PIHLAJALINNA

Health Care/Finland, February 25, 2019
Company update

More favorable outlook for 2019E

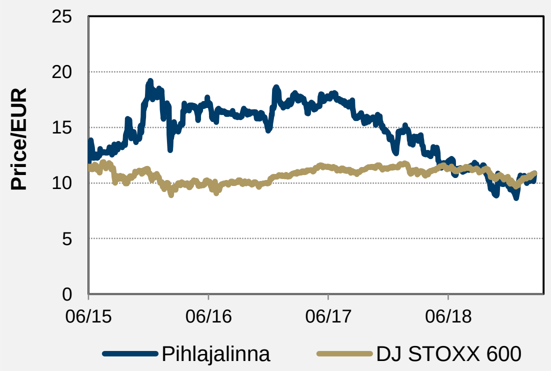
Pihlajalinna's organic growth, profitability and outlook for 2019E improved towards the end of 2018. The new contract pipeline improved somewhat, and clarity on SOTE in the coming weeks might increase activity in the municipality field, further boosting the pipeline. We think valuation looks attractive considering the recovery in margins and somewhat more promising outlook.

Profitability recovered to reasonable levels
Pihlajalinna's profitability weakened in 2018 with to weak H1, but recovered to reasonable level in H2 as cost savings from co-determination negotiations kicked in, negative EBITDA-contribution from new clinic openings contracted and as organic growth turned back to positive territory in H2 with insurance revenue drop levelling off. Improved performance of H2 supports the outlook for 2019E, for which co. guides adj. EBIT to improve significantly. While competition has increased in certain service areas and cities, Pihlajalinna's altered expansion plan and OP's retreat from expansion plans should reduce risk of further capacity increases burdening profitability in the mid-term.

Growth prospects somewhat brighter; clarity on SOTE needed
Pihlajalinna started production of residential services in Laihia in Sep 2018. Provision of occupational healthcare services for Stora Enso started in Jan 2019. Additionally co. has been negotiating with Laitila, Ruovesi and Kristiinankaupunki, although at present each remain undecided. Overall, municipalities' eagerness to strike new contracts remains impacted by the lack of clarity on how the SOTE reform turns out. Improved clarity on SOTE in the coming weeks might improve activity in the municipality field. Additionally, Pihlajalinna's geographical reach has expanded in 2017-2018, improving its positioning to win new business.

"Buy" with TP of EUR 12 intact
On our estimates Pihlajalinna is now valued 8.4x EV/EBITDA in FY19E, which translates into 10% discount to its own 3yr NTM historical average (9.3x) and to 16% discount to the peer group. We think valuation looks attractive considering the recovery in margins and a more promising outlook since H2'18. We retain "Buy" rating with TP of EUR 12. Our TP values the shares 9.0x EV/EBITDA on 2019E estimates, close to 3yr historical avg (9.3x).

Rating: BUY



Share price, EUR (Last trading day's closing price)	10.90
Target price, EUR	12.0
Latest change in recommendation	01-Nov-18
Latest report on company	8-Feb-19
Research paid by issuer:	Yes
No. of shares outstanding, '000's	22,620
No. of shares fully diluted, '000's	22,620
Market cap, EURm	247
Free float, %	57.0
Exchange rate	0.000
Reuters code	PIHLIS.HE
Bloomberg code	PIHLIS FH
Average daily volume, EURm	na.
Next interim report	03-May-19
Web site	http://investors.pihlajalinna.fi/

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	424	20	4.7%	19	0.52	25.7	0.8	7.2	16.2	0.16
2018	488	14	2.9%	11	0.22	39.0	0.6	6.2	21.6	0.10
2019E	515	22	4.4%	19	0.60	18.1	0.7	6.2	15.8	0.20
2020E	525	23	4.4%	20	0.63	17.4	0.6	5.9	14.4	0.21
2021E	541	30	5.5%	27	0.88	12.4	0.6	5.3	10.3	0.29

Market cap, EURm	247	BV per share 2019E, EUR	5.9	CAGR EPS 2018-21, %	58.5
Net debt 2019E, EURm	91	Price/book 2019E	1.9	CAGR sales 2018-21, %	3.5
Enterprise value, EURm	355	Dividend yield 2019E, %	1.8	ROE 2019E, %	10.7
Total assets 2019E, EURm	354	Tax rate 2019E, %	20.0	ROCE 2019E, %	8.5
Goodwill 2019E, EURm	170	Equity ratio 2019E, %	40.3	PEG, P/E 19/CAGR	1.2

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

Investment summary

3rd largest service provider in a growing market

Pihlajalinna is the 3rd largest social and healthcare service provider in Finland after Terveystalo and Mehiläinen. Corporate Customers bring in 19% of revenue; Private Customers 17% and Public Customers 64%. The market demand picture looks solid: historical CAGR for social and healthcare markets in Finland have been reported at some 4-5%, and market growth is projected to continue at about 4% CAGR in the mid-term.

Strong track record of profitable operations in fixed-price outsourcings

Pihlajalinna's competitive edge is mainly in its strong track record of profitable operations with fixed-price outsourcing contracts. The company is a market leader in complete social and healthcare outsourcings in Finland and its revenue grew strongly especially in 2014-2016 with sizeable new outsourcing deals. Since then the pipeline has been thinner and revenue growth was more based on acquisitions in 2017-2018.

Organic growth disappointed in 2018, but outlook for 2019E is somewhat better

Pihlajalinna's organic growth was disappointingly negative in 2018 due to weak H1, but performance and outlook improved in H2'18: production of residential services in Laihia started in Sep 2018 (annual value EUR ~5m), and provision of occupational healthcare services for Stora Enso started in Jan 2019 (we estimate value at EUR ~4m). Additionally the pipeline for new contracts seemed to improve: co. has been in negotiations with Laitila (potential value EUR 5m), Ruovesi (potential value EUR 15m) and Kristiinankaupunki. While decisions from some of these were expected by the end of 2018, each remains undecided. Overall, municipalities' eagerness to strike new contracts remains impacted by the lack of clarity on how the SOTE reform turns out. Improved clarity on SOTE in the coming weeks could improve activity in the municipality field. Additionally, Pihlajalinna's geographical reach has expanded in 2017-2018, improving its positioning to win new business for example in occupational healthcare, in our view.

Profitability back at reasonable levels

Pihlajalinna's profitability declined in 2018 due to weak H1, but profitability recovered in H2. The negative adj. EBITDA contribution of the first three Greenfield units contracted throughout 2018; cost savings from codetermination talks in spring 2018 kicked in, and organic growth turned back to positive territory in H2 with insurance revenues levelling off. For 2019E Pihlajalinna guides revenue to grow and adj. EBIT to improve significantly. Revenue outlook is supported by M&A and the new deals, while 2019E profitability is supported by tail-end impact of cost savings in Q1 and progress in ramping up the first three clinics. While competition appears to have increased in certain service areas and cities, Pihlajalinna's altered expansion plan and OP's retreat from expansion plans should reduce risk of further capacity increases burdening profitability in the mid-term.

Clarity on SOTE needed

The SOTE reform is highly political and disputed. The timetable has been delayed several times and further delays are possible, if not probable. At present the reform is being prepared by different government authorities before a parliamentary voting can take place, but time appears to be running out considering the planned timetable and approaching parliamentary elections in spring 2019. At its current form SOTE represents a significant growth opportunity for private operators, as it would open EUR 5.4bn of service production to competition from 2022 onwards. However, we highlight significant risks and uncertainty is related to the completion, final form and timetable of the SOTE reform, particularly regarding the freedom of choice. The SOTE reform may be delayed, significantly altered or even cancelled. Clarity on SOTE should improve in spring 2019.

"Buy" with TP of EUR 12 intact

On our estimates Pihlajalinna is now valued at 8.4x EV/EBITDA in FY19E, which translates into 10% discount to its own 3yr NTM historical average (9.3x) and to 16% discount to the peer group. Our DCF model implies fair value of EUR 14.6. We think Pihlajalinna's valuation looks attractive considering the recovery in margins and a more promising pipeline since H2'18. We retain "Buy" rating with TP of EUR 12 intact. Our TP values the shares at 9.0x EV/EBITDA with 2019E estimates, ie. close to the 3yr historical NTM average of 9.3x.

Company description – a social and healthcare service provider

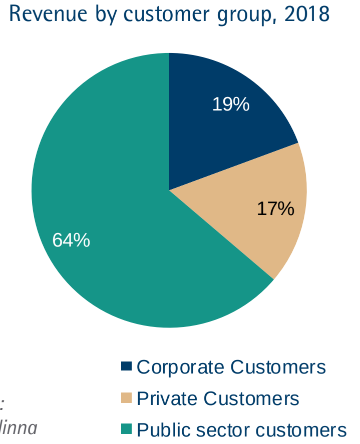
The 3rd largest private social and health care service provider in Finland

Pihlajalinna is the 3rd largest private social and healthcare service provider in Finland after Terveystalo and Mehiläinen. Pihlajalinna serves households, companies, insurance companies and public sector entities in private clinics, health centres, dental clinics, hospitals and fitness centres around Finland. The service offering is wide and includes general practitioner and specialized care services, surgical services, occupational healthcare, dental care services, elderly care, reception center activities and staffing services. Pihlajalinna is the market leader in complete social and healthcare outsourcings in Finland.

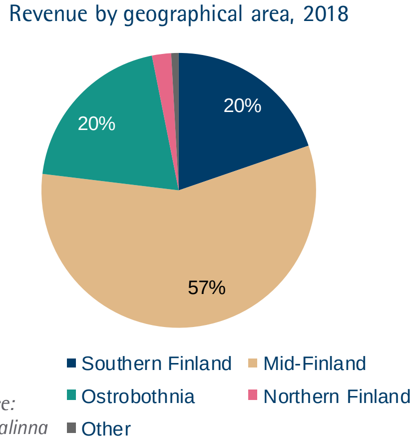
Pihlajalinna has three customer groups:

- Corporate Customers: includes occupational healthcare customers, insurance company customers and other corporate contract customers. Revenue from Corporate Customers was EUR 106m in 2018 vs. EUR 83m in 2017. Of the EUR 106m in 2018, 25m came from insurance companies, implying EUR 81m came from other corporates.
- Private Customers: includes individuals who pay for services themselves and may subsequently seek compensation from their insurance company. Revenue from Private Customers was EUR 92m in 2018 vs. EUR 68m in 2017.
- Public Sector Customers: includes public sector organizations such as municipalities, joint municipal authorities, congregations, hospital districts and the public administration who purchase services from or have outsourced service provision to Pihlajalinna. Revenue from Public Sector Customers was EUR 348m in 2018 vs. EUR 331m in 2017. The majority of public sector revenue comes from Pihlajalinna's complete outsourcings. Other services provided to public sector customers include reception center activities and staffing services.

