

Aiming for profitability turnaround

Pihlajalinna's Q2 result fell short of expectations. The company faces profitability issues in many of its units and has launched an efficiency improvement program that aims at annual cost savings of EUR 17m. We keep our rating "BUY" with TP of EUR 12 (prev. EUR 13).

Q2 earnings weaker than expected

Pihlajalinna's Q2 earnings fell short of expectations. The company's revenue was EUR 130m vs. EUR 134m/132m Evli/cons. Revenue grew by 3.5% of which organic growth was 1.5% y/y. Adjusted EBITDA was EUR 10.8m (8.3% margin) vs. EUR 13.3m/13.2m (9.9%/9.9%) Evli/cons. Adj. EBIT was clearly below expectations at EUR 2.1m vs. EUR 4.8m/4.6m Evli/cons. In a group level, EBIT was negative in April and May but improved in June.

Strong actions to improve profitability

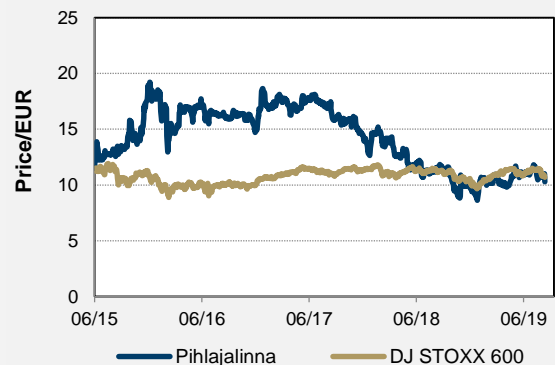
Pihlajalinna's long-term target is to increase its EBIT margin to over 7%, which so far has seemed rather distant. The company has faced efficiency problems especially with the new clinics which has impacted negatively on the company's profitability. In order to improve its profitability, Pihlajalinna launched an efficiency improvement program that aims to achieve annual cost savings of EUR 17m. The planned cost savings are expected to be realized during 2020. As a result of the efficiency improvement program the company informed that it will merge units but closures of some of the loss-making clinics are also possible. The company estimated that the efficiency improvement program will help to reduce costs in H2'19 by approximately EUR 5m.

We retain "Buy" with TP of EUR 12 (prev. EUR 13)

As a result of the weak Q2, we have decreased our 2019E estimates. We now expect 2019E revenue of EUR 516m (prev. EUR 525m). We expect adj. EBIT of EUR 20m (prev. EUR 24m) resulting in EBIT% of 3.9% (prev. 4.6%). Despite of the expected EBIT improvement (42.8% y/y) from 2018, 2019E earnings remain uncertain. On our estimates, Pihlajalinna trades at 2019E-2020E EV/EBITDA multiple of 7.5x and 6.1x, which translates into ~27% discount compared to the peer group. We keep our rating "Buy" with new TP of EUR 12 (prev. EUR 13).

Rating

BUY



Share price, EUR (Last trading day's closing price) 10.28

Target price, EUR 12.0

Latest change in rating	01-Nov-18
Latest report on company	08-Aug-19
Research paid by issuer:	YES
No. of shares outstanding,	22,620
No. of shares fully diluted,	22,620
Market cap, EURm	233
Free float, %	57.0
Exchange rate	0.000
Reuters code	PIHLIS.HE
Bloomberg code	PIHLIS FH
Average daily volume, EURm	na.
Next interim report	05-Nov-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%	10	0.19	46.4	0.8	4.4	27.9	0.10
2019E	516	20	3.9%	16	0.48	21.4	0.8	4.3	20.5	0.16
2020E	524	34	6.5%	29	0.94	11.0	0.8	3.9	11.6	0.31
2021E	537	36	6.7%	31	1.01	10.2	0.7	3.8	10.4	0.33
Market cap, EURm		233	BV per share 2019E, EUR			5.7	CAGR EPS 2018-21, %			75.8
Net debt 2019E, EURm		166	Price/book 2019E			1.8	CAGR sales 2018-21, %			3.3
Enterprise value, EURm		415	Dividend yield 2019E, %			1.5	ROE 2019E, %			8.7
Total assets 2019E, EURm		426	Tax rate 2019E, %			21.3	ROCE 2019E, %			5.9
Goodwill 2019E, EURm		170	Equity ratio 2019E, %			32.7	PEG, P/E 19/CAGR			0.7

