

Bright future of discount retailing

Tokmanni continued its strong performance in 2019 as sales grew by 8.5% y/y while adj. EBIT margin improved to 7.5%. Profitability improvement through gross margin improvement and OPEX scalability is high on the company's agenda and we see the set targets to be reachable. We keep our rating "BUY" with TP of EUR 16.

Targeting EUR 1bn of sales

Tokmanni targets EUR 1bn in sales with further store network expansion and LFL growth. With 191 stores at the end of 2019 and at the targeted store network expansion pace (12,000m2 or ~5 stores annually) Tokmanni is set to reach its target of over 200 stores within the next few years. The company's LFL growth has notably improved from 2017 levels as it was 5.6% y/y in 2018 and 4.3% y/y in 2019. We expect Tokmanni to reach its sales target of EUR 1bn during 2020E.

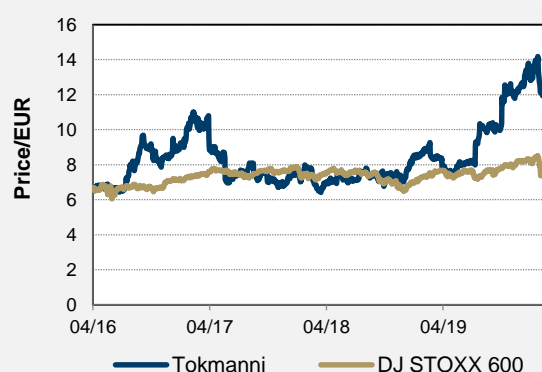
Further adj. EBIT margin improvement potential

Tokmanni targets to increase its adj. EBIT margin to ~9%. The adj. EBIT margin target implies ~1.5 percentage point (pp) margin improvement compared to the level reached in 2019 (7.5%). Some 0.5-1.5pp of this is to come from gross margin, which is to improve primarily driven by increased direct sourcing and by increased share of private label products in the mix. The targeted gross margin improvement is in line with what we had already incorporated into our estimates and it reaffirms the validity of further sourcing improvement potential, which has been key to our investment case. OPEX scalability should contribute the remaining 0.5-1.0pp. Positive LFL growth and more efficient operations are expected to be a key driver behind OPEX scalability.

We retain our rating "BUY" and TP of EUR 16

We approach Tokmanni's valuation through our scenario analysis and valuation multiples. Our scenario analysis, with emphasis on base case and optimistic estimates, yields a fair value of EUR 16.0. On our estimates, Tokmanni trades at 20E-21E EV/EBIT multiple of 12.9x and 11.7x which translates into 7-10% discount compared to the Nordic non-grocery peers and 12-17% discount compared to the international discount peers. We keep our rating "BUY" and TP of EUR 16 intact.

Rating BUY



Share price, EUR (Last trading day's closing price) 11.94
Target price, EUR 16.0

Latest change in rating 31-Oct-19
Latest report on company 10-Feb-20
Research paid by issuer: YES
No. of shares outstanding, '000's 58,819
No. of shares fully diluted, '000's 58,819
Market cap, EURm 702
Free float, % 78.8
Exchange rate 1.000
Reuters code TOKMAN.HE
Bloomberg code TOKMAN FH
Average daily volume, EURm na.
Next interim report 29-Apr-20
Web site ir.tokmanni.fi/en/investors

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	870.4	52.0	6.0%	10.1	0.56	12.9	0.9	15.4	2.4	0.50
2019	944.3	70.4	7.5%	28.3	0.82	15.4	1.2	16.0	3.8	0.62
2020E	1,003.0	82.1	8.2%	61.4	0.96	12.4	1.1	12.9	8.7	0.67
2021E	1,040.6	89.6	8.6%	53.1	1.06	11.3	1.0	11.7	7.6	0.74
2022E	1,078.8	94.8	8.8%	60.4	1.12	10.6	1.0	10.8	8.6	0.79
Market cap, EURm	702		Gearing 2020E, %	173.5		CAGR EPS 2019-22, %		11.1		
Net debt 2020E, EURm	355		Price/book 2020E	3.4		CAGR sales 2019-22, %		4.5		
Enterprise value, EURm	1,058		Dividend yield 2020E, %	5.6		ROE 2020E, %		29.1		
Total assets 2020E, EURm	751		Tax rate 2020E, %	19.7		ROCE 2020E, %		13.7		
Goodwill 2020E, EURm	135		Equity ratio 2020E, %	27.3		PEG, P/E 20/CAGR		1.8		

Investment Summary

Only general discount retailer with nationwide store network in Finland

Tokmanni is the largest general discount retailer in Finland, selling both non-grocery and grocery products in seven different product categories. The company was founded in 1989 and nowadays it is the only general discount retailer with a nationwide store network in Finland. ~99.4% of Tokmanni's revenue came from physical stores in 2019.

Targeting EUR 1bn of sales and adj. EBIT margin of ~9%

Tokmanni targets EUR 1bn in sales with further store network expansion and LFL growth. With 191 stores at the end of 2019 and at the targeted store network expansion pace (12,000m² or ~5 stores annually) Tokmanni is set to reach its target of over 200 stores within the next few years. The company targets to gradually increase its adj. EBIT margin to ~9%. The adj. EBIT margin target implies ~1.5pp margin improvement compared to the level reached in 2019 (7.5%). Approximately 0.5-1.5pp of this is to come from gross margin, which is to improve primarily driven by increased direct sourcing and by increased share of private label products in the mix. The targeted gross margin improvement is in line with what we had already incorporated into our estimates and it reaffirms the validity of further sourcing improvement potential, which has been key to our investment case. OPEX scalability should contribute the remaining 0.5-1.0pp. Positive LFL growth and more efficient operations are expected to be a key driver behind OPEX scalability.

Gross margin improvement potential of 0.5-1.5pp

LFL growth has developed favorably in 2018-2019 while OPEX has been well controlled

The competitive field for Tokmanni is wide and fragmented and in general the competition has been tight in recent years. Tokmanni's revenue growth has mainly been supported by new store openings rather than LFL growth in recent years, but in 2018-2019, the financial performance notably improved as LFL growth turned from negative in 2017 (-1.3%) to positive in 2018 (+5.6%) and in 2019 (+4.3%), supported by successful season sales and campaigns as well as increased customer numbers. Despite of active take on pricing, Tokmanni has been able to improve its gross margin level. Comparable gross margin was 34.4% in 2019 while OPEX has been well controlled.

We keep our rating "BUY" with TP of EUR 16

We approach Tokmanni's valuation through our scenario analysis and valuation multiples. Our scenario analysis consists of three scenarios: base case, optimistic and pessimistic. Our base case scenario results in a fair value of EUR 13.7. Our optimistic estimates yield a fair value of EUR 22.3 while our pessimistic scenario yields a fair value of EUR 8.5. We put more emphasize to our base case and optimistic estimates as Tokmanni has shown ability to successfully execute its strategy and we expect the company is set to reach its profitability and sales targets within the next few years. Therefore, our scenario analysis yields a fair value of EUR 16.0. On our estimates, Tokmanni trades at 20E-21E EV/EBIT multiple of 12.9x and 11.7x, which translates into 7-10% discount compared to the Nordic non-grocery peer group and 12-17% discount compared to the international discount peers. With our target price of EUR 16 and estimates, Tokmanni trades with a slight premium compared to the Nordic non-grocery peers but close to its international discount peers in 2020E-2021E. We keep our rating "BUY" with TP of EUR 16.

Company Description

The largest general discount retailer in Finland with 191 stores

Tokmanni, founded in 1989 in Eastern Finland is the largest general discount retail chain in Finland when measured with both revenue and the number of stores. At the end of 2019 the company had 191 stores across the country, which makes Tokmanni the only nationwide general discount retailer in Finland. Tokmanni operates in leased/rented premises and does not generally own properties. The group's revenue is generated through the sale of goods, i.e. the group has no significant sale of services. The company has been publicly traded since 2016.

Sales structure

Seven main product categories with over 25,000 products

Tokmanni's total revenue in 2019 was EUR 944m. The company's product assortment consists of over 25,000 products in seven different categories. The company has not reported category-specific revenues. Tokmanni's seven product categories are (in no specific order):

- Garden
- Health, beauty and well-being
- Cleaning and storage
- Home improvement
- Home decoration and kitchen
- Clothing
- Groceries

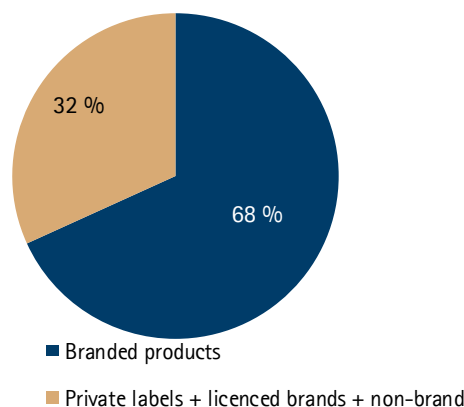
Tokmanni has branded products but also its own private labels

According to the management, the company is the market leader in Finland within gardening and cleaning and storage product categories. In 2019, the company launched two new private labels in health and beauty and cleaning product categories. The company continues to introduce new private labels in the targeted product categories. Tokmanni currently has approximately 50 private labels, out of which 10-15 are meaningful in terms of sales.

Seasonal products often carry higher gross margins

Tokmanni's business is seasonal with Q4 being the largest quarter due to Christmas. Q1 is the smallest quarter in terms of revenue. Seasonal products are an important part of Tokmanni's business, as they are often private label products which carry higher gross margins. Demand for seasonal products is somewhat weather-sensitive and weather has been mentioned to impact the business in Q1 (winter products) and especially in Q2 (garden, yard and home products).

Figure 1: Tokmanni's revenue by category



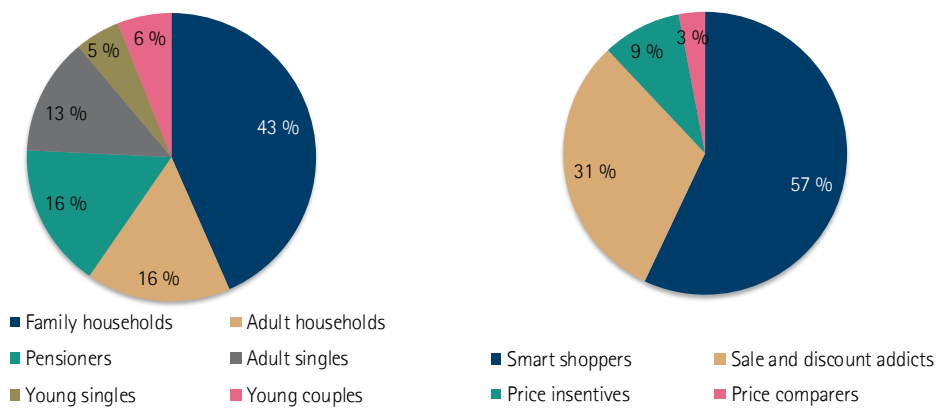
Source: Tokmanni (2019)

Customers

Family households are the biggest customer group

Tokmanni has a wide customer base and the company enjoys popularity among the consumers as the product assortment is broad and price competitive. As the company's store network is nationwide, stores can be found in small towns but also in busy city centers. By far the largest customer group is family households which represents almost half of Tokmanni's customer base. Pensioners and adult singles are the next largest groups while young people are minority of the customer base. Behaviourally, smart shoppers are most likely to visit Tokmanni's stores, following sale and discount addicts.

