

Many sustained tailwinds add up

Exel continued to perform despite the pandemic. In our view the company remains positioned for strong organic growth in the years to come. The strategic priorities now work solid. Our TP is EUR 11 (10); retain BUY rating.

The strategic priorities have already delivered results

In our view Exel Composites is a competitively positioned player in the materials value chain and operates in a niche that has a strong long-term growth outlook. The company manufactures composites for demanding industrial applications. Strategy execution paid off in 2019-20 as adjusted operating profit almost doubled to EUR 9.7m in FY '20 from the level seen in FY '18. The excellent financial performance was due to a pick-up in organic growth as well as successful cost reduction measures, both of which helped the company to scale the relatively high fixed cost base. Exel seems to have found an advantageous positioning within the Wind power customer industry but also in areas like Buildings and infrastructure, among many others.

Growth outlook continues to support profitability gains

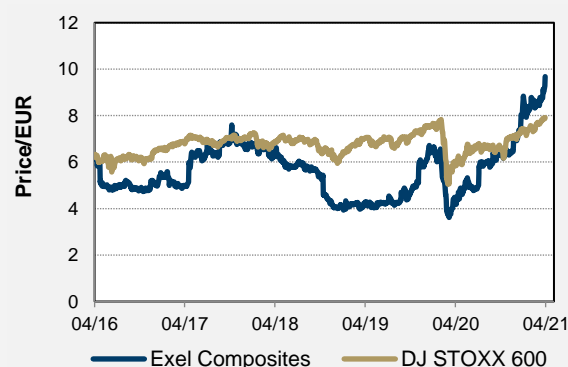
Exel posted a 5% organic top line growth last year despite the pandemic. Wind power was a big driver but there were other notable positives such as Machinery and electrical. Transportation and Telecommunications were the only two customer industries, out of the seven, with revenue declines. The pandemic may still hurt Transportation demand this year but in our view the area has good long-term outlook. Telecommunications is the one industry with a bit muted outlook but even there the situation may improve with the rollout of 5G. Exel guides increasing revenue and adjusted EBIT for this year. We estimate 7% growth and an additional EUR 1m EBIT gain. We view Exel positioned for ca. 5-6% CAGR in the years to come.

We see more room for earnings-based multiple expansion

Exel has been historically valued around 8x EV/EBITDA and 0.9x EV/S. The current valuation is ca. 8.5x EV/EBITDA on our estimates for this year, in other words not that high in the historical context even though the shares have appreciated a lot. Profitability gains have justified the rally. The valuation is now historically rich in terms of EV/S, but we also find this justified since the strategy is poised to deliver more in the years to come. Our TP is now EUR 11 (10) per share. We retain our BUY rating.

Rating

+ BUY



Share price, EUR (Last trading day's closing price) 9.68

Target price, EUR 11.0

Latest change in recommendation 19-Feb-20

Latest report on company 19-Feb-20

Research paid by issuer: YES

No. of shares outstanding, '000's 11,897

No. of shares fully diluted, '000's 11,897

Market cap, EURm 115

Free float, % 100.0

Exchange rate EUR/USD 1.20

Reuters code EXL1V.HE

Bloomberg code EXL1V FH

Average daily volume, EURm 0.1

Next interim report 30-Apr-21

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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
2019	103.8	5.1	4.9%	0.7	0.20	32.5	1.0	21.0	0.9	0.18
2020	108.6	9.4	8.7%	0.5	0.45	16.4	1.1	12.5	0.5	0.20
2021E	116.0	10.7	9.2%	6.4	0.63	15.3	1.2	13.2	5.6	0.25
2022E	123.0	12.3	10.0%	7.7	0.75	13.0	1.1	11.1	6.7	0.30
2023E	129.1	12.9	10.0%	8.4	0.80	12.2	1.0	10.2	7.3	0.32
Market cap, EURm	115			Gearing 2021E, %	77.0			CAGR EPS 2020-23, %	21.0	
Net debt 2021E, EURm	26			Price/book 2021E	3.4			CAGR sales 2020-23, %	5.9	
Enterprise value, EURm	141			Dividend yield 2021E, %	2.6			ROE 2021E, %	24.0	
Total assets 2021E, EURm	100			Tax rate 2021E, %	21.0			ROCE 2021E, %	15.2	
Goodwill 2021E, EURm	13			Equity ratio 2021E, %	33.7			PEG, P/E 21/CAGR	1.5	

Investment summary

Exel Composites is a composites manufacturer with a presence on three continents

Exel Composites is a composites manufacturer headquartered in Vantaa, Finland. The company designs and manufactures composites profiles mostly with a production technology called pultrusion but also knows pull-winding and continuous lamination. Tailored, made-to-order composites profiles dominate the company's business. Exel's competencies make the company a competitive composites supplier for many large global industrial customers. The business model tends to generate best results with a relatively high level of customer account concentration, however Exel categorizes its customers into seven distinct industries and we consider this a reasonable degree of diversification. Exel has a current eight-strong plant network that extends six countries and three continents. The manufacturing footprint allows Exel to serve customers in over 50 countries. Europe is Exel's most important market, however we expect North America and Asia to gain importance in the long-term through both organic and inorganic growth. Exel now employs close to 700 personnel.

Composites' desirable features underpin robust long-term growth outlook

Composites remain a niche materials market compared to e.g. steel. In our view the relatively low current adoption rate together with the qualities, such as strength and lightness, that make composites a competitive solution in many applications mean Exel's addressable market is poised for robust long-term growth rates. The global composites market is expected to grow, depending on considerations like customer industry and geography, at a CAGR of around 2-5% in volume terms in the coming years. The growth prospects imply individual companies can achieve growth rates significantly above such pace given the fact that overall composites market competition remains very fragmented. Positioning within the industries that have the strongest demand outlooks continues to play a crucial role in strategy execution. Wind power remains one such key industry for the foreseeable future, but Exel is also making progress with other types of customer accounts.

Financial performance is now near long-term targets

Exel's performance in 2019-20 was impressive following a period of leaner years. Organic growth outlook is now strong and there are also other customer industries besides Wind power making good progress. The combined effect of growth and recent cost reduction program was the near doubling of adjusted operating profit to EUR 9.7m in FY '20 from EUR 5.0m in FY '18. Exel's growth target implies CAGR in the 4-10% range, and we estimate good additional absolute profitability gains due to growth prospects.

Competitive positioning within the global composites market is not an issue

In our opinion Exel's pultrusion positioning as well as global manufacturing mean the company is a very competitive composites manufacturer within several industrial applications. The company's business model has proved stable in terms of pricing and customer relationships. Exel's own operational performance is sound and the risks are mostly associated with the customer industries' wider demand. Many of the industries have pronounced cyclical elements, but in our view the overall growth outlook is now rosy.

Exel also nurtures other customer industries besides Wind power

Wind power is the key customer industry that continues to drive revenue (26% of FY '20), yet we see there is also plenty of long-term potential in Buildings and infrastructure (22% of FY '20) as well as Transportation (9% of FY '20). Defense is still a minor customer industry (5% of FY '20), but development was very strong in FY '20.

The pandemic's adverse effects have proved very modest and outlook remains strong

Exel's top line grew by 5% to EUR 109m in FY '20. The all-organic growth was remarkable considering the pandemic context. Transportation was hit but there were also other notable positives besides Wind power, such as Machinery and electrical. Exel guides increasing revenue and adjusted operating profit for FY '21. We estimate 7% top line growth this year to EUR 116m and see this would result in EUR 10.7m adjusted operating profit.

The share has rallied along with performance, but we see there's still good potential

In our view Exel is well positioned for ca. 5-6% organic CAGR in the years to come and expect the company to reach 10% adjusted operating margin in FY '22. Financial leverage remains about 2x NIBD/EBITDA, which is still somewhat high for a company of Exel's profile but also means more equity upside when the company continues to grow.

We rate Exel BUY, TP EUR 11 (10) per share

Exel now trades around 8x EV/EBITDA on our estimates for FY '21-22, a level close to historical averages. In terms of EV/EBIT the shares are valued at ca. 13x on our FY '21 estimate. We view these multiples still attractive. Our TP is EUR 11 (10) and our rating BUY.

Company overview

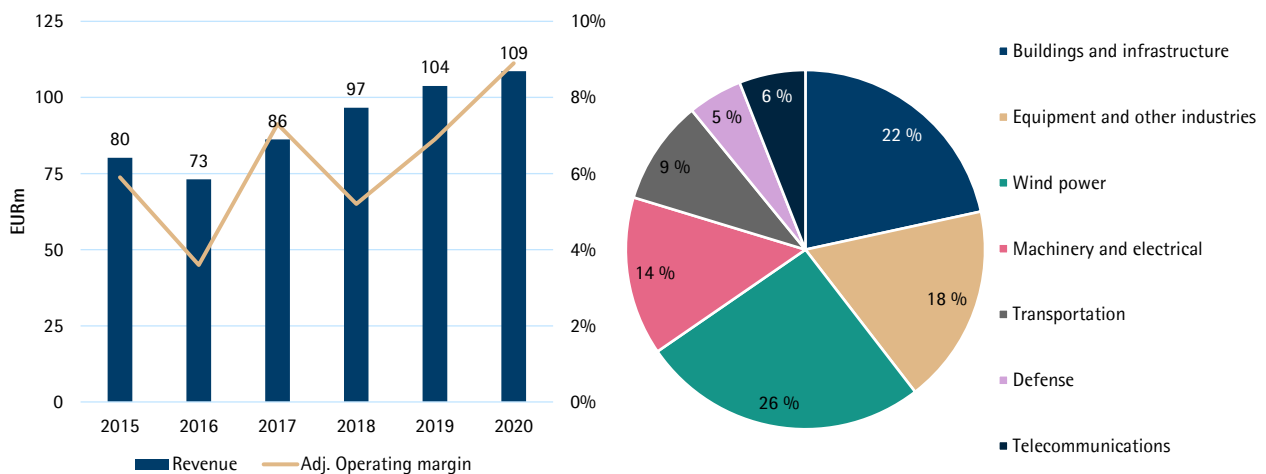
Exel Composites background

The company, founded in Helsinki in 1960, began manufacturing composite products in 1970. The name Exel derives from Explosive Electronics, a reflection of the fact that the three founding chemists initially produced electronic detonator caps. Sporting goods, most notably carbon fiber ski poles, drove the business in the early decades. Other sports applications, such as wind surfing masts, followed in the 1980s and 1990s but the company also discovered various industrial uses.

The Finnish private equity firm Sponsor Capital acquired Exel from Neste in 1996. The company's international expansion proceeded at a rapid pace in the following years. The 1998 IPO in the Helsinki stock exchange diluted Sponsor Capital to a minority ownership and was followed by the full exit in 2000. Exel continued to expand in the early 2000s by acquiring several pultrusion businesses. The company then sold the sporting goods brands in the late 2000s to focus on manufacturing composites for industrial applications. Exel Composites has followed this strategy ever since; the latest acquisitions in China and the US have helped to make the company even more competitive global composites supplier for large and demanding industrial customers.

Today Exel Composites designs and manufactures various types of composites profiles for a wide range of customer industries. The company focuses on pultruded composites profiles ranging from very long ones that end up as wind turbine blade reinforcing elements to shorter types such as those to be used in industrial robots. Exel now has eight manufacturing plants located in six countries on three continents and employs close to 700 personnel. The company reports revenue for seven distinct customer industries, the most important one being Wind power. Exel's customer demand can be described to be driven by investment projects to a large extent, however the customer industries have their own independent cycles. Almost 60% of Exel's revenue is attributable to customers located in Europe, but in the long-term perspective this share is set to decrease as many relevant customer industries' investment outlooks remain particularly strong in North America and Asia. Especially Chinese composites demand should help drive brisk organic growth for years to come. Exel is also likely to make additional acquisitions in the future. Mr Riku Kytömäki has acted as the CEO of Exel Composites since 2014.

Figure 1: Exel Composites' revenue & profitability development and FY '20 customer industry revenue split



Source: Exel Composites

Business model

The business is about supplying large industrial customer accounts with customized composites profiles

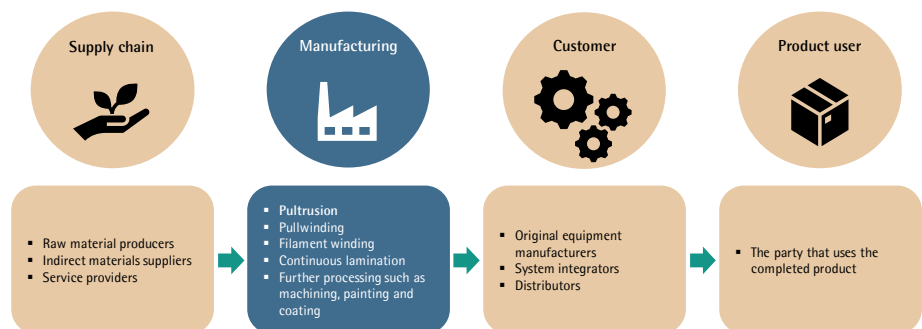
Exel Composites designs and manufactures composite profiles, mainly for industrial applications, on a made-to-order basis. The company first designs and engineers an appropriate composites profile shape according to customer specifications. The ready customer template can then be used to reproduce the required shape on short notice at large scale with high quality consistency. Exel derives most of its revenue through such customer-specific template volumes but also offers a wide range of standardized profiles. The offering's high account-specific customization level on the other hand helps to increase overall customer stickiness while the flip side is that the resulting production variety somewhat limits manufacturing efficiency potential. In our view the business' operational efficiency is thus naturally optimized when a relatively few large customer accounts absorb high delivery volumes. It follows that Exel also needs to be well on the ball from a long-term strategic perspective and proactively manage customer and segment exposures. In our opinion Exel's past few years' strong performance indicates the company is now managing the business successfully both from profitability and risk management perspective.

Composites are often competitive ancillary elements for different demanding industrial applications

Composites, also known as fiber-reinforced plastics, are synthesized from plastics and fibers. The resulting combination of plastics and reinforcements (carbon and glass fibers) is a composite material with several desirable properties, including relative strength and lightness, for demanding industrial applications. Exel Composites mostly relies on the so-called pultrusion production process but also uses pull-winding and continuous lamination to some extent. The company's current important customer profile applications include e.g. building solutions such as fiberglass window profile frames and carbon fiber sunshade axes, infrastructure solutions such as frangible airport masts and fiberglass insulating rail joints, insulating rods and conductor cores for power transmission purposes, and not to mention wind power solutions such as wind turbine blade reinforcement elements. Many of the applications thus reside in capital investment-driven projects. The customer accounts and their respective industries can be dramatically different, however in our view there is a common denominator in the sense that Exel's output tends to serve an ancillary role and thus usually amounts to only a marginal value relative to the total respective investment cost. In our opinion this is as such a very positive consideration and helps explain why the company has been able to maintain stable pricing relative to raw material costs.

Exel procures different raw materials from several producers globally. The plastics category includes e.g. polyester, epoxy and vinyl ester resins. Carbon and glass fibers are the most common reinforcement materials, but other fibers such as polyester, aramid or natural fibers can also be used.

Figure 2: Exel Composites' role in the manufacturing value chain

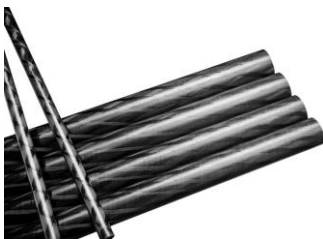


Source: Exel Composites

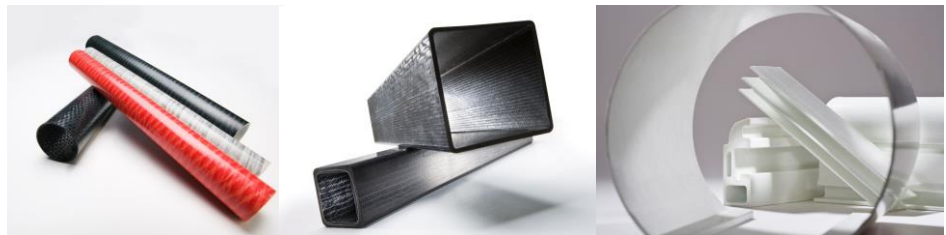
Exel's composites knowledge plays a key role in all kinds of customer cases

Exel's core competence is in supplying customized pultruded profiles in a fast and flexible as well as reliable manner. The initial design and engineering phase can be only a matter of days or weeks for a given customer account, however the necessary iterations and field tests require significantly longer time spans especially when the case in question is a tailored solution. Serial production can be already running few months after the first contact in the case of standard products, such as those of certain tube customers, but tailor-made and more innovative products involve longer development cycles. The customer may or may not know the exact specifications beforehand, but in either situation Exel's proprietary composites manufacturing knowledge is a key advantage in aspects like the relevant chemistry, tools, technologies, and overall process parameters. Initial delivery volumes for a fresh account are usually somewhat low, in other words it often takes maybe a year or two before the customer in question places enough orders that make them a significant customer from Exel's point of view, meaning annual revenue somewhere in the several millions range. The graduation phase can in certain cases take even more than three years.

