

## Short-term burdens

Fellow Finance lowered its guidance, with transaction costs relating to the planned merger a key part. Loan volumes have continued to grow but the relative growth of lower margin business financing and reduction of Lainaaamo's loan portfolio limit revenue growth.

### Lowered its 2021 guidance

Fellow Finance issued a profit warning on Thursday, December 2<sup>nd</sup>. The company now expects revenue in 2021 to be at previous year levels and the result to be clearly unprofitable. Previously the company expected slight growth compared to 2020 and for the result to be slightly unprofitable. The lowered revenue guidance is driven by the relative growth in lower margin business financing and lower interest income from a reduction of the Company's subsidiary's, Lainaaamo's, loan portfolio. The profitability is greatly affected by transaction costs relating to the combination agreement with Evli Bank Plc, which are estimated to be around EUR 950,000 in 2021. Profitability is further affected by growth investments.

### Loan volumes continuing steady growth

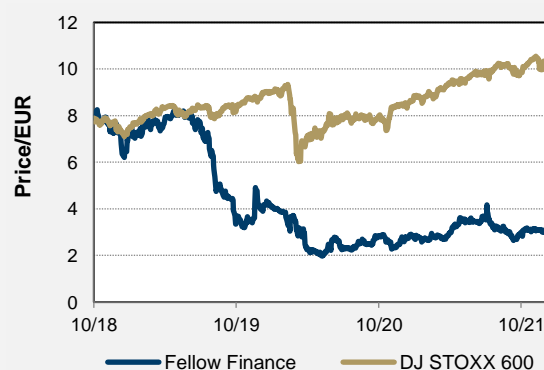
In relation to our earlier estimates, the main change is due to the expected transaction costs, which are clearly higher than we had anticipated, while our 2021 revenue growth estimates are down by a few percentage points. Although profitability is affected by the non-recurring transaction costs the underlying business appears to be performing quite decently. Monthly facilitated loan volumes have surpassed EUR 20m in the past few months, although fee income growth has been slower due to stronger growth in business financing. Should the merger be completed as planned and focus shift to balance sheet lending, the growth would also start to show in profitability figures.

### BUY with a target price of EUR 3.5 (3.8)

Excluding the one-off costs, Fellow Finance is showing rather good progress and exhibits profitability upside, should the merger be completed as planned. In light of the near-term challenges, however, we adjust our TP to EUR 3.5 (3.8) with our BUY-rating intact.

## Rating

BUY



Share price, EUR (Last trading day's closing price) 3.00

Target price, EUR 3.5

Latest change in recommendation 03-May-21

Latest report on company 30-Aug-21

Research paid by issuer: YES

No. of shares outstanding, '000's 7,174

No. of shares fully diluted, '000's 7,174

Market cap, EURm 22

Free float, % -

Exchange rate 0.000

Reuters code FELLOW.HE

Bloomberg code FELLOW HE

Average daily volume, EURm 0.07

Next interim report 23-Feb-22

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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	14.2	1.6	11.6%	-0.8	-0.01	-349.3	3.2	28.0	-2.9	0.00
2020	11.1	0.6	5.5%	6.7	-0.12	-23.6	2.8	50.8	32.0	0.00
2021E	11.3	0.0	0.4%	1.0	-0.13	-22.8	2.7	659.6	4.5	0.00
2022E	13.5	1.8	13.3%	-0.7	0.11	27.7	2.3	17.4	-3.3	0.00
2023E	15.6	2.9	18.8%	-1.5	0.22	13.4	2.1	11.1	-7.1	0.07
Market cap, EURm	22		Gearing 2021E, %	70.2		CAGR EPS 2020-23, %	0.0			
Net debt 2021E, EURm	9		Price/book 2021E	1.7		CAGR sales 2020-23, %	12.1			
Enterprise value, EURm	30		Dividend yield 2021E, %	0.0		ROE 2021E, %	-7.2			
Total assets 2021E, EURm	25		Tax rate 2021E, %	6.2		ROCE 2021E, %	0.2			
Goodwill 2021E, EURm	0		Equity ratio 2021E, %	50.7		PEG, P/E 21/CAGR	0.0			