Q2 earnings weaker than expected

Pihlajalinna's Q2 earnings fell short of expectations. The company's revenue was EUR 130m vs. EUR 134m/132m Evli/cons. Revenue grew by 3.5% of which organic growth was 1.5% y/y. Adjusted EBITDA was EUR 10.8m (8.3% margin) vs. EUR 13.3m/13.2m (9.9%/9.9%) Evli/cons. EBITDA was negatively impacted by unequal resourcing of units and general salary increases. Adj. EBIT was clearly below expectations at EUR 2.1m vs. EUR 4.8m/4.6m Evli/cons. In a group level, EBIT was negative in April and May but improved in June. Profitability improved in the Forever fitness center chain and in public specialized care but decreased in outsourced primary care and social care services, private clinics, surgical operations and dental care services. Seasonality impacted the Q2 result as well.

Strong actions to improve profitability

Pihlajalinna's long-term target is to increase its EBIT margin to over 7%, which so far has seemed rather distant. The company has faced efficiency problems especially with the new clinics which has impacted negatively on the company's profitability. The company indicated that it has several loss-making clinics. In order to improve its profitability, Pihlajalinna launched an efficiency improvement program that aims to achieve annual cost savings of EUR 17m. The planned cost savings are expected to be realized during 2020. As a result of the efficiency improvement program the company informed that it will merge units but closures of some of the loss-making clinics are also possible. The focus is on operational management. The company estimated that the efficiency improvement program will help to reduce costs in H2'19 by approximately EUR 5m. The program involves a non-recurring item of approximately EUR 8m, which will be allocated to Q3'19 as an adjustment item. Despite of the weak Q2 result the company reiterated its guidance for 2019E and expects revenue to increase from 2018 and EBIT clearly to improve from last year.

High activity in M&A and partnerships

Pihlajalinna has been active in M&A and partnerships in H1'19 but the company has also been able to grow organically. During Q2, the company released a letter of intent on co-operation with Pirkanmaa Hospital District. The partnership seeks to design new and innovative service models with a strong customer focus. The company has also agreed on pilot co-operation with Pohjola Vakuutus. During the review period, Pihlajalinna has further expanded its occupational healthcare network by acquiring Raisio's Aurinkoristeys occupational healthcare units and the Kouvola Työterveys occupational healthcare unit. Pihlajalinna also opened an occupational healthcare center to Rovaniemi in August. In H2'19, the company seeks to improve its services in its healthcare centers but also in mobile. Improved remote services should further support the company's efficiency. Pihlajalinna sees that the collapse of social and healthcare service reform has activated municipalities and the company has indicated that it has new possible contracts in the pipeline.

We retain "Buy" with TP of EUR 12 (prev. EUR 13)

As a result of the weak Q2, we have decreased our 2019E estimates. We now expect 2019E revenue of EUR 516m (prev. EUR 525m). We expect adj. EBIT of EUR 20m (prev. EUR 24m) resulting in EBIT% of 3.9% (prev. 4.6%). Despite of the expected EBIT improvement (42.8% y/y) from 2018, 2019E earnings remain uncertain. If the planned efficiency improvements succeed in 2020E we expect a turnaround in profitability and the company to move towards its EBIT% target of 7%. On our estimates, Pihlajalinna trades at 2019E-2020E EV/EBITDA multiple of 7.5x and 6.1x, which translates into ~27% discount compared to the peer group. We keep our rating "Buy" with new TP of EUR 12 (prev. EUR 13).

