

One sweeping turn

Our estimates and EUR 5.5 TP are intact; retain BUY rating.

Fundamentals now materially firmer in short and long term

Suominen's turnaround materialized in a very swift fashion this past spring. Figures were considerably soft as late as Q4'19 when top line slipped in both business areas, especially so in Europe. Americas grew again in Q1'20 but Europe still declined some 11% y/y. While overall Q1 was already a positive surprise in terms of profitability, revenue nevertheless continued to develop flat y/y. Then Suominen proceeded to issue two positive profit warnings during a span of two months in spring and early summer. However strong indication of improving performance this was, our estimates could not exactly keep up with the pace and hence Q2 figures trounced our expectations. Although the groundwork for solid improvement had been laying back there for some time (thanks to e.g. sustainable product introductions), it seems basically all the factors happened to align favorably during the spring. Both Americas and Europe posted revenue increases in the high teens, which also helped production efficiency. Investments in US production assets were ready to pay off. Product mix improved some more while nonwovens prices did not decline quite as much as those of raw materials.

Success in sustainable products helps to reach targets

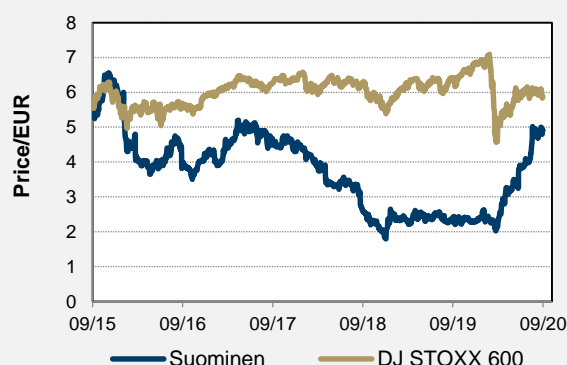
The notable pre-pandemic challenges have vanished. Strong wipes demand means nonwovens supply-demand balance now tilts much more favorably from a manufacturer's point of view, at least in the short-term. Despite this we expect some softening in Suominen's H2 figures as nonwovens prices tend to follow raw materials prices closely, in addition to which several Suominen plants will go through scheduled maintenance breaks. The Q2 records place the bar high for next year, but in our view Suominen's long-term financial targets look credible. Success in sustainable products (in Suominen's case increasing share of wood-based fibers) could well defend margins also in the long-term, although the innovations' profitability remains to be tested in a scenario where significant new capacity enters the market.

We see upside relative to historical earnings multiples

We continue to view Suominen's below 6x EV/EBITDA multiples attractive. Our TP is EUR 5.5 and we retain our BUY rating.

Rating

BUY



Share price, EUR (Last trading day's closing price) 4.91

Target price, EUR 5.5

Latest change in	25-Jun-20
Latest report on company	03-Sep-20
Research paid by issuer:	YES
No. of shares outstanding,	58,259
No. of shares fully diluted,	58,259
Market cap, EURm	286
Free float, %	62.7
Exchange rate EUR/USD	1.18
Reuters code	SUY1V.HE
Bloomberg code	SUY1V FH
Average daily volume, EURm	0.1
Next interim report	27-Oct-20
Web site	www.suominen.fi/en/investors/

Analyst Joonas Ilvonen
E-mail joonas.ilvonen@evli.com
Telephone +358 44 430 9071

BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	431.1	4.6	1.1%	13.3	-0.03	-69.4	0.5	44.1	11.1	0.00
2019	411.4	8.1	2.0%	14.2	0.00	766.1	0.5	27.5	9.2	0.05
2020E	453.4	35.6	7.9%	29.4	0.42	11.7	0.7	9.3	10.3	0.07
2021E	467.0	33.8	7.2%	31.9	0.42	11.6	0.6	8.9	11.2	0.17
2022E	480.0	33.6	7.0%	30.9	0.43	11.4	0.6	8.3	10.8	0.17
Market cap, EURm	286			Gearing 2020E, %	28.4			CAGR EPS 2019-22, %	401.3	
Net debt 2020E, EURm	43			Price/book 2020E	1.9			CAGR sales 2019-22, %	5.3	
Enterprise value, EURm	329			Dividend yield 2020E, %	1.4			ROE 2020E, %	17.2	
Total assets 2020E, EURm	321			Tax rate 2020E, %	18.1			ROCE 2020E, %	15.3	
Goodwill 2020E, EURm	15			Equity ratio 2020E, %	47.4			PEG, P/E 20/CAGR	4.8	

Investment summary

Suominen, a nonwovens manufacturer, plays a critical part in the wiping product value chain

Suominen is a nonwovens manufacturer and supplies its customers with the fabric in roll goods form. Suominen's customers tend to be leading global wiping brands; such companies prefer to outsource major portions of the manufacturing value chain and focus instead on corporate functions like marketing and getting the end-product close to consumers. Suominen currently has eight production plants on three continents and employs close to 700 personnel. The company has two business areas, namely Americas (ca. 65% of revenue) and Europe (35%).

While nonwovens demand continues to grow at a brisk pace, supply additions and business model logic can occasionally render challenging operating environments

Nonwovens manufacturers like Suominen purchase the required raw materials at market prices and sell their output to global consumer brands at a certain mark-up. Gross margins can vary a lot over time but in practice nonwovens sales prices tend to be highly correlated with those of raw materials. While nonwovens demand can well be expected to extend its steady growth track (annual growth rates were seen to be well above 5% globally even before the pandemic) both in the short and long-term perspective, in practice regional capacity additions can significantly alter the local balance between supply and demand. Fully effective capacity utilization may thus at times prove an elusive target. In addition, while Suominen's customers impose strict quality requirements on their suppliers (which raises the bar of entry for new players) and the business is based on long-term relationships, nonwovens manufacturers tend to have rather limited pricing power. Hence cost-efficiency is important.

Global and efficient manufacturing footprint is vital, but proactive approach to sustainable product development can also help

Nonwovens do not feasibly ship very long distances. While the business' inherent local nature does not itself justify global presence, in our view certain practical considerations warrant multiple production locations. First, a diversified plant portfolio should help smooth out overall financial performance since local capacity additions can meaningfully hurt an individual plant's volumes in the short-term. Second, given Suominen's focus on wiping applications (a market controlled by a relatively small number of global wiping brands), a global presence turns out to be a central argument for soliciting business since such consumer-focused companies prize supply security. Even though production locality means there are no plant-level operational synergies to share, efficient manufacturing is nevertheless of paramount importance. Sustainability trends also mean there is strong demand for biodegradable products. In our view Suominen has recently showed great results with respect to both manufacturing efficiency and introduction of new sustainable products.

Current strong wiping trends produced exceptionally high figures for Q2'20

The pandemic tipped nonwovens supply-demand balance much more favorable from manufacturers' point of view. The effect has been pronounced throughout all wiping segments in Suominen's current Americas and Europe business areas. We see household wiping enjoying the strongest growth rate in the wake of the pandemic as disinfecting wipes have become a lot more popular. We also see workplace wipes, another value-add category, gaining relative share. In our view baby and personal care wipes' usage hasn't increased that much, but overall Suominen's nonwovens delivery volumes increased significantly in H1'20 and especially so in Q2'20 as the company posted record-high figures.

We expect some softening in terms of H2'20 performance

In our view the 16% gross margin seen in Q2'20 is unlikely to be sustainable long-term and we expect the figure to soften in H2'20 as nonwovens prices continue to adjust down and so reflect lower raw materials prices. We note the exceptional circumstances, a challenge Suominen was able to match, led to 14.7% EBITDA margin (vs above 12% long-term target).

Current FY '20 outlook (significant EBIT improvement) is not very informative

Several Suominen plants will go through scheduled maintenance breaks in H2'20 and in our view the effect of lower volumes, combined with lower gross margins, is a somewhat clear decline in profitability relative to Q2'20. We note Suominen's current guidance has little information value as Q2'20 EBIT was by itself meaningfully higher than that for FY '19.

Despite somewhat limited visibility we view mid-term prospects attractive

Although we see profitability softening in H2'20 in our view medium-term prospects are good since continued improvement in volumes, coupled with a stabilizing gross margin, should support profitability that is in line with long-term financial targets.