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

Fellow Finance	2019	H1/'20	H2/'20	2020	H1/'21E	H2/'21E	2021E	2022E	2023E
<b>Net sales</b>	<b>14.2</b>	<b>5.8</b>	<b>5.3</b>	<b>11.1</b>	<b>5.5</b>	<b>5.8</b>	<b>11.3</b>	<b>13.5</b>	<b>15.6</b>
<i>sales growth, %</i>	<i>19 %</i>	<i>-20 %</i>	<i>-25 %</i>	<i>-22 %</i>	<i>-5.3%</i>	<i>10.2%</i>	<i>2.1%</i>	<i>19.5%</i>	<i>15.4%</i>
Fee income	10.0	3.3	2.7	6.0	3.1	3.7	6.8	9.5	11.8
Interest income	4.2	2.5	2.6	5.1	2.4	2.1	4.5	4.0	3.8
<b>Intermediated loan volume</b>	<b>201</b>	<b>69</b>	<b>64</b>	<b>133</b>	<b>91</b>	<b>119</b>	<b>210</b>	<b>250</b>	<b>310</b>
<i>change, %</i>	<i>17 %</i>	<i>-37 %</i>	<i>-30 %</i>	<i>-34 %</i>	<i>31.4%</i>	<i>86.5%</i>	<i>57.9%</i>	<i>19.2%</i>	<i>24.0%</i>
<b>Expenses</b>									
Materials and services	-4.3	-1.4	-0.9	-2.3	-1.2	-1.7	-2.9	-3.5	-4.3
<i>% of intermed. loan vol.</i>	<i>2.1%</i>	<i>2.0%</i>	<i>1.4%</i>	<i>1.7%</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.4%</i>
Personnel expenses	-2.9	-1.1	-0.9	-2.0	-1.4	-1.4	-2.8	-3.0	-3.2
Other op. expenses	-5.0	-3.1	-2.6	-5.7	-2.1	-3.0	-5.1	-4.7	-4.5
D&A	-0.4	-0.2	-0.2	-0.4	-0.3	-0.3	-0.5	-0.5	-0.6
<b>EBIT</b>	<b>1.6</b>	<b>-0.1</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>-0.5</b>	<b>-0.1</b>	<b>1.8</b>	<b>2.9</b>
<i>EBIT margin</i>	<i>11.6%</i>	<i>-0.9%</i>	<i>12.5%</i>	<i>5.5%</i>	<i>8.2%</i>	<i>-8.9%</i>	<i>-0.6%</i>	<i>13.3%</i>	<i>18.8%</i>
<b>Adj. EBIT</b>	<b>2.3</b>	<b>-0.1</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>-0.5</b>	<b>-0.1</b>	<b>1.8</b>	<b>2.9</b>
<i>Adj. EBIT margin</i>	<i>16.5%</i>	<i>-0.9%</i>	<i>12.5%</i>	<i>5.5%</i>	<i>8.2%</i>	<i>-8.9%</i>	<i>-0.6%</i>	<i>13.3%</i>	<i>18.8%</i>

\*Excluding estimated. EPS figures split adjusted.