Estimates

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	31,6	30,3	26,5	31,8	120,2	122,6
of which insurance companies	26,6	6,6	6,6	5,3	6,7	25,2	7,1	6,7	6,7	6,7	27,1	27,6
of which other corporates	56,0	19,6	18,7	17,5	22,7	78,5	24,5	23,6	19,9	25,2	93,1	95,0
Private Customers	67,9	22,2	24,3	21,0	24,6	92,1	26,5	25,6	22,0	25,4	99,5	99,5
Public sector customers	330,5	85,1	90,3	85,7	88,6	349,7	89,3	89,6	87,5	90,3	356,6	363,8
Total	424,0	119,3	125,3	116,3	126,9	487,8	132,5	129,7	122,4	131,5	516,1	524,4
Net sales growth												
Corporate Customers	-	17,0%	21,1%	25,3%	39,3%	25,5%	20,6%	19,6%	16,2%	8,2%	15,9%	2,0%
Private Customers	-	16,8%	35,0%	54,4%	42,2%	35,6%	19,4%	5,1%	4,9%	3,2%	8,0%	0,0%
Public sector customers	-	2,5%	9,9%	6,1%	4,9%	5,8%	4,9%	-0,8%	2,1%	1,9%	2,0%	2,0%
Total	6,2%	8,5%	17,5%	17,0%	17,5%	15,0%	11,1%	3,5%	5,2%	3,6%	5,8%	1,6%
Adj. EBITDA (group)	34,0	6,9	10,2	14,2	14,6	45,9	12,6	10,8	15,7	16,4	55,5	65,0
Adj. EBITDA-margin (group)	8,0%	5,8%	8,1%	12,2%	11,5%	9,4%	9,5%	8,3%	12,8%	12,5%	10,8%	12,4%

Source: Pihlajalinna, Evli Research

Valuation

PIHLAJALINNA PEER GROUP	Security identifier	MCAP Local FX	EV/EBITDA	EV/EBITDA	EV/EBITDA	EV/EBIT	EV/EBIT	EV/EBIT	P/E	P/E	P/E
			19	20	21	19	20	21	19	20	21
Ambea AB	AMBEA-SE	5906	11,9x	9,5x	8,6x	19,5x	15,3x	13,0x	12,2x	10,7x	9,1x
Attendo AB	ATT-SE	6358	10,9x	9,9x	8,8x	32,3x	26,9x	21,8x	39,3x	26,7x	18,0x
Cambian Group Plc	CMBN-GB										
Capio AB	CAPIO-SE										
CareTech Holdings PLC	CTH-GB	401	9,7x	8,5x	7,6x	11,9x	10,1x	8,9x	10,4x	8,7x	7,5x
Fresenius SE & Co. KGaA	FRE-DE	23081	6,2x	5,7x	5,2x	8,9x	8,1x	7,3x	12,6x	11,7x	10,8x
Georgia Healthcare Group Plc	GHG-GB	129	8,4x	7,0x	5,8x	10,9x	8,8x	7,2x	21,3x	14,8x	11,5x
GHP Specialty Care AB	GHP-SE	929	6,9x	5,6x	4,9x	16,0x	11,4x	9,7x	21,6x	15,2x	14,9x
Humana AB	HUM-SE	2620	8,4x	7,3x	6,7x	14,1x	12,0x	11,0x	10,3x	9,0x	8,3x
Korian SA	KORI-FR	2869	11,9x	10,9x	10,3x	18,0x	16,5x	15,3x	21,2x	18,0x	15,6x
LNA Sante SA	LNA-FR	443	11,9x	10,9x	10,0x	13,9x	12,6x	11,6x	17,8x	15,8x	13,8x
Mediclinic International Plc	MDC-GB	2236	7,6x	7,0x	6,5x	11,7x	10,8x	9,7x	11,7x	10,5x	9,2x
Orpea SA	ORP-FR	6890	18,1x	17,1x	16,1x	25,5x	23,8x	22,2x	27,0x	24,1x	21,7x
RHON-KLINIKUM AG	RHK-DE	1493	12,4x	11,9x	11,4x	31,2x	29,4x	27,2x	56,2x	52,2x	38,5x
Spire Healthcare Group PLC	SPI-GB	396	6,5x	6,0x	6,1x	14,1x	12,7x	12,6x	19,0x	14,9x	11,2x
Terveystalo Oy Class A	TTALO-FI	1120	9,9x	9,0x	8,2x	19,2x	16,8x	14,4x	20,4x	17,5x	14,8x
Peer Group Median		3987	9,8x	8,7x	7,9x	15,1x	12,7x	12,1x	19,7x	15,1x	12,7x
Peer Group Average		1864	10,1x	9,0x	8,3x	17,7x	15,4x	13,7x	21,5x	17,8x	14,6x
Pihlajalinna (Evli est.)		233	7,5x	6,1x	5,6x	20,5x	11,6x	10,4x	21,4x	11,0x	10,2x
Pihlajalinna premium/discount to peer median			-24 %	-31 %	-30 %	36 %	-8 %	-14 %	9 %	-27 %	-20 %