Pihlajalinna reports its revenue by customer group and by region as follows (2018):



Source: Pihlajalinna



Source: Pihlajalinna

Clinic network has been expanding both via openings and M&A

The clinic network has been enlarging both organically and via M&A

Pihlajalinna's clinic network has been enlarging in recent years both organically and via M&A. Geographically presence is strong especially Pirkanmaa, Ostrobotnia, Central Finland and the Helsinki Metropolitan Area. Pihlajalinna's clinic network can now be seen as being nationwide, although the width is still unlikely to match that of main rivals Terveystalo and Mehiläinen, especially in larger cities.

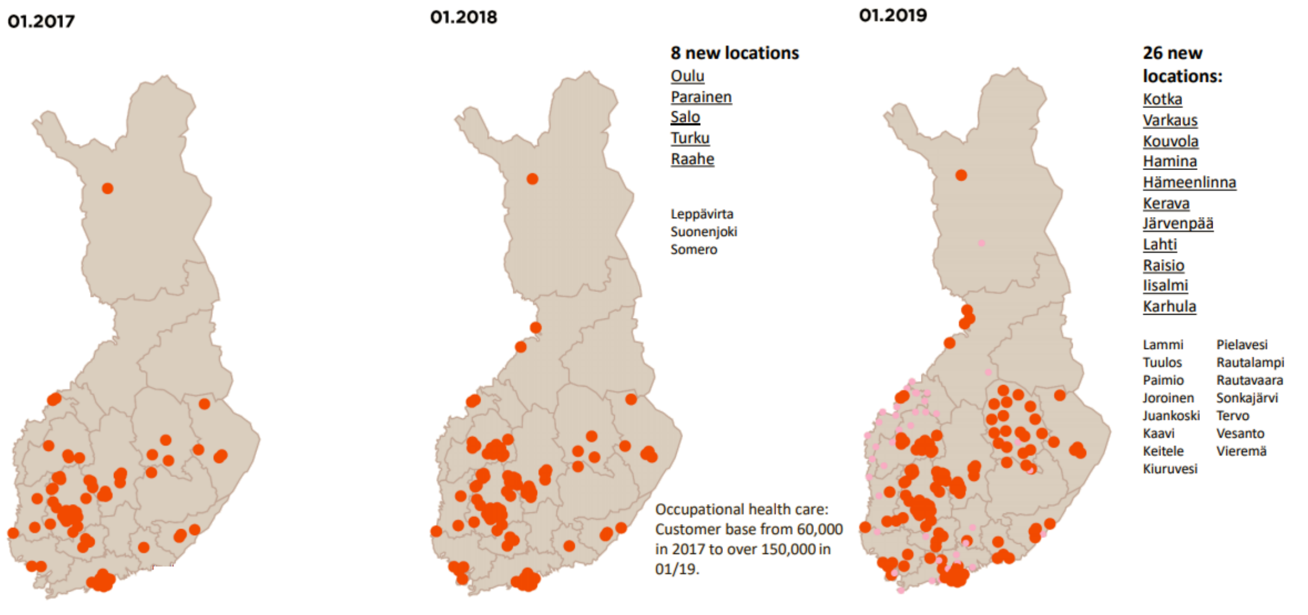
Greenfield expansion plan was altered in Autumn 2018

Pihlajalinna has a national greenfield expansion plan for 2017-2020E, under which new clinics were to be opened to around 10 new locations in 2017-2020E. The idea was to increase reach and to prepare for the upcoming SOTE reform. The first three new clinics were opened in late 2017/early 2018 in Oulu, Turku and Seinäjoki. A 4th opening has been planned to Pori, but at present this opening has not been carried out and it remains on hold for now. P The first three clinics were large and have extensive service offerings. Their ramp-up had a notable, EUR -3.5m negative impact on adj. EBITDA during 2018E. The remaining openings were to be clearly smaller units. ihlajalinna guided CAPEX of the whole program to remain under EUR 40m.However, with Q3'18 earnings Pihlajalinna altered its expansion plan; the company no longer expects to open new surgical units at least in 2019. Going forward expansion will be primarily based on M&A and potential municipal projects, rather than new larger clinic openings. Earlier in 2018 rival Terveystalo flagged its saw signs of overcapacity in the certain cities, especially in surgical and MRI activities. Rival OP also announced its retreat from expansion plans in Autumn 2018.

Private provision of publicly funded services is expected to increase in the future

One key motivation for expanding the clinic network is the view that private provision of publicly funded services will increase in the future, with or without the SOTE reform. Enlarged network supports winning new customers, for example occupational healthcare customers or outsourcings, and reduces the need to use external service providers for public specialized healthcare, which has increased volatility of profitability in recent years, due to lack of control of the care chain.

Pihlajalinna's locations



Operating costs– employees and purchase of external services

Clear majority of OPEX relate to employees and purchase of external services

Pihlajalinna reports its operating costs in three main items: materials and services (EUR 189m, 41% of total OPEX in 2018), employee benefit expenses (EUR 208m, 45% of total OPEX) and other operating expenses (EUR 63m, 14% of total OPEX). Within materials and services, purchases of external services from practitioners and other parties corresponded 92% of the cost item in 2017. The need to use external service providers should have decreased somewhat with new clinics opened during 2018, but detailed split has not yet been reported. The other operating expense item consist of facility expenses, equipment and IT-related expenses, sales and marketing and other.

Key revenue and profitability drivers

Key revenue drivers include:

- Historical market growth has been attractive at about 4-5% (CAGR); 2017-2022E projections indicate growth should continue at ~4% CAGR in the mid-term
- Potential new outsourcing contracts
- Expansion of clinic network
- people's increasing interest in their health and increasing popularity of voluntary health insurances

Key profitability drivers include:

- Capacity utilization rate of Pihlajalinna's units
- New units are typically EBITDA-negative during the ramp-up phase
- Pricing of services driven by demand/supply balance in the market.

Leverage has increased with M&A

Net debt/adj. EBITDA was 2.8x at the end of 2018 (excl. IFRS 16)

Pihlajalinna's net debt/adj. EBITDA was 2.8x at the end of 2018 (excl. impact of IFRS 16) vs. the company's financial target of <3x. Net debt should increase further once the ownership increase in Kuusiolinna Terveys for EUR 18.4m is settled (estimated spring 2019). Pihlajalinna's net debt has been on the increase during 2017-2018E with several M&A transactions. Transition to IFRS 16 reporting from 2019 onwards will further increase net debt: company currently estimates IFRS 16 will increase net debt by EUR 85m, while adj. EBITDA will increase by EUR 13.6m. Net debt/adj. EBITDA, incl. impact of IFRS 16, was thus 3.8x at the end of 2018. Despite fairly high leverage the company has stated it remains open to M&A if the price is right. Earlier in 2018 Doctagon was acquired through a directed 10% share issue. Structurally, it is noteworthy that the balance sheet includes a sizeable amount of goodwill (EUR 170m at the end of 2018), due to a large number of M&A transactions in recent years.

Financial targets, dividend policy and guidance

Pihlajalinna's financial targets have been (issued long before IFRS 16 took effect):

- Operating profit (EBIT) margin exceeding 7%
- Net debt to EBITDA below 3x
- Dividends at least 1/3 of net profit

2019E guidance:
Pihlajalinna expects revenue to "increase" and adj. EBIT to "increase clearly" in 2019.

Market description – a growing underlying market

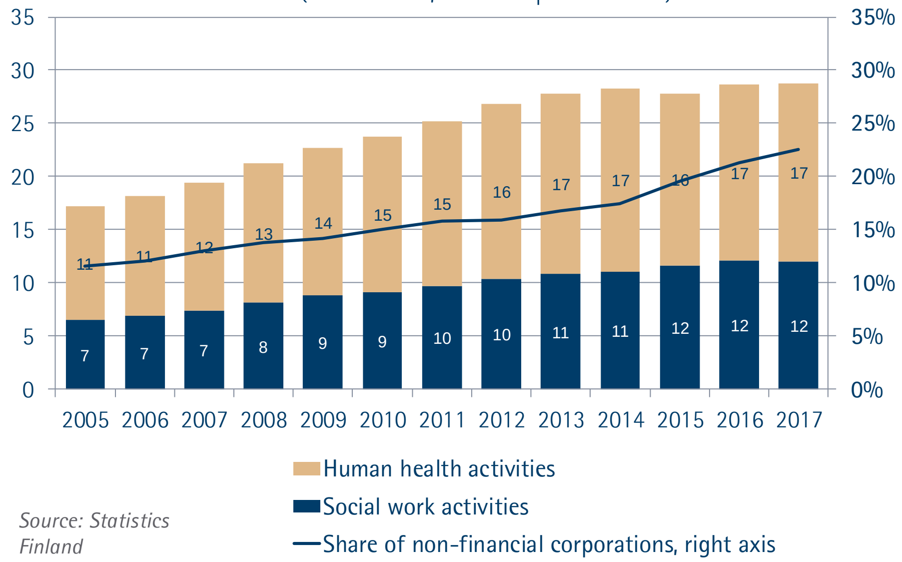
Both social and especially healthcare services

Pihlajalinna operates in both social and healthcare markets, with an emphasis in healthcare services. According to Statistics Finland, both markets have demonstrated long-term growth: in 2005-2017, CAGR for production of human health activities was 3.8%, while corresponding CAGR for social service production was 5.3%. Growth has been driven by aging population, increasing prevalence of lifestyle diseases and people's interest in their own health, among others. Growth has been moderate in recent years.

Market share of private operators has increased steadily

Market sizes were measured at EUR ~17bn for human health activity production and EUR ~12bn for social service production in 2017. Combined market addressed by Pihlajalinna was thus around EUR ~29bn in 2017. Of this, the share produced by private corporations has increased rather steadily over the years.

Production of human health and social work activities in Finland (EUR billion, current prices 2017)

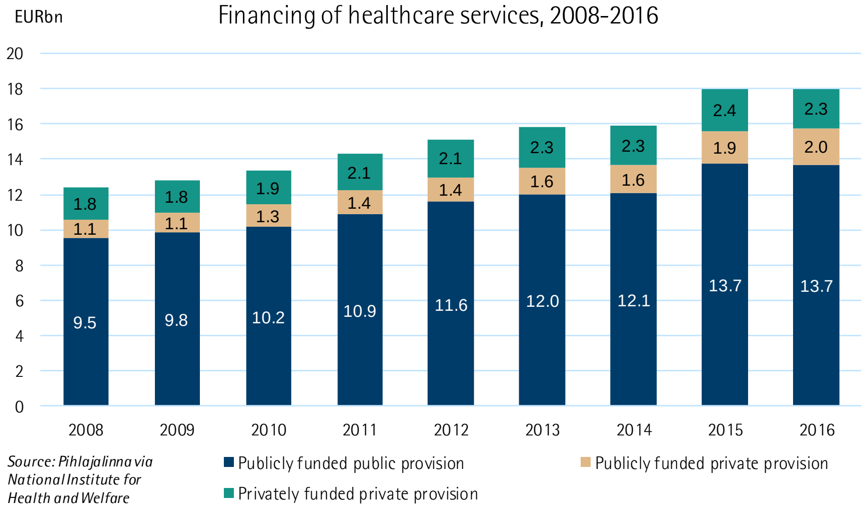


Source: Statistics Finland

Historical market CAGR ~5%

Healthcare service expenditure have increased regardless of the financing channel in 2008-2016. CAGR was 4.6% for publicly funded public provision; 3.1% for privately funded private provision and 8.6% for publicly funded private provision. Combined CAGR was 4.8% in 2008-2016.