The company manufactures the required composites profiles shortly after the customer places the order. Visibility on near future delivery volumes remains limited as the actual orders usually materialize only a few weeks before the delivery date, while order backlog generally covers the next 2-3 months. Exel's large customers typically project their demand for the next 6-12 months.



Source: Exel Composites



The risks mostly reside with order volumes since pricing has been proven stable

Exel's business model is remarkably stable from a pricing point of view as gross margin has remained very close to 60% over the years. We understand there is some gross margin variation between segments and customers; the variations however stem for the most part from the differing types of applications, meaning gross margins do not depend so much on the specific customer industries as on the types of manufactured composites profiles. The wind power segment is one of the segments where gross margins are usually somewhat lower, however from bottom line profitability point of view this is often compensated by wind power customers' inclination to place large orders. We would not describe the wind power gross margins to be dramatically lower than those of other Exel segments, a fact that indicates how the company has relatively good pricing power even with respect to large customers. All these considerations mean, in practical terms, that composites delivery volumes are the most crucial variable for Exel's financial performance. The composite profiles Exel manufactures are, barring a few exceptions, largely free of maintenance. The relatively strong and stable delivery price, as seen in terms of gross margin performance, thus has its flip side in the fact that Exel does not have much scope to earn additional recurring service revenues.

Composites manufacturing processes, such as pultrusion, have their own complexities but they are also relatively easy to switch on and off unlike certain other continuous manufacturing processes. The composites business ties up relatively small amounts of capital compared to e.g. steel as well as pulp and paper manufacturing. The asset-lightness stems for the most part from the composites manufacturing process' relative labor-intensity. In Exel's case this means the company's tangible assets amount to around a quarter of total assets and a fifth of annual revenue.

Composite profiles are not efficiently shipped as the physical dimensions often mean empty air takes up a lot of space. Shipping costs are therefore high enough to largely prohibit overseas exports. Exel's global manufacturing footprint thus plays an important role in differentiating the company's offering in the eyes of prospective global customers. In our view Exel's current network of eight manufacturing plants makes the company a leading global producer of pultruded composites profiles.



Source: Exel Composites

Exel Composites has hundreds of customer accounts located in over 50 countries. The customer base's volumes and value are however meaningfully concentrated in about a dozen or so accounts. We view this concentration inherently efficient from the perspective of manufacturing and logistics. For this very reason we do not expect Exel to imminently aim for any significant customer base value de-concentration, however we understand the company is looking to add certain new customers that could contribute around EUR 5m each in annual revenue. We expect the company to be very selective with smaller accounts.

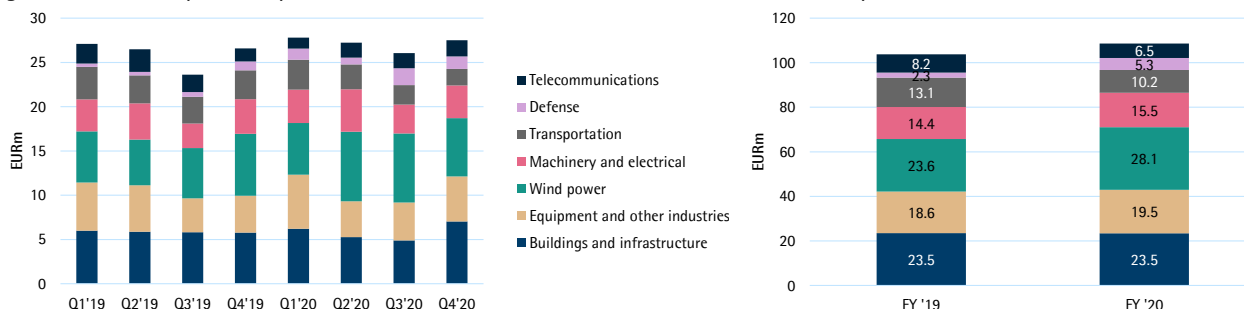
Customer relationships tend to be sticky and long-term. We thus view account loss likelihood low, and instead see the risk lies rather more with the customers' competitiveness and overall demand picture. In our opinion Exel's current seven customer industries comprise sufficiently different customer accounts from a risk management perspective; we would not expect the respective industries' demand prospects to move in lockstep although we see certain pro-cyclical factors in common.

Exel Composites' customer industries

Exel reports revenue for seven customer industries that span deliveries for customers worldwide, although Europe accounts for almost 60%. A typical Exel customer is either an original equipment manufacturer, a system integrator, or a distributor. The company's single largest customer is a wind turbine OEM. The respective account has been Exel's largest one for a few years now and generated almost 20% of FY '20 revenue. The account has performed strong in recent years as its annual revenue surged from around EUR 12m in 2017-18, or ca. 13% of revenue, to EUR 21m in FY '20. The current reporting structure was established in 2020, before which Exel reported revenue for three larger customer industries that each included their own sub-categories. Exel's current two largest customer industries, respectively Wind power and Buildings and infrastructure, used to be grouped under the same former Construction & Infrastructure industry. In our view this highlights the fact that a significant part of Exel's business is driven by big investment projects.

Exel does not disclose its customers' names, but in our opinion certain likely customer cases include e.g. Valmet, who then delivers its paper machines to a paper producer such as UPM. Another example could be Siemens Gamesa, an OEM that delivers its wind turbines to a wind farm developer like Orsted.

Figure 3: Exel Composites' quarterly and annual customer industry revenue development, 2019-20



Source: Exel Composites

The customer industries themselves can be very distinct between each other as the end-uses vary from large capital-heavy investment projects such as buildings, electricity grid pylons, wind turbines and paper machines to smaller unit applications like industrial robotics, trains and electric vehicle battery boxes. Although the demand drivers for many of these applications tend to be cyclical in nature, in our opinion the end-uses are also sufficiently different to say the respective cycles are unlikely to move in lockstep with each other.

We would describe the customer base's current level of diversification, in terms of customer industries, decent. From a medium-term perspective we see the largest risk residing in the fact that the wind power segment is already very significant by itself and seems bound to become even more so.

Exel has developed a very large number of glass and carbon fiber profile applications over the years as the customer offering is to a large extent tailored case by case. The tailor-made concepts and know-how can nevertheless be multiplied and applied to other similar applications. The offering also includes standardized products such as profiles, tubes, and laminates. The tailored composites profiles often function as critical parts in various end-products, but Exel also manufactures complete end-products and systems. Customer commitment and loyalty levels can be said to be high. The customer relationships and associated product lifecycles often span over a decade or so, a fact that also has a lot to do with the time-consuming nature of the initial design and engineering process.

Buildings and infrastructure

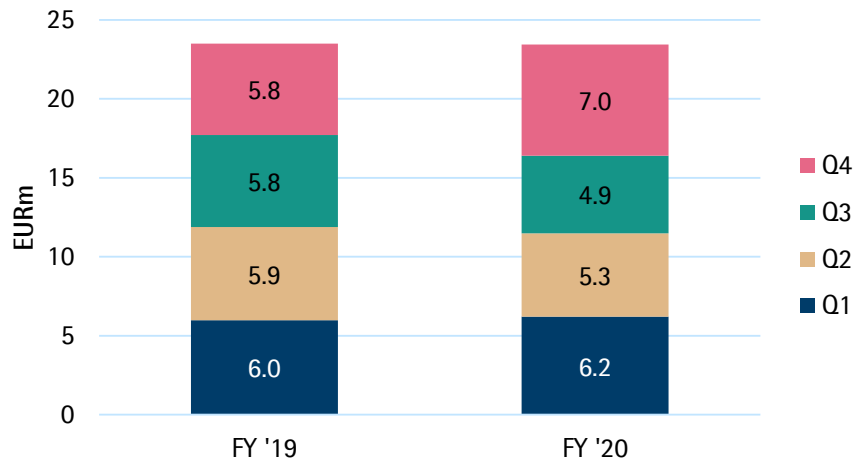
The Buildings and infrastructure industry contributed 22% of FY '20 revenue and was therefore Exel's second-largest customer industry. It provides composites profiles for a variety of constructions including window and door profiles, structural composites and architectural facades, airport lighting masts, rail solutions and cable management systems, utility power transmission as well as waste-water treatment applications. The business derives from the former Construction & Infrastructure industry.

The overall customer demand profile seems robust but somewhat cyclical

The customer industry order volumes are driven by capital-intensive investment projects and so customer demand is by nature cyclical. This inherent cyclicity is to some extent mitigated by the fact that the segment serves a wide array of industries and we view these sectors unlikely to move in lockstep. The infrastructure side in particular supplies very different sectors ranging from airports, bridges, and rail networks all the way to power distribution lines and water treatment plants. Such sectors are either growing or at the minimum require some maintenance capital expenditures due to their often mission-critical nature. On the other hand, these refurbishments can also be delayed to a

meaningful extent, and this was indeed the case a few years ago when certain infrastructure project postponements proved a headwind for Exel's order volumes.

Figure 4: Buildings and infrastructure quarterly revenue, 2019-20



Source: Exel Composites

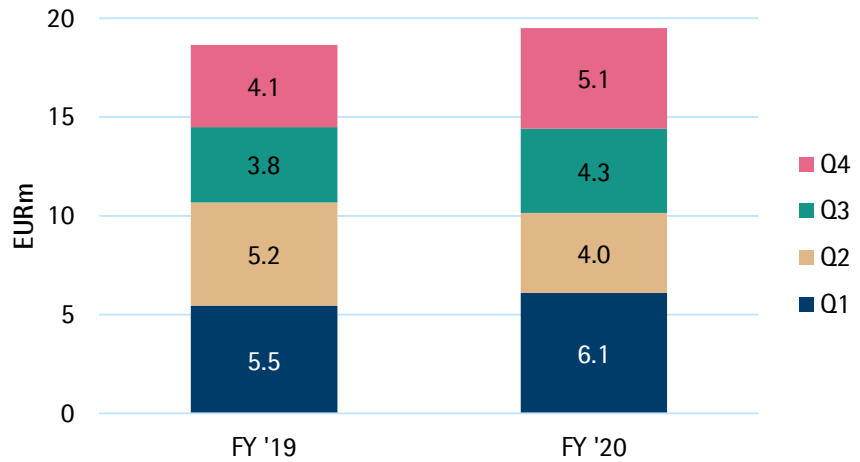
The customer industry serves a vast global market and represents an area where Exel is focusing growth initiatives. Conductor core applications are one such example where the company is now making progress. In our opinion the customer industry should be able to achieve at least some 3% annual organic growth rate in the long-term. The figure could even rise meaningfully above 5% should Exel succeed well in customer account sourcing.

The customer gross margins are not as high as in certain other Exel industries, such as Machinery and electrical. This is however to some extent compensated by the customer accounts' high delivery volume potential.

Equipment and other industries

Equipment and other industries, the third-largest customer industry, generated 18% of FY '20 revenue. The group encompasses a variety of customer accounts ranging from investment-heavy types like agriculture as well as oil and gas to more everyday uses like cleaning and maintenance tools, tool handles, sporting goods, and photography equipment. The common denominator is that the applications are such where composite tubes and telescoping poles can be used in an effective way.

Figure 5: Equipment and other industries quarterly revenue, 2019-20



Source: Exel Composites

The overall customer demand profile is the most defensive of all Exel industries

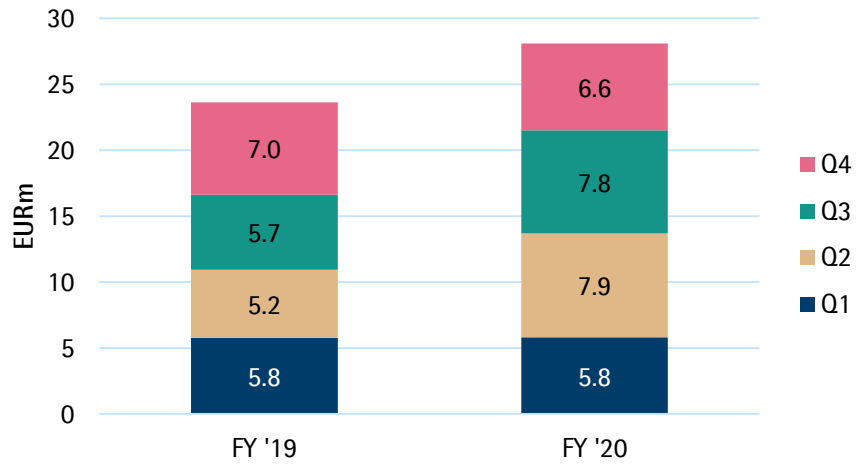
The customer industry is mostly made up of the former Other Applications segment. The customer industry in question used to grow at a strong and stable rate and we see there's no reason to expect any meaningful change in this respect. It nevertheless should be noted there can be relatively large revenue fluctuations on a quarterly level. We would describe Equipment and other industries to be the most defensive and consumer-intimate of all Exel's customer industries. On the negative side the customer industry is associated with somewhat lower gross margins compared to certain more industrial-oriented segments, such as Machinery and electrical.

Wind power

Wind power is the largest customer industry (26% of FY '20 revenue) and has managed double-digit growth rates in recent years. The strong performance reflects well the overall development seen in the global wind power market. The customer industry supplies reinforcing and stiffening elements for wind turbine blades, access and support structures, as well as cable management systems and insulation solutions. Wind power was placed under the Construction & Infrastructure customer industry before the current reporting structure was established.

Exel's largest customer, a wind power player, generated EUR 21.2m revenue in FY '20 and thus was responsible for roughly three-quarters of the Wind power customer industry top line. Wind power however has developed favorably also in the sense that Exel was able to grow the customer industry in FY '20 by some EUR 3m due to business beyond the dominant customer (in addition to which the largest account grew by EUR 1.5m).

Figure 6: Wind power quarterly revenue, 2019-20

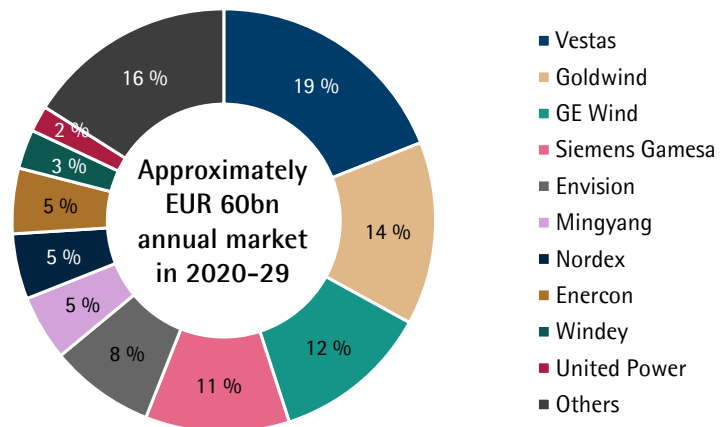


Source: Exel Composites

In our opinion recent strong wind power performance reflects advantageous positioning within spar caps

Wind turbine blade reinforcements, also known as spar caps, are the major application currently driving the segment's volumes, although Exel also supplies some other elements such as ladders and generator parts. Spar caps are reinforcing elements inserted within the blades of a wind turbine to improve the shafts' structural performance. We see these elements a fitting niche for Exel as spar caps are structurally critical parts for wind turbine blades and pultruded profiles offer a consistent level of high quality as well as low scrap rates. Wood MacKenzie estimates the blades themselves make up about 22% of a wind turbine's total installation cost. Spar caps then represent some fractional, albeit growing, share of this estimated blade cost component. We estimate the total blade stiffener market is at least EUR 1bn in annual revenue and we continue to expect this specific market to grow at low double-digit rates for the foreseeable future. The underlying wider wind power market demand remains healthy, in addition to which the spar caps sub-market benefits from certain major industry trends such as generally growing wind turbine sizes. Larger turbines and consequently longer blades demand stiffer reinforcing elements, and in our view Exel has positioned itself well in this respect as the company mainly offers superior and pricier pultruded carbon fiber elements (compared to glass fibers).