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	10.28 PV of Free Cash Flow	200 Long-term growth, %	2.0 Risk-free interest rate, %
DCF share value	12.97 PV of Horizon value	293 WACC, %	7.0 Market risk premium, %
Share price potential, %	26.2 Unconsolidated equity	-17 Spread, %	0.5 Debt risk premium, %
Maximum value	15.2 Marketable securities	36 Minimum WACC, %	6.5 Equity beta coefficient
Minimum value	11.1 Debt - dividend	-219 Maximum WACC, %	7.5 Target debt ratio, %
Horizon value, %	59.4 Value of stock	293 Nr of shares, Mn	22.6 Effective tax rate, %

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	488	516	524	537	554	570	587	605	623	642	655	668
<i>Sales growth, %</i>	<i>15.0</i>	<i>5.8</i>	<i>1.6</i>	<i>2.5</i>	<i>3.0</i>	<i>3.0</i>	<i>3.0</i>	<i>3.0</i>	<i>3.0</i>	<i>3.0</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	14	20	34	36	38	31	32	33	34	32	33	33
<i>EBIT margin, %</i>	<i>2.9</i>	<i>3.9</i>	<i>6.5</i>	<i>6.7</i>	<i>6.9</i>	<i>5.5</i>	<i>5.5</i>	<i>5.5</i>	<i>5.5</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>
+ Depreciation+amort.	32	35	31	31	31	31	30	31	31	30	30	
- Income taxes	-5	-4	-7	-7	-8	-6	-6	-7	-7	-6	-7	
- Change in NWC	3	2	1	1	1	1	1	1	1	1	1	
<i>NWC / Sales, %</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	<i>-8.0</i>	
+ Change in other liabs	-1	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-202	-31	-30	-30	-30	-30	-32	-32	-32	-32	-30	-31
<i>Investments / Sales, %</i>	<i>41.3</i>	<i>6.1</i>	<i>5.7</i>	<i>5.6</i>	<i>5.4</i>	<i>5.3</i>	<i>5.4</i>	<i>5.3</i>	<i>5.1</i>	<i>5.0</i>	<i>4.6</i>	<i>4.6</i>
- Other items	-1	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-159	22	29	31	33	27	26	27	28	25	27	554
= Discounted FCF (DFCF)		22	26	26	26	20	18	17	17	14	14	293
= DFCF min WACC		22	26	26	26	20	18	18	17	15	15	340
= DFCF max WACC		21	26	26	25	20	17	17	16	14	14	255