Figure 2: Tokmanni's customer base and types



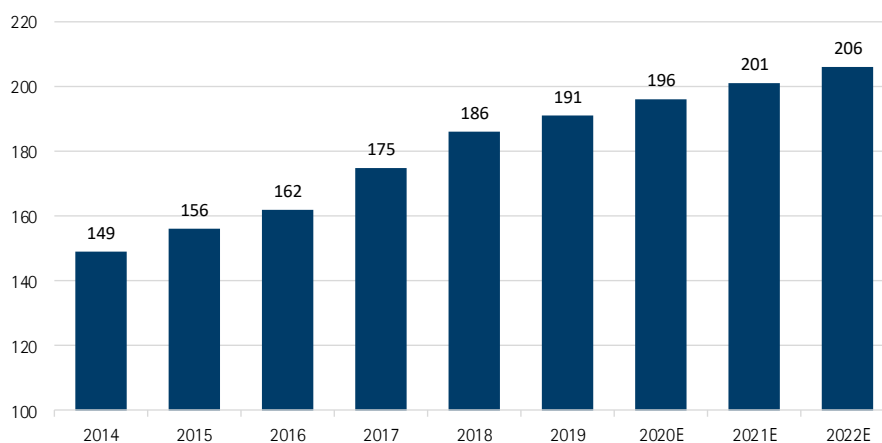
Source: Tokmanni

Business model

191 stores across the country

Tokmanni's business model relies on its nationwide store network and attractive pricing model combined with its wide product assortment of A-branded products as well as private labels and non-branded products. The company had 191 stores across the country at the end of 2019 and the company targets to increase its store network to cover over 200 stores. In 2018, the company opened 11 new stores (including the converted Ale-Makasiini stores) while 5 new stores were opened in 2019.

Figure 3: Number of stores at year-end



Source: Tokmanni, Evli Research

Increasing popularity in online sales

In 2019, ~99.4% of Tokmanni's sales came from physical stores while online sales were approximately 0.6% of the total revenue. Tokmanni's business is thus primarily based on physical stores, but the importance of online is recognized and efforts to develop an omni-channel approach have proceeded. In 2018, Tokmanni moved its online store onto a new platform and the number of products that can be bought online nearly doubled to approximately 10,000 products compared to the beginning of 2018. During 2019, the selection offered online has further improved. In 2019, online sales increased by ~43.5% from the previous year. Some of Tokmanni's products (i.e. ReUse computers) can only be bought online.

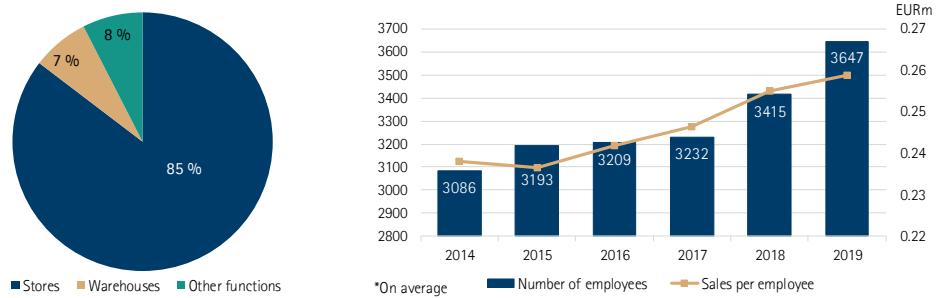
Mäntsälä logistics center is designed to serve a store network of ~200 stores

Most of Tokmanni's products are delivered to stores from its logistics center, located in Mäntsälä. The Mäntsälä logistics center has been designed to serve a store network of some 200 stores. The company has not informed about plans regarding the warehouse and inventory once the target of over 200 stores is reached. Prior Christmas season, Tokmanni also uses its warehouse in Lempäälä as a temporary solution to support the Mäntsälä logistics center.

Most of Tokmanni's employees work in stores

In 2019, Tokmanni had on average 3647 employees. Employees in stores represents some 85% of the total employees while ~7% of the employees are working at warehouses and ~8% in other functions. Sales employees are a large part of Tokmanni's employee base and the company also uses temporary work force during holiday and campaign seasons.

Figure 4: Employee numbers and categories



Source: Tokmanni (2019), Evli Research

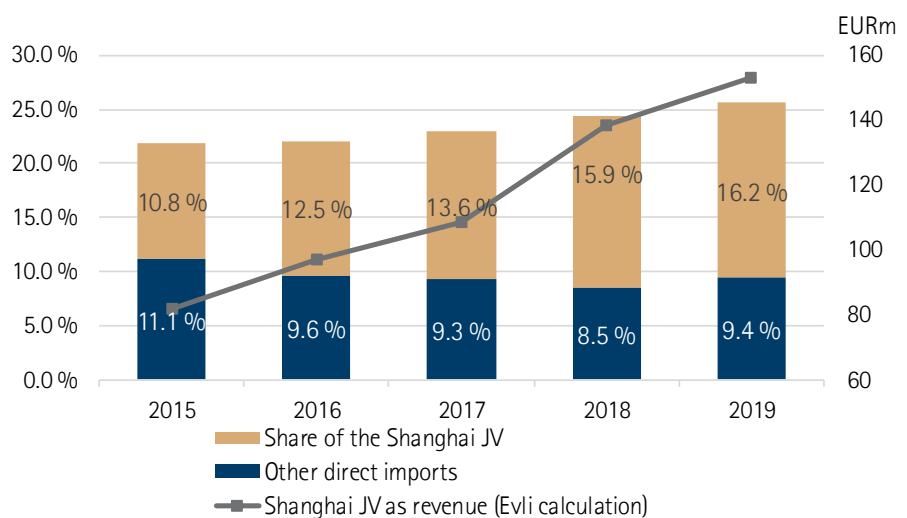
Sourcing – Focus on increasing direct import

Tokmanni sources its products from agents, importers and straight from manufacturers in mainly Finland, Europe and Asia. The supplier network is wide and de-centralized. Tokmanni is committed to responsible sourcing, and it seeks to buy products only from responsible suppliers.

Sourcing benefits of the JV are based cutting out the middlemen and by combining purchasing

Tokmanni’s strategic focus is on increasing sourcing directly from suppliers, as cutting out the middlemen improves Tokmanni’s gross margin and strengthens the price competitiveness and price image. More efficient sourcing has been primarily linked to the joint venture with Norwegian Europris: Tokmanni has had a purchasing joint venture in Shanghai with Europris since 2013 with 50/50 ownership. Sourcing benefits of the JV are based on cutting out the middlemen and by combining purchasing volumes. In 2015 Tokmanni estimated that the average gross margin benefit of products sourced via the Shanghai office was typically some 10-15%-points. In 2018, Europris acquired 20% of the Swedish ÖöB, which should benefit also Tokmanni through increased purchasing volumes. The Shanghai office currently has approximately 25 employees.

Figure 5: Direct imports as % of total revenue



Source: Tokmanni, Evli Research

Direct import via Shanghai JV has increased

The revenue share of direct imports remained relatively flat in 2015-2017 at 22-23%. In 2018, the share of direct import increased to ~24% and in 2019, to ~26%. Increasing the share of direct import is of high importance on the company’s agenda as it translates into higher gross margins. Direct import from Shanghai has increased from 2015. In 2019, the revenue share of Shanghai JV was 16.2%. As most of the private labels are

imported via the sourcing offices, increasing the share of private labels will increase the share of direct import.

Market

The competitive field is fragmented

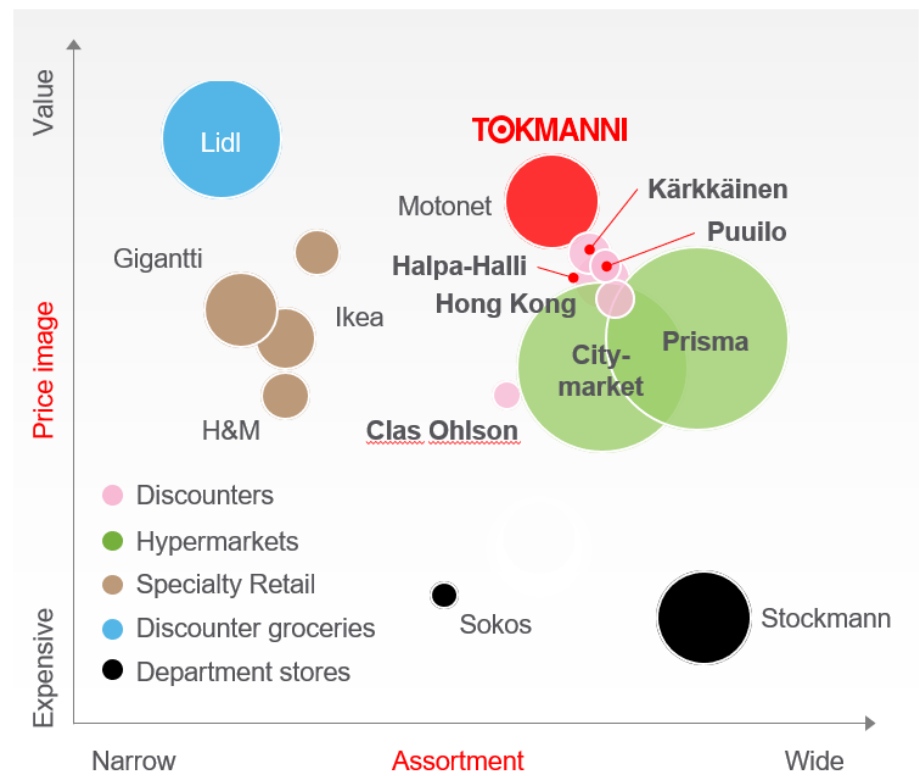
Tokmanni's target market is large and the competitive field is fragmented. The competitive environment includes direct competitors such as hypermarkets, general discount stores and department stores, as well as indirect and product-group specific competitors such as specialty retailers and online. In general, markets have offered limited growth in recent years.

The competitive field is wide and fragmented

Tokmanni's competitors varies from online retailers to hypermarkets

Tokmanni's main competitors include hypermarkets (K-Citymarket and Prisma) and other discount retailers in Finland (such as Halpa-Halli, J. Kärkkäinen, Hong Kong/Rusta, Veljekset Keskinen, Minimani and Clas Ohlson). Tokmanni also competes with a wide variety of specialty retailers (such as Gigantti, H&M, Ikea and XXL) and online retailers.

Figure 6: Tokmanni's competitive field



Source: Tokmanni

Competitive advantages (and disadvantages)

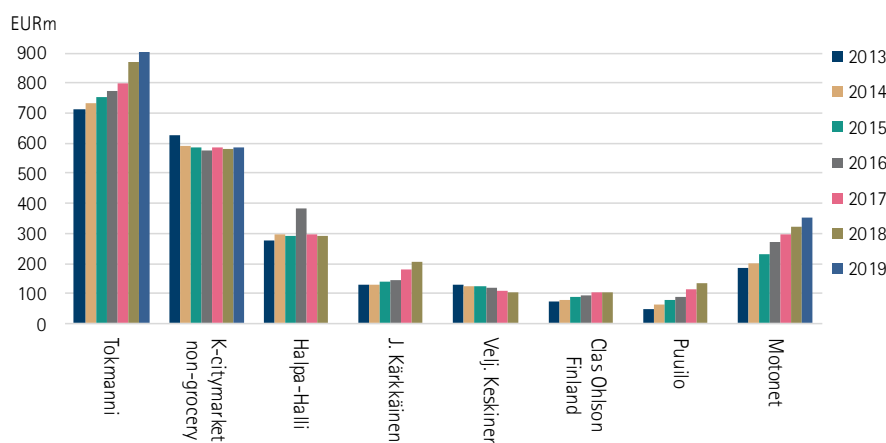
Tokmanni believes to have some competitive edge against each competitor groups, but in certain aspects it also falls behind its competitors:

- **Hypermarkets:** Tokmanni believes its low perceived price image provides the company with a competitive advantage over hypermarkets. On the downside, hypermarkets offer a large product assortment in both grocery (incl. fresh food) and non-grocery products, whereas Tokmanni's grocery assortment is limited.
- **Other discount retailers:** Tokmanni is the only discount retailer in Finland with a nationwide store network as most of Tokmanni's discount retailer competitors are regional operators.
- **Specialty retailers:** Tokmanni's primary competitive advantage compared to specialty retailers is its considerably wider assortment and a nationwide store network. On the downside, Tokmanni's category-specific assortment may fall behind that of specialized retailers (home electronics for example). Specialty retailers may have affordable prices and a strong assortment of private label goods.
- **Department stores:** Department stores offer a wide assortment of consumer goods, but their perceived price image is often higher.
- **Online retailers:** Tokmanni's store network allows physical access to products and is a good delivery chain (click & collect), but on the other hand online retailers typically have competitive prices and a wide assortment.

Tokmanni's revenue beats its competitors

Tokmanni's revenue beats its competitors, K-Citymarket non-grocery being the biggest competitor. Many of the competitors do not have as wide store network as Tokmanni and the stores are focused into a specific area which explains lower revenue.