Figure 7: Global onshore wind turbine OEM market shares, 2017-19



Source: Bloomberg New Energy Finance

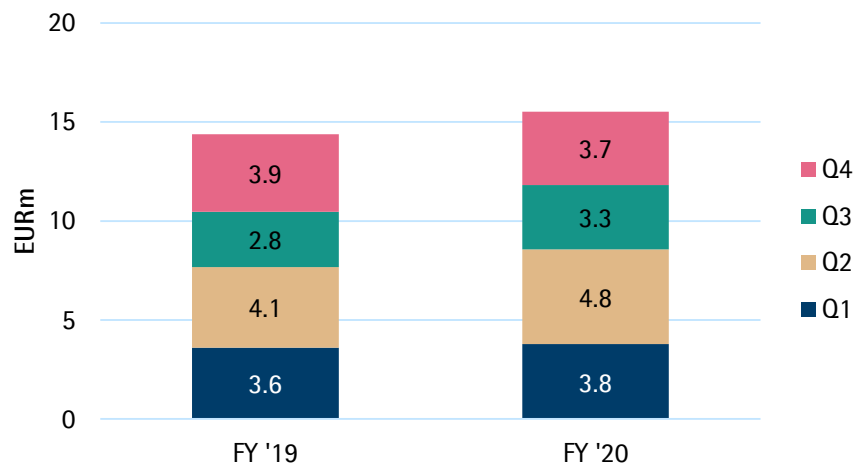
Wind power gross margins are somewhat lower than those of Exel's other customer industries and we do not expect the situation to change. A few large wind turbine OEMs

dominate the market and so it's likely the composites' pricing will remain rather tight given the relatively standardized profile types these buyers procure. In our opinion the customer industry has potential to reach double-digit CAGR for many years to come.

Machinery and electrical

Machinery and electrical is the fourth-largest customer industry and generated 14% of FY '20 revenue. The customer industry delivers composites for a range of customers. The applications include paper as well as textile machine solutions, conduit and insulating rods, and robotics.

Figure 8: Machinery and electrical quarterly revenue, 2019-20



Source: Exel Composites

In our opinion the capital goods focus positions the customer industry for mid-single-digit organic growth rate

The customer industry mostly comprises the Paper, Electrical and Machine industries that were previously under Industrial Applications. The typical customer cases are thus industrial OEMs. Exel does not disclose its customer accounts, but in our view many potential Machinery and electrical customers are companies that operate in industries which benefit from several established global megatrends such as industrial automation, energy efficiency and urbanization. The respective industrial OEMs often have set their long-term growth targets meaningfully above global GDP growth rates. In our opinion the sectors Exel addresses should position the customer industry for some 3-5% long-term organic growth rate.

We understand the respective customers place perhaps the highest quality requirements of all Exel's accounts, and consequently the customer industry also enjoys similarly high gross margins.

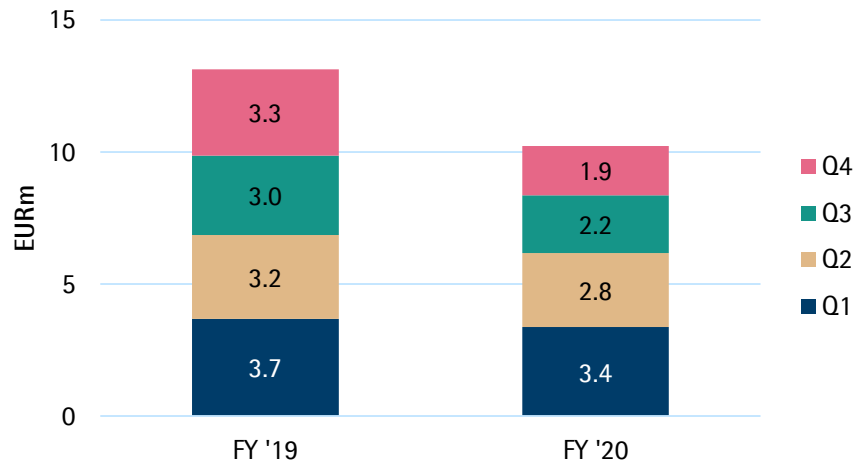
Transportation

Transportation contributed 9% of FY '20 revenue. The customer industry supplies profiles for buses, trucks and trailers, trains and trams as well as automotive applications. Transportation was previously placed under the Industrial Applications segment.

Mediums of mass transportation can absorb higher delivery volumes as trains and buses need to be supplied with longer and larger profiles compared to cars. There are also certain interesting automotive niches such as bumper beams and electric vehicle battery boxes, however the bulkier panels make for overall more attractive deliveries. This is further accentuated by the fact that modularity considerations mean a public transport

vehicle, be it a train or a tram, can support additional profile deliveries and not just the initial panels.

Figure 9: Transportation quarterly revenue, 2019-20



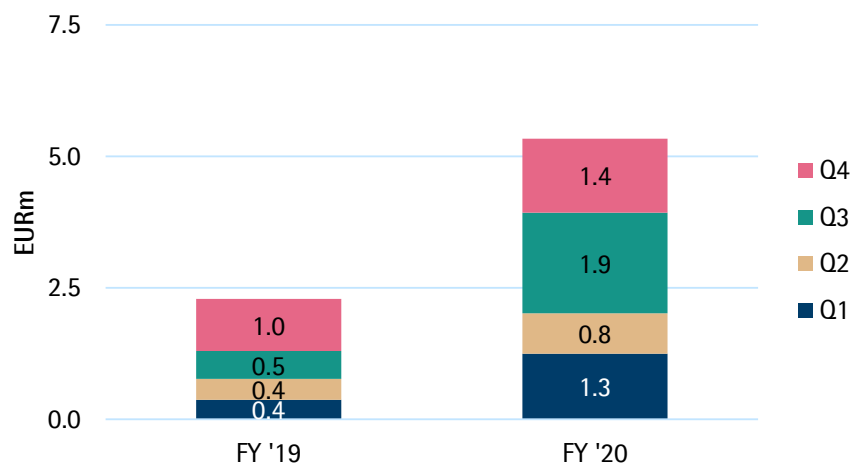
Source: Exel Composites

The pandemic has had an adverse effect on the customer industry's demand, but the long-term outlook still appears favorable as the sector is one of those where Exel is focusing its growth initiatives. Composites can make vehicles lighter and thus help them consume less energy; the customer industry therefore plays well with the global energy efficiency megatrend. In our opinion the customer industry should be positioned for approximately 5% annual organic long-term growth rate. We also understand the customer industry generates mid-range gross margins in Exel's overall context.

Defense

Defense amounted to 5% of FY '20 revenue. The customer industry provides composites for e.g. camouflage support poles, non-magnetic tool handles and casings. The business used to be placed under the Other Applications customer industry prior to the establishing of the new reporting structure.

Figure 10: Defense quarterly revenue, 2019-20



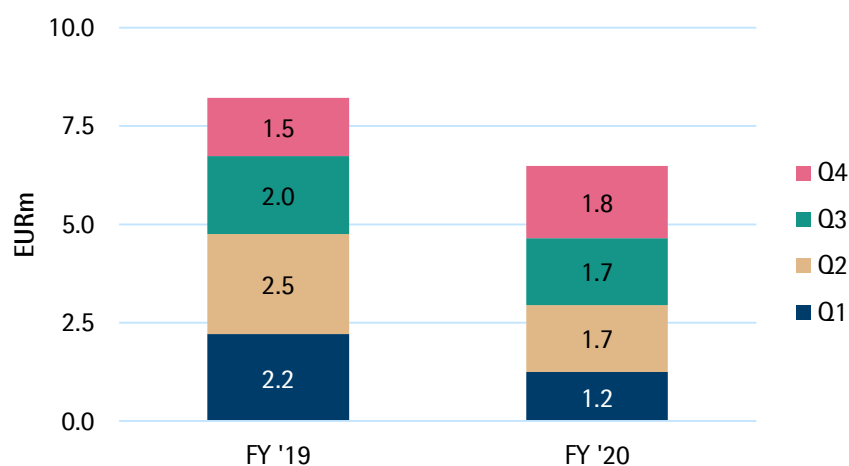
Source: Exel Composites

The customer industry is still modest in size, but according to Exel there's good additional growth potential. The business has been traditionally associated with the Finnish Defence Forces, however Exel has also been able to expand the segment's geographical footprint in recent years, and as a result the customer industry's revenue more than doubled in FY '20.

Telecommunications

Telecommunications contributed 6% of FY '20 revenue. The customer industry produces composites for e.g. antenna radomes and masts. The market has been challenging in recent years and the segment is now one of the smallest due to soft order volume development. The change is notable considering Exel's single largest customer account used to come from the telecommunications industry not that long ago, only back in 2017. The business used to be placed under the former Industrial Applications segment.

Figure 11: Telecommunications quarterly revenue, 2019-20



Source: Exel Composites

Exel's current telecommunications offering focuses on antenna covers such as radomes, rods and tubes. These applications have been designed to protect an antenna from the environment without impairing its ability to transmit or receive radio waves. Exel uses pultrusion as well as pull-winding processes to manufacture antenna cover profiles. Glass fiber composites are useful for this specific purpose as they provide the desirable electromagnetic properties in addition to qualities such as low weight, high strength and stiffness, low thermal sensitivity, weather durability and low maintenance.

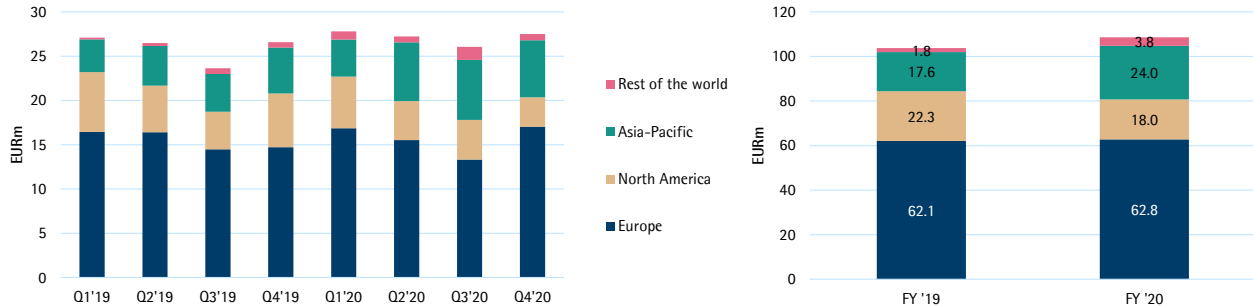
Telecommunications' order volumes are inherently cyclical, but the customer industry also delivers high gross margins relative to certain others such as Wind power. In recent years Telecommunications' gross margins have nevertheless decreased somewhat due to heavier competition.

Exel Composites plant network

Proximity to customers and their end-markets is crucial as composites do not often ship very long distances. There is thus a high correlation between revenue by customer location and manufacturing footprint, although the relationship is not a perfect one. According to our knowledge the Asian pultrusion market is close to USD 1.5bn while North America is about USD 1bn and Europe USD 0.5bn. From this perspective Exel has

plenty of room to grow in both Asia and North America, given the fact that currently some 60% of the company's revenue is attributable to Europe.

Figure 12: Exel Composites' revenue by customer location, 2019-20



Source: Exel Composites

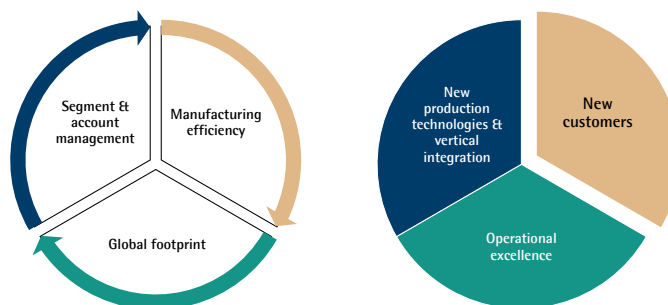
The company's eight manufacturing plants, located in six countries on three continents, can be recalibrated to serve different end markets in a straightforward manner. The plants employ standardized layouts and equipment for the most part. Exel's current structural manufacturing capacity could, according to the company, support annual revenue in the EUR 150m ballpark. The exact figure depends on product mix and specifically the share of pricier carbon fiber materials. The new Austrian plant is now ready and will begin to contribute volumes in Q1'21. The facility will support customers especially within the Machinery and electrical industry. The Austrian plant's construction cost was EUR 8.5m, including the EUR 1.0m paid for the plot. Any potential European greenfield plant has an indicative EUR 20m total investment cost that is comprised of about EUR 10m allocated for the building itself, EUR 5m for equipment, and another EUR 5m for training and other costs.

Strategy and financial targets

Proactive customer sourcing is the key to successful strategy execution

Exel's business model, global plant network and relatively large fixed cost base mean it's important the company remain on the ball regarding the customer sectors' demand outlook. Proactive segment and customer account level management is key in ensuring an adequate level of manufacturing capacity utilization. A recent notable case example is the focus shift from Telecommunications to Wind power. The former industry's outlook remains challenging while the latter has only continued to gain more traction. In our opinion Exel appears to be doing extended progress on this front as additional promising customer application areas, namely conductor cores and camouflage net support poles, have recently emerged. In more specific operational terms Exel has progressed with product design and composite manufacturing capabilities in the case of conductor cores, while in the case of camouflage net support poles the company has been able to harness its global footprint by introducing an established application to new locations. Exel continues to look for other avenues where to expand its secondary processing abilities and thus achieve deeper vertical integration. The company might also add such composites manufacturing processes (e.g. filament winding) where it has no foothold right now. These types of incremental operational refinements can produce additional marginal profitability gains but in the big picture we view the attainment of new customers as the factor that dominates Exel's long-term strategic work. Exel's current manufacturing capacity can still support further meaningful top line growth especially if the product mix happens to tilt more towards carbon fiber-based composites. We understand Exel continues to develop new composites applications and aims to nurture new customers especially within the Wind power, Buildings and infrastructure as well as Transportation customer industries.

Figure 13: Exel Composites' key strategy considerations and operational levers



Source: Evli Research

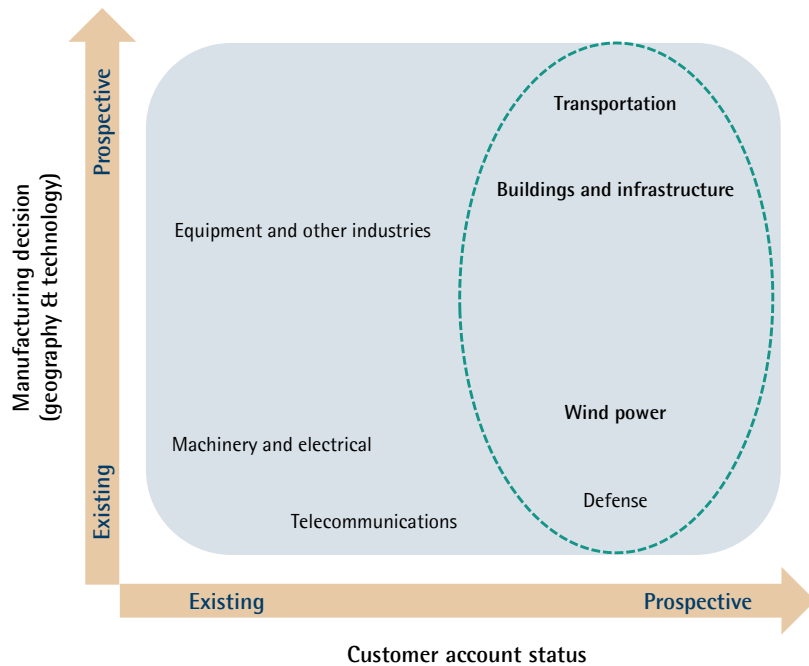
Existing plant network can support higher volumes but in the long-term unit additions are likely

The customer as well as the manufacturing decision, including both geographic location and manufacturing technology, are the main determinants whenever Exel ramps up production volume. Additional output can be sold to either existing or new customers, while the composites manufacturing happens at either a current plant or one that is yet to be included within Exel's network. The plant network can be expanded organically through greenfield investments as well as through acquisitions. In our opinion both organic and inorganic investments are relevant possibilities, however M&A seems to be a bit more likely option at present considering the growing importance of Asia (including China) in Exel's strategy. Greenfield production plant investments are a relevant growth alternative only in market areas where Exel already has a presence, as was the case with the recent (albeit more brownfield) Austrian development, and we note a new plant takes up to three years or more to plan and construct. The company has identified Eastern Europe and India, in addition to China, as potential major sources of future growth. India looks promising from wind power perspective as the country is set to grow its wind power generating capacity at some 9% CAGR in the coming years, or more than 4GW annually, according to the Global Wind Energy Council. The Indian wind power investment pipeline could represent an opportunity to establish an initial toehold in an otherwise underdeveloped huge country.