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	119	125	116	127	488	133	130	122	131	516	524	537
EBITDA	7	10	14	15	46	13	11	16	16	55	65	67
<i>EBITDA margin (%)</i>	<i>5.6</i>	<i>8.1</i>	<i>12.1</i>	<i>11.6</i>	<i>9.3</i>	<i>9.4</i>	<i>8.3</i>	<i>12.8</i>	<i>12.5</i>	<i>10.7</i>	<i>12.4</i>	<i>12.4</i>
EBIT	0	2	6	7	14	4	2	7	8	20	34	36
<i>EBIT margin (%)</i>	<i>-0.3</i>	<i>1.5</i>	<i>5.1</i>	<i>5.1</i>	<i>2.9</i>	<i>2.9</i>	<i>1.6</i>	<i>5.5</i>	<i>5.7</i>	<i>3.9</i>	<i>6.5</i>	<i>6.7</i>
Net financial items	-1	-1	-1	-1	-4	-1	-1	-1	-1	-4	-5	-5
Pre-tax profit	-1	1	5	5	10	3	1	6	7	16	29	31
Tax	0	0	-1	-1	-3	-1	0	-1	-1	-3	-6	-6
<i>Tax rate (%)</i>	<i>0.0</i>	<i>27.3</i>	<i>22.0</i>	<i>24.1</i>	<i>26.5</i>	<i>24.1</i>	<i>28.6</i>	<i>20.0</i>	<i>20.0</i>	<i>21.3</i>	<i>20.0</i>	<i>20.0</i>
Net profit	-2	1	2	3	4	2	0	4	5	11	21	23
EPS	-0.08	0.04	0.10	0.13	0.19	0.08	-0.01	0.19	0.22	0.48	0.94	1.01
EPS adjusted (diluted no. of shares)	-0.08	0.04	0.10	0.13	0.19	0.08	-0.01	0.19	0.22	0.48	0.94	1.01
Dividend per share	0.00	0.00	0.00	0.00	0.10	0.00	0.00	0.00	0.00	0.16	0.31	0.33
SALES, EURm												
Corporate Customers	28	24	25	29	106	32	30	27	32	120	123	126
Private Customers	22	24	21	25	92	27	26	22	25	99	99	102
Public sector customers	84	92	84	89	348	89	90	87	90	357	364	373
Eliminations	-14	-15	-13	-16	-58	-15	-16	-14	-16	-60	-61	-63
Total	119	125	116	127	488	133	130	122	131	516	524	537
SALES GROWTH, Y/Y %												
<i>Corporate Customers</i>	<i>23.7</i>	<i>13.9</i>	<i>36.3</i>	<i>39.3</i>	<i>28.0</i>	<i>14.1</i>	<i>27.1</i>	<i>6.9</i>	<i>8.2</i>	<i>13.7</i>	<i>2.0</i>	<i>2.5</i>
<i>Private Customers</i>	<i>16.8</i>	<i>35.0</i>	<i>53.7</i>	<i>42.2</i>	<i>35.5</i>	<i>19.4</i>	<i>5.1</i>	<i>5.4</i>	<i>3.2</i>	<i>8.1</i>	<i>0.0</i>	<i>2.5</i>
<i>Public sector customers</i>	<i>0.6</i>	<i>11.8</i>	<i>3.6</i>	<i>4.9</i>	<i>5.2</i>	<i>6.9</i>	<i>-2.5</i>	<i>4.5</i>	<i>1.9</i>	<i>2.6</i>	<i>2.0</i>	<i>2.5</i>
<i>Eliminations</i>	<i>-1.4</i>	<i>1.4</i>	<i>-0.8</i>	<i>4.7</i>	<i>1.1</i>	<i>4.9</i>	<i>6.8</i>	<i>3.8</i>	<i>2.7</i>	<i>4.5</i>	<i>2.0</i>	<i>2.5</i>
Total	8.4	17.5	17.0	17.6	15.0	11.2	3.5	5.2	3.5	5.8	1.6	2.5
EBIT, EURm												
Group	0	2	6	7	14	4	2	7	8	20	34	36
Total	0	2	6	7	14	4	2	7	8	20	34	36
EBIT margin, %												
<i>Total</i>	<i>-0.3</i>	<i>1.5</i>	<i>5.1</i>	<i>5.1</i>	<i>2.9</i>	<i>2.9</i>	<i>1.6</i>	<i>5.5</i>	<i>5.7</i>	<i>3.9</i>	<i>6.5</i>	<i>6.7</i>