We rate Suominen BUY, TP EUR 5.5 per share

Suominen now trades clearly below 6x EV/EBITDA (vs 6.5x historical average) on our estimates for '20 and '21, a level we continue to view attractive. Our TP is EUR 5.5 and our rating BUY.

Company overview

Suominen background

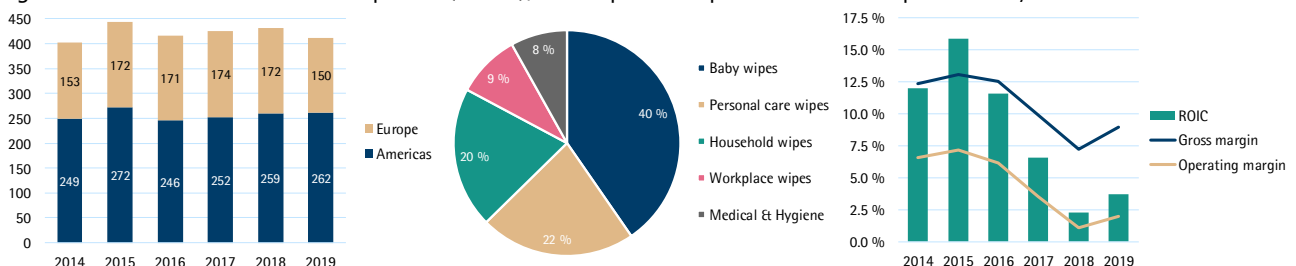
Suominen manufactures nonwovens as roll goods mainly for global consumer brands, who convert Suominen's nonwovens into different end-use applications: Suominen's output ends up mostly in wiping products such as wet wipes for baby and personal care as well as household and workplace wiping. Other end-uses include hygiene and medical applications like sanitary pads, diapers, surgical drapes and swabs. Suominen purchases the required raw materials directly from fiber producers and operates an eight-strong production plant network that spans three continents, employing in total close to 700 personnel in the US, Brazil, Finland, Spain and Italy.

Suominen goes back to 1898 when the company was founded in Nakkila, Finland as a leather treatment factory. The company entered nonwovens production in 1965 and present-day Suominen is the result of numerous strategic transactions that took place over the years. The company was owned by Lassila & Tikanoja, known as an environmental and facility services company, for almost 20 years prior to Suominen's separation into independent publicly traded entity in 2001. Suominen acquired Ahlstrom's Home and Personal wipes fabrics business in 2011. The acquisition can be credited to have shaped Suominen into its present form as the company became the leading global nonwoven roll goods supplier for wiping products. The company gained US entry through the deal and in 2014 added a Brazilian plant to its footprint. Suominen divested the Codi Wipes converting business in 2013 in order to clarify its own position in the value chain by ceasing to compete with customers.

Suominen currently relies on two manufacturing technologies, namely spunlace and wetlaid processes. The nonwovens business is local in nature as the relatively low-value and high-volume output does not ship considerable distances. Despite such considerations, however, a global presence is important since customers are often global brand owners. Customer relationships tend to last long, yet Suominen is unlikely to be an exclusive nonwovens supplier for any given account. The intensity of competition varies over time for different product grades, which means gross margins may at times be under considerable pressure. Moreover, changes in raw materials prices can have a significant impact on profitability, at least in the short-term. Suominen has indeed recently gone through a difficult period as the company was hit by a double whammy of stiff competition due to capacity increases in certain grades on one hand, and a spike in key raw materials prices on the other. Both volumes and gross margins were hit hard.

Suominen has cleared the recent challenges. Profitability is now impressive and even reached long-term targets as performance accelerated more in Q2'20 and lead to exceptionally strong results. Both revenue and profitability hit a record high thanks to further improvement in product mix and efficiency while lower raw materials prices also helped margins. Supply and demand balance no longer poses a problem as delivery volumes increased sharply. In our view the major question now is where profitability settles in the medium term. Mr Petri Helsinki has acted in the role of CEO since early 2019.

Figure 1: Suominen revenue development (EURm), FY '19 product split and historical profitability



Source: Suominen

Business model

Suominen buys raw materials at market prices and transforms them into nonwovens

Suominen purchases nonwovens raw materials directly from the market. Viscose, pulp, polypropylene and polyester constitute the key raw materials for Suominen's nonwovens production: Suominen works with over 40 raw materials suppliers globally. Suominen's raw material inventory levels only cover the next 2-4 weeks' manufacturing needs, and as Suominen has not instituted raw materials price hedging policies any significant changes in spot prices register quickly in terms of profitability. The company has contracted half of revenue to be subject to automatic raw materials price adjustments, but since the clauses adjust nonwovens pricing with a lag of 2-5 months relatively large profitability swings are possible on a quarterly level (gross margin can also trend for extended periods in the wake of prolonged raw materials price movements). We would expect Suominen to have contracted such clauses mainly with key customer accounts, while the other half of revenue not subject to clauses is likely to be attributable to accounts where Suominen considers it might hold some pricing power. However, in practice the nonwovens pricing for accounts without adjustment clauses also tends to move quite well in tandem with raw materials prices. In other words, a nonwovens manufacturer like Suominen has rather limited pricing power.

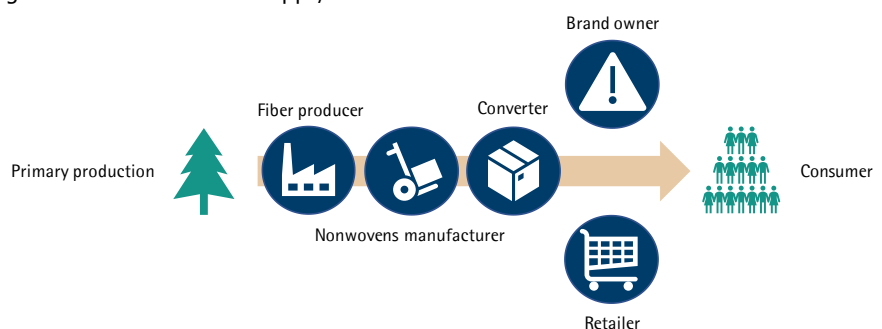
Suominen relies predominantly on spunlace manufacturing

Suominen's nonwovens manufacturing relies mostly on spunlace technology, a method of production in which the company is the market leader with the largest global asset base. Spunlace production is a process in which a web of loose fibers, supported by a perforated screen, is entangled through the application of multiple rows of fine, high-pressure water jets i.e. hydraulically needled. Indeed, the method is often referred to as hydroentanglement. The jets' needling pattern can be arranged to cause the fibers to interlace in a certain visually preferred way. The process has been around for about half a century and machinery vendors include e.g. Andritz, Valmet and Voith.

Suominen also utilizes so-called wetlaid technology on two of its plants, including the one in Bethune, SC. In the wetlaid production process fibers and chemicals are bonded together in a bath of warm or hot water. The resulting slurry is eventually dewatered by pressing and drying and so the process bears resemblance to paper manufacturing. The wetlaid method thus uses significantly more water than other competing technologies but on the other hand produces fabrics that are stronger and have more stretch, in addition to producing output at higher speeds. Andritz, Valmet and Voith also supply wetlaid production machinery.

Other nonwovens manufacturing processes include e.g. air-through bonding technology, which Suominen has mentioned as a potential addition to its portfolio. The process applies thermal bonding with the help of heated air, melting the binding agents throughout the fabric's cross-section.

Figure 2: The nonwovens supply chain



Source: Suominen

Customers' order placement determines Suominen's performance

The business is based on long-term customer relationships that often last more than ten years. Suominen conducts business both with framework agreements that are signed for the next one to three years as well as on spot-market basis. Suominen is dependent on its customers' performance, in other words general market conditions, the products' competitive positioning and inventory levels largely determine Suominen's delivery volumes.

Suominen's customers often have strict requirements

Suominen's customer base includes global consumer brands and private label producers as well as manufacturers of medical and hygiene products and regional converters. The customers' key purchasing criteria include quality consistency (the delivered roll goods must be efficiently incorporated into the customer's production process), business continuity and proximity (quick delivery is crucial but consumer brands also look to differentiate their wares and hence cooperation considerations with regards to product development initiatives are equally important).