Figure 7: Revenue of some of Tokmanni's main competitors



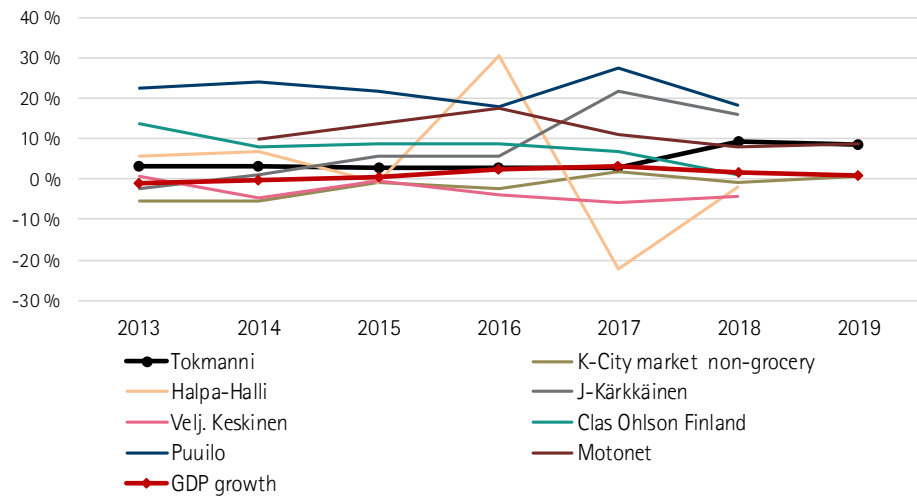
Source: Asiakastieto, Company websites

Growth has been better than Finnish GDP growth

Tokmanni's revenue growth has been slightly better than the Finnish GDP growth except in 2016-2017 when the growth was in line with the GDP growth. In 2018, as a result of Tokmanni's strong LFL growth, the total growth clearly improved compared to the GDP growth which continued in 2019. Puuilo's growth has been the strongest in 2013-2018.

Based on our understanding, Puuilo's good growth figures are resulting from increased store network, and improved online sales but also due to good LFL-growth.

Figure 8: Sales growth vs. GDP growth

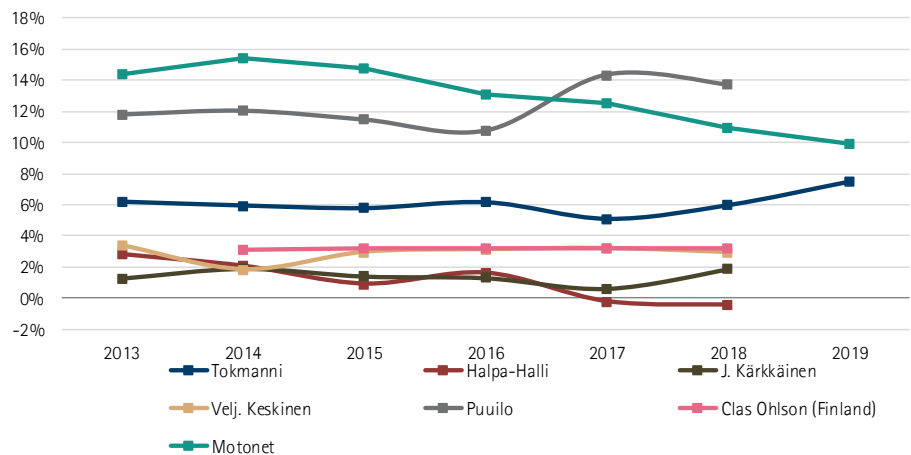


Source: Asiakastiето, company websites, Statistics Finland

Profitability among Tokmanni's competitors varies

Profitability among Tokmanni's competitors also varies. Most competitors have generated EBIT margins in the range of 1-4%. Puuilo and Motonet have been the most profitable competitors in recent years with above 10% EBIT margins. Both of the companies rely on the DIY customer segments and their product mix differs from Tokmanni's (i.e. no/only little of grocery products) which explains relatively higher margins. Profitability of some competitors has not been reported, but at least Hong Kong's profitability reportedly turned negative before it was acquired by Swedish Rusta in spring 2018.

Figure 9: EBIT margin of main competitors

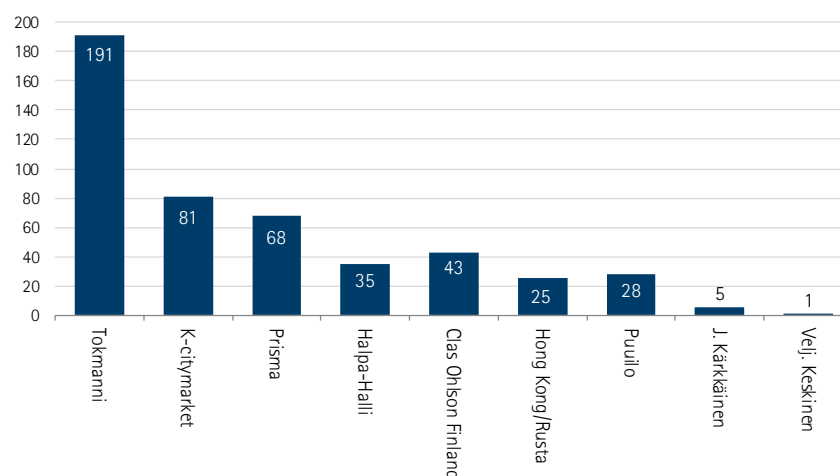


Source: Asiakastiето

Only nationwide discount retailer in Finland

Tokmanni is the only discount retailer in Finland that has a nationwide network. Most discount retail competitors operate regionally. Hypermarkets (K-Citymarket and Prisma) have a good store network coverage in Finland.

Figure 10: Number of stores



Source: Company websites

Changes in the competitive environment

The competitive field is fragmented and the competition has been tight

In general, the competitive field for Tokmanni is fragmented and competition has been tight in recent years. Structurally the most notable change has been Anttila's bankruptcy and retreat from the market in 2016. The bankruptcy had a negative impact on Tokmanni in the short-term due to the clearance sale but should have benefited the remaining players in the longer term.

Tokmanni acquired Ale-Makasiini in 2018 and four regional stores in 2019

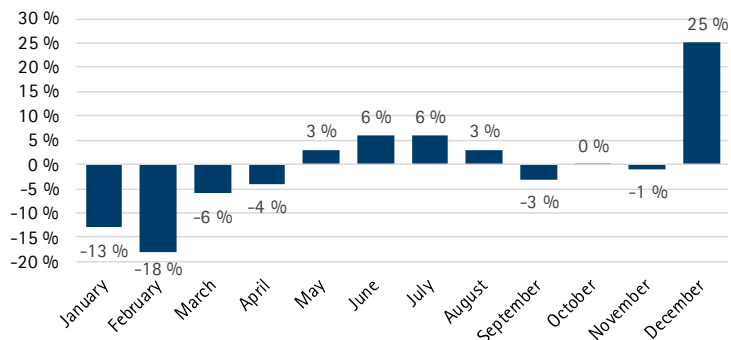
Certain signs of consolidation have been witnessed in the wider Nordic market during in 2018-2019. In 2018, Tokmanni acquired a small rival Ale-Makasiini; Europris acquired a 20% stake in Swedish ÖoB which will benefit Tokmanni as well via the Shanghai sourcing office; and Swedish Rusta acquired Finnish Hong Kong, which may become a more prominent competitor as Rusta is able to offer access to direct sourcing from factories in Asia. Hong Kong was reportedly loss-making and in the middle of a debt restructuring process before the acquisition. Hong Kong had EUR ~105m sales vs. Tokmanni ~870m in 2018. In early 2019, Tokmanni acquired four regional stores (Centtilä, TEX and Säästökuoppa) in Northern Finland. The business acquisitions have continued in 2020, as in early February, Tokmanni acquired one regional store (Perhemarket) in Pudasjärvi.

Seasonal nature

Tokmanni's business is seasonal

Retail sales generally focus on campaign seasons, especially on Christmas sales. However, according to the Finnish Commerce Federation (FCF), the difference between Christmas sales and normal sales is narrowing down which we believe to result from campaigns such as Black Friday and Singles day which take place in November. For Tokmanni, the first quarter of the year normally generates weaker sales whereas the last quarter, and especially the Christmas season provides a large part of the annual sales and profitability development. In 2019, the first quarter represented some 20% of the total year-end sales while the last quarter represented some 30% of the total sales.

Figure 11: Retail monthly sales compared to the average sales



* Compared to average monthly sales

Source: Finnish Commerce Federation (2019)

Strategic and financial targets

Tokmanni targets to keep its price image and attractive and wide assortment

Tokmanni's strategic target is to continue strengthening its position as Finland's leading discount retailer by leveraging its key competitive advantages: the strong perceived price image, an attractive and wide assortment, lean and efficient operation model, nationwide store network with an online store and a good in-store customer experience. Tokmanni aims to deliver stable and profitable growth over the long term by (1) leveraging its unified brand image, demand-driven category management, continuous store concept and assortment development and through further investments in digital and omni-channel services to drive LFL revenue growth; (2) continuing to increase the amount of net new selling space by approximately 12,000 square meters annually, translating into approximately five new or relocated stores, and (3) improving profitability and working capital management through improved processes and tools in sourcing, supply chain management and category management as well as improving its store efficiency.

Tokmanni's long-term financial targets include

Tokmanni targets to open five new stores per year

- Store openings: Tokmanni targets to increase the amount of net new selling area by approximately 12,000 square meters annually, translating into approximately five new or relocated stores. The annual increase has varied in recent years, but on average the target has been met. New stores have historically reached "full" revenue potential in about two years' time. Positive EBITDA has been typically reached within the first operating year. Payback time on invested CAPEX has been about 2-3 years.

Targets to achieve low single digit LFL revenue growth

- LFL growth: Tokmanni's long-term target is to achieve low single digit LFL revenue growth. LFL growth was ~0% in 2013-2016 and -1.3% in 2017. In 2018-2019 LFL growth notably improved as it was 5.6% in 2018 and 4.3% in 2019.

Adj. EBIT margin target is ~9% in long-term

- Profitability: Tokmanni seeks to gradually improve its adj. EBIT margin to ~9%. Compared to 2019 levels this implies ~1.5pp EBIT margin improvement, of which ~0.5-1.5pp is to come from improved gross margin (i.e. increased direct sourcing and increase share of PL products). ~0.5-1.0pp is to come from OPEX scalability.
- Leverage: Tokmanni aims to keep net debt/EBITDA below 3.2x. At the end of 2019, Tokmanni's net debt/EBITDA was ~2.9x.
- Dividend policy: Tokmanni aims to pay out approximately 70% of its net earnings as dividends. Capital structure, financial condition, general economic and business conditions as well as future prospects are considered when issuing dividends. Tokmanni has paid out above 70% of reported EPS in 2016-2019.

Guidance for 2020E

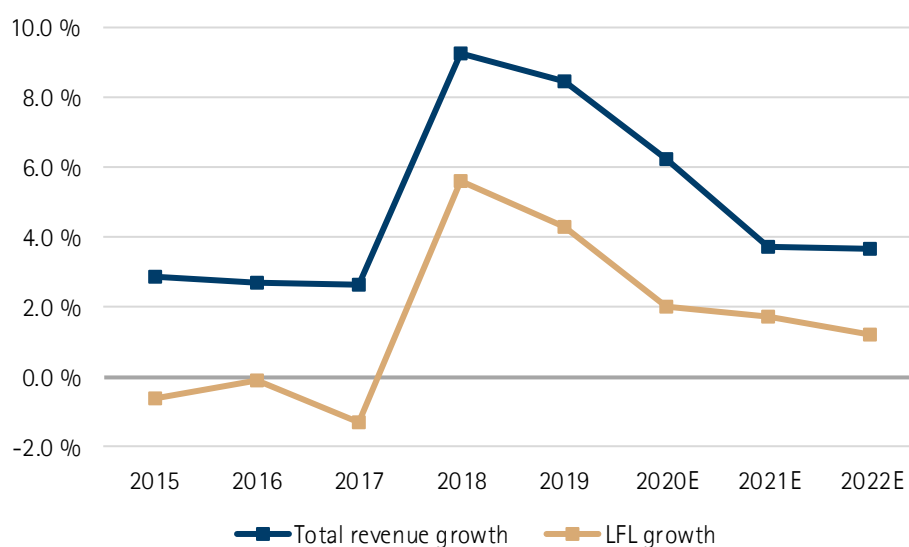
Tokmanni expects good revenue growth for 2020 and slight growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

Financial performance and estimates

Revenue CAGR in
2010-2019 was 4.5%

Tokmanni's revenue CAGR in 2010-2019 was 4.5%. Growth in 2013-2017 was fully based on expanding the store network, as LFL growth was broadly zero in each year in 2013-2016 and negative (-1.3%) in 2017. LFL growth improved notably in 2018 as it was 5.6%. Good LFL growth was supported by favourable weather in H1'18 but also by assortment improvements and investments into prices. The good momentum continued throughout 2019 as LFL growth was 4.3%, driven by successful campaigns and increased customer flows. We expect LFL growth to be 2.0% in 2020E and 1.2-1.7% in 2021E-2022E.