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2020Q1	2020Q2	2020Q3	2020Q4	2020	2021Q1	2021Q2	2021Q3E	2021Q4E	2021E	2022E	2023E
Net sales	0.0	5.8	0.0	5.3	11.1	0.0	5.5	0.0	5.8	11.3	13.5	15.6
EBITDA	0.0	0.2	0.0	0.8	1.1	0.0	0.7	0.0	-0.1	0.6	2.3	3.6
<i>EBITDA margin (%)</i>	<i>0.0</i>	<i>3.2</i>	<i>0.08</i>	<i>16.0</i>	<i>9.5</i>	<i>0.0</i>	<i>12.8</i>	<i>0.0</i>	<i>-2.5</i>	<i>5.1</i>	<i>17.2</i>	<i>22.9</i>
EBIT	0.0	-0.1	0.0	0.7	0.6	0.0	0.5	0.0	-0.4	0.0	1.8	2.9
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>-0.9</i>	<i>0.0</i>	<i>12.5</i>	<i>5.5</i>	<i>0.0</i>	<i>8.2</i>	<i>0.0</i>	<i>-7.0</i>	<i>0.4</i>	<i>13.3</i>	<i>18.8</i>
Net financial items	0.0	-0.7	0.0	-0.5	-1.2	0.0	-0.5	0.0	-0.6	-1.1	-0.8	-0.9
Pre-tax profit	0.0	-0.7	0.0	0.1	-0.6	0.0	0.0	0.0	-1.0	-1.0	1.0	2.0
Tax	0.0	0.0	0.0	-0.3	-0.3	0.0	-0.1	0.0	0.2	0.1	-0.2	-0.4
<i>Tax rate (%)</i>	<i>0.0</i>	<i>-1.8</i>	<i>0.0</i>	<i>268.4</i>	<i>-44.7</i>	<i>0.0</i>	<i>-7,263.2</i>	<i>0.0</i>	<i>20.0</i>	<i>6.2</i>	<i>20.0</i>	<i>20.0</i>
Net profit	0.0	-0.7	0.0	-0.2	-0.9	0.0	-0.1	0.0	-0.8	-0.9	0.8	1.6
EPS	0.00	-0.10	0.00	-0.02	-0.12	0.00	-0.02	0.00	-0.11	-0.13	0.11	0.22
EPS adjusted (diluted no. of shares)	0.00	-0.10	0.00	-0.02	-0.12	0.00	-0.02	0.00	-0.11	-0.13	0.11	0.22
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07
<b>SALES, EURm</b>												
Fellow Finance	0.0	5.8	0.0	5.3	11.1	0.0	5.5	0.0	5.8	11.3	13.5	15.6
Total	0.0	5.8	0.0	5.3	11.1	0.0	5.5	0.0	5.8	11.3	13.5	15.6
<b>SALES GROWTH, Y/Y %</b>												
<i>Fellow Finance</i>	<i>0.0</i>	<i>-19.8</i>	<i>0.0</i>	<i>-24.3</i>	<i>-22.0</i>	<i>0.0</i>	<i>-5.3</i>	<i>0.0</i>	<i>10.2</i>	<i>2.0</i>	<i>19.5</i>	<i>15.4</i>
<i>Total</i>	<i>0.0</i>	<i>-19.8</i>	<i>0.0</i>	<i>-24.4</i>	<i>-22.0</i>	<i>0.0</i>	<i>-5.3</i>	<i>0.0</i>	<i>10.2</i>	<i>2.0</i>	<i>19.5</i>	<i>15.4</i>
<b>EBIT, EURm</b>												
Fellow Finance	0.0	-0.1	0.0	0.7	0.6	0.0	0.5	0.0	-0.4	0.0	1.8	2.9
Total	0.0	-0.1	0.0	0.7	0.6	0.0	0.5	0.0	-0.4	0.0	1.8	2.9
<b>EBIT margin, %</b>												
<i>Fellow Finance</i>	<i>0.0</i>	<i>-0.9</i>	<i>0.0</i>	<i>12.5</i>	<i>5.5</i>	<i>0.0</i>	<i>8.2</i>	<i>0.0</i>	<i>-7.0</i>	<i>0.4</i>	<i>13.3</i>	<i>18.8</i>
<i>Total</i>	<i>0.0</i>	<i>-0.9</i>	<i>0.0</i>	<i>12.5</i>	<i>5.5</i>	<i>0.0</i>	<i>8.2</i>	<i>0.0</i>	<i>-7.0</i>	<i>0.4</i>	<i>13.3</i>	<i>18.8</i>

INCOME STATEMENT, EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	5.6	8.7	12.0	14.2	11.1	11.3	13.5	15.6
<i>Sales growth (%)</i>	<i>39.6</i>	<i>55.0</i>	<i>38.5</i>	<i>18.3</i>	<i>-22.0</i>	<i>2.0</i>	<i>19.5</i>	<i>15.4</i>
EBITDA	1.3	2.9	3.8	2.1	1.1	0.6	2.3	3.6
<i>EBITDA margin (%)</i>	<i>22.5</i>	<i>33.1</i>	<i>31.9</i>	<i>14.5</i>	<i>9.5</i>	<i>5.1</i>	<i>17.2</i>	<i>22.9</i>
Depreciation	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.6
EBITA	0.9	2.5	3.4	1.6	0.6	0.0	1.8	2.9
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	0.9	2.5	3.4	1.6	0.6	0.0	1.8	2.9
<i>EBIT margin (%)</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>11.6</i>	<i>5.5</i>	<i>0.4</i>	<i>13.3</i>	<i>18.8</i>
Reported EBIT	0.9	2.5	3.4	1.6	0.6	0.0	1.8	2.9
<i>EBIT margin (reported) (%)</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>11.6</i>	<i>5.5</i>	<i>0.4</i>	<i>13.3</i>	<i>18.8</i>
Net financials	-0.8	-1.3	-2.3	-1.5	-1.2	-1.1	-0.8	-0.9
Pre-tax profit	0.1	1.2	1.1	0.1	-0.6	-1.0	1.0	2.0
Taxes	-0.1	-0.1	-0.3	-0.2	-0.3	0.1	-0.2	-0.4
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.1	1.1	0.8	-0.1	-0.9	-0.9	0.8	1.6
Cash NRIs	0.0	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
<b>BALANCE SHEET, EURm</b>								
Assets								
Fixed assets	10	14	17	24	16	13	13	13
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Receivables	5	6	7	8	9	10	11	15
Liquid funds	2	2	9	4	4	2	3	3
Total assets	17	22	32	36	28	25	27	31
Liabilities								
Shareholder's equity	3	4	15	14	14	13	13	15
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	13	17	17	20	14	11	12	14
Non-interest bearing current liabilities	1	1	1	1	1	1	1	2
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	17	22	32	36	28	25	27	31
<b>CASH FLOW, EURm</b>								
+ EBITDA	1	3	4	2	1	1	2	4
- Net financial items	-1	-1	-2	-2	-1	-1	-1	-1
- Taxes	0	0	0	0	0	0	0	0
- Increase in Net Working Capital	-1	1	0	0	0	-1	-1	-3
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	-1	2	1	0	-1	-2	0	-1
- Capex	0	0	-1	-1	7	3	-1	-1
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-1	2	1	-1	7	1	-1	-2
+/- New issues/buybacks	0	0	10	0	0	0	0	0
- Paid dividend	0	0	-1	0	0	0	0	0
+/- Other	2	-2	-3	-4	-7	-2	1	2
Change in cash	1	0	7	-5	0	-2	0	0