The strategy focuses on large customer accounts

Global manufacturing footprint remains one of Exel's strategic cornerstones given the fact that many existing and prospective customers are likely big industrial companies with worldwide reach. Global presence is also important because composites do not often ship very long distances. In our view Exel's growth initiatives to a large extent focus on sourcing new accounts, particularly ones large enough to generate some EUR 5m in annual revenue, although within certain segments there should still be plenty of room to grow by selling more to existing customers. The relatively small European market still represents vast potential from Exel's point of view, however we would expect the company's long-term growth plans, be they organic or inorganic, to focus on North America and Asia.

Figure 14: Exel Composites' customer industry growth initiatives assessment



Source: Evli Research

Plant network optimizations have boosted profitability, focus now on adding new customers

Exel does not aim to be the most cost competitive composites manufacturer, however the company has recently completed a cost reduction program that achieved a total of EUR 3m in annual savings. The savings figure derived to a large extent from the closure of a German production plant, implemented cost restructurings and product optimization measures in the acquired US manufacturing unit as well as operational improvements and synergy savings in China due to the consolidation of two previously separate production plants in the city of Nanjing. In addition to these major manufacturing footprint optimizations the company also implemented certain smaller rationalizations in Finland and rolled out an ERP system throughout the current plant network. The successful actions have helped adjusted operating profit to roughly double from FY '18 levels. Exel's profitability is now close to its long-term target levels. Going forward we view Exel's profitability improvement slope a lot more modest compared to the previous few years, nevertheless we still see potential for additional operating margin gains thanks to good composites demand outlook. Exel's fixed cost base remains relatively large and thus top line growth will continue to support marginal profitability gains.

Exel is now performing well in terms of customer focus and cost efficiency. In the long-term perspective we expect the company to add to its manufacturing footprint in geographies beyond Europe. The recent acquisitions in China and the US have proved successful and in our opinion M&A remains an important tool going forward. Neither China nor the US lacks potential acquisition targets. The latest two acquisition targets were both pultrusion manufacturers, however composites manufacturing technologies other than pultrusion represent an option Exel is interested in exploring. Besides pultrusion Exel is already well familiar with the pull-winding and continuous lamination processes. In our opinion Exel's possible expansion to other manufacturing processes, such as filament winding, is most likely to happen through M&A.

We expect deleveraging to continue for now

Acquisitions are an important part of Exel's long-term growth strategy especially when it comes to entering new markets. All the three major investments in recent years, namely the acquisitions in China and the US as well as the Austrian plant investment, seem

sound in strategic terms but were financed with debt. These investments cost a total of about EUR 25m. Exel's financial leverage therefore still amounts close to 2x NIBD/EBITDA. In our view the amount is something Exel can shoulder and we expect the company proceeds on its successful deleveraging path going forward. The remaining debt balance however seems to prohibit additional large investments for now.

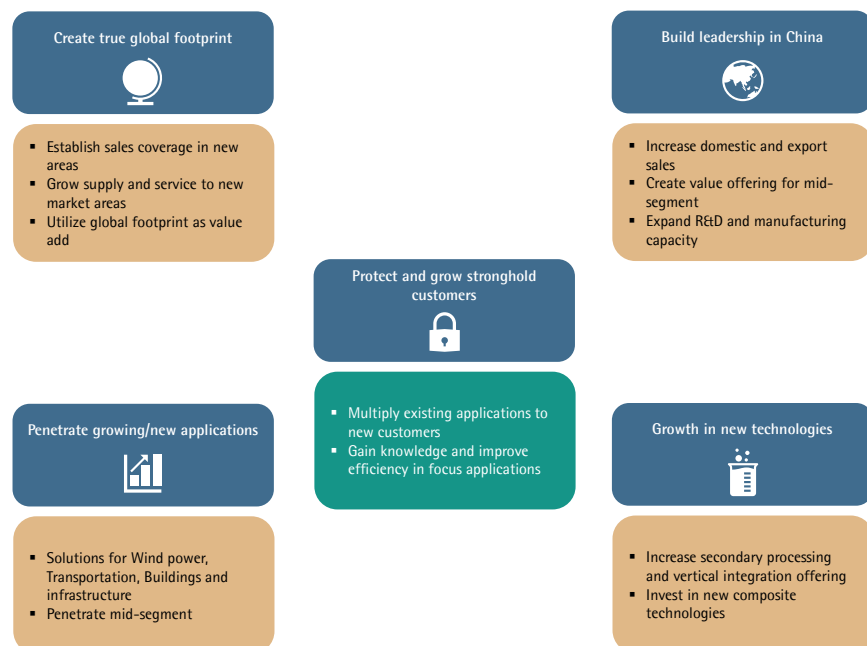
Table 1: Exel Composites' acquisition history

Year	Target/Seller	Location(s)	Manufacturing type/focus	Deal value (EURm)	Current status
1997	Solte	Voerde, DE	Ski & snowboard coating	n/a	Closed in 2019
2000	Fiberspar Performance Products	MA, US	Windsurfing masts	n/a	Sold off
2001	Menzolit Fibron	DE	Pultruded profiles	n/a	Closed
2004	Bekaert	BE & ES	Pultruded profiles	7	Operational
2005	Faserprofil	Kapfenberg, AT	Pultruded profiles	2	Operational
2006	Pacific Composites	AU & CN & GB	Pultruded profiles	21	AU closed in 2018
2017	Nanjing Jianhui Composite Material	Nanjing, CN	Pultruded profiles	9	Operational
2018	Diversified Structural Composites	Erlanger, KY, US	Pultruded profiles	8	Operational

Source: FactSet, Exel Composites

The Board of Directors reviewed the company strategy in 2020. Strategic focus areas as well as long-term financial targets remained unchanged. The current strategy period extends to 2022. Among other things Exel's strategy emphasizes mid-segment applications (in recent years the company has been very successful in this respect with Wind power), meaning those products where pricing is more competitive while delivery volumes are higher. In our view the mid-segment focus makes sense from manufacturing efficiency point of view and should continue to help the company scale up production, which in turn supports profitability considering Exel's significant operating leverage.

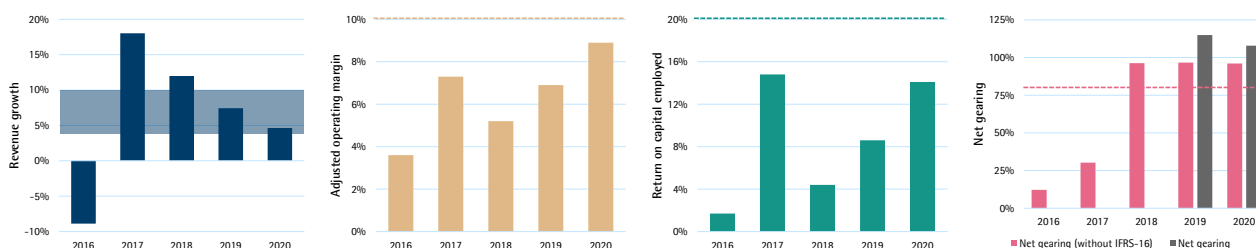
Figure 15: Exel Composites' five strategic pillars



Source: Exel Composites

Exel targets long-term profitable growth. The official long-term top line growth target, including possible acquisitions, is two times the relevant market growth. The global composites market is expected to grow, according to estimates that depend on customer industries and regions, between 2-5% annually in volume terms in the coming years. In terms of profitability and capital efficiency Exel targets above 10% adjusted operating margin and above 20% return on capital employed. Exel also aims to keep long-term financial position sound by targeting net gearing below 80%. The company's policy is to distribute at least 40% of net income as dividends so long as such a pay-out makes sense from the perspective of financial position and growth opportunities.

Figure 16: Exel Composites' long-term financial targets and recent years' results



Source: Exel Composites

In 2019-20 Exel made great progress towards long-term profitability and capital efficiency targets following problems in 2018. The strong development was due to a pick-up in organic growth as well as the successful cost reduction initiatives and US turnaround. In our view Exel is well positioned to achieve its targeted profitability level of above 10% operating margin in FY '22. Exel already achieved about 10% adjusted operating margins in Q2'20 and Q4'20; these figures translated to around 16% ROCE.

In our view Exel's stated growth target implies mid-to-high single digits CAGR in the coming years. Given the recent business development as well as latest outlook we see Exel is positioned to achieve at least around a 5% organic growth rate in the short-to-medium term perspective. Considering Exel's business model and target customer sectors we would say annual organic growth could possibly reach close to 10% in the short-term, however such high single-digit or low double-digit rates would prove to be hard to sustain long-term. We view a 5% ballpark organic growth rate to be a fairly accurate expectation level for the foreseeable future, while Exel's own targeted growth rate of twice the market growth (which is around 2-5%) suggests annual growth in the 4-10% range. Acquisitions could further help to achieve the upper end of this range.

Composites markets and competition

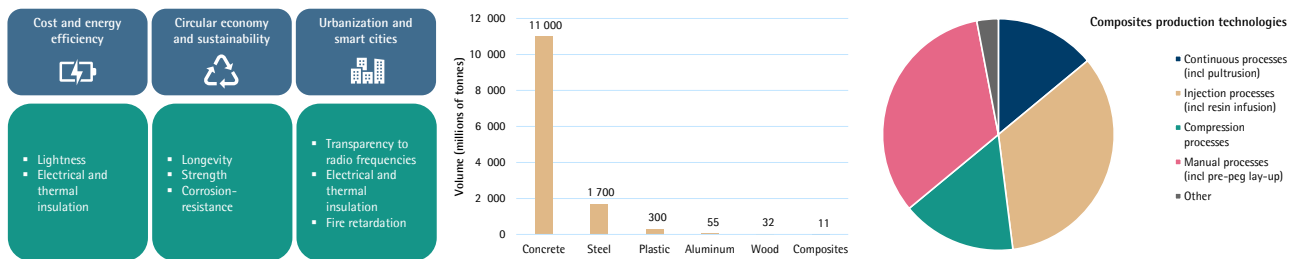
Common elements such as steel, plastics, and aluminum continue to dominate the global materials market. In this context composites represent only a niche sub-market and there are no major obstacles that can be seen to impede their growth potential. Composites' status as a relatively young invention explains a large part of this yet to be fulfilled potential. Composites manufacturers like Exel, in other words companies that produce mainly customized composites profiles for select industrial customer accounts, thus have virtually unlimited growth prospects. In practice, however, long-term industry or company-specific growth rates are hard to achieve at levels any higher than mid-single digits considering the inherent demand restraints present in the wider industrial end-use context.

Composites market overview

Composites can be described a niche market and price comparisons with other materials are not straightforward

Estimates by industry associations like JEC and Lucintel peg the annual global composites market at somewhere close to USD 100bn, or 11m tonnes, thus translating to around 1% share of the huge global materials market dollar-value and 0.1% of tonnage volume. The figures imply composites are priced, on average, at roughly 8,000 USD per tonne. This tentative price level can be compared to e.g. the approximately 3,000 USD per tonne levels seen in stainless steel, however we note such comparisons are not that meaningful even if composites and steel are competing material alternatives to a certain extent. Composites pricing does not happen in quite such a uniform fashion as that for stainless steel and hence we would not want to apply this general composite price level to draw too many conclusions about companies' like Exel's tonnage delivery volumes. Especially carbon fiber-reinforced plastic prices vary a lot depending on various specifications and production volumes. There can also be meaningful price differences between e.g. carbon and glass fiber-based composites (the former types tend to be a lot more expensive but also have more competitive characteristics). Meanwhile pultrusion represents approximately 3% of the total composites market; in other words, about 0.35m tonnes, or USD 3bn worth, of pultruded composites are manufactured annually. In this light we would expect the global pultrusion market to expand every year by an absolute figure that is close to Exel's ca. EUR 100m revenue. We do not view composites' price competitiveness to be an issue that might limit the material's growth prospects in the years to come.

Figure 17: Composites demand drivers, global material volumes and composites production breakdown



Source: Exel Composites, JEC

In our opinion composites' relatively high price points do not limit their growth potential

The global composites market is estimated to grow at a CAGR of around 2-5% in the coming years (in volume terms). The estimates vary meaningfully depending on the customer industry, region as well as source. JEC expects growth to be strongest in Asia and sees China growing at a 5% CAGR during the 2018-23 period. Annual growth in North America is expected to be 3%, while Europe is seen to achieve 2%. In our opinion composites' growth outlook is robust in the overall industrial end-use context. Composite materials hold several desirable properties that make them suited for many specific applications. Such end-uses also tend to benefit from major global megatrends that now happen to drive demand. We view composites' characteristics like lightness, strength, and longevity to be important sales arguments that help the material gain additional traction despite relatively high pricing points. These qualities often lower the associated long-term lifecycle costs and thus the initial high composites investment should have no problem paying itself back over the years. The high price point consideration is also mitigated by the fact that composites often serve only in the capacity of a reinforcing element in e.g. wind power as well as buildings and infrastructure applications. In other words, only a relatively small composite material volume is needed to strengthen certain critical structures.

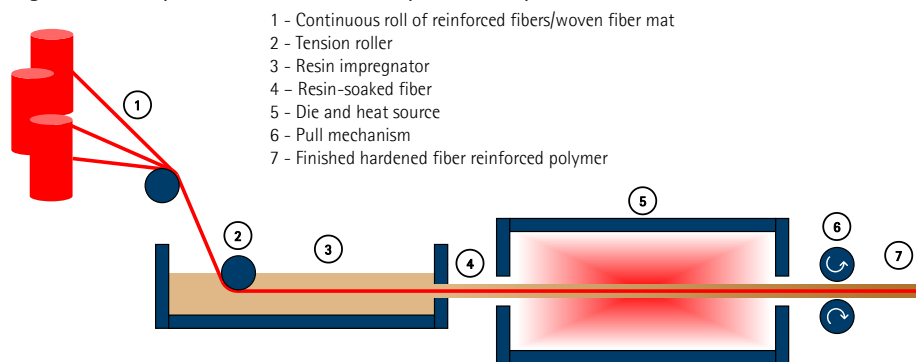
Composites manufacturing processes

Two types of raw materials, namely synthetic resins (such as epoxy, vinyl ester, polyester, polyurethane, acrylic, and phenolic) and reinforcements (mainly carbon and glass fibers), are used in combination to form composites. The reinforcing fibers provide stiffness and resistance against high loads while the plastics both transfer load between the fibers and hold the fibers together. The resulting material is a composite featuring many properties that make it suitable for demanding industrial applications. Composites can have twice the tensile strength compared to steel while being 75% lighter. Composites are approximately 30% lighter compared to aluminum. Other such characteristics that add to overall robustness include the ability to resist the effects of weather, fatigue, and chemicals. Composites also have electrical and thermal insulating properties, not to mention the capacity to retard fire.

Pultrusion enables large-scale production of consistent high-quality tailored composite profiles

Pultrusion is an automated process for continuous composite profile production. Pultrusion is one of the oldest composites manufacturing processes and was established already in the 1950s. The production process' main advantage is considerable flexibility in terms of structural design as well as material combinations. All continuous fibers can be used; today carbon and glass fibers are already common reinforcements and both types are expected to gain further ground, although carbon fibers have more growth potential. When the composite material's resin content can also be maintained under precise control it is possible to serve individual customers on an engineering-to-order basis. Made-to-order deliveries are possible once a suitable template has been established. Pultrusion generates composite profiles that feature constant cross-sections. The overall manufacturing quality remains very consistent and the ability to provide reliable high production volumes in a cost-effective manner is one of pultrusion's main attractions. Pultrusion equipment manufacturers include names such as KraussMaffei, Pultrex and Martin Pultrusion Group.

Figure 18: Graphic illustration of the pultrusion process



Source: Wikipedia

Pultrusion is especially competitive in the production of long profiles

The pultrusion process first impregnates the fibers by pulling them from their racks through a thermosetting resin. After the impregnation bath the composite mix is pulled further through a heated die. The die cures the mix, controls the resin content, and completes the impregnation process. The composite profiles, already cast into the prespecified shape, will be finished and automatically cut to desired lengths when they are finally pulled through a sawing unit located at the end of the pultrusion line. There is nothing to restrict the profiles' ultimate length other than the fact that transportation considerations may place certain practical limits, however there are also products like conductor cores that can be rolled up. Such products can then be sold in separate spools each several kilometers long.