Although nonwovens end-use tends to be defensive Suominen's delivery volumes and margins can fluctuate

Suominen's nonwovens mainly end up in applications that are close to consumers and used every day. Many global megatrends, including ageing populations and rising health consciousness, drive demand for such defensive wiping products. In our view it is fair to say the relevant market for Suominen can sustainably achieve growth rates above that for global GDP in a stable fashion. However, Suominen only contracts with business customers, who then proceed to convert the nonwovens rolls into final products consumers can pick up from the supermarket shelves. Suominen's customer base is quite concentrated (the ten largest accounts generated 65% of 2019 revenue), the key accounts being most likely global brand owners and private labels, and as a result Suominen's actual delivery volumes depend a lot on order placement since the customers are unlikely to rely on just one nonwovens supplier. Certain products are very homogeneous and value for money in nature, while others are more value added and can achieve higher gross margins. We would expect a typical consumer brand to have a few nonwovens suppliers for their end-product at any given time due to operational risk management issues, while it also makes sense to encourage some healthy competition in the respective supplier network.

Sustainable product development also plays an important role

Suominen's research and development efforts employ currently 16 personnel (including 4 PhDs). The unit focuses on sustainability (biodegradability and resource-efficiency) and customization issues with pilot lines and labs in Nakkila and Windsor Locks. Nakkila experiments with carded spunlace and composites while Windsor Locks has wetlaid and wetlaid composites techniques at its disposal. In terms of product development cycle length Suominen says it can take several months or up to a year for a new product to make its initial market entry (including all the phases from the initial concept to launch), depending on considerations such as product uniqueness and complexity. Suominen has lately introduced many new sustainable products and consequently new products have contributed more than 25% of revenue in recent quarters. Suominen aims to introduce over 10 sustainable products per year and targets a 50% increase in sustainable products sales by 2025 (compared to the 2019 baseline).

Any given geographic region within which Suominen competes is bound to suffer from periodical episodes of oversupply since investments in new nonwovens production capacity are done in discrete chunks and demand is unlikely to immediately catch up with such relatively large increases in supply.

Although in general Suominen's value chain position is not the most advantageous and can at times be quite challenging, we also note certain levers like product development and product mix improvement can help bolster margins; indeed this has recently been the case as new value-add products have contributed to a major gain in profitability. It also seems the pandemic has permanently elevated demand to a higher level. This appears to be true especially in the case of hard-surface disinfecting wipes (addressed by

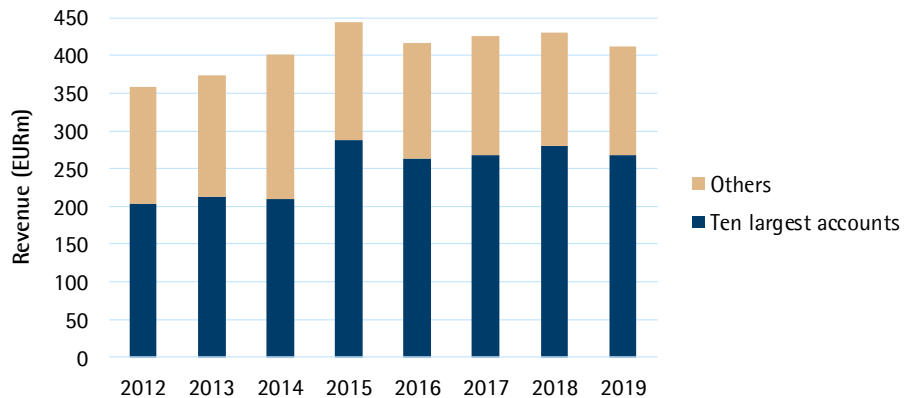
Suominen's household and workplace wipes applications), but also applies to anti-bacterial skin wipes (Suominen's personal care wipes). Suominen predominantly focuses on wiping, however wider nonwovens demand is also enjoying a boost thanks to increasing popularity for face masks and other general-purpose medical nonwovens applications.

Key customers and product segments

Customers are demanding and now place more emphasis on sustainability

Suominen does not disclose its customers' names, but in our view a reasonable guess would be to think of the likes of Procter & Gamble, Unilever, Johnson & Johnson, Clorox, Reckitt Benckiser and Mölnlycke Health Care. In other words, the customers tend to be large global consumer companies. In our opinion such companies' core competence usually lies within functions like marketing and product development, and hence their strategies place less importance on proprietary manufacturing footprint. Nevertheless, Suominen's customers have high quality standards and aim to secure robust supply chains. Many customers are also increasingly emphasizing product sustainability issues, and in our view Suominen seems well-positioned in this respect as the company has been able to introduce new sustainable products at a high rate (new products have contributed more than 25% of revenue lately).

Figure 3: Suominen's nonwovens customer base development

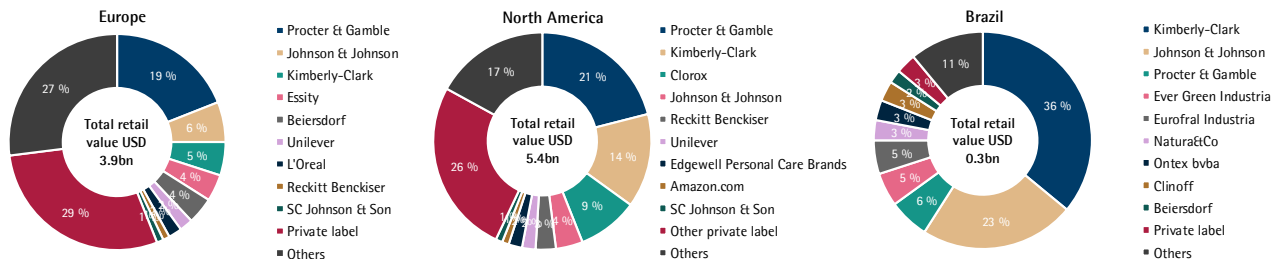


Source: Suominen

Large accounts drive growth in wipes

The company's customer base is quite concentrated as the ten largest accounts generated 65% of 2019 revenue. The reliance on individual accounts has not changed in recent years and nor would we expect any meaningful changes going forward. In fact, Suominen aims to grow mostly with its existing major customers, which in our view is unsurprising given that leading wiping brands tend to control significant shares of their respective markets (although there is some variation between different geographic regions).

Figure 4: Consumer wipes retail market values by brand owners, 2019

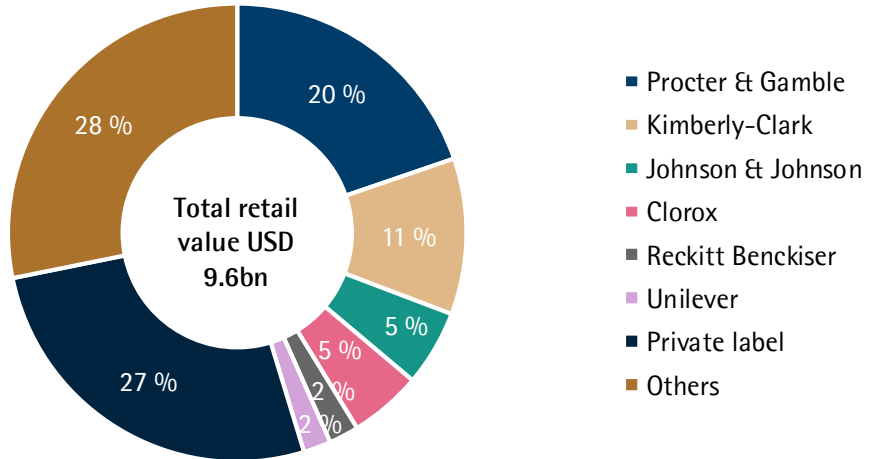


Source: Euromonitor

Note: The retail values only include wiping products categorized as either baby wipes, personal care wipes, moist toilet wipes or home care wipes

European consumer wiping markets are relatively fragmented according to data provided by Euromonitor. Top three brands in Europe have a combined market share of some 30%, compared to respective figures of 44% and 65% seen in North America and Brazil.

Figure 5: Brand owner total market shares in Suominen's geographies, 2019



Source: Euromonitor

In our view Suominen's revenue structure closely reflects the wipes market

Procter & Gamble is the leading consumer wiping brand in Suominen's current geographic markets with a total 2019 market share of some 20%, followed by Kimberly-Clark and Johnson & Johnson with their respective 11% and 5% market shares. The five largest brands had a combined market share of approximately 45%. From this perspective we see Suominen's customer account concentration to be quite well in line with the overall market structure.