KEY FIGURES	2017	2018	2019	2020	2021E	2022E	2023E
M-cap	0	46	30	21	22	22	22
Net debt (excl. convertibles)	15	8	17	10	9	10	11
Enterprise value	15	55	46	31	30	31	33
Sales	9	12	14	11	11	14	16
EBITDA	3	4	2	1	1	2	4
EBIT	2	3	2	1	0	2	3
Pre-tax	1	1	0	-1	-1	1	2
Earnings	1	1	0	-1	-1	1	2
Equity book value (excl. minorities)	4	15	14	14	13	13	15
<b>Valuation multiples</b>							
EV/sales	1.7	4.6	3.2	2.8	2.7	2.3	2.1
EV/EBITDA	5.2	14.3	22.4	29.1	53.2	13.4	9.1
EV/EBITA	5.9	16.1	28.0	51.6	659.6	17.4	11.1
EV/EBIT	5.9	16.1	28.0	50.8	659.6	17.4	11.1
EV/OCF	7.0	41.5	-228.4	-37.1	-19.8	8,097.0	-44.6
EV/FCFF	-5.0	-65.4	-6.6	4.0	15.6	-681.7	-41.3
P/FCFE	0.0	81.8	-34.9	3.1	22.3	-30.7	-14.0
P/E	0.0	55.1	-349.3	-23.6	-22.8	27.7	13.4
P/B	0.0	3.2	2.0	1.5	1.7	1.6	1.4
Target EV/EBITDA	0.0	0.0	0.0	0.0	59.5	14.9	10.1
Target EV/EBIT	0.0	0.0	0.0	0.0	737.5	19.4	12.4
Target EV/FCF	0.0	0.0	0.0	0.0	35.2	-49.4	-23.6
Target P/B	0.0	0.0	0.0	0.0	2.0	1.9	1.7
Target P/E	0.0	0.0	0.0	0.0	-26.6	32.3	15.7
<b>Per share measures</b>							
Number of shares	5,818	7,129	7,129	7,174	7,174	7,174	7,174
Number of shares (diluted)	5,818	7,129	7,129	7,174	7,174	7,174	7,174
EPS	0.19	0.12	-0.01	-0.12	-0.13	0.11	0.22
Operating cash flow per share	0.36	0.18	-0.03	-0.12	-0.21	0.00	-0.10
Free cash flow per share	0.34	0.08	-0.12	0.93	0.13	-0.10	-0.21
Book value per share	0.72	2.04	2.03	1.90	1.77	1.87	2.10
Dividend per share	0.09	0.04	0.00	0.00	0.00	0.00	0.07
Dividend payout ratio, %	47.2	33.9	0.0	0.0	0.0	0.0	30.0
Dividend yield, %	0.0	0.6	0.0	0.0	0.0	0.0	2.2
FCF yield, %	0.0	1.2	-2.9	32.0	4.5	-3.3	-7.1
<b>Efficiency measures</b>							
ROE	29.8	9.0	-0.6	-6.3	-7.2	6.0	11.3
ROCE	13.4	13.0	5.0	1.9	0.2	7.2	10.7
<b>Financial ratios</b>							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	71.3	58.4	58.3	78.7	87.2	84.3	93.5
Non-interest bearing liabilities as % of sales	13.5	6.9	7.7	10.3	10.3	10.3	10.3
NWC/sales, %	57.8	51.5	50.6	68.4	76.9	74.1	83.3
Operative CAPEX/sales, %	1.9	6.3	4.6	-67.5	-22.2	5.2	5.1
CAPEX/sales (incl. acquisitions), %	1.9	6.3	4.6	-67.5	-22.2	5.2	5.1
FCFF/EBITDA	-1.0	-0.2	-3.4	7.2	3.4	0.0	-0.2
Net debt/EBITDA, book-weighted	5.2	2.2	8.0	9.4	15.6	4.1	3.1
Debt/equity, market-weighted	0.0	0.4	0.7	0.7	0.5	0.6	0.7
Equity ratio, book-weighted	19.1	44.8	40.2	48.0	50.7	49.6	48.7
Gearing, %	354.2	57.4	114.0	72.5	70.2	71.4	73.9