Pultruded profiles' relatively high initial cost, compared to competing materials such as steel aluminum, is an associated drawback. A pultruded profile's blueprint is limited to

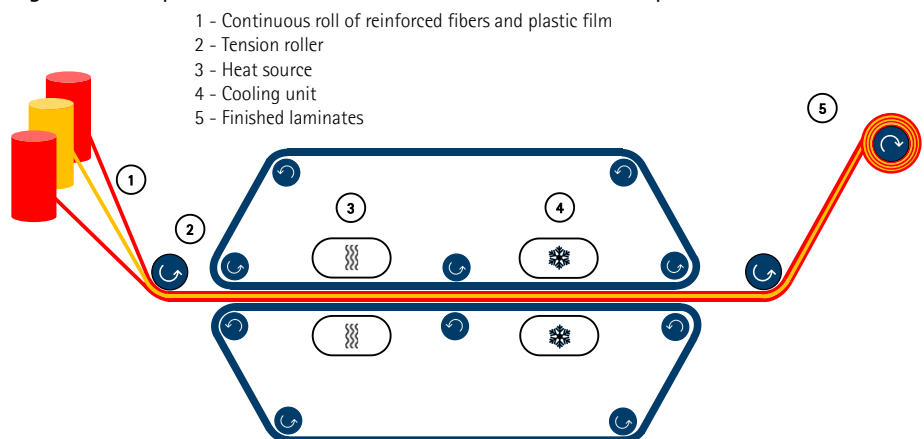
two dimensions even though complex profiles can still be manufactured. Pultrusion also remains a niche market, a fact that to some extent inhibits growth rates so long as wider awareness of the technology's merits stays low. Increased appreciation may require either consolidation within the pultrusion sector or further vertical integration from the part of larger composite materials players.

Asia drives market growth also in pultrusion

The AVK (Federation of Reinforced Plastics) estimates the number of pultrusion manufacturers globally at around 350; the ten largest such companies share approximately 40% of the market. The AVK estimate however is likely much on the low side as the number may not reflect e.g. small Asian manufacturers. Given the estimated size of the pultrusion market, the figure implies that even the biggest pultrusion players are not meaningfully larger than about USD 100m in annual revenue. The report estimates the market for window profiles and reinforcement bars to be the fastest growing application area. The European pultrusion market is about half the size of that in North America whereas Asia is the largest in absolute size while also growing at the quickest rate. We understand Asian market prospects represent roughly 50% of the projected growth for years to come. The brisk Asian growth is mainly attributable to the fact that the respective countries are catching up to higher manufacturing standards and as a result are more willing to bear the higher associated initial composite investment costs. We see the global market for pultruded profiles is well positioned to achieve growth rates meaningfully above that of global GDP for the foreseeable future.

Pull-winding is a modified version of the pultrusion process and is used to manufacture round tubes and profiles. The pull-winding process controls the latitudinal and longitudinal properties of the final product by adjusting the fiber amounts in these two dimensions. Pull-winding's relative advantage to pultrusion is that the process enables the reduction of both wall-thickness and weight while it also improves the tubes' stiffness as well as strength.

Figure 19: Graphic illustration of the continuous lamination process



Source: Composites Lab

Continuous lamination refers to a manufacturing process where reinforcement fibers are first impregnated with a special epoxy resin and then guided through pressing and guiding rolls. The composite lay-up will consist of several reinforcement layers depending on the specific requirements. Special surface materials such as printed paper and decorative fabrics can be applied as well. The materials are then cured under high temperature and pressure. The laminates also go through sanding and cutting. The laminates can be painted or lacquered for special effects as well as UV resistant decorative surfaces. The final composite laminate is shipped in a spool form. According to our knowledge the composite laminates market is roughly similar in size compared to pultrusion, in other words around USD 3bn.

Pre-preg molding is a fabrication process where the reinforcement materials are pre-impregnated with a resin or binder. The materials are combined prior to molding and can also be cut into different shapes and patterns. The molding occurs by rolling the pre-pregs around a tapered or parallel mandrel. The resulting material has a very high strength-to-weight ratio and the profiles are therefore used a lot in the aerospace industry (e.g. structural components such as wings and tail sections).

The filament winding process involves winding fibers, impregnated with resin, over a rolling mandrel in a variety of orientations. The mandrel is first covered up to the desired thickness and then placed either in an oven or under radiant heaters. The mandrel will be extracted once the resin has cured and thus the hollowed composite profile is left behind. The process is primarily used to manufacture circular or oval-sectioned components such as pipes and tanks. We understand the filament winding market is comparable to pultrusion in terms of size, in other words approximately USD 3bn.

3D printing refers to various distinct manufacturing processes where the material is shaped by a computer application according to a set of pre-specified instructions. One of the most common 3D printing processes is a material extrusion technique known as fused deposition modelling. This is a form of additive manufacturing that works by the deposit of material in numerous layers. Various types of materials, including composites and thermoplastic polymers as well as ceramics and metals, can be used. 3D printing is a very versatile manufacturing technique but does not really compete with the more traditional composites manufacturing processes given the fact that objects formed by the principles of additive manufacturing lack the robust structural properties that long continuous fibers endow.

Composites for wind power applications

We view composites producers competitively positioned to supply wind turbine OEMs with blade reinforcements

Pultruded composites profiles, especially when based on carbon fibers, represent a very competitive solution for many wind turbine applications. One such important function is their role as wind turbine blade reinforcements. These so-called spar caps are critical shaft interior parts and we see how companies like Exel stand in favorable value chain positions to supply the kinds of composites profiles the wind turbine original equipment manufacturers need. Certain wind turbine OEMs may prefer to have their proprietary pultrusion solutions, but we think most such manufacturers will find it too burdensome without the proper expertise and supply chain positioning. In our opinion composites producers can best provide the pultruded profiles with necessary high standards and specific properties, competitive pricing as well as supply chain security.

Carbon fiber spar caps are set to increasingly replace glass fiber ones

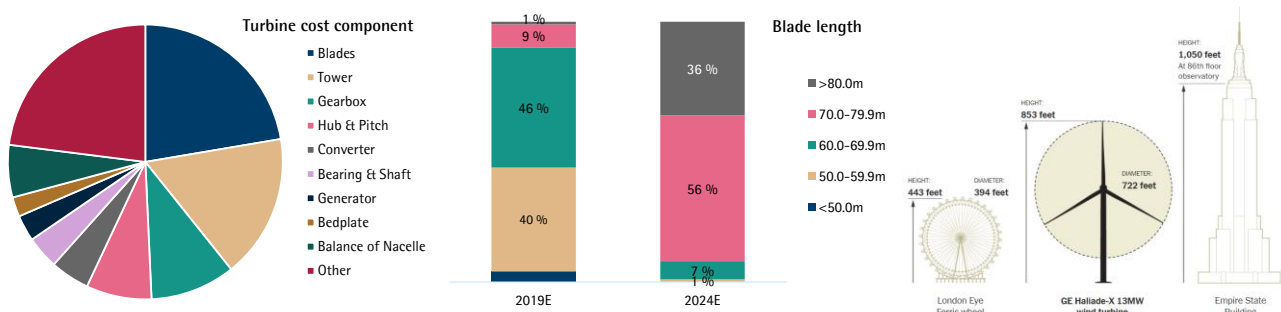
Pultruded carbon fiber spar caps were first introduced to the market only less than ten years ago. This means their market penetration rate hasn't yet had enough time to climb above a certain fractional share. Carbon fiber is already relatively common in wind turbine spar caps and the material is likely to take further market share, thanks to its superior strength-to-weight ratio, as turbine sizes continue to grow. Most wind turbines are still built entirely from glass fiber composites. Carbon fiber is about 30% lighter than glass fiber by volume and has roughly 3x the tensile strength and 1.5x the compressive strength of glass fiber, depending on the types of carbon and glass fibers being compared. It is nevertheless clear how carbon fiber spar caps can outperform glass fiber ones by the virtue of being lighter and thinner as well as making better aerodynamic properties possible thanks to the stiffness that can lend itself to enhanced blade shapes.

Pultruded carbon fiber spar caps answer the demands that long blades impose

Pultruded profiles have even more room to grow within the spar caps application range as infusion is still the dominant manufacturing technology. The pultruded solution offers an overall lower blade cost relative to infusion; the savings in capital and operating expenditures amount to approximately 10% for a typical 80-meter long blade. Pultrusion

also enables some 5% reduction in blade weight. These are important considerations that speak on behalf of pultrusion given the on-going trend towards ever larger wind turbines. Over 80-meter long blades are already common today, a drastic change compared to the typical 23 meters seen around the mid-2000s. The longest blades today weigh above 20 tonnes each, however this doesn't seem to curb additional size gains because the adage states that longer blades deliver higher efficiency. Wood Mackenzie estimates average wind blade lengths are to increase by almost 50% by 2028. Especially offshore turbines continue to grow to gargantuan sizes; their blades can now top 100 meters easy. Large turbines and other technology improvements mean offshore wind projects can already achieve capacity factors of 40-50%. According to the International Energy Agency these capacity factors match those of efficient gas-fired power plants and even coal-fired ones in some regions.

Figure 20: Illustrative turbine cost breakdown, global blade lengths and turbine size comparison

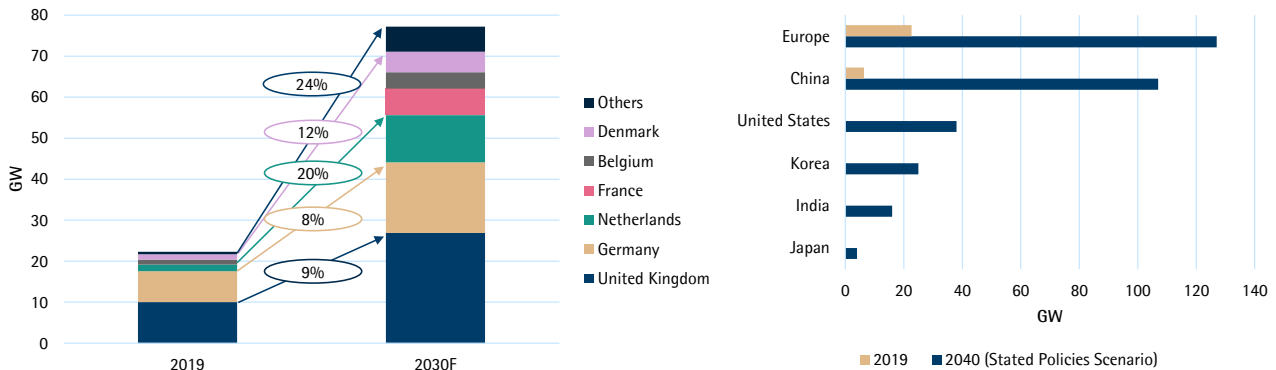


Source: Wood Mackenzie, American Wind Energy Association, General Electric

Offshore wind power is set to grow fast worldwide but onshore will still drive the absolute GW additions

Offshore wind farms can generate electricity at higher rates per amount of capacity installed, compared to onshore wind turbines, thanks to higher available wind velocities. Sea winds are not only stronger but also more reliable. An offshore wind turbine thus usually generates more revenue than one located onshore. Offshore wind turbines' generally larger sizes further accentuate this fact. Larger turbines achieve additional cost-efficiency because fewer turbines are needed to generate a given amount of power. Developers therefore have a great incentive to procure the largest possible turbines when they are tendering for wind power supply agreements. Some offshore projects are now large enough to amount to a total investment cost in the billions. These wind farms even attract oil companies' investment as the likes of BP and Royal Dutch Shell are looking to build up their green energy offering. The relative growth outlook for offshore turbines looks even better than that for onshore ones, given the fact that only about 5% of the overall worldwide wind power generating capacity is currently located offshore. The International Energy Agency estimates the global offshore wind market grew at a nearly 30% CAGR in 2010-18, but despite this surge still accounts for not much more than 0.3% of global power generation. The offshore capacity stands, for now, to a large extent concentrated in Northern Europe and the respective countries have plans to add even more (the average CAGR for the next ten years is estimated at ca. 12%). New capacity is nevertheless also being built in the East Coast of the US as well as in several Asian countries, especially so in China.

Figure 21: European offshore wind capacity CAGRs and global installed offshore wind capacities

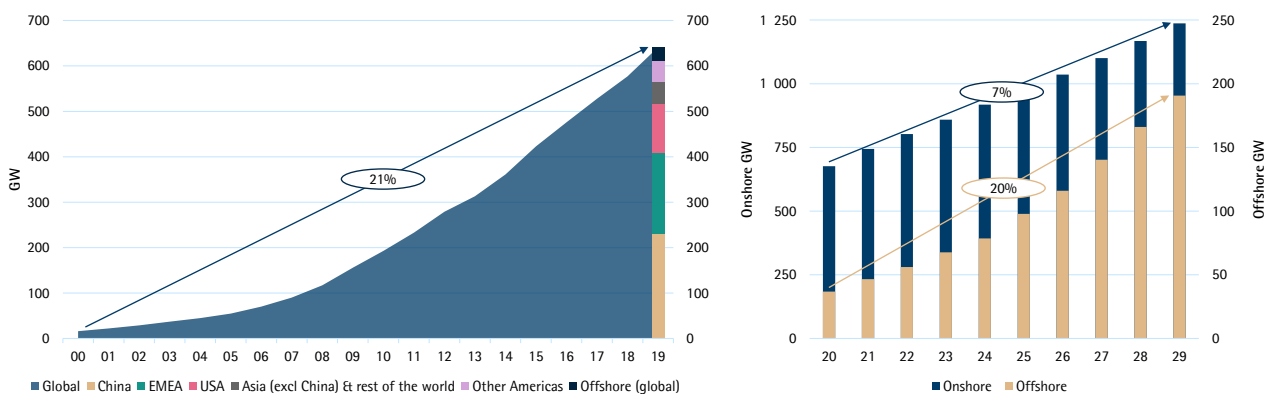


Source: International Energy Agency, Global Wind Energy Council

Together Europe and China are going to add more than 35GW of onshore capacity annually in the coming years

Northern Europe has been able to foster its offshore wind industry thanks to favorable natural conditions, such as high-quality wind resources and relatively shallow water, but also with the EU's policy support. Europe and China are leading the rest of the world in offshore wind development and the regions are expected to host respective global capacity shares of some 40% and 35% in two decades' time. These offshore capacity projections imply both Europe and China are going to add about 5GW annually during the next two decades, translating to respective CAGRs of some 9% and 14%. Meanwhile Global Wind Energy Council estimates Europe is going to add almost 15GW of onshore capacity annually during the next few years. The comparable figure for China is close to 25GW. These figures imply approximately 8% onshore annual growth rates for both regions, while onshore capacity in the US is expected to grow at a 6% CAGR. Wood Mackenzie estimates global wind power capacity (onshore and offshore combined) is to grow at a CAGR of 8% in the 2020s. This means approximately 75GW of new capacity every year, or some 60GW onshore and 15GW offshore. By the end of the decade global wind power capacity should stand at about 1,500GW, in other words roughly twice the current level.

Figure 22: Global historical (2000-19) and forecast (2020-29) wind capacity CAGRs



Source: Bloomberg New Energy Finance, Global Wind Energy Council, Wood Mackenzie (Q3 2020 Global Wind Power Market Outlook Update)

Most wind power trends imply rising quality requirements

Larger wind farm constructions imply increasing quality requirements on the wind turbine manufacturers as well as their component suppliers. The wind turbine blades need to be made of materials that are as light as possible but without any compromise on qualities such as strength, stiffness, and durability. Larger turbines create more turbulence and the resulting higher amounts of material stress can lead to increased breakdown rates and maintenance requirements. Offshore installations also demand improved corrosion resistance due to the presence of saltwater. We understand the

industry's biggest challenge right now is the supply chain's ability to cope with the steepening quality requirements.

The large and growing market offers plenty of opportunities

Global wind power capacity is set to double this decade. China, the global wind power leader, will not forfeit its position but Europe tries hard to keep up. According to a rule of thumb the 75GW in annual capacity additions will translate to some EUR 75bn in annual wind turbine investments. The figure would imply more than EUR 15bn to be spent on the blades themselves when considering the breakdown of wind turbine cost components. The blade stiffener market is thus already almost EUR 2bn in size and will grow by approximately EUR 200m every year. These figures can be viewed in the context of Exel's Wind power segment's current EUR 30m annual revenue. In our opinion the confluence of large absolute growth prospects and strict technical demands means the outlook remains attractive for established supply chain players like Exel.

Composites for construction applications

Composites are a competitive solution for the strengthening of buildings and other structures

Composites' structural properties make them useful for many construction applications. Composites are not subject to thermal expansion, and neither do they rust nor rot. Critical structures', such as bridges, long-term performance can therefore be improved by replacing steel-reinforcements, or steel rebars (reinforcing bars used to strengthen concrete structures), with composites. Owens Corning estimates this specific global market at more than USD 120bn. The company also estimates over 10% of all US bridges to be structurally deficient, and steel rebar corrosion represents one of the most significant associated costs. Structural deterioration can begin in as little as 10 years when steel rebars are used. Meanwhile a glass fiber reinforced plastic rebar has been demonstrated to maintain its mechanical properties beyond 15 years of service. In our view such end-uses represent a clear value proposition that can accommodate composites' relatively high initial investment cost.