Figure 12: total revenue growth vs. LFL growth



Source: Tokmanni, Evli Research

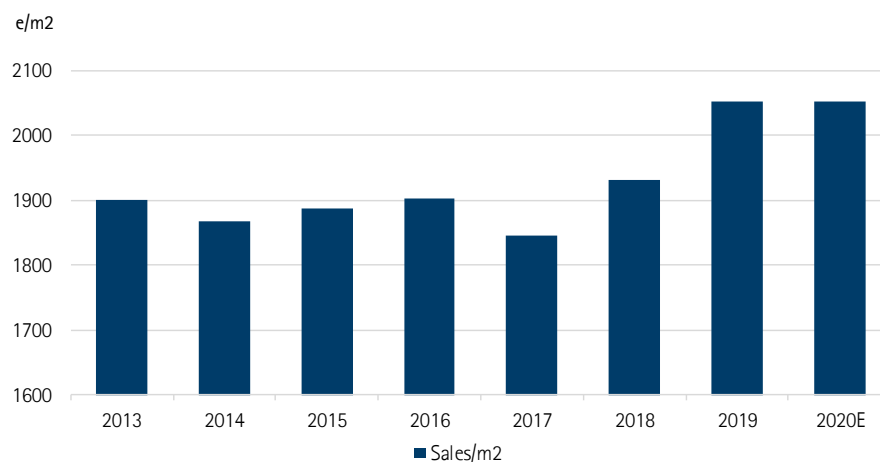
At the end of 2019,
Tokmanni had 191
stores vs. the target
of over 200 stores

Tokmanni's store network has continuously expanded in 2010-2019. In 2018, the company acquired the operations of Ale-Makasiini in Finland and the nine stores acquired were converted into Tokmanni at the end of 2018. The revenue of Ale-Makasiini was EUR 20m and EBIT EUR 1m in 2017. In the beginning of 2019, Tokmanni acquired four regional stores in Northern Finland and opened new stores across the country. Following the acquisitions and new openings, Tokmanni had 191 stores at the end of 2019 vs. the target of over 200 stores. There are already new openings in the 2020E pipeline as in early 2020, the company acquired one regional store in Pudasjärvi and agreed on the opening of two new stores and two enlarged stores during 2020.

Tokmanni's sales/m2
has increased in 2019

Tokmanni's average sales/m2 was quite stable at EUR 1850-1900 per m2 in 2011-2017 but increased in 2018 and 2019. Sales/m2 in individual stores varies to some extent. Tokmanni has previously stated sales/m2 in small stores was typically ~20% higher than average, whereas sales/m2 in large stores was typically ~20% below average. The differences are driven by location: small stores are typically in city centers where customer flows are higher. Sales/m2 in newly opened stores typically grows gradually and reached maturity in about two years' time.

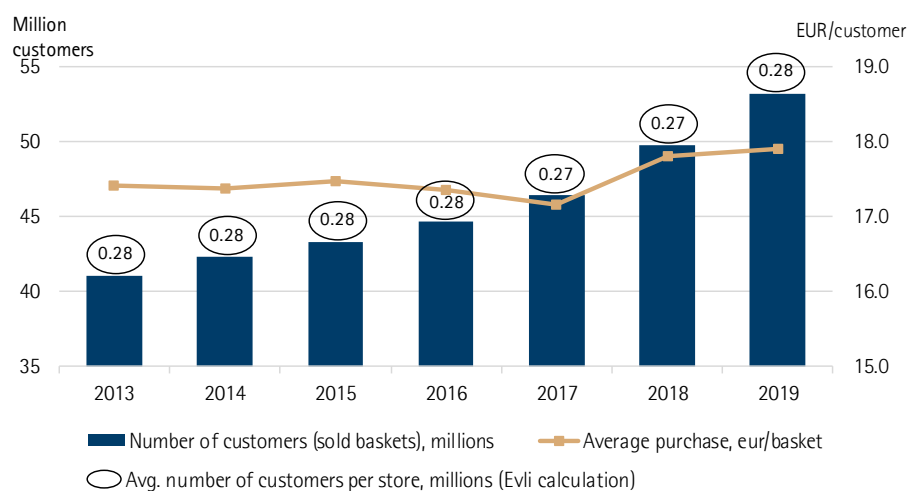
Figure 13: sales/m2 development



Source: Tokmanni, Evli Research

Tokmanni's customer numbers have grown quite well in line with the increase of the store count. The average purchase has been quite stable over the years. The comparable average purchase has gradually increased and amounted to EUR 17.9 in 2019.

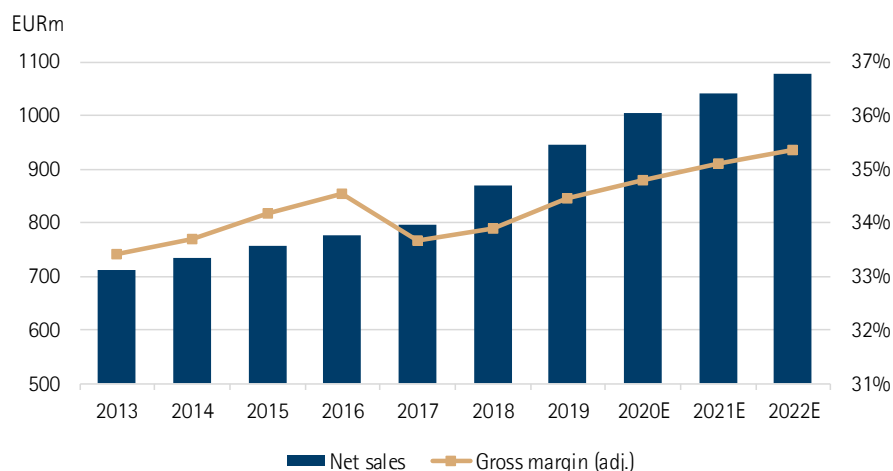
Figure 14: number of customers (million) and average purchase



Source: Tokmanni, Evli Research

We forecast Tokmanni's revenue development based on LFL growth and the planned store network expansion. We expect LFL growth of 2.0% and 1.7% in 2020E-2021E and 12,000m2 of new selling space in 2020E-2021E. We expect these to yield revenue growth of 6.2% (of which LFL growth of 2%) and 3.8% (of which LFL growth of 1.7%) in 2020E-2021E.

Figure 15: Tokmanni's revenue and gross margin (adj.) development



Source: Tokmanni, Evli Research

Targeting 0.5–1.5pp gross margin improvement

Gross margin has increased from 2017

Tokmanni's gross margin improved gradually in 2013–2016 on the back of increased direct imports, increased share of private labels in the mix, increased efficiency of purchasing processes and more efficient pricing. Increased direct purchasing in 2013–2016 was primarily related to increased use of the sourcing company in Shanghai. In 2017, gross margin slumped as Tokmanni had a very weak H1'17, with mild winter and cold spring hurting sales of higher-margin seasonal products. In 2018, the gross margin slightly improved (33.9%), although better improvement was seen in 2019 as comparable gross margin was 34.4%.

0.5–1.5pp gross margin improvement via efficient sourcing and increased share of private labels

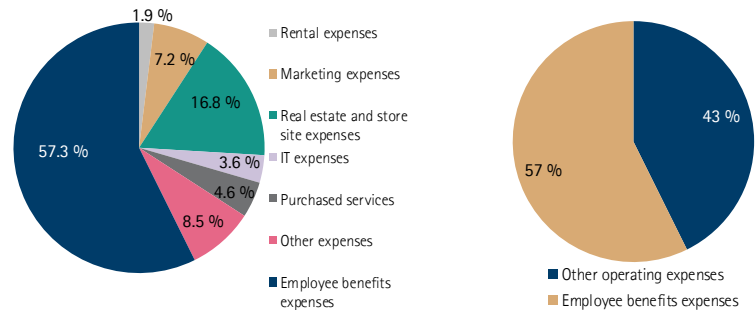
Tokmanni targets 0.5–1.5pp gross margin improvement, primarily via more efficient sourcing and increased share of private labels in the mix. The revenue share of direct import in 2015–2017 was relatively flat at 23–24% but has since increased. In 2019, the revenue share of direct import was ~26%. Also, the revenue share of Shanghai JV (16.2% in 2019) has developed favourably. With the 0.5–1.5pp increase, the gross margin should land between 35–36%. We expect the overall revenue share of direct import to improve and thereby expect the gross margin to improve gradually in 2020E–2022E.

Cost structure – employee expenses the largest individual cost group

Employee benefits expenses and rental expenses are the biggest cost segments

Tokmanni reports its operational expenses in two main items: employee benefits expenses (i.e. personnel costs) and other operating expenses. Personnel costs are the company's biggest individual cost item, followed by real estate and store site expenses. In 2019, ~57% of total OPEX were related to the employee benefits expenses and ~17% to real estate and store site expenses.

Figure 16: Tokmanni's OPEX and other OPEX split



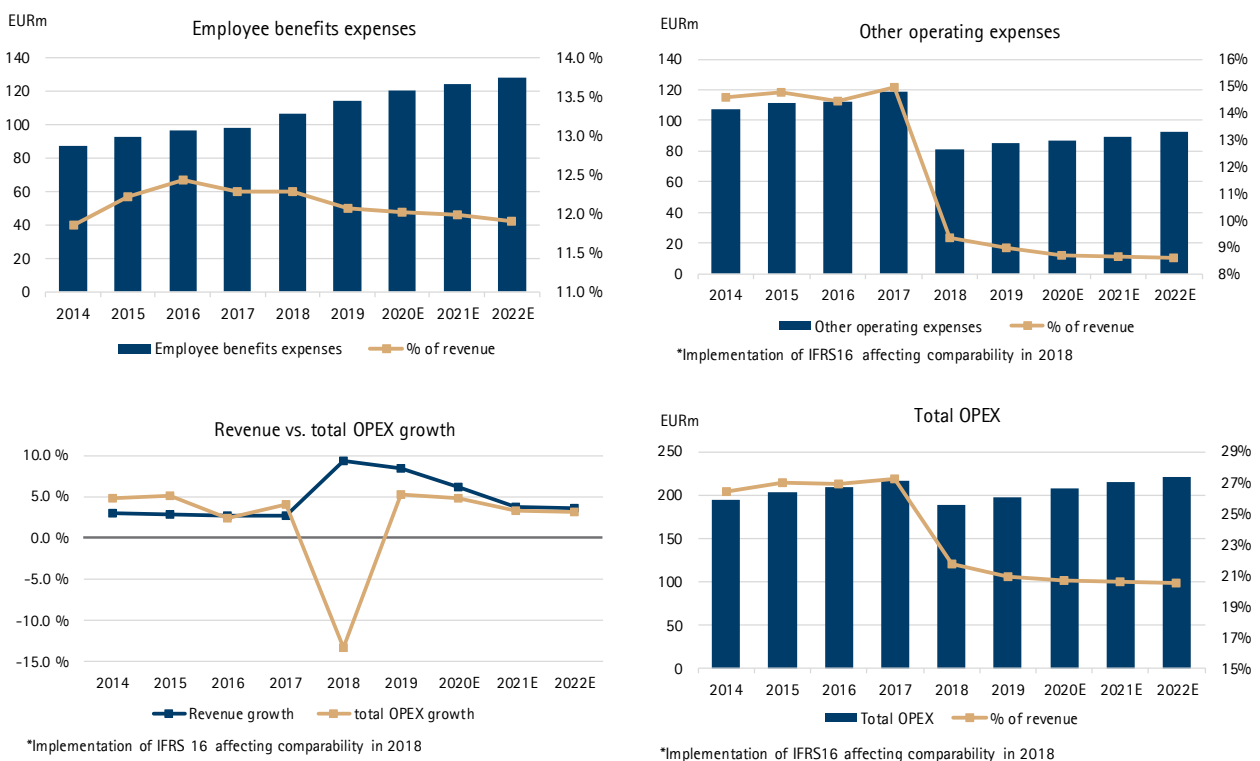
Source: Tokmanni (2019)

Targeting lower OPEX as percentage of sales

Tokmanni targets to decrease the share of OPEX from revenue by 0.5-1.0pp

Tokmanni's operating expenses (OPEX) have historically increased in absolute terms due to the growing store network, but as percentage of sales OPEX have been broadly flat in recent years. In 2014-2015 OPEX grew faster than sales, mainly due to investments into brand renewal and store concepts. OPEX as % of sales were broadly flat in 2016 vs. 2015 but increased in 2017 vs. 2016 with weak sales especially in H1'17. In 2018-2019, the LFL growth has been clearly positive, supporting scalability. Tokmanni is targeting to decrease the share of OPEX from revenue by 0.5-1.0pp through more efficient operations and supply chain improvements. Positive changes for instance in rental expenses were already seen in early 2019 but the impacts of supply chain improvements will be shown later. Positive LFL growth is expected to be a key driver behind OPEX scalability. We expect the relative share of operating expenses to decrease by 30-50bps during 2020E-2022E.