Financing of healthcare services, 2008-2016



Source: Pihlajalinna via National Institute for Health and Welfare

NHG promises ~4% growth (CAGR) for 2017-2022E, without impact of SOTE

According to a report by Nordic Healthcare Group commissioned by competitor Terveystalo, total Finnish healthcare expenditures are expected to grow by 3.7% (CAGR) in 2017-2022E. By customer group average growth rates, excluding the impact of the SOTE reform, were estimated at 8% for corporate customers, 4% for private customers and 4% for public customers. Market growth is thus expected to continue.

Outsourcings have been a key growth driver for private companies

Cost savings and preventing services from fleeing to larger towns have been key drivers for outsourcings

Outsourcings have been a key growth driver for publicly funded but privately produced healthcare services market. Outsourcing contracts refer to contracts between a private healthcare service producer (such as Pihlajalinna) and a public sector entity (often a municipality), in which the public sector entity either partly or fully has outsourced their social and healthcare service production. Main motives to outsource service production has been related to cost savings, due to a long-term rise in healthcare costs weakening municipalities' finances, and to prevent services from fleeing to larger towns/cities when the SOTE reform becomes effective. Private companies have typically been able to produce the same services at a lower cost. In Pihlajalinna's case, better efficiency has often been related to efficient management of the referral chain, which has been one source of inefficiency in public healthcare. Private producers have also been faster to adopt digital services.

Length of outsourcing contracts is typically 10-15 years

The length of current outsourcing contracts in Finland varies but is often around 10-15 years. Many contracts include a call option for municipalities to extend the length at the end of the initial contract period. Pricing of contracts is typically based on the number of people living in the municipality and age structure. Pricing is usually revised during the contract period with index increases reflecting for example changes in public expenditure and the number and age structure of the population. Profitability of the contracts is impacted by the overall value/size of the contract. Digitalization provides increasing possibilities to improve efficiency in service production.

The below table outlines Finland's largest municipal outsourcings. All expect the Meri-Lappi contract are complete outsourcings. Pihlajalinna is the market leader in complete outsourcings. Attendo's outsourcings have now transferred to Terveystalo.

Finland's largest municipal outsourcings

Municipality/area	Population**	Net expenditure or value (EURm)***	Contract start date	Service provider
Kuusiokunnat	24 300	92	1/2016 - 1/2017	Pihlajalinna
Jämsä	21 800	83	9/2010 - 9/2015	Pihlajalinna
Meri-Lappi*	-	74	6/2018	Mehiläinen
Mänttä-Vilppula	12 800	50	1/2013	Pihlajalinna
Parkano	8 900	34	1/2015	Pihlajalinna
Siikalatva	5 800	26	1/2017	Mehiläinen
Posio	3 600	18	2016	Coronaria
Tohmajärvi	4 800	18	2013	Attendo
Pyhtää	5 400	18	2015	Attendo
Rantasalmi	3 800	18	2015	Terveystalo
Sysmä	4 100	17	2017	Attendo
Puolanka	2 800	15	2013	Attendo
Sulkava	2 800	-	1/2017	Attendo
Rääkkylä	2 400	11	2011	Attendo
Kärsämäki	2 700	10	2015	Attendo

* EUR 74m refers to the value of the contract, not net expenditure

** Population in December 2014

*** Net expenditure, 2014, does not equal the value of outsourcing contract for others than Meri-Lappi.

Sources: Pihlajalinna, Attendo, Statistics Finland

Pihlajalinna pioneered the joint venture model for outsourcings

Pihlajalinna has typically established a joint venture with the municipality that has outsourced its service production to Pihlajalinna. Ownership has typically been 51%/49% for Pihlajalinna/municipality while board representation has typically been 50%/50%. The arrangement has allowed the municipality to impact decision making and get a part of the profits via the minority share.

Co. increased its stakes in municipal JVs in 2018

However, due to the approaching SOTE reform municipalities have had a financial incentive to decrease their ownership before counties begin as the minority shares would be transferred to the county. Pihlajalinna negotiated and increased its ownership stakes in three out of five of its municipal JVs in June 2018, and agreed to increase ownership in the 4th JV (pending the municipality's final decision). As a result of the four transactions Pihlajalinna's share of net profits in will increase by EUR 3.2m in total (based on 2017 figures). Purchase price was EUR 26.8m in total, implying P/E of 8.3x. Valuation thus looked attractive for Pihlajalinna shareholders.

Pihlajalinna's municipality outsourcing business

Name of JV	Municipality/location	Outsourcing type	Revenue EURm 2017	Population	Pihlajalinna ownership
Kuusiolinna Terveys Oy	Kuusiokunnat and Soini	Complete	91	25,000	97%**
Jämsän Terveys Oy	Jämsä	Complete	74	22,000	51%
Mäntänvuoren Terveys Oy	Mänttä-Vilppula and Juupajoki	Complete	42	13,000	81%
Kolmostien Terveys Oy	Parkano and Kihniö	Complete	34	9,000	81%
Jokilaakson Terveys Oy***	Jämsä	-	26	-	90%
-	Hattula	Partial	4*	10,000	

Source: Pihlajalinna, Evli Research

* Contract enlarged in 2018E, new value EUR 3.5m

** expected closing spring 2019

***Produces public specialized care services in Jokilaakso hospital

Restrictive law limits, but does not prevent new outsourcings

Government introduced a law restricting new outsourcings in 2016 and tightened the law in 2017..

The Finnish government passed a law on July 2016 which obligates future municipal outsourcing contracts to contain a termination clause allowing future counties to terminate new over 5-year outsourcing contracts with annual value exceeding 50% of the annual social and healthcare costs of the municipality. The law was further tightened in late 2017. Currently the termination clause will need to be included if the value exceeds 30% of the municipality's annual costs and if the contact would cover a period exceeding the year 2020.

..yet outsourcings are still possible.

The restrictive law limits the potential size of the outsourcing contracts, but does not prevent them as below 30% can still be outsourced. Also there is a workaround, as it should be possible for municipalities to join existing (complete) outsourcing contracts which were signed prior to the first version of the law passed in July 2016 (when contracts did not include the termination clause). One example of this was municipality of Nokia, which during 2018 considered joining Pihlajalinna's existing Mänttä-Vilppula complete outsourcing contact.

Insurance companies play a key role in steering patient flows

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Insurance companies play a key role in steering patient flows to private service providers. They have varying policies what comes to patient guidance. Importance of insurance companies has increased with increasing popularity of voluntary health insurances.

Fennia and LocalTapiola are Pihlajalinna's partners

Pihlajalinna's current health insurance partners include Fennia Group and LocalTapiola Group. Localtapiola Group is Pihlajalinna's largest shareholder with nearly 24% stake, whereas Fennia Group currently owns slightly above 10%. LocalTapiola Group also has a strategic partnership with Mehiläinen since 2017. LocalTapiola Group acquired 10% of Mehiläinen shares in 2017 and increased its stake to 20% in spring 2018. This has had a negative impact on the patient flow steered to Pihlajalinna: insurance companies generated EUR 27m revenue to Pihlajalinna in 2017, but in 2018 insurance revenue declined to EUR 25m. Insurance revenue declined especially during H1'18 and was flat in H2'18. Among other insurance companies, Pohjola has applied a strong patient guidance towards its own hospital services, while If has given its customers more freedom to choose which service provider the patient wants to use.

Planned SOTE reform opens sizeable new market potential for private healthcare producers

SOTE targets to curb cost inflation, improve quality and availability of services

The Finnish government has and will continue to work on a social and healthcare service reform to curb cost inflation, improve quality and availability and reduce inequalities in healthcare. The cost savings target of the reform is EUR 3bn by 2029. This is to be done by curbing annual cost inflation to just 0.9% in real terms from the projected 2.4% currently. Nominal cost inflation has been estimated at 4.4% annually in 2020-2030.

Key cornerstones of the planned SOTE reform from Pihlajalinna's perspective include:

- Responsibility of organizing services will be transferred from over 300 municipalities currently to 18 to-be-established counties, which will be bigger entities and have better resource capacity. Financing of public service production will come from the state rather than from tax revenue collected by municipalities currently. Counties will be able to complement their own service production by purchasing services from private providers. The change in responsibility for organizing services has been a key driver for outsourcings, as many smaller municipalities have feared that their local services will flee to larger towns/cities.

- The Freedom of choice act will allow customers to choose a service provider from a more diverse selection than previously. The customer can sign up as to either a private or public social and health centre as well as to select their preferred public or private dental care unit (both for one year at a time), which would provide primary services. Service vouchers and personal budgets can be used for specialty care and for certain other services, based on the county's need assessment. Once freedom of choice is effective, both public and private service providers would receive the same compensation (capitation fee) for each registered person, determined by a set of criteria reflecting the expected costs of the individual. The capitation fee would need be large enough to cover costs of less efficient public service production organized by the county, which means freedom of choice should give the more efficient private sector an opportunity for profitable growth.