Composites for transportation applications

The global transportation market, including aerospace (where Exel has only limited presence), is the largest composites market worldwide in terms of value. The overall growth outlook also remains good since major trends such as tightening emission and additional design requirements drive more demand towards composites. In many cases manufacturers and operators in the transportation industry are looking at composites as replacements for steel and aluminum parts. Composites can deliver a cost-effective way for achieving substantial weight reductions while also improving strength as well as corrosion resistance. An additional benefit is composites' ability to help to reduce manufacturing supply chain complexity. Composite profiles fit internally and externally to a range of vehicles from cars and trucks to trams and trains, encompassing a variety of parts like ceiling panels, heating ducts, exterior panels, and bus rails.

The lightness of composites means they can reduce overall vehicle weight, which again enables greater fuel savings. The figures can be meaningful, considering that a Volvo research team in the US found that using panels made from recycled carbon fiber in conjunction with certain other changes helped reduce a truck's weight by as much as 29%. Composites' strength also matches that of steel and aluminum while outperforming plastics. Composites outperform metals in insulation uses by the virtue of their warmer feel while dodging the challenges metals have with condensation and freezing. Composites are not subject to corrosion and stand impacts and bumps better than metals. Composites have less hard time springing back into shape.

Composites for telecommunications applications

The rollout of 5G mobile networks, which began in 2020, implies good potential for antenna network deliveries. 5G operates at higher frequencies and reduced latencies compared to the preceding 4G/LTE standard. 5G's higher frequency also means shorter wavelengths and thus a decrease in range compared to the previous longer wave signals. The antenna network's density therefore needs to increase, meaning there is global demand to integrate many additional antennas into city infrastructures. The need is further exacerbated by the fact that shorter wavelengths lose momentum even more than longer wavelengths when they pass through various urban materials. The problem is also not helped by buildings' improving insulation standards.

Composite materials' transparency to radio frequencies makes them an effective covering solution for 5G antennas. Composites already play a role in various urban constructions such as windows, doors, facades, cladding, bridges, street lighting and access structures.

Competition

Overall composites competition is very diffuse but Exel is a significant global pultrusion player

Competition remains very fragmented throughout the general composites market as well as in the more niche pultrusion market. Exel is one of the largest pultrusion players along with a handful of other somewhat similar-sized companies. Exel is however the only global pultrusion company with a presence in all main markets and its competitors are often smaller. More notable competitors include names like Fiberline, Creative Composites Group, Strongwell and Epsilon. Barriers to entry are in theoretical terms low but in practice large scale is often useful because of the resulting operational efficiencies and know-how. There is a wide variety of competition also in the sense that many larger companies manufacture composites but employ the pultrusion process only to a limited extent. Owens Corning, a global materials manufacturer, has a Composites segment that focuses on glass fibers. Meanwhile companies like Gurit, Hexagon Composites, Avient, Hexcel and SGL Carbon are basically pure-play composites manufacturers (unlike Owens Corning) but their pultrusion reliance varies a lot. Many of these manufacturers deliver composites for a wide range of customer industries, and the mix often includes wind power. Hexagon Composites and Hexcel are two specific names that focus on certain narrow customer industries and manufacturing processes other than pultrusion. Hexagon Composites manufactures filament winding-based solutions for gas storage purposes while Hexcel is mainly about manufacturing pre-preg carbon fiber composites for the commercial aerospace industry (Hexcel also produces composites e.g. for the wind power sector and utilizes pultrusion to some extent). Gurit, Avient and SGL Carbon are all considerably larger companies than Exel Composites but none of them come close to being pure pultrusion players. All three have a presence in the wind power industry while Avient and SGL Carbon also engage in pultrusion manufacturing.

TPI Composites is another relevant name given the fact that so many composites manufacturers participate in the wind turbine supply chain. TPI Composites produces complete wind turbine blades and so acts in a supplier capacity for leading wind turbine OEMs. The company therefore does not directly compete with composites manufacturers but is another important player in the wind power industry value chain.

M&A transactions activity

There's scope for lots of composites manufacturing M&A activity given the market's very fragmented nature. We have collected a small sample of M&A transactions with available valuation multiples to arrive at a rough picture about the level where a composites

manufacturer might be valued in a potential M&A transaction. We nevertheless note there is considerable variation with respect to our sample company businesses and their valuation multiples and hence they might not accurately represent such offers that a company like Exel is either willing to pay itself or likely to receive from a potential third-party acquirer.

Table 2: Select composite materials sector M&A deals and valuations

Target	Seller	Acquirer	Announced	Completed	EV (EURm)	EV/S ₁₎	EV/EBITDA ₁₎	EV/EBIT ₁₎
Agility Fuel Solutions, LLC (50% Stake)	Private shareholders	Hexagon Composites ASA	Nov-18	Jan-19	217	1.6x	26.0x	494.4x
Athlone Extrusions Ltd.	Athlone Extrusions Investment Mgmt	Schweiter Technologies AG	Jul-17	Jul-17	48	0.8x	6.6x	10.3x
MM Composite A/S	MMC Group ApS	SP Group A/S	Mar-17	Mar-17	8	n/a	4.5x	6.2x
Showa Denko Carbon Holding GmbH	SGL Carbon SE	Showa Denko K.K.	Oct-16	Oct-17	350	0.9x	15.9x	n/a
Hexagon Composites ASA (CNG Automotive)	Hexagon Composites ASA	Agility Fuel Solutions, LLC	Jun-16	Oct-16	122	1.6x	10.3x	12.2x
Formax UK Limited (50% Stake)	Private investor	Hexcel Corporation	Jan-16	Jan-16	28	0.8x	15.6x	40.9x
CPI Binani, Inc.	Binani Industries Ltd.	Core Molding Technologies, Inc.	Mar-15	Mar-15	14	0.8x	n/a	n/a
The Composites Group	Highlander and Capstone PE funds	Citadel Plastics Holdings, Inc.	Oct-14	Nov-14	134	1.7x	9.4x	n/a
Devold AMT AS	Hexagon Composites ASA	SAERTEX GmbH & Co. KG	Jan-14	Jan-14	16	1.0x	20.5x	225.4x
Zoltek Companies Inc	Public shareholders	Toray Industries Inc.	Sep-13	Feb-14	427	3.1x	13.2x	22.4x
Neptco, Inc.	Cornerstone Equity Investors, LLC	Chase Corporation	Jun-12	Jun-12	54	0.7x	5.9x	n/a
Average					129	1.3x	12.8x	116.0x
Median					54	1.0x	11.8x	22.4x

1) Multiples based on latest reported fiscal year
Source: Mergermarket

The typical target company in our sample belongs roughly in the same size category with Exel as the average target generated some EUR 100m in annual revenue (the median figure was approximately EUR 50m). The targets were often valued relatively close to 1x EV/S. A typical valuation was in the low double-digits in terms of EV/EBITDA, while there was a lot more variation on the EBIT level. In our view EV/EBITDA is the most relevant valuation multiple in this context and the typical ca. 12x respective sample multiple suggests ample room for a premium, relative to Exel's current valuation level, should the company find itself in the position of an acquisition target.

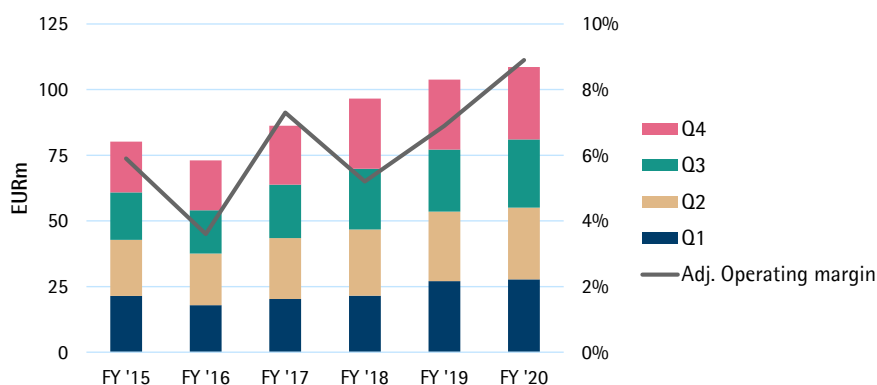
Financials and estimates

Exel reports financial results on a quarterly basis, and discloses the Q1 and Q3 results in a somewhat lighter business review form compared to the Q2 and Q4 financial reports, which disclose more thorough figures with regards to income statement, balance sheet and cash flow.

Income statement and cash flow

Exel's top line derives from composites sales and revenue breakdown is available at the customer industry as well as geographic level. Broad positive development has continued in recent years and organic growth has picked up since early 2019 after a few softer years. The Transportation and Telecommunications customer industries were the only ones in FY '20 where revenue declined. Buildings and infrastructure developed flat, while the remaining four all posted significant increases. Group revenue grew by 4.6% as a result and the growth was all organic. In geographic terms the increase was due to customers located in the Asia-Pacific region.

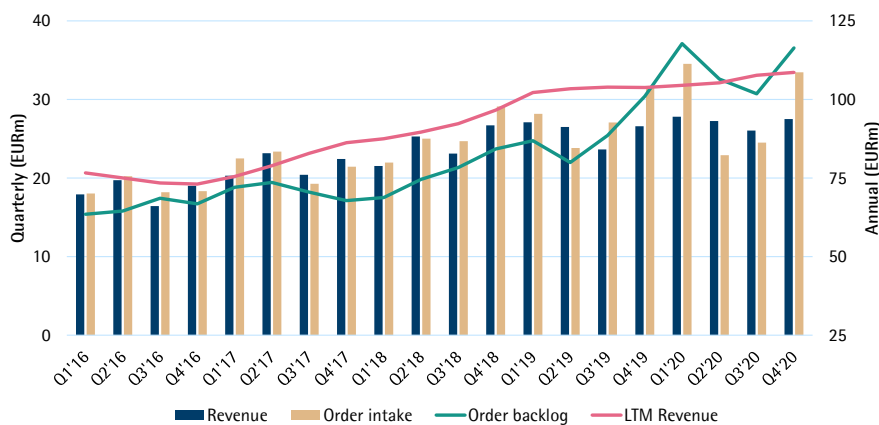
Figure 23: Exel Composites' revenue and profitability development



Source: Exel Composites

Order intake and backlog provide useful volume indication only for the upcoming quarter or so. Exel's order intake and order backlog began to improve at double-digit rates in late 2019. Brisk demand continued in Q1'20 as both intake and backlog increased by respective 23% and 50% y/y. Order intake then began to decline in Q2'20 and Q3'20 as the first wave of the pandemic set in. The declines however were not that large on an annual basis, only some respective 4% and 9%. Revenue held up well along with order backlog. Order intake began to grow again in Q4'20 and so helped Exel to reach volumes that were almost as high as seen in the record Q1'20 period.

Figure 24: Exel Composites' revenue and order development



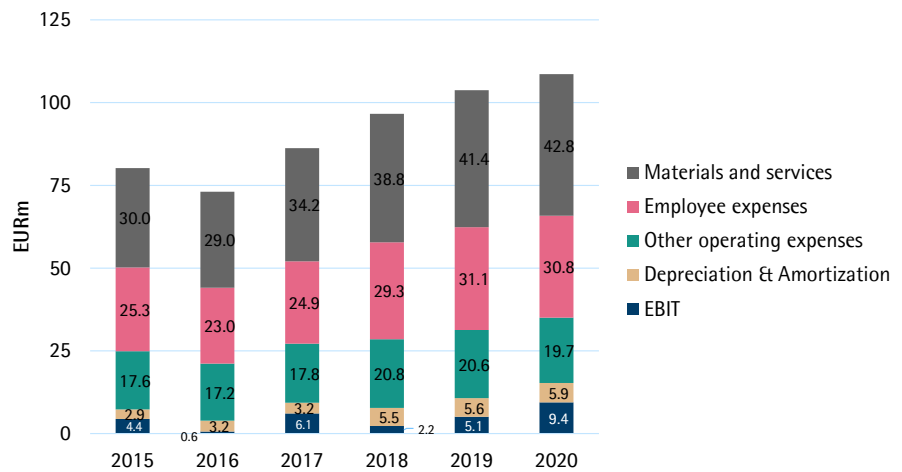
Source: Exel Composites

We define variable costs as the materials and services line item, which comprises for the most part raw materials that Exel purchases at market prices. Materials and services costs have remained close to 40% of revenue. Gross margin has been steady and has averaged some 60%, which suggests the company does not bear significant input price risks and passes on raw materials price changes through composites prices. As such this testifies to Exel's solid value chain positioning.

We define fixed costs to include employee expenses and other operating expenses. Annual employee expenses averaged close to EUR 31m in 2019-20. The expense line remained basically unchanged in FY '20 and thus employee costs as a share of revenue declined by some 160bps to 28.4% since top line increased by almost 5%. The decrease in the relative employee cost share has helped the company's profitability a lot in recent years. Employee expenses are not entirely fixed costs and we expect marginal increases

in the coming years due to good volume outlook. We however estimate some additional decline in their share relative to revenue.

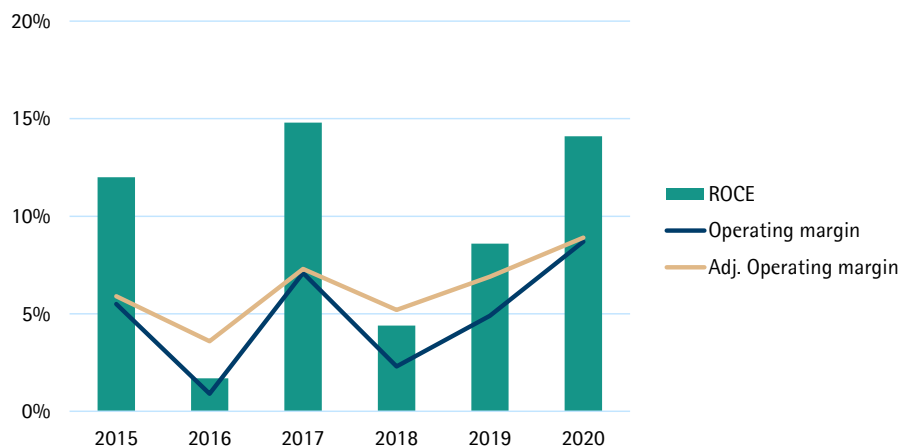
Figure 25: Exel Composites' cost structure split, 2015-20



Source: Exel Composites

Other operating expenses, such as heat and electricity, have averaged some 21% of recent years' revenue and amounted to EUR 20m in FY '20. We understand the cost dynamic is similar with employee expenses in the sense that other operating expenses are not entirely fixed. Other operating expenses' relative share to revenue has decreased in recent years and we don't expect any further marked decreases from the 18.5% level seen in FY '20. We expect some small absolute increases along with revenue.

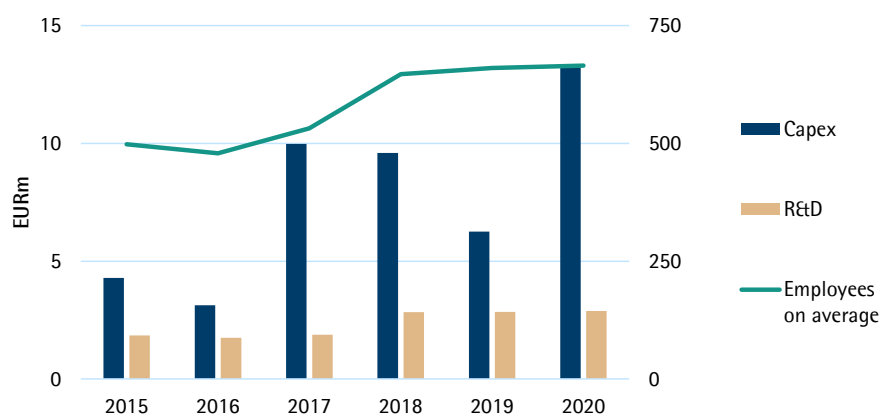
Figure 26: Exel Composites' profitability and capital efficiency, 2015-20



Source: Exel Composites

Profitability improved a lot in 2019-20 as organic growth was strong and cost measures delivered results. Exel averaged only 6.3% adjusted operating margin in 2015-20, compared to the long-term target of above 10%, as there were some leaner years with about 5% profitability. Exel nevertheless reached almost 9% margin in FY '20 and even touched the target in two separate quarters. The cost measures have now been to a large extent exhausted and thus marginal profitability gains are likely to be much more modest going forward. We do nonetheless expect solid progress towards the 10% mark on an annual level along with ROCE in the high teens.

