Finnish Financial Supervision Authority.

Contact information**SALES, TRADING AND RESEARCH****Equity Sales**

Ari Laine +358 9 4766 9115
Lauri Ahokanto +358 9 4766 9117
Niclas Henelius +358 9 4766 9116

Trading

Lauri Vehkaluoto (Head) +358 9 4766 9130
Pasi Väisänen +358 9 4766 9120
Antti Kässi +358 9 4766 9120

ETFs and Derivatives

Tobias Björk (Head) +358 9 4766 9130
Joachim Dannberg +358 9 4766 9123
Kimmo Lijja +358 9 4766 9130
Sami Järvinen +358 9 4766 9110

Structured Investments

Heikki Savijoki +358 9 4766 9726
Aki Lakkisto +358 9 4766 9123

Equity Research

Jonas Forslund +358 9 4766 9314
Joonas Ilvonen +358 44 430 9071
Jerker Salokivi +358 9 4766 9149
Anna-Liisa Rissanen +358 40 157 9919

Evli Investment Solutions

Johannes Asuja +358 9 4766 9205
Markku Reinikainen +358 9 4766 9669



EVLI BANK PLC
Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail firstname.lastname@evli.com

**EVLI BANK PLC,
STOCKHOLMSFILIAL**
Regeringsgatan 67 P.O. Box 16354
SE-103 26 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001