Freedom of choice opens public service production to competition

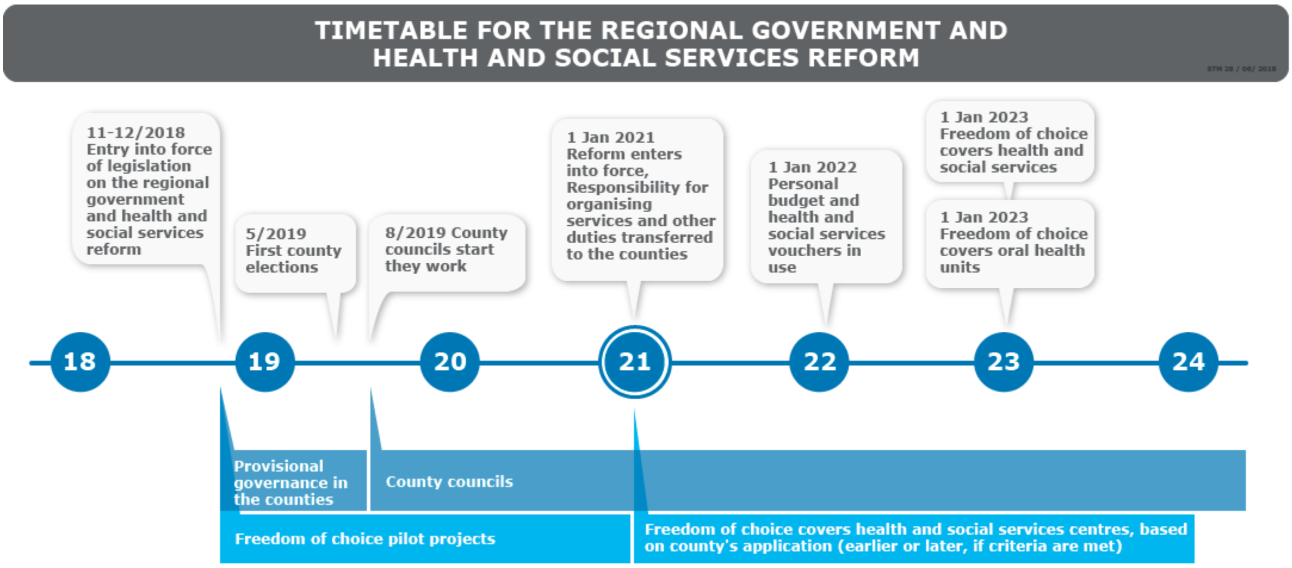
Freedom of choice effectively opens a large market for competition, if it ends up being included in the reform. At its current form the law bill would imply that some EUR 5.4bn of publicly financed public service production would open to competition:

Freedom of choice market	EURbn	When?
Social and health centers	1.9	2023
Dental care	0.4	2023
Personal budget	1.6	2022
Vouchers	1.5	2022
Total	5.4	

Target market for private operators expected to grow clearly with SOTE

Private producers already produce some EUR 2bn of publicly financed healthcare services, which implies the target market for private operators is expected to grow by some EUR 3.4bn if the reform at its current form holds. Since private provision of healthcare services (publicly and privately financed) was estimated at EUR 4.3bn in 2016, the reform is expected clearly increase the target market for private operators. Private operators are expected to take some part of the new market to be opened, but at present it is difficult to estimate how much.

The planned timetable for the SOTE reform according to the current plan is as follows:



Source: Ministry of Social Affairs and Health

SOTE is highly political and disputed: it can be delayed further, significantly altered or even cancelled.

The SOTE reform is highly political and disputed. The timetable has been delayed several times and further delays are possible, if not probable. At present the reform is being prepared by different government authorities before a parliamentary voting can take place, but time appears to be running out considering the planned timetable and approaching parliamentary elections in spring 2019. We highlight significant risks and uncertainty is related to the completion, final form and timetable of the SOTE reform, particularly regarding the freedom of choice. The SOTE reform may be delayed, significantly altered or even cancelled.

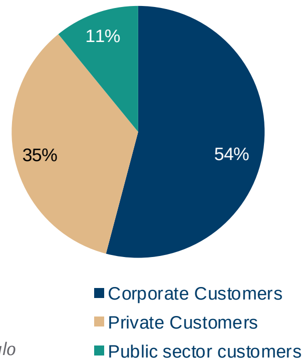
Competitive landscape

Main differences between the three largest are related to sales mix and width of clinic network

Pihlajalinna's primary competitors include Terveystalo and Mehiläinen, which both have an extensive nationwide network a wide service offering. Both compete with Pihlajalinna in most, if not all its service areas. The main difference between the three largest players is related to their different sales mix per customer type and the width of their clinic networks. Both Terveystalo and Mehiläinen have extensive nationwide clinic networks and a strong presence in larger cities, which has benefited in partnering with insurance companies, winning occupational healthcare customers and is expected to help in winning freedom of choice customers if the reform proceeds. Pihlajalinna's competitive edge has been mainly in its strong track record of profitable operations under fixed-price outsourcing contracts. However the company should now also be better to win new customers, after its clinic network clearly enlarged during 2018.

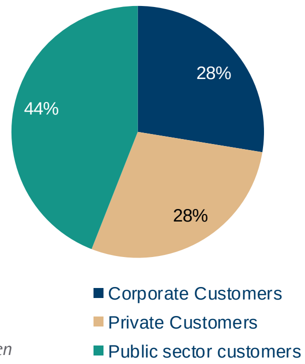
Revenue split by customer type

Terveystalo (2018)



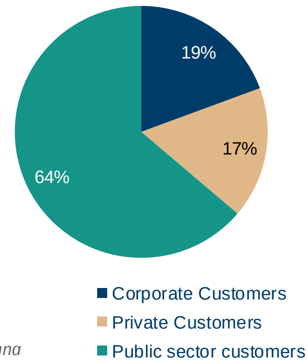
Source: Terveystalo

Mehiläinen (2017)



Source: Mehiläinen

Pihlajalinna (2018)



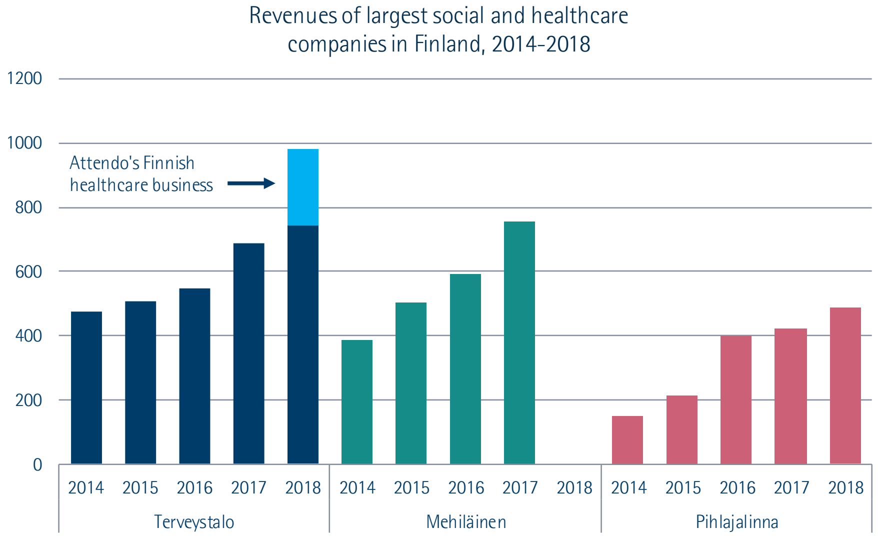
Source: Pihlajalinna

Terveystalo boosted its public-sector side by acquiring Attendo's Finnish healthcare business in 2018

While Pihlajalinna is the market leader in complete outsourcings in Finland, its revenue from public sector customers (EUR 331m) fell slightly shy of that of Mehiläinen (EUR 333m) in 2017. Before the year 2018 Mehiläinen had only one complete outsourcing contract with the municipality of Siikalatva, but it has had several contracts with public sector customers covering healthcare and social service production, either partly or fully, in individual health centers, care units and dental care clinics. Mehiläinen' outsourcing business grew notably in 2018 with the start of the sizeable 15-year Meri-Lappi outsourcing in June 2018 (annual value EUR 74m). Terveystalo has only one complete outsourcing (municipality of Rantasalmi) and some additional contracts covering certain areas of social/healthcare service production, but it derived clearly less revenue from public sector customers (EUR 64m) in 2017 than Pihlajalinna (EUR 331m) and Mehiläinen (EUR 333m). However, Terveystalo will become a more prominent player in the outsourcing business after it acquired Attendo's Finnish healthcare business in spring 2018 (deal closed at the end of 2018). About half of Attendo's Finnish healthcare revenue came from outsourced service production comprising of seven complete outsourcings and 13 outsourced health centers. The acquisition gives Terveystalo more extensive experience of the outsourcing business and complements its personnel and already extensive network.

Growth via acquisitions

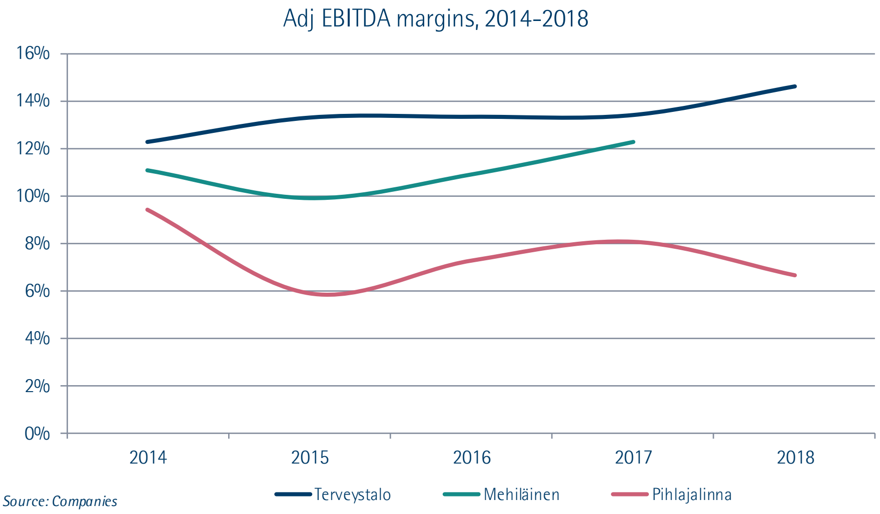
All three largest service providers have grown their revenue, supported by a lot of acquisitions in recent years. Terveystalo is the market leader with 2018 revenue just shy of EUR 1bn (pro-forma, including the acquired Attendo's Finnish healthcare business). Mehiläinen has not yet reported its 2018 financials.



Source: Company releases

Pihlajalinna's profitability lags main rivals

The three largest players have had somewhat different profitability levels in recent years, with Pihlajalinna lagging both Terveystalo and Mehiläinen. We understand Pihlajalinna's weaker profitability is related to differences in sales mix (outsourcings are typically not as profitable as private occupational healthcare and other private service provision), most likely weaker average utilization rate of clinics and slightly lower list prices of services.