Figure 27: Exel Composites' capex, R&D expenses and employees, 2015-20



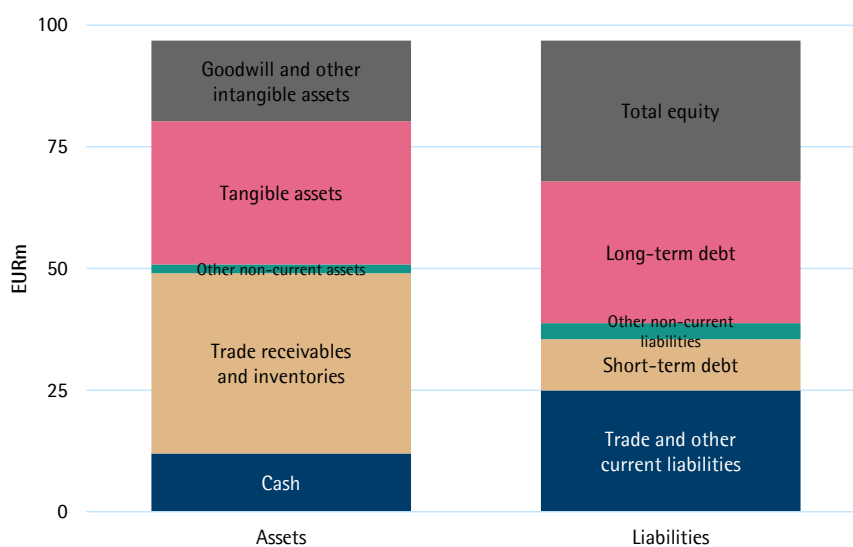
Source: Exel Composites

Research and development costs have averaged more than EUR 2m in recent years, or about 2.5% of revenue. Annual capital expenditures averaged almost EUR 8m in 2015-20, or 8% of revenue. The figure reflects recent capacity expansions and we thus view it to be too high a benchmark for the next few years. We expect Exel to spend about EUR 5m in capital expenditures in the coming years. This means that free cash flow generation should improve to more than 50% of EBITDA as the company enjoys the pay-off of recent investments and productivity-enhancing operative measures.

Balance sheet

Composites manufacturing is a relatively labor-intensive process and therefore Exel operates with a balance sheet that can be described as asset-light for an industrial manufacturing company.

Figure 28: Exel Composites balance sheet composition (YE'20)



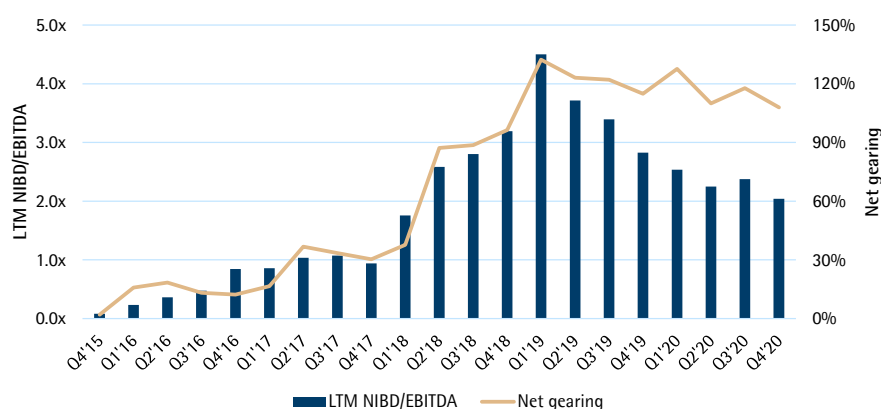
Source: Exel Composites

Inventories make up the bulk of the company's net working capital position. Inventories stood at EUR 16m at the end of FY '20 and have long remained stable around this level.

Inventories have averaged 15% of last twelve-month revenue in a steady fashion and about 19% of total balance sheet. Inventories mainly comprise current materials that are soon to be used in composites manufacturing. Exel sources raw materials like carbon and glass fibers as well as synthetic resins through reliable supplier networks, meaning there is no need to build up big inventory positions. No supply bottlenecks have interfered with Exel's composites manufacturing. Trade receivables were EUR 21m in Q4'20, in other words 19% of last twelve-month revenue, a typical relative level in recent years. Meanwhile trade liabilities were EUR 24m, a normal 22% relative level as a percentage of revenue.

Tangible assets amounted to EUR 26m at the end of FY '20, in addition to which the company had some EUR 3m in right-of-use assets (for the most part buildings but also machinery and equipment). Tangible assets grew by EUR 8m in FY '20 due to the Austrian plant investment. The line item has averaged 19% of last twelve-month revenue and 23% of total balance sheet in recent years.

Figure 29: Exel Composites' financial leverage



Source: Exel Composites

Total equity was EUR 29m in Q4'20 and so more or less equal to net interest-bearing debt, which has remained around EUR 30m since early 2019. Meanwhile profitability gains have helped to decrease the financial leverage ratio, in terms of LTM NIBD/EBITDA, to around 2x. Interest-bearing debt increased in FY '20 on a gross basis as the company used some EUR 8m in new long-term debt to fund the Austrian investment. Exel's borrowings comprise both short and long-term loans from financial institutions. Short-term bank loans finance the working capital needs. The company's policy has been to negotiate the loan maturities so that they don't all expire within a short period of time. Cash stood at EUR 12m at the end of FY '20.

Estimates

We estimate revenue for the seven customer industries. Order timings can cause some quarterly revenue fluctuations, as seen recently e.g. in Wind power where Q4'20 top line was relatively soft compared to the preceding ones. Such fluctuations should cancel out on an annual level. We estimate, based on the guidance, comments, and recent customer industry developments, Exel's top line to grow by 7% to EUR 116m in FY '21.

Table 3: Exel Composites estimates summary

Exel Composites	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21e	Q2'21e	Q3'21e	Q4'21e	2021e
Buildings and infrastructure	23.5	6.2	5.3	4.9	7.0	23.5	6.9	5.7	5.2	7.3	25.1
Equipment and other industries	18.6	6.1	4.0	4.3	5.1	19.5	6.0	4.1	4.4	5.2	19.7
Wind power	23.6	5.8	7.9	7.8	6.6	28.1	7.5	8.3	8.0	7.6	31.4
Machinery and electrical	14.4	3.8	4.8	3.3	3.7	15.5	4.0	4.7	4.0	3.9	16.6
Transportation	13.1	3.4	2.8	2.2	1.9	10.2	2.6	2.9	2.4	2.1	10.0
Defense	2.3	1.3	0.8	1.9	1.4	5.3	1.5	1.3	2.1	1.5	6.4
Telecommunications	8.2	1.2	1.7	1.7	1.8	6.5	1.5	1.8	1.8	1.7	6.8
Revenue	103.8	27.8	27.2	26.0	27.5	108.6	30.0	28.8	27.9	29.3	116.0
<i>y/y change, %</i>	<i>7 %</i>	<i>3 %</i>	<i>3 %</i>	<i>10 %</i>	<i>3 %</i>	<i>5 %</i>	<i>8 %</i>	<i>6 %</i>	<i>7 %</i>	<i>7 %</i>	<i>7 %</i>
Adjusted EBIT	7.2	2.1	2.9	2.0	2.7	9.7	2.4	3.0	2.4	2.9	10.7
EBIT	5.1	1.9	2.8	2.0	2.7	9.4					
<i>-margin, %</i>	<i>6.9 %</i>	<i>7.5 %</i>	<i>10.6 %</i>	<i>7.8 %</i>	<i>9.9 %</i>	<i>8.9 %</i>	<i>8.0 %</i>	<i>10.4 %</i>	<i>8.6 %</i>	<i>9.9 %</i>	<i>9.2 %</i>
<i>-margin (reported), %</i>	<i>4.9 %</i>	<i>6.7 %</i>	<i>10.2 %</i>	<i>7.8 %</i>	<i>9.9 %</i>	<i>8.7 %</i>					

Source: Evli Research

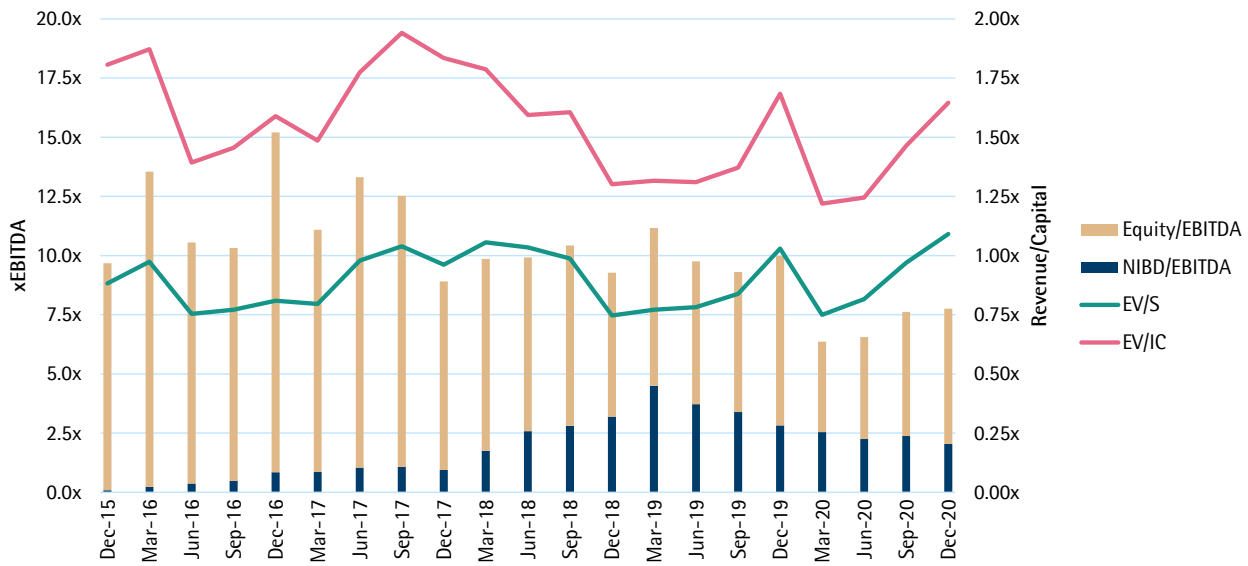
The good recovery in order levels seen in Q4'20 suggests bright start for FY '21 and we expect top line growth to be stable, at around 7%, over the year. We estimate Exel to reach 9.2% adjusted operating margin this year, which would translate to EUR 10.7m in adjusted operating profit. Exel guides increasing revenue and adjusted operating profit for FY '21.

Valuation

We consider earnings-based multiples to be the most relevant way for valuing Exel Composites. In this context we view Exel's own historical forward-looking multiples to represent the key benchmark, as opposed to multiples relative to the peer group which are mostly much too different companies compared to Exel to be used as valuation yardsticks.

In the past Exel has been valued around 10x EV/EBITDA on a trailing twelve-month basis. Meanwhile trailing EV/S has averaged 0.9x. Exel has been historically valued 1.6x capital employed.

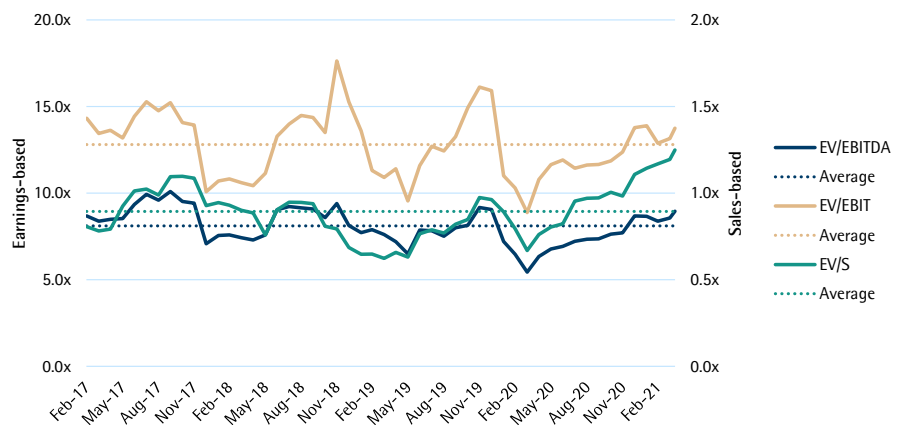
Figure 30: Exel Composites LTM valuation multiples and capital structure development



Source: Exel Composites, FactSet

Historically Exel has been valued, on average, around 8x EV/EBITDA and close to 13x EV/EBIT on a forward-looking basis. Meanwhile the EV/S multiple has averaged 0.9x. Exel is not currently valued that much over its historical forward-looking earnings-based multiple averages. This reflects the fact that the recent share price gains have been accompanied by a steep climb in profitability. Exel's valuation is, by contrast, now at high historical levels relative to top line. In our view this is justified on the basis that the continued strong growth outlook supports further profitability gains in the years to come.

Figure 31: Exel Composites NTM valuation multiples



Source: Bloomberg

We have identified a peer group for Exel that consists of publicly traded composites manufacturers. These companies tend to be different from Exel in terms of customer industry focus and production technologies. All of them are quite a bit larger as well and hence we view the peer group valuation multiples to have only limited use in valuing Exel.

Table 4: Exel Composites peer group valuation multiples

EXEL COMPOSITES PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			EBIT-%		
		20	21	22	20	21	22	20	21	22
Gurit Holding	987	15.7x	15.0x	14.2x	19.0x	18.5x	17.4x	11.1 %	10.5 %	10.9 %
Hexagon Composites	1009	58.0x	85.9x	30.7x			218.5x	-1.9 %	-3.8 %	0.9 %
Hexcel	3928	27.2x	29.2x	17.4x	352.0x	117.7x	30.7x	0.9 %	3.5 %	11.1 %
Avient	3768	13.0x	11.4x	10.5x	18.9x	15.7x	14.5x	8.1 %	9.0 %	9.3 %
SGL Carbon	769	8.2x	10.5x	8.2x	232.6x	33.8x	17.8x	0.3 %	3.3 %	6.0 %
TPI Composites	1579	22.7x	16.9x	12.7x	83.8x	32.9x	20.2x	1.5 %	3.5 %	5.2 %
Peer Group Average	2007	24.1x	28.2x	15.6x	141.3x	43.7x	53.2x	3.3 %	4.3 %	7.2 %
Peer Group Median	1294	19.2x	16.0x	13.4x	83.8x	32.9x	19.0x	1.2 %	3.5 %	7.6 %
Exel Composites (Evli est.)	115	7.7x	8.5x	7.6x	12.5x	13.2x	11.1x	8.7 %	9.2 %	10.0 %

Exel Composites prem./disc. to peer median

-60 % -47 % -43 % -85 % -60 % -42 % 601 % 163 % 31 %

Source FactSet, Evli Research

Almost all peer group constituents have a market capitalization greater than EUR 1bn. A typical Exel peer trades around 16x EV/EBITDA and 33x EV/EBIT on FY '21 estimates. Exel, by contrast, is valued at a level that amounts to only a fraction of these multiples. In our opinion the peer multiples can't be directly applied in Exel's case, but the large gap in valuation levels nevertheless suggests there's still some further room for multiple expansion and this fact supports our positive view on Exel. Exel now trades, on our estimates for this year, about 8.5x EV/EBITDA and 13x EV/EBIT. We don't view these levels too demanding.