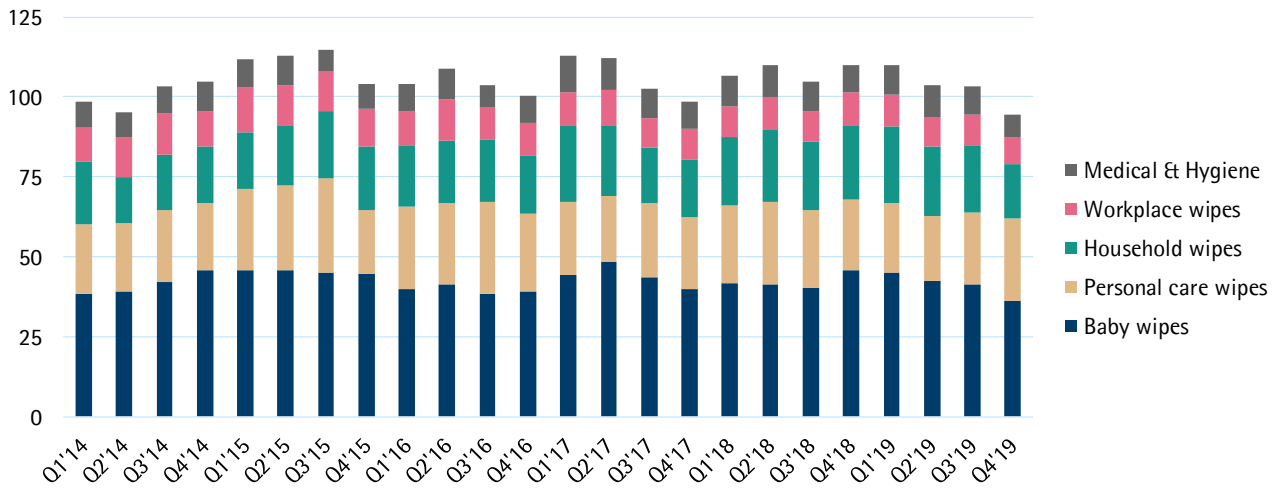
Source: Suominen

The supply chain is more challenging upstream than downstream

Suominen supplies nonwovens predominantly for different kinds of wiping applications. There can be considerable variance between the specific product categories' current volume levels, growth prospects, margins and geographic markets. The downstream part of the supply chain is dominated by global consumer and private label brands. Although the end-products' demand levels tend to develop in a stable fashion, the nonwovens markets, or the upstream part of the supply chain, can and most likely will exhibit occasional periods when some suppliers have to adjust their delivery volumes and pricing downwards in order to accommodate other suppliers' capacity additions. We would expect Suominen to target delivery volume growth rates above that of the market especially within household, workplace and (to lesser extent) personal care wipes, while within baby wipes and medical & hygiene applications the focus is more on maintaining current volume levels. We note Suominen no longer discloses its revenues by product

application but reports instead the performance of two business areas (namely Americas and Europe).

Figure 6: Suominen quarterly product split development (EURm), 2014-19



Source: Suominen, Evli Research

Baby wipes remains the largest category and a challenging one with low margins and at best neutral outlook for current markets

Baby care wipes remains the largest product category, accounting for 40% of 2019 revenue. Demand growth rates for baby cleaning applications are rather muted in Western advanced economies as a result of low birth rates and mature product adoption trends. Growth rates are conversely stronger in many developing countries where birth rates remain high and consumers are yet to adopt the products in such great numbers. Suominen has only one plant, in Brazil, that is exposed to these favorable demographic and socioeconomic trends; in North America and Europe baby care is a category characterized by high volumes but low growth prospects. Baby wipes is one of the specific product categories where recent capacity additions had a clear negative impact on Suominen's business as both volumes and pricing took a hit. Competition remains stiff especially in Europe, while supply and demand balance is slightly more favorable in North America. The most severe market adjustment might now have been left behind but we would remain cautious and expect at best stable development for the foreseeable future. Nevertheless, despite low gross margins, baby wiping is still important for Suominen since the high volumes support capacity utilization. In our view baby wipes' relative revenue share has decreased somewhat recently as e.g. household wipes' volumes have grown more rapidly due to the pandemic.

Personal care wipes are mostly value-add products for Western consumers

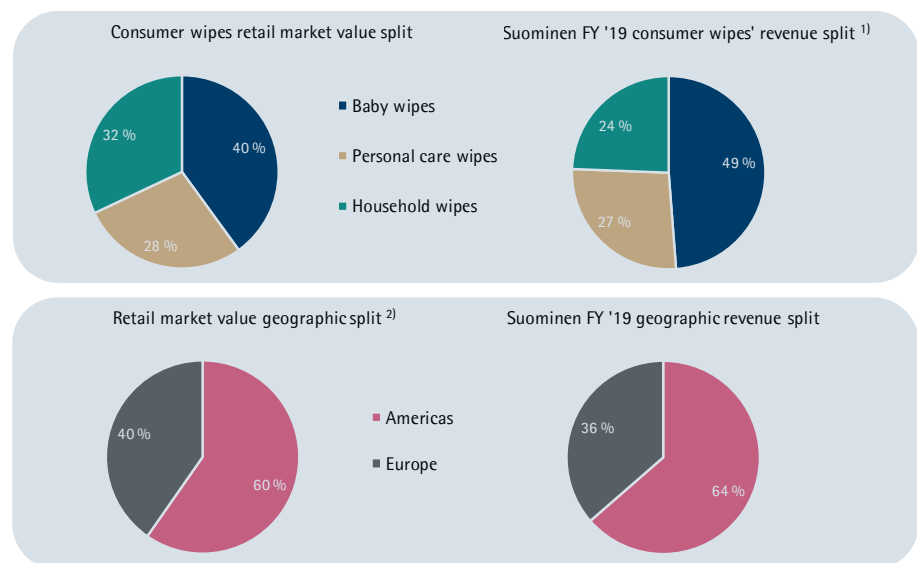
Personal care wipes generated 22% of 2019 revenue. The category includes end-uses such as facial cleansing and refreshing, cosmetic pads, intimate care, exfoliation and facial masks as well as hand sanitizing and disinfecting. Such products are mainly sold in advanced economies. Some of the applications can be categorized as flushable toilet products. Overall, the personal care category can be described as mostly value-add, however the recent capacity additions had an unfavorable impact on flushable types of toilet products' margins and delivery volumes. The increasingly commoditized category is thus now of more limited attraction for Suominen. We would expect personal care wipes to have fared better recently as the pandemic contributes to awareness of personal hygiene standards.

Household wipes are value-add products for Western home cleaning purposes

Household wipes accounted for 20% of 2019 revenue. The category consists of wiping products for general-purpose home cleaning but also more specific applications like hard surface disinfection, wet and dry floor, bathroom and toilet as well as window and glass. These kinds of products are sold mostly for consumers in advanced economies. Household wipes is largely a value-add category and potential delivery volume growth is

important for Suominen's profitability improvement prospects. In the long-term perspective large untapped household wiping market potential still exists especially in developing markets. We understand the pandemic has boosted especially household wipes demand. For example, according to Nielsen Homescan, disinfecting wipes were considered a staple item in roughly 50% of US households prior to the pandemic, while some measurements suggest the penetration rate may have jumped as high as 79% after the outbreak. Based on disclosed product segment figures for 2019, we see Suominen's household wipes revenues were relatively low compared to the overall consumer wipes retail market value for geographies where the company is present. We thus expect Suominen's household wiping category to have performed strongly this year, gained overall market share as well as importance within the company, and contributed significantly to the recent surge in profitability.