Source: Companies

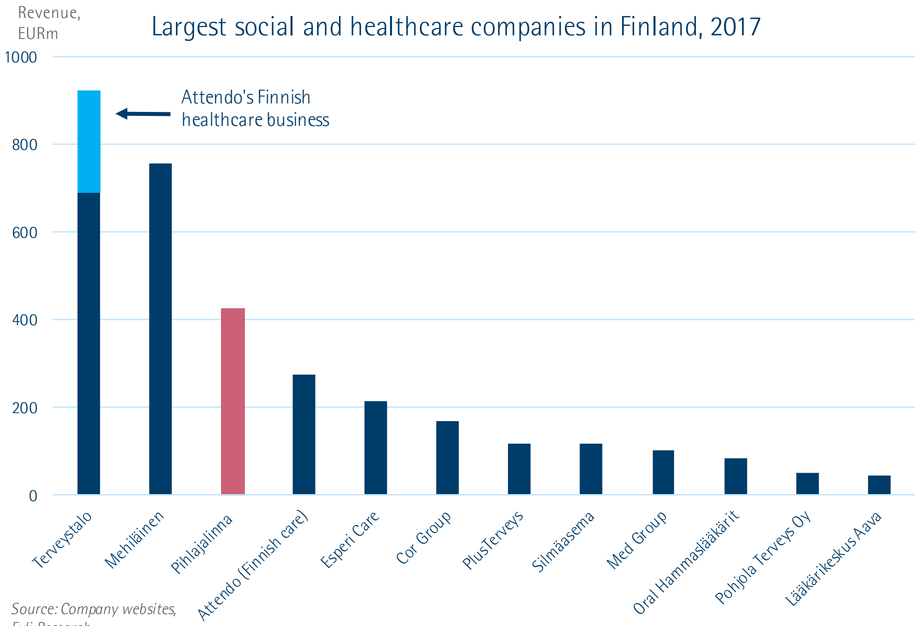
Competition seems to have tightened with capacity increases

Capacity increases carry risk of overcapacity in certain cities

In addition to growth via M&A, private healthcare service providers have enlarged their clinic networks by opening new clinics. At least Pohjola, Mehiläinen and Pihlajalinna have added capacity to the market in 2017-2018 in Turku, Oulu, Kuopio and Seinäjoki. Additionally, Mehiläinen, Pihlajalinna and Pohjola each expanded or have plans to expand operations in Pori in 2018. Terveystalo flagged in 2018 that it sees signs of overcapacity in the certain cities, especially in surgical and MRI activities. In Autumn 2018 Pihlajalinna altered its expansion plan and no longer expects to open new surgical units this or next year. Expansion will be primarily based on M&A and potential municipal projects, rather than new larger clinic openings. Additionally, OP announced its retreat from expansion plans in Autumn 2018. These reduce the risk of added capacity burdening profitability in the mid-term.

Is the market consolidated or fragmented?

All three largest healthcare service providers have made a lot of acquisitions in recent years and they are now quite notably bigger in terms of revenue than the next largest private companies in the market.



Source: Company websites, Evli Research

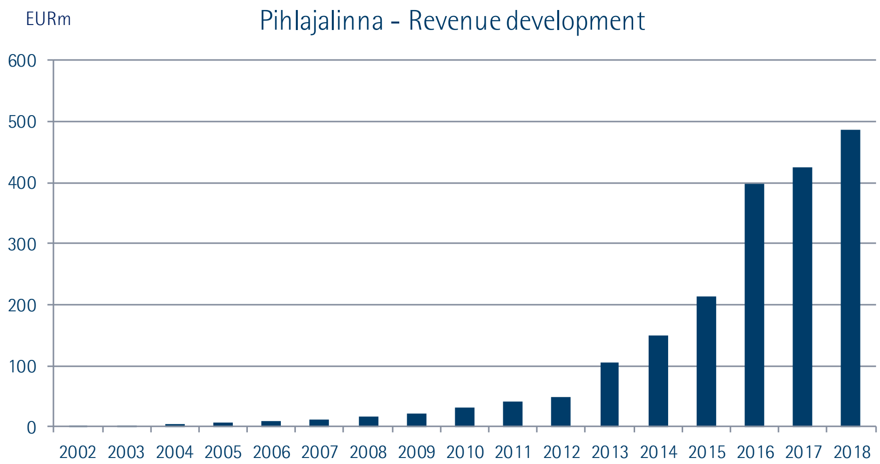
Despite consolidation, market still seems fragmented

Despite the consolidation wave in recent years, the overall market still seems quite fragmented. According to Statistics Finland, corporations produced some EUR 6.5bn worth of social and healthcare services in 2017, of which only about half is explained by revenue of the above 12 largest companies. Thus, smaller private companies still look to represent a significant share of private social and healthcare service production.

Financial performance and estimates

Strong historical growth

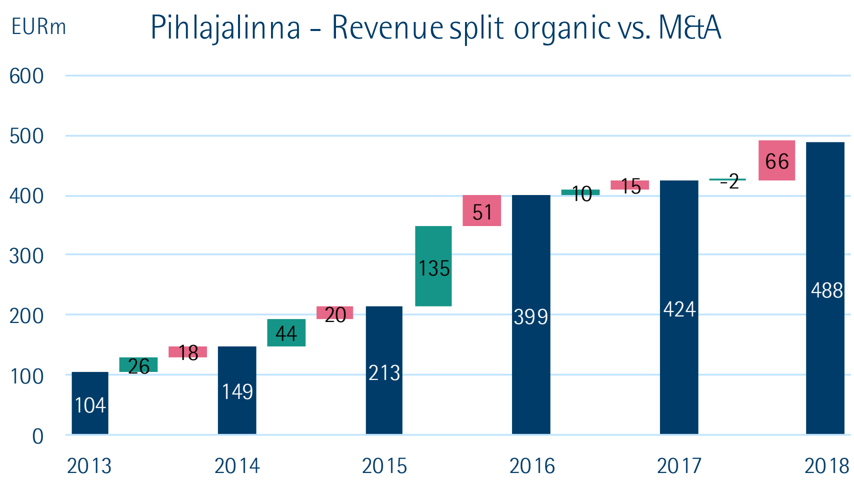
Since its founding in 2001, Pihlajalinna has grown strongly both organically and through acquisitions. The company took a large growth leap especially in 2013-2016.



Source: Pihlajalinna

Major growth leap in 2014-2016; slower since

Pihlajalinna's revenue in 2018 was 4.7x the revenue of 2013. Growth has been driven by both organic growth and M&A, with organic growth being the larger contributor. Organic growth has been primarily based on winning new municipal outsourcing contracts. Organic growth was especially strong in 2015-2016, when Pihlajalinna won new outsourcing contracts in Jämsä, Parkano and Kihniö (from 9/2015 onwards) and in Kuusiokunnat (from 1/2016 onwards). Since then revenue growth has more based on M&A. Overall, we believe introduction of the restriction law (passed in July 2016, tightened in late 2017) and municipalities anticipating better clarity on the SOTE reform probably impacted outsourcing willingness negatively in 2016-2018. Yet organic growth was positive still in 2017, but turned to slightly negative territory in 2018, especially in H1. This was impacted by decreased patient guidance from insurance companies in H1 and by the codetermination talks and organizational changes carried out in H1. Organic growth turned positive (+1%) again in H2'18.

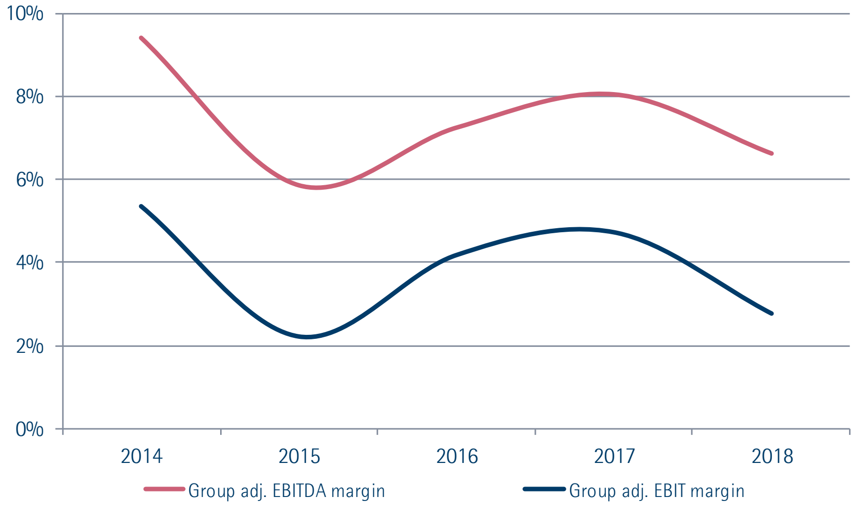


Source: Pihlajalinna, Evli research

Adj. EBITDA margin between about 6-9% in 2014-2018

Pihlajalinna's adj. EBITDA margin varied between about 6-9% in 2014-2018. Comparable margin development is somewhat difficult to keep track of, due to several acquisitions and the start of new outsourcings. Pihlajalinna's adj. EBITDA margin was improving in 2016-2017, but it declined in 2018.

Pihlajalinna - Profitability development, 2014-2018



Source: Pihlajalinna

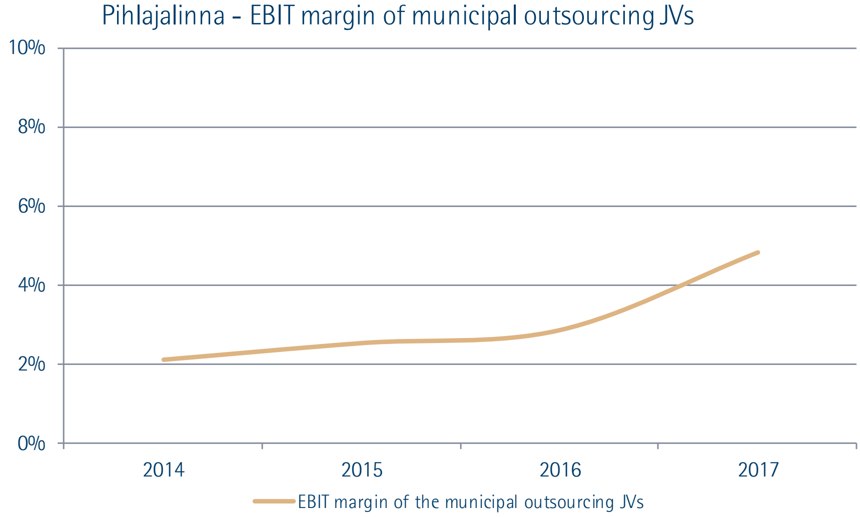
Profitability of the outsourcing business has in general improved

Pihlajalinna has reported revenue and EBIT of its municipal outsourcing JVs. Based on the numbers profitability of the outsourcing business has improved (on average), especially in 2017. We understand new outsourcing contracts have typically been less profitable in the beginning of the contract period, as streamlining service production and operations typically takes some time. Size/value of the contract also impacts profitability, ie. profitability and the size of the contract are typically positively correlated.