Figure 17: Tokmanni's cost base

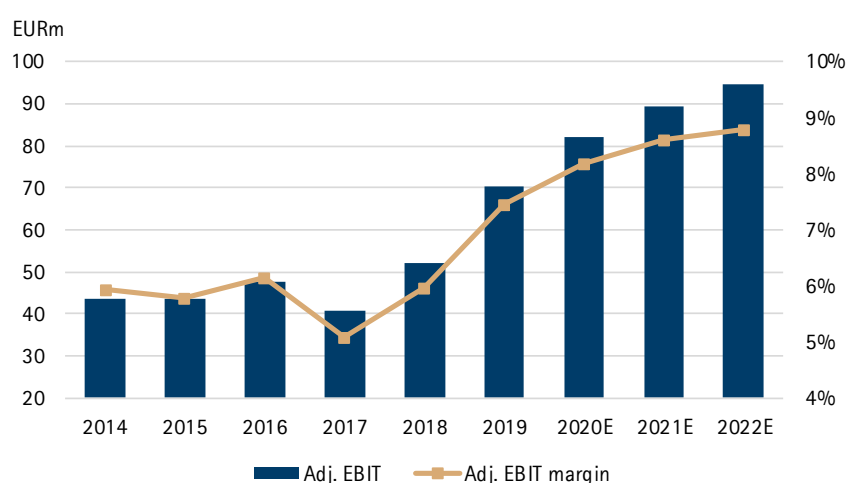


Source: Tokmanni, Evli Research

We expect further adj. EBIT improvement in 2020E-2022E

Tokmanni's adj. EBIT weakened in 2017 on the back of negative LFL growth and weaker gross margin. In 2018, adj. EBIT improved again, driven by strong LFL growth and gross margin improvement. Tokmanni's target is to reach adj. EBIT margin of ~9% and so far, the strategy has been successfully executed as the company's 2019 adj. EBIT grew by ~35% y/y to EUR 70.4m, resulting in adj. EBIT margin of 7.5%. We expect adj. EBIT to further improve in 2020-2022E, driven mainly by gross margin improvement but also by OPEX scalability. We expect adj. EBIT to grow by ~17% y/y in 2020E, resulting in adj. EBIT margin of 8.2%. Our 2021E-2022E adj. EBIT growth expectation is ~6-9% y/y, resulting in adj. EBIT margins of 8.6% and 8.8%.

Figure 18: Tokmanni's adj. EBIT and adj. EBIT margin



Source: Tokmanni, Evli Research

Balance sheet overview

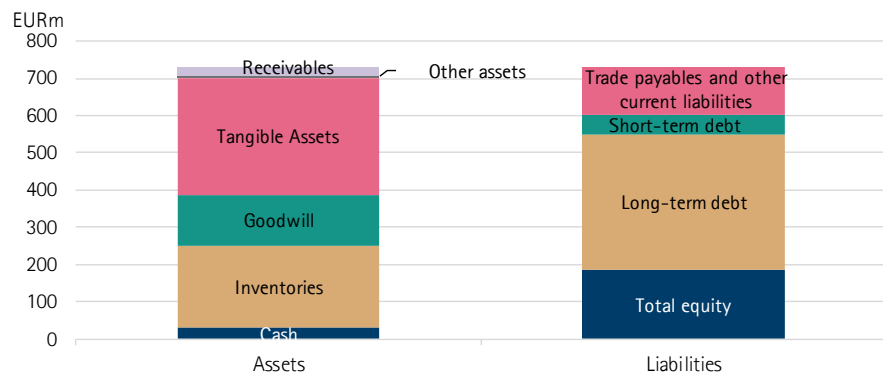
Tokmanni operates in leased/rented premises and does not generally own properties

Due to the nature of the business, inventory represents a large part (~30%) of Tokmanni's assets. Intangible assets mainly consist of goodwill resulting from business combinations and business acquisitions. Goodwill was EUR 135m at the end of 2019 which represents approximately 19 percent of the company's total assets. Tokmanni operates in leased/rented premises and does not generally own properties which explains the relatively small share of tangible assets. CAPEX in 2020E is expected to be some EUR 16m.

IFRS 16 changes increased interest bearing debt

Long-term debt represents approximately 50% of the company's total liabilities while short-term debt is approximately 25% of the liabilities. Interest bearing debt was in total EUR ~409m in 2019.

Figure 19: Tokmanni's balance sheet (2019)

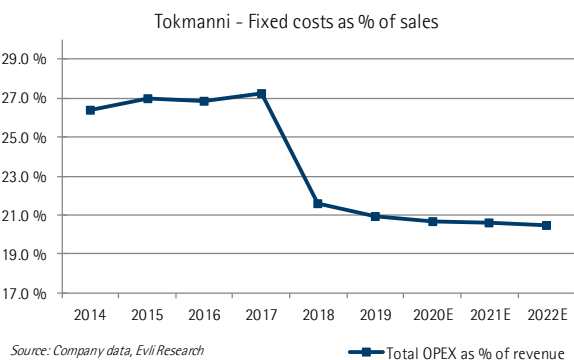
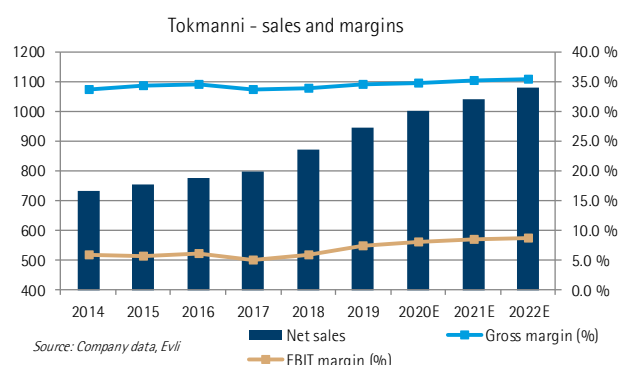


Source: Tokmanni (2019), Evli Research

Base case – estimates

Tokmanni	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Key sales assumptions										
Sales space increase, 1000m2 (organic)	11	18	7	8	24	26	19	12	12	12
# of stores at year-end	145	149	156	162	175	186	191	196	201	206
LFL growth (%)	0.0%	-0.3%	-0.6%	-0.1%	-1.3%	5.6%	4.3%	2.0%	1.7%	1.2%
Net sales	712.8	734.3	755.3	775.8	796.5	870.5	944.3	1003.0	1040.6	1078.8
Growth-%	3.3 %	3.0 %	2.9 %	2.7 %	2.7 %	9.3 %	8.5 %	6.2 %	3.8 %	3.7 %
Materials and services (adj.)	-474.6	-486.8	-497.2	-507.9	-528.4	-575.2	-619.1	-654.0	-675.4	-697.5
Growth-%	-	2.6 %	2.1 %	2.2 %	4.0 %	8.9 %	7.6 %	5.6 %	3.3 %	3.3 %
% of sales	66.6 %	66.3 %	65.8 %	65.5 %	66.3 %	66.1 %	65.6 %	65.2 %	64.9 %	64.7 %
Gross profit (adj.)	238.2	247.5	258.1	267.9	268.1	295.0	325.2	349.0	365.2	381.3
Gross margin (%)	33.4 %	33.7 %	34.2 %	34.5 %	33.7 %	33.9 %	34.4 %	34.8 %	35.1 %	35.3 %
Fixed costs (adj.)	-185.1	-193.9	-203.7	-208.5	-217.0	-189.5	-197.9	-207.5	-214.3	-221.0
Growth-%	-	4.8 %	5.0 %	2.4 %	4.1 %	-12.7 %	4.4 %	4.8 %	3.3 %	3.1 %
% of sales	26.0 %	26.4 %	27.0 %	26.9 %	27.2 %	21.8 %	21.0 %	20.7 %	20.6 %	20.5 %
Other income	3.5	3.6	4.0	3.4	3.8	4.1	4.3	4.3	4.3	4.3
Share of profits in associated comp.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	-12.6	-13.5	-14.8	-15.2	-14.3	-57.5	-61.2	-63.7	-65.6	-69.8
EBITDA (adj.)	56.7	57.1	58.4	62.8	54.9	109.5	131.6	145.8	155.2	164.6
EBITDA margin (%)	8.0 %	7.8 %	7.7 %	8.1 %	6.9 %	12.6 %	13.9 %	14.5 %	14.9 %	15.3 %
EBIT (adj.)	44.1	43.6	43.6	47.7	40.6	52.0	70.4	82.1	89.6	94.8
EBIT margin (%)	6.2 %	5.9 %	5.8 %	6.1 %	5.1 %	6.0 %	7.5 %	8.2 %	8.6 %	8.8 %
NRIs in reported gross profit	0.0	1.1	-0.6	0.5	-0.9	0.2	-0.1	0.0	0.0	0.0
NRIs in reported fixed costs	-1.1	-1.8	-4.0	1.0	-0.8	1.4	-1.0	0.0	0.0	0.0
EBIT (reported)	43.0	43.0	39.0	49.2	38.9	53.6	69.4	82.1	89.6	94.8
EBIT margin (%)	6.0 %	5.9 %	5.2 %	6.3 %	4.9 %	6.2 %	7.3 %	8.2 %	8.6 %	8.8 %
Net financials	-23.0	-22.2	-20.9	-15.3	-5.9	-10.5	-10.4	-11.6	-11.6	-12.2
Profit before taxes (reported)	20.1	20.8	18.1	33.9	33.0	43.1	59.0	70.5	78.0	82.6
Taxes	-4.8	-4.2	-3.4	-6.8	-6.6	-8.9	-11.8	-14.1	-15.6	-16.5
Tax rate (%)	23.9 %	20.1 %	18.8 %	20.1 %	20.0 %	20.7 %	20.0 %	20.0 %	20.0 %	20.0 %
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (reported)	15.3	16.6	14.7	27.1	26.4	34.1	47.2	56.4	62.4	66.1
Average number of shares (million)	58.9	58.9	58.9	58.9	58.9	58.9	58.9	58.8	58.8	58.8
EPS (reported)	0.26	0.28	0.25	0.46	0.45	0.58	0.80	0.96	1.06	1.12
Dividend and capital return	-	-	-	0.51	0.41	0.50	0.62	0.67	0.74	0.79
Payout ratio (%)	-	-	-	111 %	92 %	86 %	77 %	70 %	70 %	70 %

Source: Tokmanni, Evli Research



Scenario estimates

Key assumptions behind base case estimates:

- 12,000m2 selling space increase per year.
- Slight LFL growth (1.2%-2%) supporting total sales growth.
- 90bps improvement in gross margin and 50bps improvement in OPEX % as of sales.

Key assumptions behind optimistic estimates:

- 12,000m2 selling space increase per year.
- Good LFL growth (~4%), driven by increased customer flows and average purchase.
- Gross margin improvement potential can be fully used, resulting from strong growth in direct import and increased share of own labels in the mix.
- The potential to reduce the relative share of OPEX can be fully used through successful efficiency improvements in the supply chain.