We rate Exel Composites BUY with a TP of EUR 11 (10) per share. In our view the current favorable growth outlook supports higher earnings-based multiples. We see Exel now has a good chance of reaching above 10% adjusted operating margins in the years to come; we expect the company to post 10% margin in FY '22. In the long-term perspective the company should be able to achieve an operating margin meaningfully above 10%. We find a DCF-based valuation of around EUR 11 per share can be justified with relatively conservative assumptions.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	9.68 PV of Free Cash Flow	74 Long-term growth, %	1.5 Risk-free interest rate, %	2.25
DCF share value	11.23 PV of Horizon value	90 WACC, %	8.5 Market risk premium, %	5.8
Share price potential, %	16.0 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	3.3
Maximum value	12.3 Marketable securities	12 Minimum WACC, %	8.0 Equity beta coefficient	1.00
Minimum value	10.3 Debt - dividend	-42 Maximum WACC, %	9.0 Target debt ratio, %	10
Horizon value, %	54.9 Value of stock	134 Nr of shares, Mn	11.9 Effective tax rate, %	21

DCF valuation, EURm	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Horizon
Net sales	109	116	123	129	136	140	143	146	149	152	154	156
<i>Sales growth, %</i>	<i>4.6</i>	<i>6.8</i>	<i>6.0</i>	<i>5.0</i>	<i>5.0</i>	<i>3.0</i>	<i>2.5</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>1.5</i>	<i>1.5</i>
Operating income (EBIT)	9	11	12	13	14	14	14	15	16	17	18	18
<i>Operating income margin, %</i>	<i>8.7</i>	<i>9.2</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.5</i>	<i>11.0</i>	<i>11.5</i>	<i>11.5</i>	<i>11.5</i>
+ Depreciation+amort.	6	6	6	6	6	6	6	5	5	5	5	5
EBITDA	15	17	18	19	19	20	20	21	22	23	23	
- Paid taxes	-3	-2	-3	-3	-3	-3	-3	-3	-3	-4	-4	
- Change in NWC	3	-1	-1	-1	-1	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>11.2</i>	<i>11.2</i>	<i>11.3</i>	<i>11.3</i>	<i>11.4</i>	<i>11.4</i>	<i>11.4</i>	<i>11.4</i>	<i>11.4</i>	<i>11.5</i>	<i>11.5</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-13	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	
<i>opCAPEX / Sales, %</i>	<i>11.9</i>	<i>5.3</i>	<i>4.8</i>	<i>4.7</i>	<i>4.5</i>	<i>4.4</i>	<i>4.4</i>	<i>3.9</i>	<i>3.9</i>	<i>3.9</i>	<i>3.8</i>	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= FCFF	2	9	10	10	11	11	12	12	13	13	14	199
= Discounted FCFF		8	8	8	8	8	7	7	7	7	6	90
= DFCF min WACC		8	8	8	8	8	7	7	7	7	7	101
= DFCF max WACC		8	8	8	8	7	7	7	6	6	6	80

INTERIM FIGURES

EVLI ESTIMATES, EURm	2020Q1	2020Q2	2020Q3	2020Q4	2020	2021Q1E	2021Q2E	2021Q3E	2021Q4E	2021E	2022E	2023E
Net sales	27.8	27.2	26.1	27.5	108.6	30.0	28.8	27.9	29.3	116.0	123.0	129.1
EBITDA	3.4	4.3	3.5	4.1	15.3	3.9	4.5	3.9	4.4	16.7	17.9	18.5
<i>EBITDA margin (%)</i>	<i>12.1</i>	<i>15.8</i>	<i>13.5</i>	<i>14.8</i>	<i>14.0</i>	<i>13.0</i>	<i>15.6</i>	<i>14.0</i>	<i>15.0</i>	<i>14.4</i>	<i>14.6</i>	<i>14.4</i>
EBIT	1.9	2.8	2.0	2.7	9.4	2.4	3.0	2.4	2.9	10.7	12.3	12.9
<i>EBIT margin (%)</i>	<i>6.7</i>	<i>10.3</i>	<i>7.8</i>	<i>9.9</i>	<i>8.7</i>	<i>8.0</i>	<i>10.4</i>	<i>8.6</i>	<i>9.9</i>	<i>9.2</i>	<i>10.0</i>	<i>10.0</i>
Net financial items	-0.6	0.2	-0.7	-1.2	-2.3	-0.3	-0.3	-0.3	-0.3	-1.2	-1.1	-0.9
Pre-tax profit	1.3	2.9	1.3	1.5	7.1	2.1	2.7	2.1	2.6	9.5	11.2	12.0
Tax	-0.6	-0.4	-0.2	-0.4	-1.7	-0.4	-0.6	-0.4	-0.5	-2.0	-2.4	-2.5
<i>Tax rate (%)</i>	<i>49.4</i>	<i>15.3</i>	<i>15.1</i>	<i>29.7</i>	<i>24.6</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
Net profit	0.7	2.5	1.1	1.1	5.4	1.7	2.1	1.7	2.1	7.5	8.9	9.5
EPS	0.06	0.21	0.09	0.09	0.45	0.14	0.18	0.14	0.17	0.63	0.75	0.80
EPS adjusted (diluted no. of shares)	0.06	0.21	0.09	0.09	0.45	0.14	0.18	0.14	0.17	0.63	0.75	0.80
Dividend per share	0.00	0.00	0.00	0.00	0.20	0.00	0.00	0.00	0.00	0.25	0.30	0.32
SALES, EURm												
Exel Composites	27.8	27.2	26.1	27.5	108.6	30.0	28.8	27.9	29.3	116.0	123.0	129.1
Total	27.8	27.2	26.1	27.5	108.6	30.0	28.8	27.9	29.3	116.0	123.0	129.1
SALES GROWTH, Y/Y %												
Exel Composites	2.6	2.6	10.5	3.4	4.6	7.9	5.9	6.9	6.5	6.8	6.0	5.0
Total	2.6	2.6	10.5	3.4	4.6	7.9	5.9	6.9	6.5	6.8	6.0	5.0
EBIT, EURm												
Exel Composites	1.9	2.8	2.0	2.7	9.4	2.4	3.0	2.4	2.9	10.7	12.3	12.9
Total	1.9	2.8	2.0	2.7	9.4	2.4	3.0	2.4	2.9	10.7	12.3	12.9
EBIT margin, %												
Exel Composites	6.7	10.3	7.8	9.9	8.7	8.0	10.4	8.6	9.9	9.2	10.0	10.0
Total	6.7	10.3	7.8	9.9	8.7	8.0	10.4	8.6	9.9	9.2	10.0	10.0

INCOME STATEMENT, EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	73.1	86.3	96.6	103.8	108.6	116.0	123.0	129.1
<i>Sales growth (%)</i>	<i>-8.9</i>	<i>18.1</i>	<i>11.9</i>	<i>7.5</i>	<i>4.6</i>	<i>6.8</i>	<i>6.0</i>	<i>5.0</i>
EBITDA	3.8	9.3	7.7	10.7	15.3	16.7	17.9	18.5
<i>EBITDA margin (%)</i>	<i>5.2</i>	<i>10.8</i>	<i>8.0</i>	<i>10.3</i>	<i>14.0</i>	<i>14.4</i>	<i>14.6</i>	<i>14.4</i>
Depreciation	-3.2	-3.2	-5.5	-5.6	-5.8	-6.0	-5.6	-5.6
EBITA	0.6	6.1	2.2	5.1	9.4	10.7	12.3	12.9
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	0.6	6.1	2.2	5.1	9.4	10.7	12.3	12.9
<i>EBIT margin (%)</i>	<i>0.8</i>	<i>7.1</i>	<i>2.3</i>	<i>4.9</i>	<i>8.7</i>	<i>9.2</i>	<i>10.0</i>	<i>10.0</i>
Reported EBIT	-1.2	6.1	2.2	5.1	9.4	10.7	12.3	12.9
<i>EBIT margin (reported) (%)</i>	<i>-1.6</i>	<i>7.1</i>	<i>2.3</i>	<i>4.9</i>	<i>8.7</i>	<i>9.2</i>	<i>10.0</i>	<i>10.0</i>
Net financials	-0.1	-0.7	-0.5	-1.2	-2.3	-1.2	-1.1	-0.9
Pre-tax profit	0.5	5.4	1.7	3.9	7.1	9.5	11.2	12.0
Taxes	-0.2	-1.2	-1.3	-1.5	-1.7	-2.0	-2.4	-2.5
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-1.4	4.2	0.4	2.4	5.4	7.5	8.9	9.5
Cash NRIs	-1.8	0.0	0.0	0.0	0.0	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	17	16	21	23	30	30	30	30
Goodwill	10	13	13	13	13	13	13	13
Right of use assets	0	0	5	5	3	3	4	4
Inventory	9	12	15	17	16	17	18	19
Receivables	10	15	20	20	21	22	24	25
Liquid funds	7	8	5	7	12	13	14	14
Total assets	54	64	79	85	97	100	104	107
Liabilities								
Shareholder's equity	27	29	26	26	29	34	40	46
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	3	4	2	3	4	4
Deferred taxes	1	0	0	0	0	0	0	0
Interest bearing debt	14	16	30	32	40	35	31	27
Non-interest bearing current liabilities	12	18	18	21	24	25	27	28
Other interest-free debt	1	0	2	2	2	2	2	2
Total liabilities	54	64	79	85	97	100	104	107
CASH FLOW, EURm								
+ EBITDA	4	9	8	11	15	17	18	19
- Net financial items	0	-1	0	-1	-2	-1	-1	-1
- Taxes	0	-1	-2	-2	-2	-2	-2	-3
- Increase in Net Working Capital	1	-3	-4	1	3	-1	-1	-1
+/- Other	-1	1	0	0	0	0	0	0
= Cash flow from operations	3	5	1	8	13	13	14	14
- Capex	-3	-3	-10	-8	-13	-6	-6	-6
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	0	1	-9	1	0	6	8	8
+/- New issues/buybacks	0	-1	0	0	-1	0	0	0
- Paid dividend	-3	-1	-4	-2	-2	-2	-3	-4
+/- Other	2	1	9	3	7	-3	-4	-4
Change in cash	-1	0	-3	2	5	1	1	1

KEY FIGURES	2017	2018	2019	2020	2021E	2022E	2023E
M-cap	78	48	78	88	115	115	115
Net debt (excl. convertibles)	9	28	29	30	26	21	17
Enterprise value	87	76	107	118	141	136	132
Sales	86	97	104	109	116	123	129
EBITDA	9	8	11	15	17	18	19
EBIT	6	2	5	9	11	12	13
Pre-tax	5	2	4	7	10	11	12
Earnings	4	0	2	5	8	9	9
Equity book value (excl. minorities)	29	26	26	29	34	40	46
Valuation multiples							
EV/sales	1.0	0.8	1.0	1.1	1.2	1.1	1.0
EV/EBITDA	9.3	9.9	10.0	7.7	8.5	7.6	7.1
EV/EBITA	14.2	34.5	21.0	12.5	13.2	11.1	10.2
EV/EBIT	14.2	34.5	21.0	12.5	13.2	11.1	10.2
EV/OCF	17.7	84.3	12.9	8.8	11.2	10.0	9.2
EV/FCFF	-28.4	-6.6	32.5	53.3	16.1	14.2	12.9
P/FCFE	55.8	-5.5	110.9	185.6	18.0	14.9	13.8
P/E	18.6	119.0	32.5	16.4	15.3	13.0	12.2
P/B	2.7	1.8	3.0	3.1	3.4	2.9	2.5
Target EV/EBITDA	0.0	0.0	0.0	0.0	9.4	8.5	7.9
Target EV/EBIT	0.0	0.0	0.0	0.0	14.7	12.4	11.4
Target EV/FCF	0.0	0.0	0.0	0.0	24.5	19.7	17.7
Target P/B	0.0	0.0	0.0	0.0	3.9	3.3	2.9
Target P/E	0.0	0.0	0.0	0.0	17.4	14.8	13.8
Per share measures							
Number of shares	11,897	11,897	11,897	11,897	11,897	11,897	11,897
Number of shares (diluted)	11,897	11,897	11,897	11,897	11,897	11,897	11,897
EPS	0.35	0.03	0.20	0.45	0.63	0.75	0.80
Operating cash flow per share	0.41	0.08	0.70	1.12	1.06	1.15	1.21
Free cash flow per share	0.12	-0.73	0.06	0.04	0.54	0.65	0.70
Book value per share	2.42	2.16	2.21	2.41	2.85	3.34	3.84
Dividend per share	0.30	0.18	0.18	0.20	0.25	0.30	0.32
Dividend payout ratio, %	85.0	535.4	89.2	44.5	39.6	40.2	40.2
Dividend yield, %	4.6	4.5	2.7	2.1	2.6	3.1	3.3
FCF yield, %	1.8	-18.3	0.9	0.5	5.6	6.7	7.3
Efficiency measures							
ROE	15.2	1.5	9.2	19.4	24.0	24.1	22.2
ROCE	14.6	4.5	8.6	14.3	15.2	16.9	17.3
Financial ratios							
Inventories as % of sales	13.5	15.7	16.3	14.9	14.9	14.9	14.9
Receivables as % of sales	17.1	20.8	19.2	19.2	19.2	19.2	19.2
Non-interest bearing liabilities as % of sales	21.4	19.2	20.2	22.0	22.0	22.0	22.0
NWC/sales, %	9.3	16.1	14.1	11.2	11.2	11.3	11.3
Operative CAPEX/sales, %	4.1	9.9	7.3	11.9	5.3	4.8	4.7
CAPEX/sales (incl. acquisitions), %	4.1	9.9	7.3	11.9	5.3	4.8	4.7
FCFF/EBITDA	-0.3	-1.5	0.3	0.1	0.5	0.5	0.5
Net debt/EBITDA, book-weighted	0.9	3.7	2.7	2.0	1.6	1.2	0.9
Debt/equity, market-weighted	0.2	0.6	0.4	0.5	0.3	0.3	0.2
Equity ratio, book-weighted	44.7	32.5	30.8	29.7	33.7	38.3	42.7
Gearing, %	30.3	109.9	110.2	104.7	77.0	53.7	36.3

COMPANY DESCRIPTION: Exel Composites manufactures composites profiles for various demanding, mainly industrial end-use, applications. Exel's customer base includes companies operating in industries such as wind energy, transportation and telecommunications. Exel Composites is one of the largest manufacturers of pultruded composites profiles globally and currently operates eight manufacturing plants on three continents.

INVESTMENT CASE: Our positive view is based on good long-term composites demand outlook, coupled with the fact that Exel Composites' current manufacturing footprint could support annual revenue in the EUR 150m ballpark i.e. there's still plenty of room to improve delivery volumes. Exel's rather high fixed cost base translates to meaningful operating leverage, and thus higher revenues should lead to improving operating margins. The company is also progressing well with its cost savings program. Operating profit could further significantly improve if good execution continues. Recently the wind energy sector has provided great lift for volumes; other attractive applications include e.g. transportation industry profiles.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Skandinaviska Enskilda Banken AB	1,427,256	13.816	12.0%
Nordea Bank ABP	1,065,975	10.319	9.0%
Sijoitusrahasto Taaleritehdas Mikro Markka	800,000	7.744	6.7%
OP-Finland Small Firms Fund	598,259	5.791	5.0%
Danske Invest Finnish Equity Fund	546,650	5.292	4.6%
Op-Suomi Mikroyhtiöt -Erikoissijoitusrahasto	443,541	4.293	3.7%
Phoebus Fund	311,348	3.014	2.6%
Säästöpankki Pienyhtiöt	288,710	2.795	2.4%
Nelimarkka Heikki Antero	242,836	2.351	2.0%
Ilmarinen Mutual Pension Insurance	242,733	2.350	2.0%
Ten largest	5,967,308	57.764	50%
Residual	5,929,535	57.398	50%
Total	11,896,843	115.161	100%

EARNINGS CALENDAR

April 30, 2021	Q1 report
July 20, 2021	Q2 report
November 04, 2021	Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

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IR: Noora Koikkalainen	

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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

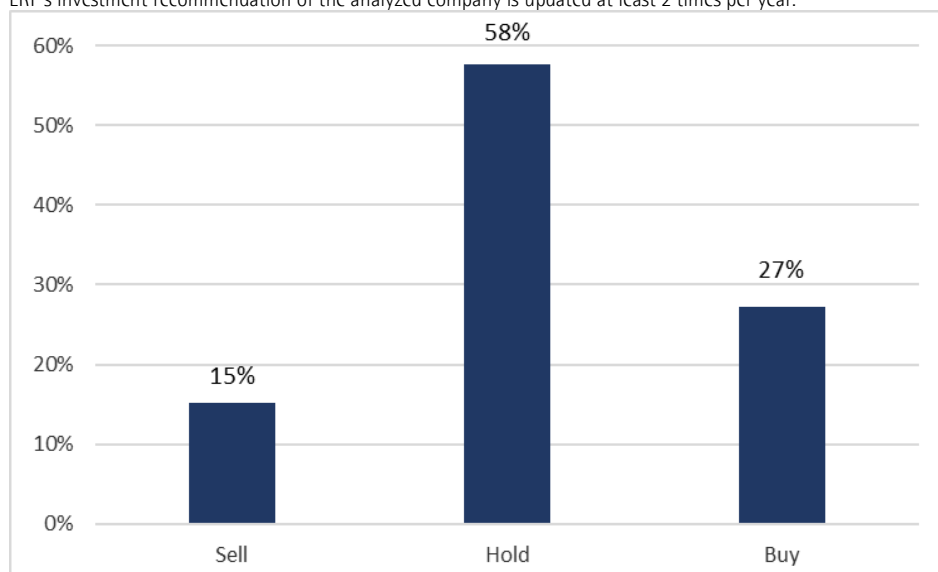
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Investment recommendations are defined as follows:

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

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

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