Revenue and EBIT of Pihlajalinna's municipal outsourcing JVs, 2013-2017

Revenue	2013	2014	2015	2016	2017
Jämsän Terveys Oy	-	-	12	73	74
Mäntänvuoren Terveys Oy	23	39	39	41	42
Kolmostien Terveys Oy	-	-	-	34	34
Kuusiolinna Terveys Oy	-	-	-	81	91
Jokilaakson Terveys Oy	19	22	24	24	26
Total	**43**	**62**	**75**	**253**	**268**
EBIT	**2013**	**2014**	**2015**	**2016**	**2017**
Jämsän Terveys Oy	-	-	0.3	0.5	1.1
Mäntänvuoren Terveys Oy	0.0	0.3	0.2	2.3	2.8
Kolmostien Terveys Oy	-	-	-	1.0	0.7
Kuusiolinna Terveys Oy	-	-	-	2.7	5.1
Jokilaakson Terveys Oy	0.8	1.0	1.4	0.7	3.1
Total	**0.8**	**1.3**	**1.9**	**7.2**	**12.9**
EBIT margins	**2013**	**2014**	**2015**	**2016**	**2017**
Jämsän Terveys Oy	-	-	2.4%	0.8%	1.5%
Mäntänvuoren Terveys Oy	0.0%	0.7%	0.5%	5.6%	6.7%
Kolmostien Terveys Oy	-	-	-	3.1%	2.1%
Kuusiolinna Terveys Oy	-	-	-	3.3%	5.6%
Jokilaakson Terveys Oy	3.9%	4.6%	5.9%	2.7%	12.0%
Total	**1.8%**	**2.1%**	**2.5%**	**2.9%**	**4.8%**

Source: Pihlajalinna, Evli Research



Source: Pihlajalinna

Organic growth and profitability weakened in H1'18..

Pihlajalinna's profitability improved in 2017, but declined in 2018. Weakening profitability in 2018 was driven by weak H1: ramp-up of the first three new clinics opened in late 2017/early 2018; higher transfer taxes, M&A fees and public specialized care costs; as well as organic growth turning negative burdened adj. EBITDA and prompted a profit warning in Jun 2018. Weakened profitability of H1'18 coincided with weakening organic growth. Organic growth weakened already towards the end of 2017, but was still positive at 2.5% in FY2017. In H1'18 organic growth was negative (Q1: -3.2%, Q2: -0.3%), despite the support from new clinic openings. Weakening organic growth was attributed to in part to the codetermination negotiations (concluded in March 2018) having a negative impact on the organization's efficiency. Additionally revenue from insurance companies decreased, following ownership arrangements in the field during 2017. Decreased volume of reception centre services also had a negative contribution.

.. but both improved in H2'18.

Pihlajalinna's organic growth and profitability turned to the better in H2'18: annual cost savings of EUR 2.8m from co-determination talks carried out in spring 2018 kicked in, insurance revenue drop levelled off and service provider refunds from hospital districts related to public specialized care cost accruals grew notably in Q4. Also organic growth turned back to positive territory (Q3: +1.1%, Q4: +1.3%).

New contracts support 2019E

For 2019E Pihlajalinna guides revenue to grow and adj. EBIT to improve clearly. Company started production of residential services in Laihia in Sep 2018, with an annual value of about EUR 5m. Provision of occupational healthcare services for Stora Enso started in Jan 2019 (we estimate value at EUR ~4m). These and M&A transactions of 2018 will support revenue in 2019E, although some headwind will also be faced. Kymijoen Työterveys, which Pihlajalinna acquired in early 2018, lost two customer contracts (Kouvola and Kotka) in Q4'18, following tendering processes. Contracts were transferred to Terveystalo from start of 2019. Personnel of Kymijoen Työterveys was given protection against dismissal for two years. Pihlajalinna plans to utilize the resulting personnel surplus in other undersupplied regions as well as in its other private service provision within the region. Management has estimated that the revenue impact of the two lost contracts is about EUR -2m in total annually. We assume the negative earnings impact at EUR 1m+ for 2019E. On top of these, certain services/units were terminated during 2018 (Omapihlaja health centre operations, Pappilanpuisto service housing), which will bring minor headwind to 2019E. On the profitability side, the ramp-up of new clinics proceeded during 2018 and their negative adj. EBITDA impact gradually contracted, which should impact 2019E positively. The tail-end impact of cost savings resulting from codetermination negotiations should also bring minor support in early 2019E.

Potential for new contracts remains; clarity to SOTE is expected in 2019E

Pihlajalinna's new contract pipeline seemed to improve during H2'18, supporting the growth outlook for 2019E: the company has been in negotiations over new potential contracts with Laitila (potential value EUR 5m), Ruovesi (potential value EUR 15m) and Kristiinankaupunki. While decisions from some of these were expected by the end of 2018, each remains undecided. Overall, municipalities' eagerness to strike new contracts remains impacted by the lack of clarity on how the SOTE reform turns out. Improved clarity on SOTE in the coming weeks might improve activity in the municipality field. Additionally, Pihlajalinna's geographical reach has expanded in 2017-2018, improving its positioning to win new business. On the profitability side, Pihlajalinna's altered expansion plan and OP's retreat from its expansion plans also reduce the risk of increased capacity burdening profitability in the mid-term.

Estimates summary

Net sales	2017	Q1'18	Q2'18	Q3'18	Q4'18	2018E	Q1'19E	Q2'19E	Q3'19E	Q4'19E	2019E	2020E
Corporate Customers	82.6	26.2	25.3	22.8	29.4	103.7	28.1	27.2	24.7	31.4	111.3	113.5
of which insurance companies	26.6	6.6	6.6	5.3	6.7	25.2	6.6	6.6	5.3	6.7	25.2	25.7
of which other corporates	56.0	19.6	18.7	17.5	22.7	78.5	21.5	20.6	19.4	24.7	86.1	87.8
Private Customers	67.9	22.2	24.3	21.0	24.6	92.1	23.1	25.3	21.9	25.6	95.9	97.9
Public sector customers	330.5	85.1	90.3	85.7	88.6	349.7	89.3	94.6	89.9	92.9	366.7	374.0
Total	**424.0**	**119.3**	**125.3**	**116.3**	**126.9**	**487.8**	**126.1**	**132.2**	**123.0**	**133.8**	**515.1**	**525.4**
Net sales growth												
Corporate Customers	-	*17.0%*	*21.1%*	*25.3%*	*39.3%*	*25.5%*	*7.2%*	*7.4%*	*8.1%*	*6.6%*	*7.3%*	*2.0%*
Private Customers	-	*16.8%*	*35.0%*	*54.4%*	*42.2%*	*35.6%*	*4.3%*	*4.1%*	*4.4%*	*4.0%*	*4.2%*	*2.0%*
Public sector customers	-	*2.5%*	*9.9%*	*6.1%*	*4.9%*	*5.8%*	*4.9%*	*4.8%*	*4.9%*	*4.8%*	*4.9%*	*2.0%*
Total	***6.2%***	***8.5%***	***17.5%***	***17.0%***	***17.5%***	***15.0%***	***5.7%***	***5.5%***	***5.8%***	***5.4%***	***5.6%***	***2.0%***
Adj. EBITDA (group)	34.0	3.9	6.6	10.7	11.1	32.3	10.1	10.4	10.8	11.0	42.3	44.7
Adj. EBITDA-margin (group)	*8.0%*	*3.3%*	*5.3%*	*9.2%*	*8.7%*	*6.6%*	*8.0%*	*7.9%*	*8.8%*	*8.2%*	*8.2%*	*8.5%*

Source: Pihlajalinna, Evli Research

Our estimates do not yet reflect IFRS 16 nor any assumption related to potential new contracts

Our estimates do not yet reflect IFRS 16, as company will publish restated quarterly figures before Q1'19 results. Furthermore, our estimates do not include any assumptions regarding potential new contracts, nor the impact of freedom of choice, given the significant political risks and uncertainties associated with the reform.

Further M&A may take place, despite increased leverage.

On the balance sheet side it is noteworthy that Pihlajalinna's leverage has increased. Net debt/adj. EBITDA was 2.8x at the end of 2018 (excl. impact of IFRS 16) vs. the company's financial target of <3x. Net debt should increase further once the ownership increase in Kuusiolinna Terveys for EUR 18.4m is settled (estimated spring 2019). Pihlajalinna's net debt has been on the increase during 2017-2018E with several M&A transactions. Two larger acquisitions were carried out in early 2018, 2018 (Forever Fitness chain and Doctagon, revenues EUR 17m each) which specifically caught our attention. Forever differed from company's previous transactions which have been healthcare services -focused, while Doctagon had a hefty-looking price tag compared to its financials. The Doctagon acquisition also differed from previous transactions in the financing perspective, as it was acquired with a directed 10% share issue. Pihlajalinna remains open to M&A, if the price is right.

Valuation – "Buy" with TP of EUR 12

Valuation has been on decline

Pihlajalinna's valuation has been on the decline especially since mid-2017 as revenue growth normalized to single-digits after strong growth in 2016, and as new outsourcing deals started to look increasingly uncertain with a thinner pipeline and certain municipalities cancelling outsourcing plans. Valuation declined further with disappointing organic growth and profitability in H1'18. Both organic growth and profitability recovered in H2'18, but valuation showed limited response.

Minorities' share of net profit decreased in 2018

Pihlajalinna increased its ownerships in several JVs during 2018E and especially after the ownership increase in Kuusiolinna Terveys is settled (estimated spring 2019), the minorities' share of net profit will decrease substantially. Due to the acquisitions uncertainty related to the value of the holdings decreased, making EV-based multiples more relevant.

Valued at discount vs. historical and peer EV/EBITDA

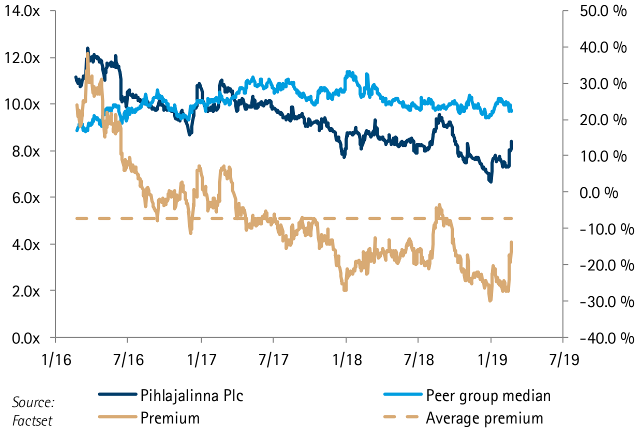
On our estimates Pihlajalinna is now valued at 8.4x and 7.3x EV/EBITDA in FY19E, respectively. Corresponding P/E multiples for 2019-2020E are 18.1x and 17.4x. During the last 3 years, Pihlajalinna's 12m forward EV/EBITDA multiple have averaged 9.3x, while corresponding P/E has averaged 22.1x. On our estimates Pihlajalinna thus currently trades at 10% discount to its own 3yr historical level with 2019E estimates, while corresponding discount is 18% on 2019E P/E. Compared to the peer group, Pihlajalinna is now valued at 16% discount on 2019E EV/EBITDA and at 9% premium on 2019E P/E. Our DCF model implies fair value of EUR 14.6.