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	149	213	399	424	488	516	524	537
<i>Sales growth (%)</i>	<i>42.6</i>	<i>43.3</i>	<i>87.0</i>	<i>6.2</i>	<i>15.0</i>	<i>5.8</i>	<i>1.6</i>	<i>2.5</i>
Costs	-135	-201	-370	-390	-442	-461	-459	-471
Reported EBITDA	14	13	29	34	46	55	65	67
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>9.3</i>	<i>6.0</i>	<i>7.4</i>	<i>8.1</i>	<i>9.3</i>	<i>10.7</i>	<i>12.4</i>	<i>12.4</i>
Depreciation	-6	-8	-13	-14	-32	-35	-31	-31
EBITA	8	5	17	20	14	20	34	36
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	8	5	17	20	14	20	34	36
<i>EBIT margin (%)</i>	<i>5.4</i>	<i>2.2</i>	<i>4.2</i>	<i>4.7</i>	<i>2.9</i>	<i>3.9</i>	<i>6.5</i>	<i>6.7</i>
Net financials	-3	-2	-1	-1	-4	-4	-5	-5
Pre-tax profit	5	2	15	19	10	16	29	31
Extraordinary items	-2	-1	-1	-1	-1	0	0	0
Taxes	-1	0	-3	-3	-3	-3	-6	-6
Minority shares	0	-1	-3	-5	-3	-2	-2	-2
Net profit	1	1	8	10	4	11	21	23
BALANCE SHEET, EURm								
Assets								
Fixed assets	47	69	67	83	184	180	179	178
<i>% of sales</i>	<i>31</i>	<i>32</i>	<i>17</i>	<i>20</i>	<i>38</i>	<i>35</i>	<i>34</i>	<i>33</i>
Goodwill	56	76	92	104	170	170	170	170
<i>% of sales</i>	<i>38</i>	<i>36</i>	<i>23</i>	<i>25</i>	<i>35</i>	<i>33</i>	<i>32</i>	<i>32</i>
Inventory	1	2	2	2	3	3	3	3
<i>% of sales</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Receivables	14	20	27	25	40	33	33	34
<i>% of sales</i>	<i>10</i>	<i>9</i>	<i>7</i>	<i>6</i>	<i>8</i>	<i>6</i>	<i>6</i>	<i>6</i>
Liquid funds	11	15	28	37	36	36	37	38
<i>% of sales</i>	<i>7</i>	<i>7</i>	<i>7</i>	<i>9</i>	<i>7</i>	<i>7</i>	<i>7</i>	<i>7</i>
Total assets	131	185	218	254	437	426	426	427
Liabilities								
Equity	10	93	101	106	130	139	157	173
<i>% of sales</i>	<i>7</i>	<i>44</i>	<i>25</i>	<i>25</i>	<i>27</i>	<i>27</i>	<i>30</i>	<i>32</i>
Deferred taxes	4	5	6	6	6	6	6	6
<i>% of sales</i>	<i>3</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Interest bearing debt	88	42	52	77	217	202	183	166
<i>% of sales</i>	<i>59</i>	<i>20</i>	<i>13</i>	<i>18</i>	<i>45</i>	<i>39</i>	<i>35</i>	<i>31</i>
Non-interest bearing current liabilities	27	42	55	62	80	75	76	78
<i>% of sales</i>	<i>18</i>	<i>20</i>	<i>14</i>	<i>15</i>	<i>16</i>	<i>15</i>	<i>15</i>	<i>15</i>
Other interest free debt	1	3	3	3	3	3	3	3
<i>% of sales</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Total liabilities	131	185	217	254	437	426	426	427
CASH FLOW, EURm								
+ EBITDA	14	13	29	34	46	55	65	67
- Net financial items	-3	-2	-1	-1	-4	-4	-5	-5
- Taxes	-1	0	-2	-4	-4	-3	-6	-6
- Increase in Net Working Capital	4	9	7	8	3	2	1	1
+/- Other	-2	-2	-4	-5	-4	-2	-2	-2
= Cash flow from operations	11	19	30	37	42	50	55	57
- Capex	-28	-48	-27	-41	-122	-31	-30	-30
- 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	-160	19	25	27
+/- Change in interest-bearing debt	46	-46	10	25	141	-15	-19	-17
+/- New issues/buybacks	-29	82	-1	-2	24	0	0	0
- Paid dividend	0	0	0	-3	-3	-2	-4	-7
+/- Change in loan receivables	0	1	1	0	-1	0	0	0
Change in cash	0	8	13	15	1	2	3	3