Figure 7: Suominen product and geographic revenue split relative to market, 2019



Source: Suominen, Euromonitor
 Note: Wipes retail market values represent the total sum for geographies where Suominen is currently present, namely Europe, North America and Brazil
 1) Excludes workplace wipes as well as medical & hygiene applications
 2) Only includes baby wipes, personal care & moist toilet wipes, and home care wipes

Workplace wipes are value-add business end-products aimed for Western markets

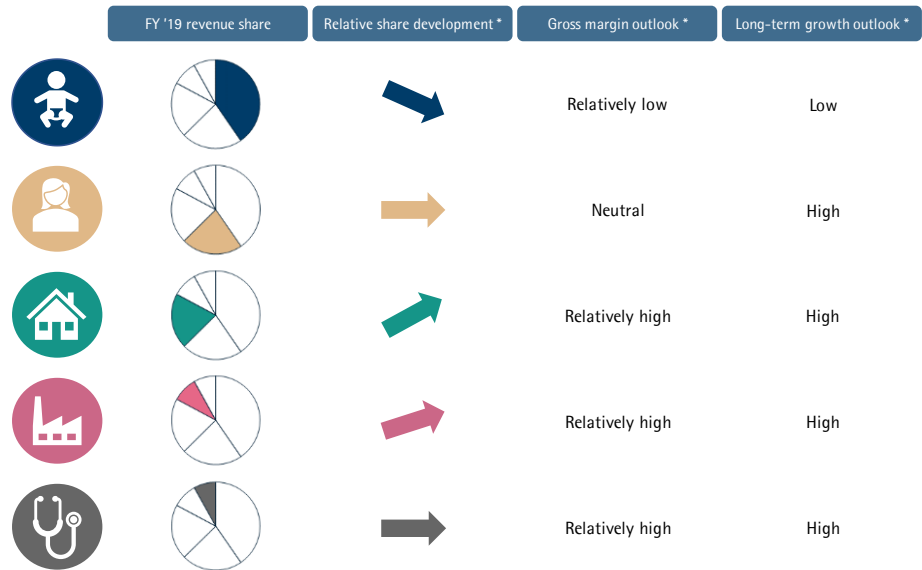
Workplace wipes' share amounted to 9% of 2019 revenue. The end-applications address the professional wiping market, in other words industrial and institutional use in contexts ranging from light to extra-heavy duty, in various places like offices and factories as well as restaurants and hospitals. The markets are currently largely in advanced economies and workplace wiping is a value-add product category. In our view workplace wiping has rosy long-term demand growth prospects. We expect Suominen's workplace wipes to have performed well (not quite as strong as household wipes) recently since the pandemic raises cleaning standards across various industries (limited-use institutional wipes were already displacing industrial rags and towels prior to the pandemic).

Medical & Hygiene supplies nonwovens in a value-add context for different Western end-markets

Medical & Hygiene applications generated 8% of 2019 revenue. The category is different compared to others in the sense that it does not supply nonwovens for wiping applications but for a range of end-use purposes including wound care, surgical drapes, patient cleaning, swabs, baby diapers, adult incontinence and feminine hygiene. The common denominator is absorbency, or fluid management. The focus is on Western

markets and the category can be described as value-add. We estimate the product category to have performed at a rate close to that of overall Suominen development this year.

Figure 8: Suominen product segments' recent development and outlook



Source: Suominen, Evli Research
* Evli Research estimates

In our view household and workplace wipes are increasingly important for Suominen now as well as in the future

In sum we estimate Suominen's nonwovens delivery volumes to have grown recently especially strong within household wiping applications. Although the supply-demand balance has lately turned out more favorable for a variety of segments from a manufacturer's point of view, we nevertheless see this to have been particularly the case for household wipes. Given that household wiping was a relatively important segment for Suominen even prior to the pandemic, we expect the recent jump in category popularity to have contributed prominently to Suominen's very strong profitability gain. We also estimate workplace wiping volumes to have grown relatively strong, however not quite as strong as household wipes. We expect personal care wipes and Medical & Hygiene applications to have developed in line with overall volumes, while in our view baby wipes volumes have not grown as rapidly as other categories. Overall, we estimate roughly 60% of Suominen's revenue is currently attributable to value-add product grades.

Suominen production plants

Suominen currently has eight production plants located on three continents. The US plants can be found in South Carolina (Bethune), Connecticut (Windsor Locks) and Wisconsin (Green Bay). The Brazilian plant is in Paulinia (near the city of São Paulo). Two of the four European plants are in Northern Italy, one in Spain and one in Finland.

A typical plant accommodates four separate production lines with each line calibrated for a specific product grade. A production line can be converted to serve a different end-product, and we understand Suominen sees some opportunities to make such conversions, albeit to a rather limited extent. The plants generally operate in five shifts.

Figure 9: Suominen locations and employees

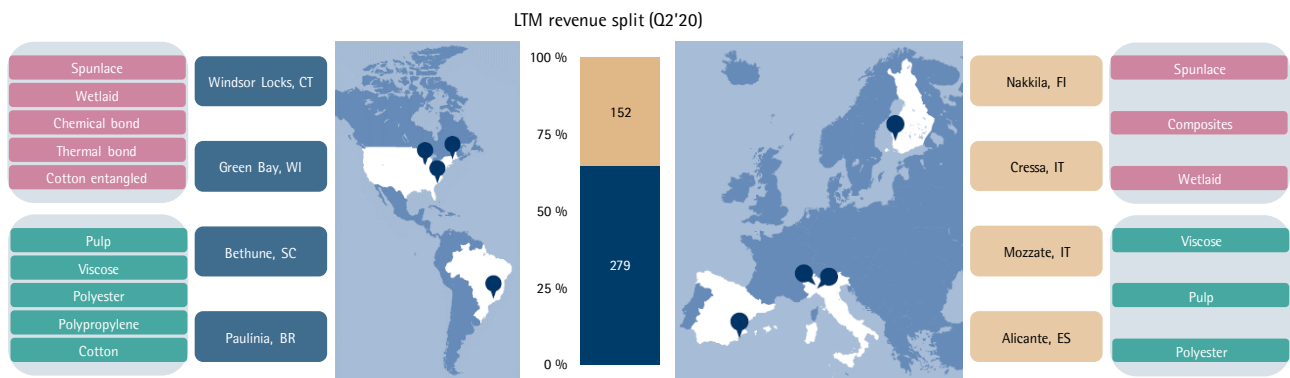


Source: Suominen

Nonwovens production economics are very different compared to e.g. pulp and paper

The nonwovens manufacturing process requires relatively modest capital investments compared to e.g. pulp and paper production. Although the machinery to some extent might resemble those used in the paper-making process (e.g. the Bethune tailor-made wetlaid production line was supplied by Andritz), the economics work out rather different as a typical nonwovens production plant costs EUR 30-40m in terms of machinery (the walls add another EUR 15-20m) and produces around 200-300 meters of nonwovens per minute, which usually translates to some 20,000 tonnes per year. Such figures contrast with paper plants', since to establish a paper mill requires an investment in the hundreds of millions and the production process can then turn out 1,600 meters of graphic paper per minute. A modern paper mill may have an annual production capacity of more than 500,000 tonnes.

Figure 10: Suominen plants, production technologies and raw materials



Source: Suominen

The nonwovens business is local by nature

Logistical considerations are important since nonwovens do not feasibly ship long distances due to their being relatively low-value and high-volume goods. The unit economics thus dictate localized production (value added grades can travel slightly longer distances). As a rule-of-thumb 1,000 kilometers applies well for most shipping considerations. From the producers' point of view this means that local production capacity additions will have a significant short-term negative impact on the geography's supply and demand balance since capacity expands in rather large steps while demand only tends to grow by single-digit percentage points per annum. On the other hand, barring capacity expansions a given geography should be safe from floods of competing

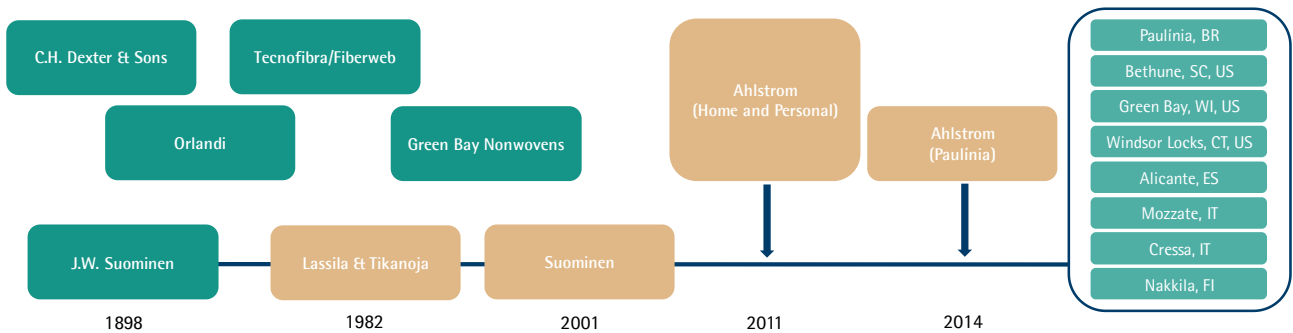
cheaper imports. All in all, we view Suominen’s wide geographical production footprint a definite positive factor that should help stabilize overall volume development and profitability, given the practical manufacturing considerations. We also note Suominen’s focus on global wiping brand customer accounts justifies worldwide presence.