"Buy" reiterated with TP of EUR 12

We think Pihlajalinna's valuation looks attractive considering the recovery in margins and a more promising pipeline since H2'18. Better clarity on how the planned SOTE reform proceeds could also improve activity in the municipality market, potentially bringing in new business. We retain "Buy" rating with TP of EUR 12 intact. Our TP values the shares at 9.0x EV/EBITDA with 2019E estimates, ie. close to the 3yr historical NTM average of 9.3x.

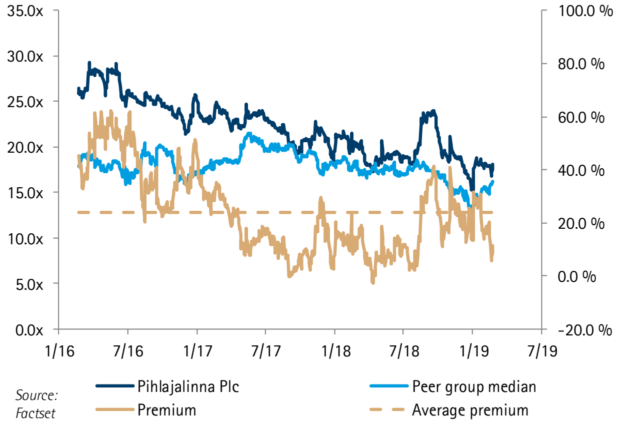
EV/EBITDA and P/E multiples vs. peers and own historical levels

Pihlajalinna – 3yr historical 12-month forward EV/EBITDA vs. peers



Source: Factset

Pihlajalinna – 3yr historical 12-month forward P/E

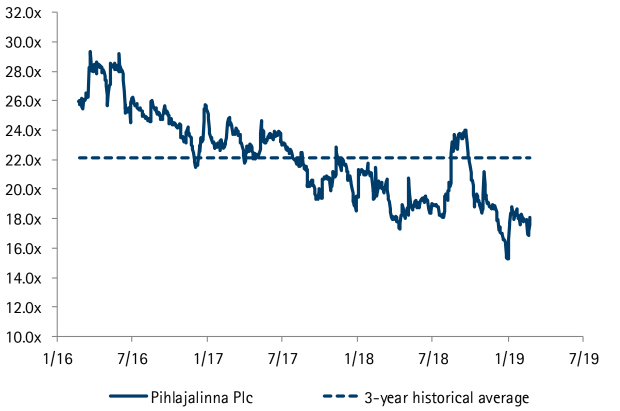


Source: Factset

Pihlajalinna – 12-month forward EV/EBITDA vs. 3yr historical average

Source: Factset

Pihlajalinna – 12-month forward P/E vs. 3yr historical average



Source: Factset

Peer group

PIHLAJALINNA PEER GROUP	Security identifier	MCAP Local FX	EV/EBITDA 19	EV/EBITDA 20	EV/EBITDA 21	EV/EBIT 19	EV/EBIT 20	EV/EBIT 21	P/E 19	P/E 20	P/E 21
Ambea AB	AMBEA-SE	5789	10.1x	8.0x	6.8x	16.7x	11.2x	8.6x	12.6x	10.8x	9.6x
Attendo AB	ATT-SE	10199	10.1x	8.8x	7.7x	15.4x	13.1x	11.2x	17.3x	14.8x	12.9x
Cambian Group Plc	CMBN-GB										
Capio AB	CAPIO-SE										
CareTech Holdings PLC	CTH-GB	370	9.6x	8.2x	7.5x	11.5x	9.6x	8.5x	9.4x	7.9x	6.9x
Fresenius SE & Co. KGaA	FRE-DE	27057	6.9x	6.3x	5.7x	9.1x	8.4x	7.5x	14.4x	13.5x	12.2x
Georgia Healthcare Group Plc	GHG-GB	119	7.8x	6.2x	5.4x	9.8x	7.6x	6.7x	17.0x	12.6x	10.1x
GHP Specialty Care AB	GHP-SE	918	9.8x	8.7x		14.3x	12.5x		20.7x	18.7x	
Humana AB	HUM-SE	3651	9.7x	8.7x	8.4x	12.3x	11.0x	10.0x	12.6x	11.4x	10.6x
Korian SA	KORI-FR	2753	10.6x	9.9x	8.5x	16.4x	14.8x	12.8x	21.5x	18.3x	17.5x
LNA Sante SA	LNA-FR	454	11.3x	10.1x		13.5x	11.9x		16.4x	14.2x	
Mediclinic International Plc	MDC-GB	2391	7.7x	7.0x	6.5x	11.4x	10.2x	9.2x	11.0x	9.5x	8.5x
Orpea SA	ORP-FR	6365	17.0x	15.9x	12.6x	23.8x	22.3x	17.6x	25.0x	22.2x	19.6x
RHON-KLINIKUM AG	RHK-DE	1657	12.5x	12.1x		25.7x	26.2x		37.1x	37.0x	34.6x
Spire Healthcare Group PLC	SPI-GB	505	7.5x	6.8x	6.1x	17.2x	14.9x	13.2x	16.8x	14.1x	13.3x
Terveystalo Oy Class A	TTALO-FI	1099	10.2x	9.6x	8.7x	17.8x	16.3x	14.7x	15.9x	16.1x	14.1x
Peer Group Median		4703	9.9x	8.7x	7.5x	14.9x	12.2x	10.0x	16.6x	14.1x	12.5x
Peer Group Average		2024	10.0x	9.0x	7.6x	15.3x	13.6x	10.9x	17.7x	15.8x	14.2x
Pihlajalinna (Evli est.)		247	8.4x	7.3x	6.0x	15.8x	14.4x	10.3x	18.1x	17.4x	12.4x
Pihlajalinna premium/discount to peer median			*-16%*	*-16%*	*-20%*	*6%*	*19%*	*3%*	*9%*	*23%*	*-1%*

Source: Factset, Evli Research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	10.90	PV of Free Cash Flow	182	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	14.60	PV of Horizon value	258	WACC, %	7.0	Market risk premium, %	5.8
Share price potential, %	33.9	Unconsolidated equity	-17	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	16.6	Marketable securities	36	Minimum WACC, %	6.5	Equity beta coefficient	0.80
Minimum value	12.9	Debt - dividend	-129	Maximum WACC, %	7.5	Target debt ratio, %	20
Horizon value, %	58.6	Value of stock	330	Nr of shares, Mn	22.6	Effective tax rate, %	25

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	488	515	525	541	557	574	591	609	627	646	659	672
Sales growth, %	*15.0*	*5.6*	*2.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*2.0*	*2.0*
Operating income (EBIT)	14	22	23	30	31	32	33	33	35	32	33	34
EBIT margin, %	*2.9*	*4.4*	*4.4*	*5.5*	*5.5*	*5.5*	*5.5*	*5.5*	*5.5*	*5.0*	*5.0*	*5.0*
+ Depreciation+amort.	18	20	23	22	20	18	17	16	16	16	16	
- Income taxes	-5	-4	-5	-6	-6	-6	-7	-7	-7	-6	-7	
- Change in NWC	4	2	1	1	1	1	1	1	1	2	1	
NWC / Sales, %	*-8.1*	*-8.0*	*-8.0*	*-8.0*	*-8.0*	*-8.0*	*-8.0*	*-8.0*	*-8.0*	*-8.0*	*-8.0*	
+ Change in other liabs	-1	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-102	-31	-13	-14	-15	-16	-17	-18	-18	-18	-19	-19
Investments / Sales, %	*20.8*	*6.1*	*2.5*	*2.6*	*2.7*	*2.8*	*2.9*	*3.0*	*2.9*	*2.8*	*2.9*	*2.9*
- Other items	-1	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-72	9	29	33	31	29	27	26	27	25	25	504
= Discounted FCF (DFCF)		8	26	27	24	21	18	17	16	14	13	258

= DFCF min WACC		8	26	27	24	21	19	17	17	14	13	300
= DFCF max WACC		8	25	27	23	20	18	16	15	13	12	224

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1E	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	119	125	116	127	488	126	132	123	134	515	525	541
EBITDA	4	7	11	11	32	10	10	11	11	42	46	51
EBITDA margin (%)	*3.3*	*5.3*	*9.1*	*8.7*	*6.6*	*8.0*	*7.9*	*8.8*	*8.2*	*8.2*	*8.7*	*9.5*
EBIT	0	2	6	7	14	5	5	6	6	22	23	30
EBIT margin (%)	*-0.3*	*1.5*	*5.1*	*5.1*	*2.9*	*4.1*	*4.1*	*4.7*	*4.5*	*4.4*	*4.4*	*5.5*
Net financial items	-1	-1	-1	-1	-3	-1	-1	-1	-1	-3	-3	-2
Pre-tax profit	-1	1	5	6	11	4	5	5	5	19	20	27
Tax	0	0	-1	-1	-3	-1	-1	-1	-1	-4	-4	-5
Tax rate (%)	*0.0*	*23.1*	*23.5*	*22.8*	*25.2*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Net profit	-2	1	2	3	5	3	3	4	4	14	14	20
EPS	-0.07	0.05	0.10	0.15	0.22	0.11	0.15	0.17	0.17	0.60	0.63	0.88
EPS adjusted (diluted no. of shares)	-0.07	0.05	0.10	0.15	0.22	0.11	0.15	0.17	0.17	0.60	0.63	0.88
Dividend per share	0.00	0.00	0.00	0.00	0.10	0.00	0.00	0.00	0.00	0.20	0.21	0.29
SALES, EURm												
Corporate Customers	26	25	25	29	106	28	27	25	31	111	113	117
Private Customers	22	24	21	25	92	23	25	22	26	96	98	101
Public sector customers	85	90	84	89	348	89	95	90	93	367	374	385
Eliminations	-14	-15	-13	-16	-58	-14	-15	-13	-16	-59	-60	-62
Total	119	125	116	127	488	126	132	123	134	515	525	541
SALES GROWTH, Y/Y %												
Corporate Customers	*17.0*	*21.1*	*35.7*	*39.3*	*27.8*	*7.2*	*7.4*	*-0.2*	*6.6*	*5.4*	*2.0*	*3.0*
Private Customers	*16.8*	*35.0*	*53.7*	*42.2*	*35.5*	*4.3*	*4.1*	*4.9*	*4.0*	*4.3*	*2.0*	*3.0*
Public sector customers	*2.5*	*9.9*	*3.6*	*4.9*	*5.2*	*4.9*	*4.8*	*7.4*	*4.8*	*5.5*	*2.0*	*3.0*
Eliminations	*-1.4*	*0.7*	*0.0*	*4.7*	*1.1*	*2.0*	*2.0*	*2.0*	*2.7*	*2.2*	*2.0*	*3.0*
Total	*8.5*	*17.5*	*16.8*	*17.6*	*15.0*	*5.7*	*5.5*	*6.0*	*5.4*	*5.6*	*2.0*	*3.0*
EBIT, EURm												
Group	0	2	6	7	14	5	5	6	6	22	23	30
Total	0	2	6	7	14	5	5	6	6	22	23	30
EBIT margin, %												
Total	*-0.3*	*1.5*	*5.1*	*5.1*	*2.9*	*4.1*	*4.1*	*4.7*	*4.5*	*4.4*	*4.4*	*5.5*