Key assumptions behind pessimistic estimates:

- 10,000m2 selling space increase per year.
- Weak LFL growth (~0-0.5%) in 2020E-2022E.
- Limited gross margin improvement due to tight competition.
- OPEX scalability limited due to unsuccessful efficiency improvements in the supply chain and weak LFL growth.

Tokmanni		2017	2018	2019	2020E	2021E	2022E	CAGR 19-22E
Scenario estimates								
Revenue								
	Optimistic	797	871	944	1022	1085	1144	7 %
	Growth	2.7 %	9.3 %	8.5 %	8.3 %	6.1 %	5.5 %	
	Base case	797	871	944	1003	1041	1079	5 %
	Growth	2.7 %	9.3 %	8.5 %	6.2 %	3.8 %	3.7 %	
	Pessimistic	797	871	944	992	1018	1043	3 %
	Growth	2.7 %	9.3 %	8.5 %	5.1 %	2.5 %	2.5 %	
Gross margin								
	Optimistic	33.7 %	33.9 %	34.4 %	35.2 %	36.0 %	36.1 %	
	Base case	33.7 %	33.9 %	34.4 %	34.8 %	35.1 %	35.3 %	
	Pessimistic	33.7 %	33.9 %	34.4 %	34.6 %	34.6 %	34.8 %	
Total fixed costs								
	Optimistic	-217	-189.5	-197.9	-210	-218	-228	5 %
	% as of sales	27.2 %	21.8 %	21.0 %	20.5 %	20.1 %	19.9 %	
	Base case	-217	-189.5	-197.9	-207	-214	-221	4 %
	% as of sales	27.2 %	21.8 %	21.0 %	20.7 %	20.6 %	20.5 %	
	Pessimistic	-217	-189.5	-197.9	-208	-213	-217	3 %
	% as of sales	27.2 %	21.8 %	21.0 %	21.0 %	20.9 %	20.8 %	
Adj. EBIT								
	Optimistic	40.6	52.0	70.4	90.9	111.2	119.8	19 %
	Base case	40.6	52.0	70.4	82.1	89.6	94.8	10 %
	Pessimistic	40.6	52.0	70.4	75.1	77.9	80.5	5 %
Adj. EBIT margin								
	Optimistic	5.1 %	6.0 %	7.5 %	8.9 %	10.2 %	10.5 %	
	Base case	5.1 %	6.0 %	7.5 %	8.2 %	8.6 %	8.8 %	
	Pessimistic	5.1 %	6.0 %	7.5 %	7.6 %	7.7 %	7.7 %	

Source: Evli Research

Scenario fair values:
 Optimistic EUR 22.3
 Base case EUR 13.7
 Pessimistic EUR 8.5

On average, Tokmanni's 12m forward EV/EBIT in 2019–2020 (based on FactSet consensus estimates) has been ~13x. We value our base case 2021E EV/EBIT at 13x and arrive to fair value of EUR 13.7. Our optimistic 2021E adj. EBIT estimate and a higher 2021E EV/EBIT multiple of 15x would yield a fair value of EUR 22.3 while our pessimistic 2021E adj. EBIT estimate and a lower 2021E EV/EBIT multiple of 11x would yield a fair value of EUR 8.5.

We currently give more emphasize to base case and optimistic estimates

We have put more emphasize on our base case and optimistic estimates, as the company has successfully executed its strategy resulting in strong performance in terms of both, sales growth and profitability. We keep our rating "Buy" with TP of EUR 16.

Fair value	Weight (%)	Comment
22.3	35 %	2021E EV/EBIT 15x
13.7	50 %	2021E EV/EBIT 13x
8.5	15 %	2021E EV/EBIT 11x
16.0	100 %	
16.0		

EV/EBIT 2021E

	6.0x	8.0x	10.0x	12.0x	14.0x	16.0x	18.0x	20.0x
Optimistic								
EV (with 2021E optimistic EBIT)	667	889	1112	1334	1556	1779	2001	2223
Net debt 2020E	355	355	355	355	355	355	355	355
Equity value	312	534	756	979	1201	1423	1646	1868
Equity value per share	5.3	9.1	12.8	16.6	20.4	24.2	28.0	31.7
Base case								
EV (with 2021E base case EBIT)	537	716	896	1075	1254	1433	1612	1791
Net debt 2020E	355	355	355	355	355	355	355	355
Equity value	182	361	540	719	898	1078	1257	1436
Equity value per share	3.1	6.1	9.2	12.2	15.3	18.3	21.3	24.4
Pessimistic								
EV (with 2021E pessimistic EBIT)	468	624	779	935	1091	1247	1403	1559
Net debt 2020E	355	355	355	355	355	355	355	355
Equity value	112	268	424	580	736	892	1048	1204
Equity value per share	1.9	4.6	7.2	9.9	12.5	15.1	17.8	20.4

Source: Evli Research

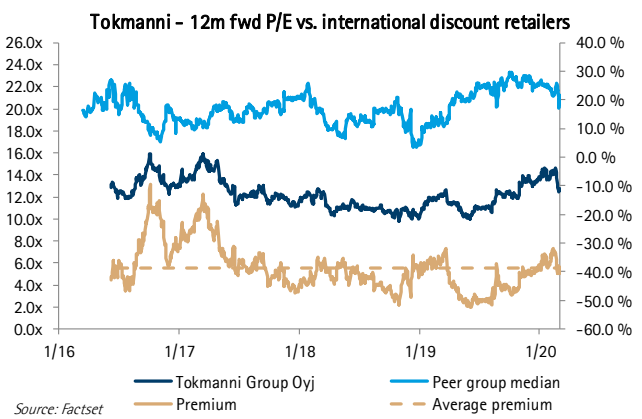
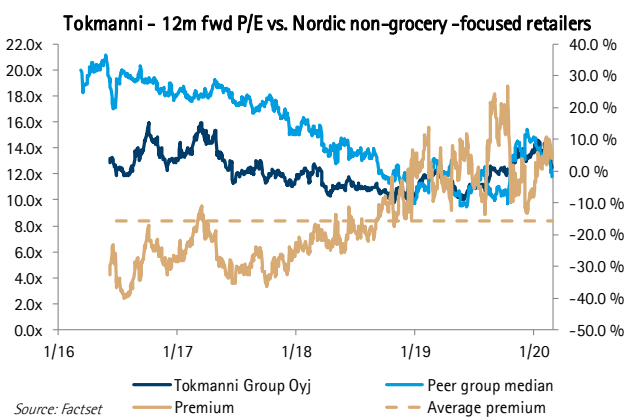
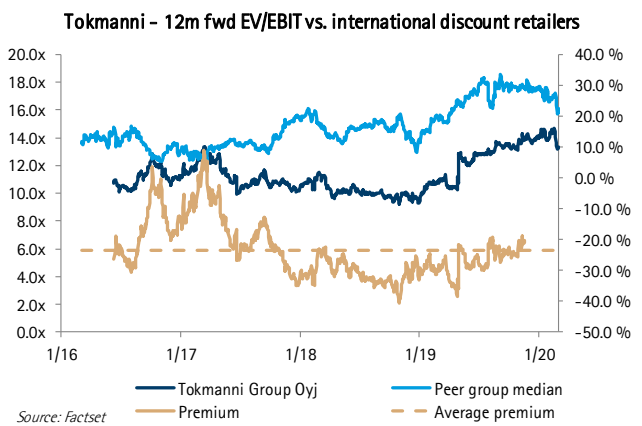
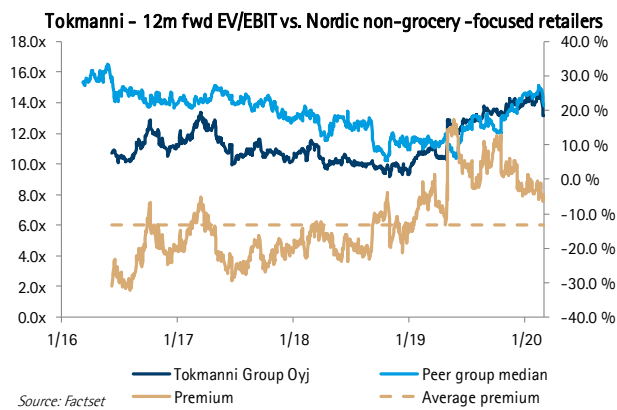
Valuation

Historical valuation

Tokmanni has been listed since 2016. Since then the company's shares have traded at an average 12m forward-looking EV/EBIT multiple of 11.4x and average P/E of 12.2x (based on FactSet consensus estimates). On our estimates, Tokmanni trades at 20E-21E EV/EBIT multiple of 12.9x and 11.7x which translates into 7-10% discount compared to the Nordic non-grocery peer group and 12-17% discount compared to the international discount peers. This also translates into 3-13% premium compared to Tokmanni's own 12m forward historical (6/2016-2/2020) EV/EBIT multiple.

We consider Tokmanni's valuation moderate against the margin improvement potential. Our target price (EUR 16) and estimates value Tokmanni at 15.8x EV/EBIT in 2020E which is at par compared to the international discount peer group and ~14% premium compared to the Nordic non-grocery peer group.

Tokmanni – 12m forward multiples vs. peers (6/2016-2/2020)