Source: Suominen

In 2011 Suominen entered into agreement to acquire Ahlstrom’s Home and Personal business area. Through the acquisition Suominen gained the bulk of its current nonwovens production plant network. Ahlstrom itself acquired the operations through several transactions in the 2000s.

Figure 11: Suominen production plant history



Source: Suominen

Suominen acquired the plant in Paulinia, Brazil from Ahlstrom in 2014. The acquisition was initially negotiated as part of the 2011 deal, but the Brazilian unit’s transfer was delayed due to issues in receiving the authorities’ approval and subsequent renegotiations. The Paulinia plant focuses on the medical segment.

After a period of difficulties Bethune is now performing according to expectations

The new wetlaid line at the plant in Bethune, SC was commissioned for construction in 2015. The EUR 50m investment project, including both equipment and facilities, was completed in early 2017, however full ramp-up has faced difficulties due to certain technical issues. Suominen’s recent profitability challenges were partly attributable to Bethune’s ramp-up delay. Suominen initially wanted Bethune to address the market for flushable toilet products but changed plans when competitors’ capacity expansions eroded the grades’ economics. According to the updated plan Bethune supplies nonwovens for household and workplace wiping products. Although Suominen has now definitely progressed with Bethune’s performance there is still operational upside to be gained from the major investment. The company expects Bethune to contribute especially thanks to favorable product mix (household and workplace wiping) but also due to strong volumes. Once fully ramped up Bethune should generate revenue some 1.0-1.5x the EUR 50m investment and achieve an operating margin that meaningfully helps to drive up company-level profitability as well; according to Suominen Bethune is now indeed running at full speed.

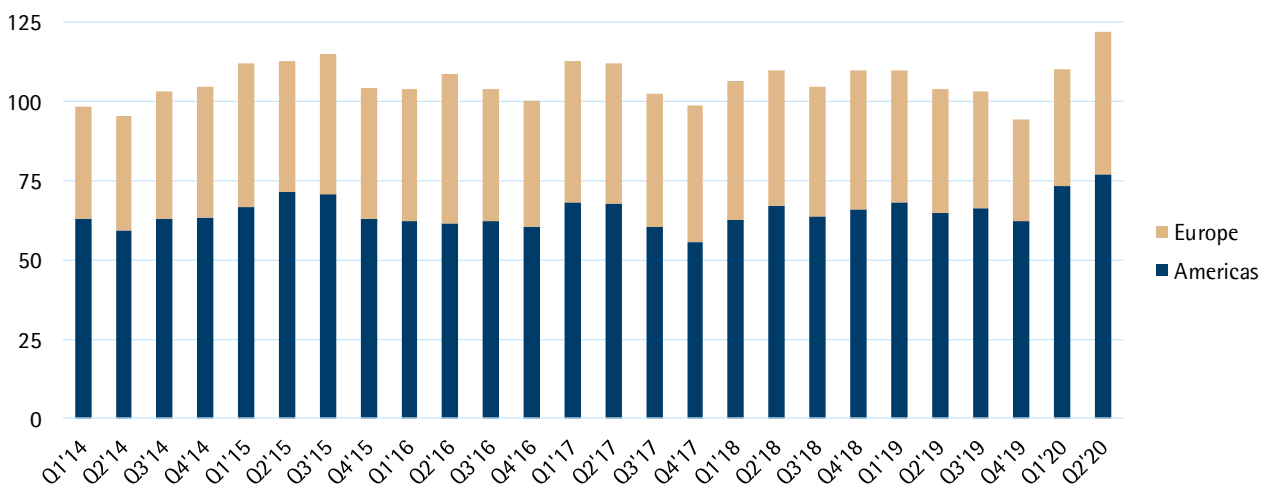
Suominen has recently completed a growth investment in its Green Bay, WI production plant. The project amounted to approximately EUR 6m and involved the installation of new carding machinery on an existing spunlace production line. The upgraded production line improves the company's capability to supply value-added nonwovens for household, personal care and workplace wipes as well as hygiene applications. The investment also enhances baby wipes production efficiency.

The Windsor Locks, CT plant produces a grade of nonwovens meant for flushable wipes, which are designed to be used in bathroom and toilet context since they disperse and biodegrade in water.

Suominen has two plants in Northern Italy, both located quite close to Milan. The company recently announced an investment for enhancing one Italian production line. The investment will turn the line into one of Suominen's most versatile and efficient ones. Suominen also announced an EUR 8m investment in Cressa, Italy. The project upgrades and restarts one of the plant's existing production lines and thus increases spunlace capacity. We view the investment as a simple step to meet growing nonwovens demand. Both Italian investments will be finalized during the second half of 2021.

Suominen has one plant in Spain, located in the city of Alicante on the southeastern coast of the country. The plant is focused on manufacturing nonwovens for workplace wiping needs. Meanwhile the plant in Nakkila, Finland serves multiple Suominen customer segments.

Figure 12: Suominen quarterly geographical revenue development (EURm)



Source: Suominen

Americas' top line has been outperforming Europe for a long time

Americas business area has performed relatively strong in recent years (after a challenging 2016, when revenue fell by 9%) with euro-denominated revenues developing mildly positive despite slight currency exchange rate headwinds due to a weaker dollar. The business area has long outperformed its European counterpart. Although there was some softness in Americas' 2019 performance on a quarterly level, the business area's top line nevertheless increased by 1% during the year (compared to the 13% drop seen in Europe's 2019 revenue). Americas' revenue declined by 6% y/y in Q4'19 but increased by 7% in Q1'20. Q2'20 was very strong as the business area grew by some 19% on an organic basis.

Europe also seems to be firming up now

European revenues developed flat in 2016-18 but declined by 13% in 2019 as tight competitive situation, owing to recent capacity expansions, meant Suominen had to concede some volumes to achieve improved pricing for its nonwoven deliveries.

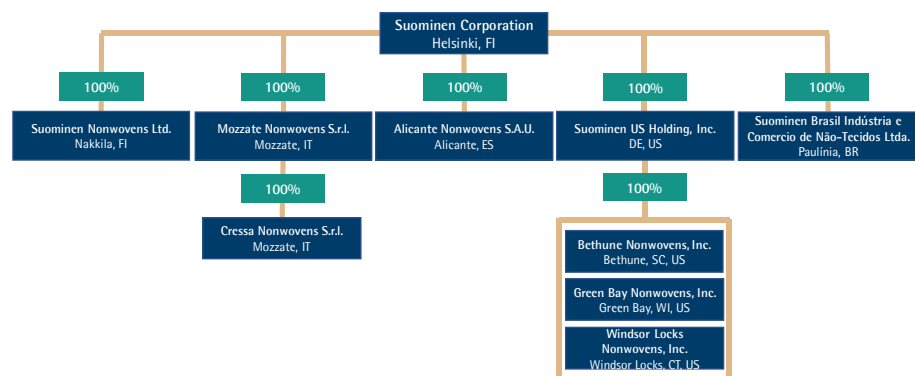
Suominen instituted nonwovens price hikes in 2018-19 in order to correct higher raw materials prices' negative impact on profitability. The business area still developed soft as recently as Q1'20 when revenue decreased by 11% y/y (following a 26% y/y dip seen in Q4'19). However, latest developments have been favorable also from the European perspective and the business area indeed improved considerably in Q2'20 as top line increased by 16% y/y. Suominen estimates it has a leading wiping market share (more than 15%) in Europe.