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	149	213	399	424	488	515	525	541
Sales growth (%)	*42.6*	*43.3*	*87.0*	*6.2*	*15.0*	*5.6*	*2.0*	*3.0*
Costs	-135	-201	-370	-390	-455	-473	-480	-490
Reported EBITDA	14	13	29	34	32	42	46	51
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*9.3*	*6.0*	*7.4*	*8.1*	*6.6*	*8.2*	*8.7*	*9.5*
Depreciation	-6	-8	-13	-14	-18	-20	-23	-22
EBITA	8	5	17	20	14	22	23	30
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	8	5	17	20	14	22	23	30
EBIT margin (%)	*5.4*	*2.2*	*4.2*	*4.7*	*2.9*	*4.4*	*4.4*	*5.5*
Net financials	-3	-2	-1	-1	-3	-3	-3	-2
Pre-tax profit	5	2	15	19	11	19	20	27
Extraordinary items	-2	-1	-1	-1	-1	0	0	0
Taxes	-1	0	-3	-3	-3	-4	-4	-5
Minority shares	0	-1	-3	-5	-3	-2	-2	-2
Net profit	1	1	8	10	4	14	14	20
BALANCE SHEET, EURm								
Assets								
Fixed assets	47	69	67	83	97	109	99	92
% of sales	*31*	*32*	*17*	*20*	*20*	*21*	*19*	*17*
Goodwill	56	76	92	104	170	170	170	170
% of sales	*38*	*36*	*23*	*25*	*35*	*33*	*32*	*31*
Inventory	1	2	2	2	3	3	3	3
% of sales	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Receivables	14	20	27	25	40	33	33	34
% of sales	*10*	*9*	*7*	*6*	*8*	*6*	*6*	*6*
Liquid funds	11	15	28	37	36	36	37	38
% of sales	*7*	*7*	*7*	*9*	*7*	*7*	*7*	*7*
Total assets	131	185	218	254	349	354	345	340
Liabilities								
Equity	10	93	101	106	131	143	152	167
% of sales	*7*	*44*	*25*	*25*	*27*	*28*	*29*	*31*
Deferred taxes	4	5	6	6	6	6	6	6
% of sales	*3*	*2*	*1*	*1*	*1*	*1*	*1*	*1*
Interest bearing debt	88	42	52	77	129	127	107	84
% of sales	*59*	*20*	*13*	*18*	*26*	*25*	*20*	*16*
Non-interest bearing current liabilities	27	42	55	62	80	75	76	78
% of sales	*18*	*20*	*14*	*15*	*16*	*15*	*15*	*15*
Other interest free debt	1	3	3	3	3	3	3	3
% of sales	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Total liabilities	131	185	217	254	350	354	345	340
CASH FLOW, EURm								
+ EBITDA	14	13	29	34	32	42	46	51
- Net financial items	-3	-2	-1	-1	-3	-3	-3	-2
- Taxes	-1	0	-2	-4	-4	-4	-4	-5
- Increase in Net Working Capital	4	9	7	8	4	2	1	1
+/- Other	-2	-2	-4	-5	-4	-2	-2	-2
= Cash flow from operations	11	19	30	37	30	38	40	45
- Capex	-28	-48	-27	-41	-22	-31	-13	-14
- Acquisitions	0	0	0	0	-79	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-17	-29	3	-4	-72	6	27	31
+/- Change in interest-bearing debt	46	-46	10	25	53	-2	-19	-23
+/- New issues/buybacks	-29	82	-1	-2	24	0	0	0
- Paid dividend	0	0	0	-3	-3	-2	-4	-5
+/- Change in loan receivables	0	1	1	0	-1	0	0	0
Change in cash	0	8	13	15	1	1	3	3

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	256	380	275	195	247	247	247
Net debt	27	25	40	93	91	71	46
Enterprise value	286	416	325	303	355	333	308
Sales	213	399	424	488	515	525	541
EBITDA	13	29	34	32	42	46	51
EBIT	5	17	20	14	22	23	30
Pre-tax	2	15	19	11	19	20	27
Earnings	2	10	11	5	14	14	20
Book value	92	98	100	122	133	143	158
Valuation multiples							
EV/sales	1.3	1.0	0.8	0.6	0.7	0.6	0.6
EV/EBITDA	22.5	14.2	9.5	9.4	8.4	7.3	6.0
EV/EBITA	60.8	25.1	16.2	21.6	15.8	14.4	10.3
EV/EBIT	60.8	25.1	16.2	21.6	15.8	14.4	10.3
EV/operating cash flow	13.4	12.3	8.5	9.7	8.9	7.9	6.6
EV/cash earnings	28.6	15.8	11.2	11.8	10.0	8.6	7.1
P/E	170.5	39.1	25.7	39.0	18.1	17.4	12.4
P/E excl. goodwill	170.5	39.1	25.7	39.0	18.1	17.4	12.4
P/B	2.8	3.9	2.7	1.6	1.9	1.7	1.6
P/sales	1.2	1.0	0.6	0.4	0.5	0.5	0.5
P/CF	12.0	11.2	7.2	6.2	6.2	5.9	5.3
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*16.6*	*15.2*	*11.0*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*19.9*	*19.2*	*13.6*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*2.0*	*1.9*	*1.7*
Per share measures							
Number of shares	20,613	20,613	20,613	22,620	22,620	22,620	22,620
Number of shares (diluted)	20,613	20,613	20,613	22,620	22,620	22,620	22,620
EPS	0.07	0.47	0.52	0.22	0.60	0.63	0.88
EPS excl. goodwill	0.07	0.47	0.52	0.22	0.60	0.63	0.88
Cash EPS	0.49	1.28	1.40	1.13	1.57	1.72	1.92
Operating cash flow per share	1.03	1.64	1.86	1.38	1.77	1.86	2.06
Capital employed per share	5.68	5.95	6.91	9.91	10.31	9.85	9.46
Book value per share	4.47	4.74	4.87	5.39	5.89	6.32	6.99
Book value excl. goodwill	0.78	0.26	-0.17	-2.12	-1.62	-1.19	-0.52
Dividend per share	0.00	0.15	0.16	0.10	0.20	0.21	0.29
Dividend payout ratio, %	0.0	31.9	30.8	45.2	33.0	33.0	33.0
Dividend yield, %	0.0	0.8	1.2	0.9	1.8	1.9	2.7
Efficiency measures							
ROE	3.0	10.2	10.8	4.5	10.7	10.3	13.2
ROCE	4.0	11.7	12.2	6.3	8.5	8.7	11.6
Financial ratios							
Capex/sales, %	22.3	6.8	9.7	20.8	6.1	2.5	2.6
Capex/depreciation excl. goodwill,%	346.6	85.2	209.2	194.5	157.8	57.3	64.9
Net debt/EBITDA, book-weighted	2.1	0.8	1.2	2.9	2.1	1.5	0.9
Debt/equity, market-weighted	0.2	0.1	0.3	0.7	0.5	0.4	0.3
Equity ratio, book-weighted	50.5	46.4	41.8	37.5	40.3	44.1	49.3
Gearing	0.28	0.24	0.37	0.71	0.64	0.46	0.28
Number of employees, average	2,503	3,526	3,879	3,879	3,879	3,879	3,879
Sales per employee, EUR	85,258	113,188	109,307	125,728	132,780	135,435	139,498
EBIT per employee, EUR	1,878	4,708	5,182	3,609	5,781	5,950	7,672

COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Lähitapiola Keskinäinen Vakuutusyhtiö	3,481,641	37.950	15.4%
Mww Yhtiö Oy	2,309,010	25.168	10.2%
Fennia Mutual Insurance Company	1,998,965	21.789	8.8%
Tapiola Keskinäinen Henkivakuutusyhtiö	1,891,865	20.621	8.4%
Elo Pension Company	1,267,161	13.812	5.6%
Niemistö Leena Katriina	703,475	7.668	3.1%
Fondita Nordic Micro Cap	550,000	5.995	2.4%
Ilmarinen Mutual Pension Insurance Company	490,000	5.341	2.2%
Fennia Life Insurance Company Ltd	270,759	2.951	1.2%
Nordea Pro Finland Fund	241,920	2.637	1.1%
Ten largest	13,204,796	143.932	58%
Residual	9,415,339	102.627	42%
Total	22,620,135	246.559	100%

EARNINGS CALENDAR	
May 03, 2019	Q1 report
August 15, 2019	Q2 report
November 05, 2019	Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS	
CEO: Joni Aaltonen	Kehräsaari B, 33200 Tampere
CFO: Ville Lehtonen	Tel:
IR: Taina Erkkilä	

DEFINITIONS

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

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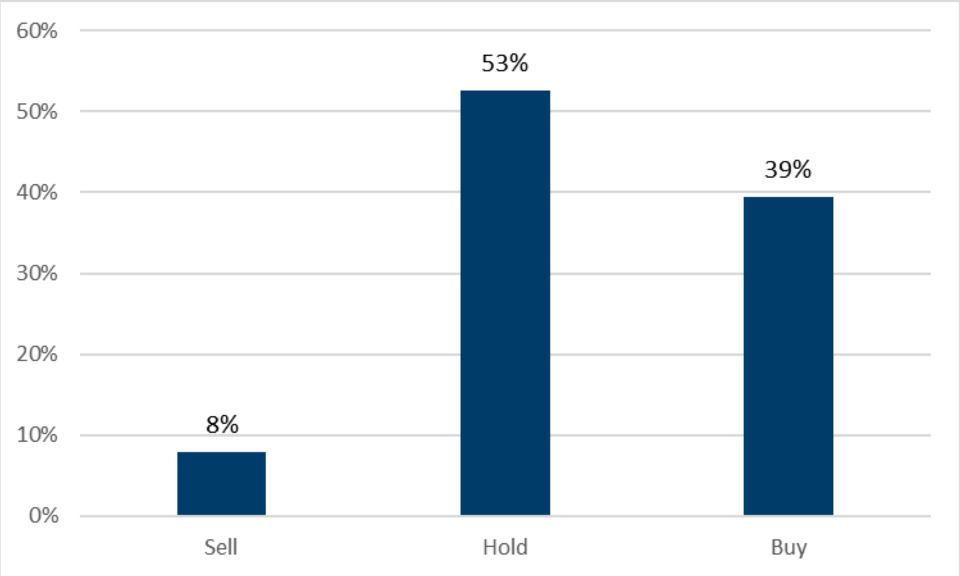
Investment recommendations are defined as follows:

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

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



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Name(s) of the analyst(s): Häyhä

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