Relative valuation

TOKMANNI PEERS	MCAP local FX	EV/EBITDA 20	EV/EBITDA 21	EV/EBITDA 22	EV/EBIT 20	EV/EBIT 21	EV/EBIT 22	EV/FCF 20	EV/FCF 21	EV/FCF 22	P/E 20	P/E 21	P/E 22
Nordic non-grocery focused retailers													
Byggmax Group AB	1560	5.4x	5.1x	4.8x	15.9x	14.4x	13.6x	11.3x	10.4x	22.4x	7.9x	7.6x	7.2x
Clas Ohlson AB Class B	6224	6.1x	5.9x		11.9x	11.5x		12.5x	13.0x		12.5x	12.5x	
Europris ASA	5031	6.1x	5.6x	5.2x	10.9x	9.8x	8.9x	13.1x	10.9x	11.5x	11.1x	10.1x	9.2x
Stockmann Oyj Abp Class B	188	9.9x	9.2x		33.6x	27.9x							
Verkkokauppa.com Oy	157	7.4x	6.8x	6.2x	10.0x	9.0x	8.1x	7.7x	10.4x	9.2x	17.2x	15.0x	13.6x
XXL ASA	1674	6.6x	5.3x	4.0x	43.8x	19.8x	13.4x	13.1x	10.5x	9.3x	18.2x	18.2x	14.3x
Nordic grocery focused retailers													
Axfood AB	40489	9.9x	9.9x	9.9x	19.6x	19.5x	19.7x	17.8x	23.8x	25.5x	23.7x	23.2x	23.0x
ICA Gruppen AB	78648	9.4x	9.2x	9.3x	18.7x	18.3x	18.1x	26.9x	22.8x	19.1x	19.7x	19.3x	19.1x
Kesko Oyj Class B	6484	9.5x	9.3x	9.0x	19.0x	18.4x	17.7x	24.6x	23.1x	19.1x	21.0x	20.2x	19.3x
International discount retailers													
B&M European Value Retail SA	3251	9.8x	8.7x		11.8x	10.5x		22.2x	18.2x		13.9x	12.4x	
Big Lots, Inc.	649	2.7x	2.8x		4.9x	5.1x		9.1x	10.8x		5.1x	5.0x	4.6x
Costco Wholesale Corporation	139490	19.8x	18.1x	16.8x	26.1x	24.0x	21.9x	45.6x	42.0x	32.9x	36.1x	33.7x	31.0x
Dollar General Corporation	40094	14.7x	14.2x		17.9x	17.2x		28.4x	28.2x		21.2x	19.1x	17.0x
Dollar Tree, Inc.	18457	9.3x	8.5x	8.5x	13.1x	11.8x	11.9x	23.7x	20.7x	24.7x	15.4x	14.0x	13.3x
Dollarama Inc.	12288	12.3x	10.5x		15.6x	13.2x		23.4x	20.7x		19.5x	16.8x	14.7x
Pan Pacific International Holdings Corporati	1214912	15.5x	14.0x	12.5x	20.8x	18.3x	16.1x	56.7x	34.6x	28.3x	24.9x	22.0x	19.7x
Five Below, Inc.	5305	16.4x	13.3x		20.5x	16.6x		110.9x	103.7x		26.6x	21.9x	19.2x
Ollie's Bargain Outlet Holdings Inc	2932	12.8x	10.5x		14.5x	12.1x		45.2x			20.0x	17.3x	
Target Corporation	53699	8.6x	8.4x	8.1x	13.0x	12.5x	12.0x	22.6x	19.3x	15.6x	15.4x	14.2x	13.1x
Walmart Inc.	328886	11.3x	10.8x	10.4x	16.9x	16.1x	15.3x	22.5x	22.3x	19.5x	22.7x	21.3x	19.7x
Nordic non-grocery peers median	5031	6.4x	5.8x	5.0x	13.9x	13.0x	11.1x	12.5x	10.5x	10.4x	11.8x	12.5x	11.4x
Nordic grocery focused retailers		9.5x	9.3x	9.3x	19.0x	18.4x	18.1x	24.6x	23.1x	19.1x	21.0x	20.2x	19.3x
Discount retailers median	15373	11.8x	10.7x	10.4x	15.6x	13.2x	15.3x	23.7x	21.5x	24.7x	20.0x	17.3x	17.0x
Tokmanni (Evli est.)	702	7.3x	6.7x	6.2x	12.9x	11.7x	10.8x	8.5x	9.0x	8.2x	12.4x	11.3x	10.6x
<i>Tokmanni premium vs. Nordic non-grocery focused peers</i>		14%	17%	25%	-7%	-10%	-3%	-32%	-15%	-21%	5%	-10%	-7%
<i>Tokmanni premium vs. Nordic grocery focused peers</i>		-23%	-28%	-33%	-32%	-37%	-40%	-65%	-61%	-57%	-41%	-44%	-45%
<i>Tokmanni premium vs. int. discount peers</i>		-38%	-37%	-40%	-17%	-12%	-29%	-64%	-58%	-67%	-38%	-35%	-38%
TOKMANNI PEERS	Ticker	Dividend yield			EBIT margin			ROCE-%			ROE-%		
Nordic non-grocery focused retailers													
Byggmax Group AB	BMAX-SE	5.0%	5.4%	6.7%	4.5%	4.6%	4.6%	7.2%	7.5%	7.8%	12.4%	12.3%	12.2%
Clas Ohlson AB Class B	CLAS.B-SE	6.4%	6.4%		8.1%	8.0%		18.5%	19.0%		26.9%	25.2%	
Europris ASA	EPR-NO	6.8%	7.2%	7.8%	10.4%	10.8%	11.2%	12.7%	13.2%	13.2%	21.5%	22.0%	22.3%
Stockmann Oyj Abp Class B	STCBV-FI	0.0%	0.0%	0.0%	3.9%	4.7%	5.2%	2.2%	2.7%		-3.6%	-3.5%	
Verkkokauppa.com Oy	VERK-FI	6.5%	6.8%	7.4%	2.5%	2.7%	2.8%	21.3%	23.2%	24.8%	25.1%	28.3%	29.3%
XXL ASA	XXL-NO	0.0%	1.5%	2.5%	1.4%	2.7%	3.1%	1.6%	3.3%	3.9%	-0.5%	2.4%	3.1%
Nordic grocery focused retailers													
Axfood AB	AXFO-SE	3.7%	3.8%	3.7%	4.4%	4.4%	4.3%	20.5%	20.2%	19.3%	41.8%	41.7%	42.5%
ICA Gruppen AB	ICA-SE	3.1%	3.2%	3.1%	4.5%	4.4%	4.4%	8.9%	8.8%	8.1%	11.4%	11.1%	10.7%
Kesko Oyj Class B	KESKOB-FI	4.0%	4.2%	4.3%	4.5%	4.5%	4.6%	9.7%	9.9%	9.9%	14.9%	15.0%	14.8%
International discount retailers													
B&M European Value Retail SA	BME-GB	2.9%	3.2%		7.5%	7.7%		15.5%	17.2%		23.1%	24.8%	
Big Lots, Inc.	BIG-US	7.2%	7.2%		3.4%	3.1%		7.5%	6.9%		13.8%	13.1%	
Costco Wholesale Corporation	COST-US	0.9%	0.9%	0.9%	3.2%	3.2%	3.3%	20.2%	19.7%	18.9%	21.2%	20.0%	18.5%
Dollar General Corporation	DG-US	0.9%	1.0%		8.4%	8.4%	14.5%	14.1%	15.0%	27.6%	25.4%	25.4%	28.6%
Dollar Tree, Inc.	DLTR-US	0.0%	0.0%	0.0%	6.9%	7.1%	7.1%	10.3%	10.8%	9.9%	16.5%	15.8%	14.2%
Dollarama Inc.	DOL-CA	0.5%			23.4%	23.9%	25.5%	33.8%	38.8%				
Pan Pacific International Holdings Corporati	7532-JP	0.6%	0.6%	0.7%	4.4%	4.7%	4.9%	7.4%	8.0%	8.5%	12.8%	12.9%	12.8%
Five Below, Inc.	FIVE-US	0.0%	0.0%		11.8%	11.8%	11.7%	17.7%	24.9%		25.1%	24.0%	
Ollie's Bargain Outlet Holdings Inc	OLLI-US	0.1%	0.0%		12.5%	13.0%		13.4%	15.6%		13.1%	13.8%	
Target Corporation	TGT-US	2.6%	2.8%	2.9%	6.1%	6.2%	6.2%	16.6%	16.9%	16.2%	28.2%	29.0%	29.8%
Walmart Inc.	WMT-US	1.8%	1.8%	2.1%	4.1%	4.2%	4.2%	15.4%	16.0%	15.6%	18.0%	18.5%	19.4%
Nordic non-grocery peers median		5.7%	5.9%	6.7%	4.2%	4.7%	4.6%	9.9%	10.4%	10.5%	17.0%	17.2%	17.3%
Nordic grocery focused retailers		3.7%	3.8%	3.7%	4.5%	4.4%	4.4%	9.7%	9.9%	9.9%	14.9%	15.0%	14.8%
Discount retailers median		0.7%	0.9%	0.9%	6.5%	6.6%	6.7%	15.4%	16.0%	15.9%	19.6%	19.2%	18.9%
Tokmanni (Evli est.)		5.6%	6.2%	6.6%	8.2%	8.6%	8.8%	13.7%	14.8%	15.4%	29.1%	28.8%	27.7%
TOKMANNI PEERS	Cash conversion (FCF/EBITDA)	CAPEX/sales			Net debt/EBITDA			Equity ratio					
Nordic non-grocery focused retailers													
Byggmax Group AB	48%	49%	21%	2%	2%	2%	3.3x	3.0x	2.8x	30%	30%	32%	
Clas Ohlson AB Class B	49%	45%	na.	4%	4%		1.4x	1.3x		32%	34%		
Europris ASA	47%	51%	45%	3%	2%	2%	1.9x	1.6x	1.5x	29%	30%	30%	
Stockmann Oyj Abp Class B	-7%	-1%	na.	9%	9%		8.4x	7.8x		32%	32%	36%	
Verkkokauppa.com Oy	97%	66%	68%	1%	1%	1%	-1.5x	-1.4x	-1.3x	22%	21%	21%	
XXL ASA	50%	51%	43%	2%	2%	1%	4.6x	3.6x	2.4x	39%	40%	39%	
Nordic grocery focused retailers													
Axfood AB	56%	42%	39%	2%	4%	4%	1.1x	1.2x	1.3x	23%	23%	22%	
ICA Gruppen AB	35%	41%	49%	4%	4%	3%	2.2x	2.1x	2.1x	35%	36%	36%	
Kesko Oyj Class B	38%	40%	47%	4%	3%	2%	3.0x	2.9x	2.8x	30%	31%	32%	
International discount retailers													
B&M European Value Retail SA	44%	48%	na.	2%	2%		1.4x	1.1x		36%	37%		
Big Lots, Inc.	30%	26%	na.	3%	3%		0.7x	0.7x		27%	28%		
Costco Wholesale Corporation	43%	43%	51%	2%	2%	2%	-0.4x	-0.5x	-0.5x	36%	39%	43%	
Dollar General Corporation	52%	50%	53%	3%	3%	3%	1.5x	2.0x		34%	37%	42%	
Dollar Tree, Inc.	39%	41%	34%	4%	4%	5%	1.5x	1.2x	1.5x	37%	40%	41%	
Dollarama Inc.	52%	51%	45%	3%	3%	3%	2.1x	1.2x		1%	4%		
Pan Pacific International Holdings Corporation	27%	40%	44%	3%	2%	2%	3.2x	2.7x	2.1x	28%	30%	33%	
Five Below, Inc.	15%	13%	na.	10%	9%	7%	0.3x	0.0x		44%	60%		
Ollie's Bargain Outlet Holdings Inc	28%	0%	na.	2%	2%		0.1x	-0.2x		66%	66%		
Target Corporation	38%	43%	52%	4%	4%	3%	1.4x	1.4x	1.3x	28%	28%	29%	
Walmart Inc.	50%	49%	53%	2%	2%	2%	1.4x	1.3x	1.2x	35%	35%	33%	
Nordic non-grocery peers median	48%	50%	44%	3%	2%	2%	2.6x	2.3x	1.9x	31%	31%	32%	
Nordic grocery focused retailers	38%	41%	47%	4%	4%	3%	2.2x	2.1x	2.1x	30%	31%	32%	
Discount retailers median	39%	42%	51%	3%	3%	3%	1.4x	1.2x	1.3x	35%	37%	37%	
Tokmanni (Evli est.)	85%	75%	76%	7%	7%	7%	2.4x	2.2x	2.0x	27%	30%	32%	

Source: Factset, Evli Research

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1E	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	188.1	239.9	231.5	284.8	944.3	198.2	256.5	248.1	300.1	1,003.0	1,040.6	1,078.8
EBITDA	12.8	34.0	37.2	47.6	131.6	14.1	38.1	41.4	52.2	145.8	155.2	164.6
<i>EBITDA margin (%)</i>	<i>6.8</i>	<i>14.2</i>	<i>16.1</i>	<i>16.7</i>	<i>13.9</i>	<i>7.1</i>	<i>14.8</i>	<i>16.7</i>	<i>17.4</i>	<i>14.5</i>	<i>14.9</i>	<i>15.3</i>
EBIT	-2.2	18.7	21.9	32.0	70.4	-1.7	22.2	25.4	36.2	82.1	89.6	94.8
<i>EBIT margin (%)</i>	<i>-1.2</i>	<i>7.8</i>	<i>9.5</i>	<i>11.2</i>	<i>7.5</i>	<i>-0.8</i>	<i>8.6</i>	<i>10.2</i>	<i>12.1</i>	<i>8.2</i>	<i>8.6</i>	<i>8.8</i>
Net financial items	-2.6	-2.6	-2.6	-2.6	-10.4	-2.9	-2.9	-2.9	-2.9	-11.6	-11.6	-12.2
Pre-tax profit	-4.8	16.1	19.3	29.4	60.0	-4.6	19.3	22.5	33.3	70.5	78.0	82.6
Tax	1.0	-3.1	-4.0	-5.7	-11.8	0.9	-3.8	-4.4	-6.5	-13.9	-15.6	-16.5
<i>Tax rate (%)</i>	<i>20.8</i>	<i>19.3</i>	<i>20.7</i>	<i>19.4</i>	<i>19.7</i>	<i>19.7</i>	<i>19.7</i>	<i>19.7</i>	<i>19.7</i>	<i>19.7</i>	<i>20.0</i>	<i>20.0</i>
Net profit	-3.8	13.0	15.3	23.7	48.2	-3.7	15.5	18.1	26.7	56.6	62.4	66.1
EPS	-0.06	0.22	0.26	0.40	0.82	-0.06	0.26	0.31	0.45	0.96	1.06	1.12
EPS adjusted (diluted no. of shares)	-0.06	0.22	0.26	0.40	0.82	-0.06	0.26	0.31	0.45	0.96	1.06	1.12
Dividend per share	0.00	0.00	0.00	0.00	0.62	0.00	0.00	0.00	0.00	0.67	0.74	0.79
SALES, EURm												
Group	188.1	239.9	231.5	284.8	944.3	198.2	256.5	248.1	300.1	1,003.0	1,040.6	1,078.8
Total	188.1	239.9	231.5	284.8	944.3	198.2	256.5	248.1	300.1	1,003.0	1,040.6	1,078.8
SALES GROWTH, Y/Y %												
Group	8.3	10.2	9.9	6.1	8.5	5.4	6.9	7.2	5.4	6.2	3.8	3.7
Total	8.3	10.2	9.9	6.1	8.5	5.4	6.9	7.2	5.4	6.2	3.8	3.7
EBIT, EURm												
Group	-2.2	18.7	21.9	32.0	70.4	-1.7	22.2	25.4	36.2	82.1	89.6	94.8
Total	-2.2	18.7	21.9	32.0	70.4	-1.7	22.2	25.4	36.2	82.1	89.6	94.8
EBIT margin, %												
Group	-1.2	7.8	9.5	11.2	7.5	-0.8	8.6	10.2	12.1	8.2	8.6	8.8
Total	-1.2	7.8	9.5	11.2	7.5	-0.8	8.6	10.2	12.1	8.2	8.6	8.8