Going forward we view greenfield projects somewhat unlikely. Possible footprint expansion would probably happen through M&A (especially if Suominen decides to expand into Asian markets) as immediate positive cash flow and potential new customer accounts likely weigh more than the benefits tailored production lines can offer.

Company structure and organization

Suominen consists of five subsidiaries wholly owned by the parent Suominen Corporation. The subsidiaries are domiciled in each country Suominen operates in and the Italian and US subsidiaries have their own subsidiaries to reflect each separate production plant.

Figure 13: Suominen group legal structure



Source: Suominen

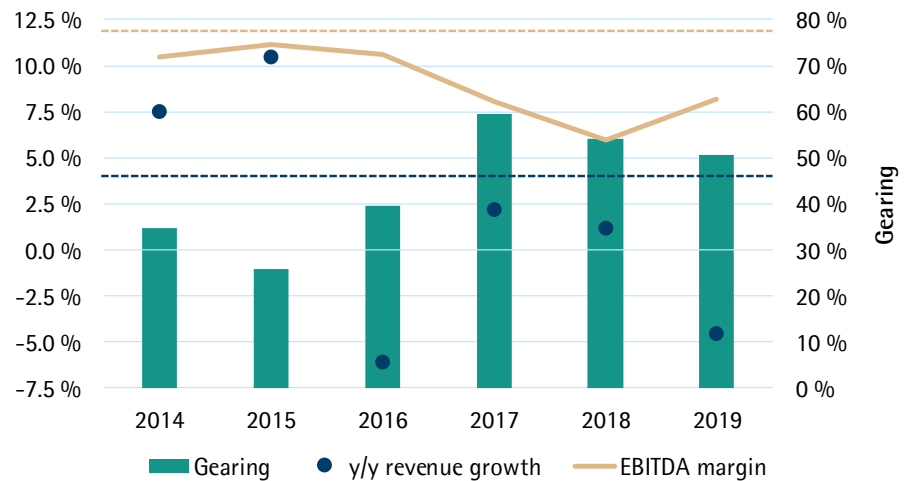
The management team was refreshed in 2018-19 following a string of unexpectedly serious challenges. Suominen's total staff has in recent years remained quite steady at slightly below 700 personnel and we do not view any larger organizational changes imminent as the company now seems to be making good organic progress towards its long-term financial targets.

Strategy and financial targets

Suominen updated its strategy for the period 2020-25 in early 2020. Suominen aims to increasingly create value-add and sustainable nonwovens and so gain more market share. Increasing share of value-add products as well as higher capacity utilization ratios will by themselves support meaningfully higher profitability levels, yet Suominen also targets more cost-efficient operations. The company's nonwovens production mainly focuses on wiping applications. Suominen aims to grow mostly with its existing major customer accounts, which in our view is the most convenient and reasonable way forward given the overall wiping market structure.

According to the financial targets set by the Board of Directors for the strategy period 2020-25, Suominen's revenue is to grow at a rate above that of the relevant market. In terms of profitability the target is set for above 12% EBITDA margin by 2025. Meanwhile gearing should stay in the 40-80% range (including the effect of IFRS 16 Leases).

Figure 14: Suominen historical financial performance and targets



Source: Suominen

In our opinion Suominen's financial targets are ambitious, yet the company has recently posted encouraging results to the extent that the hurdles are starting to look a lot more relevant and should certainly be achievable by the end of the strategy period (as a matter of fact Suominen posted a 14.7% EBITDA margin in Q2'20). We estimate the targeted profitability of above 12% EBITDA margin would translate to a return on investment figure in the double digits.

Strategic financial targets are premised on improving product mix and production efficiency

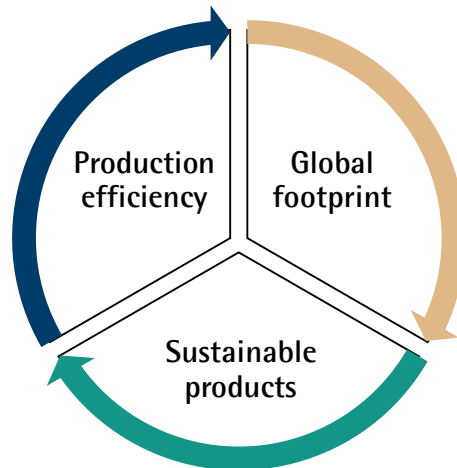
Suominen's strategy emphasizes production efficiency. In practice the company aims to reap efficiency gains with its dual operating model i.e. by optimizing production line utilization with respect to the differing requirements of value-add grades (e.g. household and workplace wipes) on one hand, and lower margin volume business (e.g. baby wipes) on the other. The separation into specialty and standard operating models means smaller and more flexible production lines are used to manufacture value-add grades while low-margin grades can efficiently be produced with larger production lines.

We view Suominen's current strategic positioning competitive

In our view the most relevant considerations regarding Suominen's strategic positioning, especially from shareholders' point of view, can be summarized in terms of three cornerstones. First, plant-level nonwovens production efficiency is of paramount importance for long-term financial performance. Gross margins might expand or contract over time and are to a large extent driven by factors of supply and demand that are beyond Suominen's influence. Suominen should therefore focus on developing operational excellence i.e. consistently maintaining cost-efficiency. Second, while nonwovens production is inherently a local business many of the key end-markets, such as wiping products, tend to be controlled by global consumer-focused companies. The pre-existing Suominen plant network might not make the company any better in owning additional plants, but a wide geographical footprint helps to position the company as a more competitive and secure supplier as well as contain some of the financial risk associated with nonwovens production that arises as a result of capacity additions (some soft synergies like improved procurement and sharing of best practices could also be possible). Third, sustainable products are increasingly gaining market share and many wiping brands recognize the opportunity. Suominen can answer the challenge by helping leading global brand owners launch more sustainable (essentially biodegradable) wiping products. Such product introductions can also help Suominen in terms of production

efficiency if a new article can produce the same properties with less material. Sustainable innovations might potentially endow Suominen some more breathing space with respect to pricing power and so help capture a portion of the surplus generated by consumers willing to pay higher prices for environmentally friendly products.

Figure 15: Suominen strategy keys



Source: Evli Research

In the long-term perspective expansion to Asia through M&A is a relevant possibility

M&A remains a relevant tool for gaining market share. Some years back Suominen hinted about a possible expansion to Asian markets. Understandably it has been quiet on the M&A front in recent years what with the challenging market situation and problems with Bethune ramp-up. It remains to be seen whether Suominen will begin to consider the Asian expansion more seriously now as the company has been able to tackle the more urgent challenges. Within the context of Suominen's gearing target we see the company now able to do an acquisition, payable in cash, worth up to some EUR 50m. In our view the sum would be enough to gain a reasonable initial foothold in Asia. In our opinion a well-planned establishment of a fourth continental beachhead would be good news for Suominen shareholders since the company would gain further credibility in the eyes of its large global customers.

Suominen's dividend policy is to target an annual pay-out ratio of at least 30%. We view this a reasonable figure since in our opinion it makes sense for Suominen to aim to preserve adequate financial headroom in order to maintain readiness for e.g. inorganic expansion to Asian markets.

Nonwovens markets and competition

Nonwovens are defined as fabrics formed by sheet or web structures that are bonded together by entangling fibers and filaments either mechanically (e.g. spunlace), thermally (e.g. air-through bonding) or chemically (e.g. wetlaid). The sheets can be manufactured as composites of separate natural fibers and plastics. Nonwovens are always of porous quality and may have limited-life, single-use or very durable lifespan.

Nonwovens applications

Nonwovens can provide a range of properties like liquid absorbency and repellency, resilience, stretch, softness, strength, washability, cushioning, filtering, sterility as well as flame retardancy. Such qualities are frequently combined to produce fabrics for specific

purposes with favorable trade-offs between cost and lifespan. Although nonwovens are not, as their name suggests, made by weaving (or knitting), the fabrics can mimic the appearance, texture and strength of woven ones. Moreover, nonwovens can be made as bulky as the thickest paddings and can feature a range of different surface patterns.