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	256	380	275	195	233	233	233
Net debt	27	25	40	181	166	146	129
Enterprise value	286	416	325	391	415	394	374
Sales	213	399	424	488	516	524	537
EBITDA	13	29	34	46	55	65	67
EBIT	5	17	20	14	20	34	36
Pre-tax	2	15	19	10	16	29	31
Earnings	2	10	11	4	11	21	23
Book value	92	98	100	121	130	147	163
Valuation multiples							
EV/sales	1.3	1.0	0.8	0.8	0.8	0.8	0.7
EV/EBITDA	22.5	14.2	9.5	8.6	7.5	6.1	5.6
EV/EBITA	60.8	25.1	16.2	27.9	20.5	11.6	10.4
EV/EBIT	60.8	25.1	16.2	27.9	20.5	11.6	10.4
EV/operating cash flow	13.4	12.3	8.5	8.9	7.8	6.7	6.2
EV/cash earnings	28.6	15.8	11.2	10.3	8.7	7.3	6.7
P/E	170.5	39.1	25.7	46.4	21.4	11.0	10.2
P/E excl. goodwill	170.5	39.1	25.7	46.4	21.4	11.0	10.2
P/B	2.8	3.9	2.7	1.6	1.8	1.6	1.4
P/sales	1.2	1.0	0.6	0.4	0.5	0.4	0.4
P/CF	12.0	11.2	7.2	4.4	4.3	3.9	3.8
Target EV/EBIT	0.0	0.0	0.0	0.0	22.1	12.6	11.4
Target P/E	0.0	0.0	0.0	0.0	25.0	12.8	11.9
Target P/B	0.0	0.0	0.0	0.0	2.1	1.8	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	0.19	0.48	0.94	1.01
EPS excl. goodwill	0.07	0.47	0.52	0.19	0.48	0.94	1.01
Cash EPS	0.49	1.28	1.40	1.67	2.12	2.40	2.46
Operating cash flow per share	1.03	1.64	1.86	1.94	2.36	2.60	2.69
Capital employed per share	5.68	5.95	6.91	13.76	13.48	13.40	13.32
Book value per share	4.47	4.74	4.87	5.36	5.74	6.52	7.22
Book value excl. goodwill	0.78	0.26	-0.17	-2.15	-1.77	-0.99	-0.29
Dividend per share	0.00	0.15	0.16	0.10	0.16	0.31	0.33
Dividend payout ratio, %	0.0	31.9	30.8	53.9	33.0	33.0	33.0
Dividend yield, %	0.0	0.8	1.2	1.2	1.5	3.0	3.2
Efficiency measures							
ROE	3.0	10.2	10.8	3.8	8.7	15.3	14.7
ROCE	4.0	11.7	12.2	5.3	5.9	10.0	10.6
Financial ratios							
Capex/sales, %	22.3	6.8	9.7	41.3	6.1	5.7	5.6
Capex/depreciation excl. goodwill,%	346.6	85.2	209.2	429.1	89.3	96.4	97.1
Net debt/EBITDA, book-weighted	2.1	0.8	1.2	4.0	3.0	2.3	1.9
Debt/equity, market-weighted	0.2	0.1	0.3	1.1	0.9	0.8	0.7
Equity ratio, book-weighted	50.5	46.4	41.8	29.8	32.7	36.8	40.4
Gearing	0.28	0.24	0.37	1.39	1.19	0.93	0.75
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	125,754	133,038	135,184	138,563
EBIT per employee, EUR	1,878	4,708	5,182	3,609	5,220	8,743	9,284

COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Lähitapiola Keskinäinen Vakuutusyhtiö	3,481,641	35.791	15.4%
Mww Yhtiö Oy	2,309,010	23.737	10.2%
Fennia Mutual Insurance Company	1,998,965	20.549	8.8%
Tapiola Keskinäinen Henkivakuutusyhtiö	1,891,385	19.443	8.4%
Elo Pension Company	1,267,161	13.026	5.6%
Niemistö Leena Katriina	703,475	7.232	3.1%
Fondita Nordic Micro Cap	540,000	5.551	2.4%
Ilmarinen Mutual Pension Insurance Company	490,000	5.037	2.2%
Fennia Life Insurance Company Ltd	270,179	2.777	1.2%
Nordea Fennia Fund	255,211	2.624	1.1%
Ten largest	13,207,027	135.768	58%
Residual	9,413,108	96.767	42%
Total	22,620,135	232.535	100%

EARNINGS CALENDAR

November 05, 2019

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Joni Aaltonen

Kehräsaari B, 33200 Tampere

CFO: Tarja Rantala

Tel:

IR: Marko Savolainen

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 times per year.

Recommendation	Percentage
Sell	8%
Hold	53%
Buy	39%

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

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

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