**COMPANY DESCRIPTION:** Fellow Finance operates a lending platform for debt-based consumer and business financing. The company operates in Finland, Sweden, Germany, Poland, Denmark and the Czech Republic. The company began its operations in 2014 and listed on the Nasdaq First North Finland -marketplace in 2018. Over EUR 800m worth of loans have been intermediated through the company's platform since inception.

**INVESTMENT CASE:** The alternative finance markets in Europe have been growing rapidly and Fellow Finance should seek to capitalize on the growth. A key for success in our view lies in expansion abroad given the limited size and competition in the domestic market, with the international operations still in ramp-up. The scalability of its technology offers solid margin potential although growth investments will have a significant impact on margins in the coming years.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Taaleri Oyj	1,847,163	5.541	25.7%
TN Ventures Oy	830,843	2.493	11.6%
Oy T&T Nordcap Ab	656,436	1.969	9.2%
OP-Finland Micro Cap	298,174	0.895	4.2%
OP-Finland Small Cap	269,711	0.809	3.8%
Avensis Capital Oy	165,000	0.495	2.3%
Fennia Life Insurance Company	146,318	0.439	2.0%
Säästöpankki Small Cap mutual fund	128,841	0.387	1.8%
DB-Manager Oy	117,456	0.352	1.6%
Uusitalo Rauno	113,992	0.342	1.6%
Ten largest	4,573,934	13.722	64%
Residual	2,599,691	7.799	36%
Total	7,173,625	21.521	100%

## EARNINGS CALENDAR

## OTHER EVENTS

April 02, 2021

AGM

## COMPANY MISCELLANEOUS

CEO: Teemu Nyholm

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

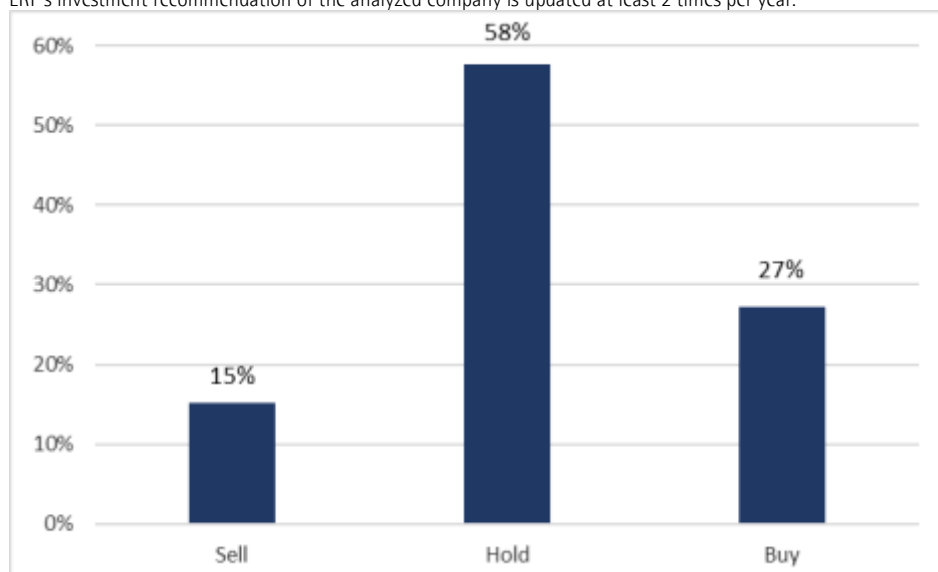
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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

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