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	755.3	775.8	796.5	870.4	944.3	1,003.0	1,040.6	1,078.8
<i>Sales growth (%)</i>	<i>2.9</i>	<i>2.7</i>	<i>2.7</i>	<i>9.3</i>	<i>8.5</i>	<i>6.2</i>	<i>3.8</i>	<i>3.7</i>
EBITDA	58.4	62.8	54.9	109.3	131.6	145.8	155.2	164.6
<i>EBITDA margin (%)</i>	<i>7.7</i>	<i>8.1</i>	<i>6.9</i>	<i>12.6</i>	<i>13.9</i>	<i>14.5</i>	<i>14.9</i>	<i>15.3</i>
Depreciation	-14.8	-15.1	-14.3	-57.3	-61.2	-63.7	-65.6	-69.8
EBITA	43.6	47.7	40.6	52.0	70.4	82.1	89.6	94.8
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	43.6	47.7	40.6	52.0	70.4	82.1	89.6	94.8
<i>EBIT margin (%)</i>	<i>5.8</i>	<i>6.1</i>	<i>5.1</i>	<i>6.0</i>	<i>7.5</i>	<i>8.2</i>	<i>8.6</i>	<i>8.8</i>
Reported EBIT	39.0	49.2	39.8	53.6	69.4	82.1	89.6	94.8
<i>EBIT margin (reported) (%)</i>	<i>5.2</i>	<i>6.3</i>	<i>5.0</i>	<i>6.2</i>	<i>7.4</i>	<i>8.2</i>	<i>8.6</i>	<i>8.8</i>
Net financials	-20.9	-15.2	-5.9	-10.6	-10.4	-11.6	-11.6	-12.2
Pre-tax profit	22.7	32.5	34.7	41.4	60.0	70.5	78.0	82.6
Taxes	-3.4	-6.8	-6.6	-8.6	-11.8	-13.9	-15.6	-16.5
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	14.7	27.2	27.3	34.4	47.2	56.6	62.4	66.1
Cash NRIs	-4.6	1.5	-0.8	1.6	-1.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	97	95	94	95	44	43	43	42
Goodwill	129	129	129	135	135	135	135	135
Right of use assets	0	0	0	234	279	286	292	294
Inventory	160	155	170	191	223	221	229	237
Receivables	16	18	22	22	19	24	25	26
Liquid funds	49	58	43	38	29	40	42	43
Total assets	455	459	462	721	731	751	767	779
Liabilities								
Shareholder's equity	48	167	163	167	185	205	228	250
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	244	310	286	292	294
Deferred taxes	6	5	5	6	0	0	0	0
Interest bearing debt	294	174	177	173	100	110	92	74
Non-interest bearing current liabilities	91	104	107	123	127	140	146	151
Other interest-free debt	16	10	11	10	10	10	10	10
Total liabilities	455	459	463	721	731	751	767	779
CASH FLOW, EURm								
+ EBITDA	58	63	55	109	132	146	155	165
- Net financial items	-21	-15	-6	-11	-10	-12	-12	-12
- Taxes	-3	-4	-8	-7	-12	-14	-16	-17
- Increase in Net Working Capital	-3	15	-13	-5	-24	10	-4	-4
+/- Other	-5	4	0	-42	-1	0	0	0
= Cash flow from operations	27	63	27	45	84	131	124	132
- Capex	-18	-10	-12	-20	-56	-69	-71	-72
- Acquisitions	0	0	0	-15	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	8	53	15	10	28	61	53	60
+/- New issues/buybacks	0	91	-1	-6	0	0	0	0
- Paid dividend	0	0	-30	-24	-29	-36	-39	-44
+/- Other	-12	-135	0	16	-8	-14	-12	-15
Change in cash	-4	9	-15	-5	-9	11	2	2

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	500	427	423	743	702	702	702
Net debt (excl. convertibles)	116	134	379	380	355	342	325
Enterprise value	616	561	801	1,123	1,058	1,044	1,027
Sales	776	797	870	944	1,003	1,041	1,079
EBITDA	63	55	109	132	146	155	165
EBIT	48	41	52	70	82	90	95
Pre-tax	33	35	41	60	70	78	83
Earnings	26	28	33	48	57	62	66
Equity book value (excl. minorities)	167	163	167	185	205	228	250
Valuation multiples							
EV/sales	0.8	0.7	0.9	1.2	1.1	1.0	1.0
EV/EBITDA	9.8	10.2	7.3	8.5	7.3	6.7	6.2
EV/EBITA	12.9	13.8	15.4	16.0	12.9	11.7	10.8
EV/EBIT	12.9	13.8	15.4	16.0	12.9	11.7	10.8
EV/OCF	9.9	20.7	17.8	13.3	8.1	8.4	7.8
EV/FCFF	9.3	24.4	24.1	8.8	8.5	9.0	8.2
P/FCFE	9.5	27.7	41.8	26.3	11.4	13.2	11.6
P/E	19.5	15.2	12.9	15.4	12.4	11.3	10.6
P/B	3.0	2.6	2.5	4.0	3.4	3.1	2.8
Target EV/EBITDA	0.0	0.0	0.0	0.0	8.9	8.3	7.7
Target EV/EBIT	0.0	0.0	0.0	0.0	15.8	14.3	13.4
Target EV/FCF	0.0	0.0	0.0	0.0	21.1	24.2	20.9
Target P/B	0.0	0.0	0.0	0.0	4.6	4.1	3.8
Target P/E	0.0	0.0	0.0	0.0	16.6	15.1	14.2
Per share measures							
Number of shares	58,869	58,869	58,869	58,869	58,819	58,819	58,819
Number of shares (diluted)	58,869	58,869	58,869	58,869	58,819	58,819	58,819
EPS	0.44	0.48	0.56	0.82	0.96	1.06	1.12
Operating cash flow per share	1.06	0.46	0.76	1.43	2.22	2.11	2.24
Free cash flow per share	0.89	0.26	0.17	0.48	1.04	0.90	1.03
Book value per share	2.83	2.77	2.83	3.14	3.48	3.87	4.25
Dividend per share	0.51	0.41	0.50	0.62	0.67	0.74	0.79
Dividend payout ratio, %	116.8	86.0	89.7	75.8	69.7	70.0	70.0
Dividend yield, %	6.0	5.7	7.0	5.2	5.6	6.2	6.6
FCF yield, %	10.5	3.6	2.4	3.8	8.7	7.6	8.6
Efficiency measures							
ROE	23.9	17.0	19.9	27.4	29.1	28.8	27.7
ROCE	14.1	12.1	11.3	12.0	13.7	14.8	15.4
Financial ratios							
Inventories as % of sales	20.0	21.4	21.9	23.6	22.0	22.0	22.0
Receivables as % of sales	2.3	2.8	2.5	2.0	2.4	2.4	2.4
Non-interest bearing liabilities as % of sales	13.3	13.5	14.1	13.4	14.0	14.0	14.0
NWC/sales, %	8.7	10.3	10.0	11.7	10.0	10.0	10.0
Operative CAPEX/sales, %	1.3	1.5	2.3	5.9	6.9	6.8	6.6
CAPEX/sales (incl. acquisitions), %	1.3	1.5	0.6	5.9	6.9	6.8	6.6
FCFF/EBITDA	1.1	0.4	0.3	1.0	0.9	0.8	0.8
Net debt/EBITDA, book-weighted	1.8	2.4	3.5	2.9	2.4	2.2	2.0
Debt/equity, market-weighted	0.3	0.4	0.4	0.1	0.2	0.1	0.1
Equity ratio, book-weighted	36.3	35.2	23.1	25.3	27.3	29.7	32.1
Gearing, %	69.6	82.3	227.0	205.8	173.5	150.1	129.9

COMPANY DESCRIPTION: Tokmanni is the largest and only nationwide general discount retail chain in Finland with approximately 190 stores across the country. The company operates under one brand and has a wide range of low-priced products for example for home renovation and cleaning, dressing and leisure, as well as interior decoration and gardening. Tokmanni offers a selection of international brands, the company's own private label products and non-branded products.

INVESTMENT CASE: Based on a healthy demand for Tokmanni's value proposition in the Finnish market, Tokmanni's growth is based on store network expansion and like-for-like growth, resulting in faster than market growth. Profitability drivers include increasing share of private labels, improved sourcing, and cost efficiency improvements.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Takoa Invest	10,544,688	125.904	17.9%
Keskinäinen Työeläkevakuutusyhtiö Elo	4,947,538	59.074	8.4%
Keskinäinen työeläkevakuutusyhtiö Varma	3,150,526	37.617	5.4%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	1,998,672	23.864	3.4%
OP-Suomi Arvo -sijoitusrahasto	1,023,910	12.225	1.7%
Sijoitusrahasto Evli Suomi Pienyhtiöt	875,000	10.447	1.5%
Eläkevakuutusosakeyhtiö Veritas	690,000	8.239	1.2%
Kirkon Eläkerahasto	628,458	7.504	1.1%
Säästöpankki Kotimaa-sijoitusrahasto	586,527	7.003	1.0%
Nordea Fennia Fund	518,837	6.195	0.9%
Ten largest	24,964,156	298.072	42%
Residual	33,854,596	404.224	58%
Total	58,818,752	702.296	100%

EARNINGS CALENDAR	
April 29, 2020	Q1 report
July 29, 2020	Q2 report
October 29, 2020	Q3 report
OTHER EVENTS	

COMPANY MISCELLANEOUS	
CEO: Mika Rautiainen	
CFO: Markku Pirskanen	Tel: +358 300 472 220
IR: Maarit Mikkonen	

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

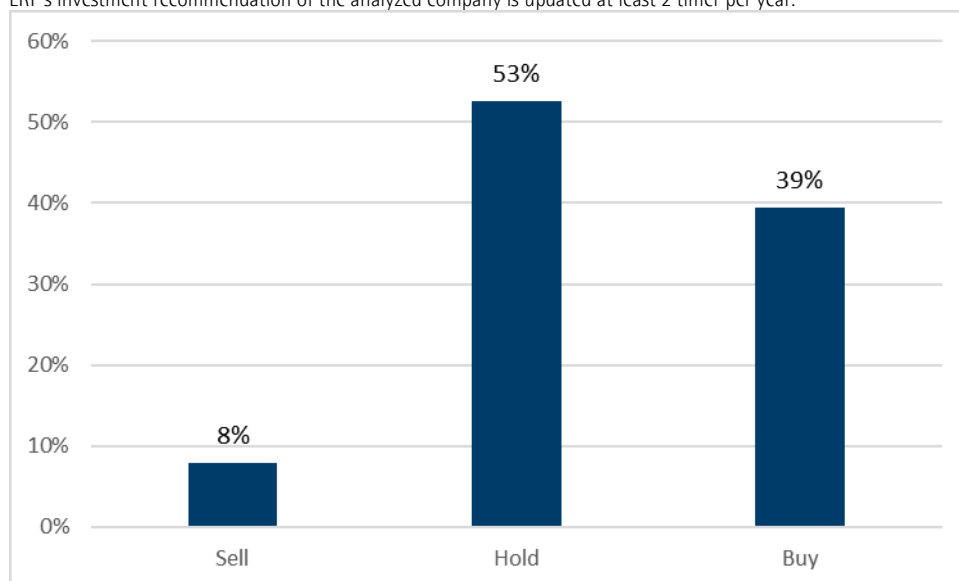
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Investment recommendations are defined as follows:

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

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

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