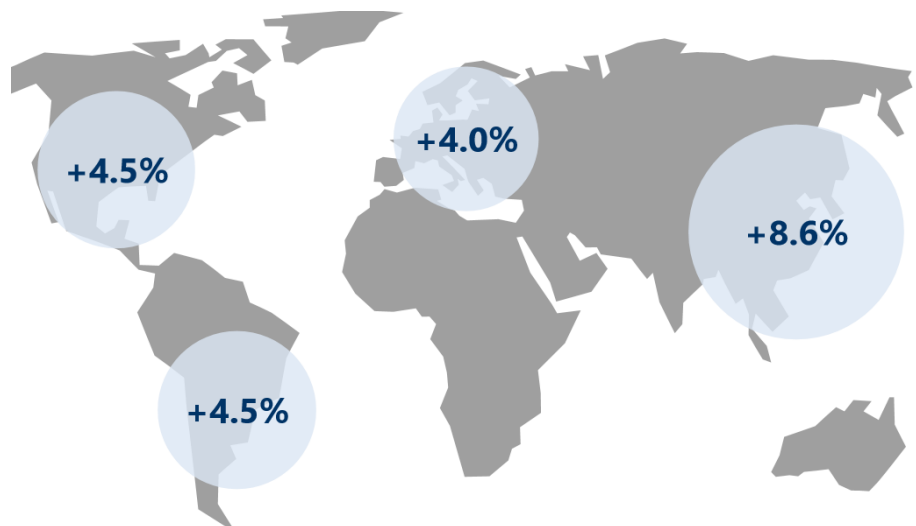


Source: EDANA, INDA

Suominen controls roughly a fifth of nonwovens for wipes

Nonwovens are applied in product categories like wiping, hygiene and medical; Suominen has established a presence within each three. Other applications, which Suominen does not address, include upholstery, filtration, floor coverings, automotive and building/roofing. The global nonwovens market is fragmented and estimated by Smithers Pira to amount to some USD 47bn. Nonwovens for wiping, which represents more than 90% of Suominen's business, is an annual market worth around EUR 2bn. Suominen thus commands close to one-fifth global wiping market share. This makes the company the leading global supplier of nonwovens for wipes. Sandler and Jacob Holm are the key non-integrated competitors. Together the four main competitors hold close to one-third of the wiping applications market, while the remaining 50% market slice is split by smaller players.

Figure 16: Nonwovens demand CAGR 2020-25

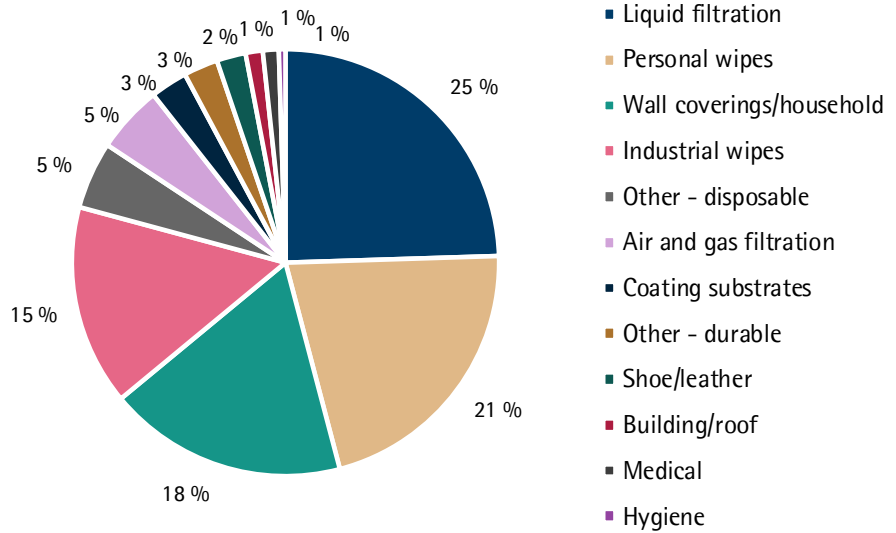


Source: Suominen

Smithers estimated total nonwovens world demand at 11.2m tonnes in 2019 (USD 46.8bn), expecting annual growth rates to improve for the period 2020-24 compared to 2014-19. Smithers estimated the figures before the pandemic and saw CAGRs rising to 6.7% in terms of value and 6.6% in terms of volume. The volume-based CAGR represents some 100bps increase compared to the earlier period while the value growth rate is

slightly lower owing to nonwovens prices adjusting downwards to reflect lower raw materials prices. These growth rates would produce a total market value of USD 64.8bn in 2024 (15.4m tonnes consumed).

Figure 17: Wetlaid nonwovens market by end-use, 2020 (volume)



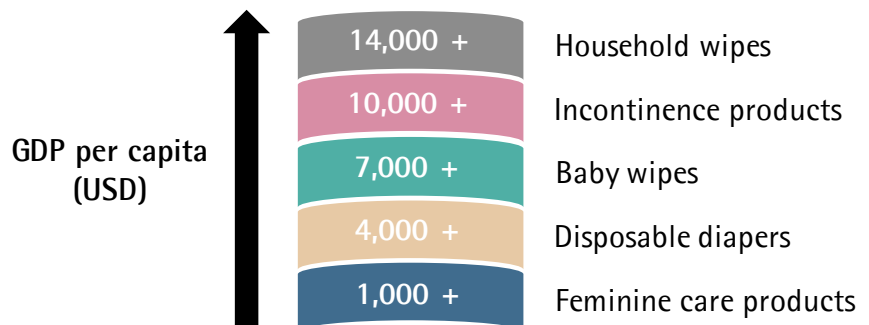
Source: Smithers

Nonwovens demand, with respect to wiping, medical and hygiene applications, is driven by major megatrends like global population growth, ageing populations, rising health care expenditures and standards as well as sanitary consciousness. These end markets tend to grow at rates well above that of the global GDP. Meanwhile baby wiping is a rather mature market at least in most advanced economies thanks to low birth rates.

Wiping applications and markets

According to Smithers the fastest growing market for disposable nonwovens lies in wiping applications. The market for wipes can be further divided into personal and household (or consumer) as well as workplace (or industrial) end-use types.

Figure 18: Consumer nonwovens demand and standards of living



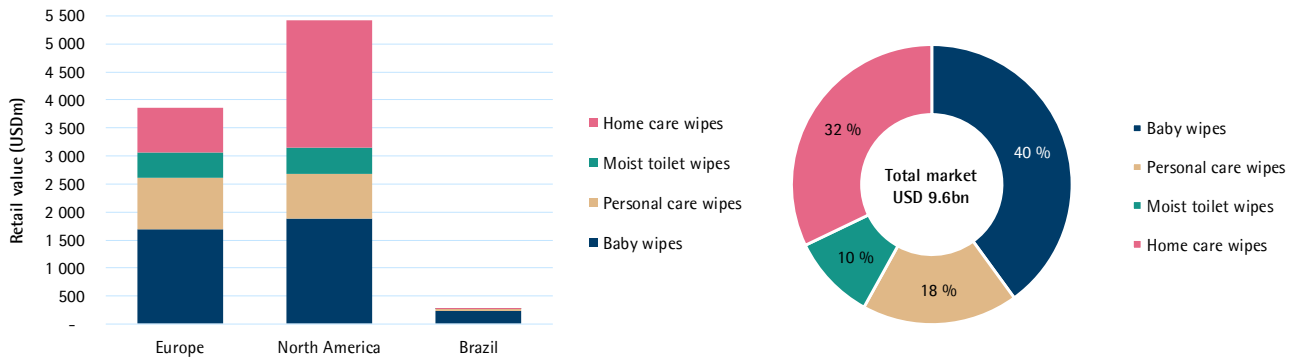
Source: Suominen

Consumers discover wipes along with rising standards of living

Wiping products demand tends to increase together with living standards. As disposable income grows in developing markets local consumers acquire a habit for personal care wipes, particularly baby wipes to complement the use of diapers. The personal income level that really stimulates wipes usage is approximately two to three times the level which supports diaper sales. Wipes penetration consequently remains quite low in

regions like China and India; yet such areas are set to underpin long-term demand growth outlook at a time when developed countries' demographics prove a headwind. Finally, household wipes are typically the last category to penetrate a developing market.

Figure 19: Consumer wiping markets in Suominen's current geographic areas, 2019



Source: Euromonitor

Note: Europe includes both Western and Eastern European countries; North America includes the US and Canada

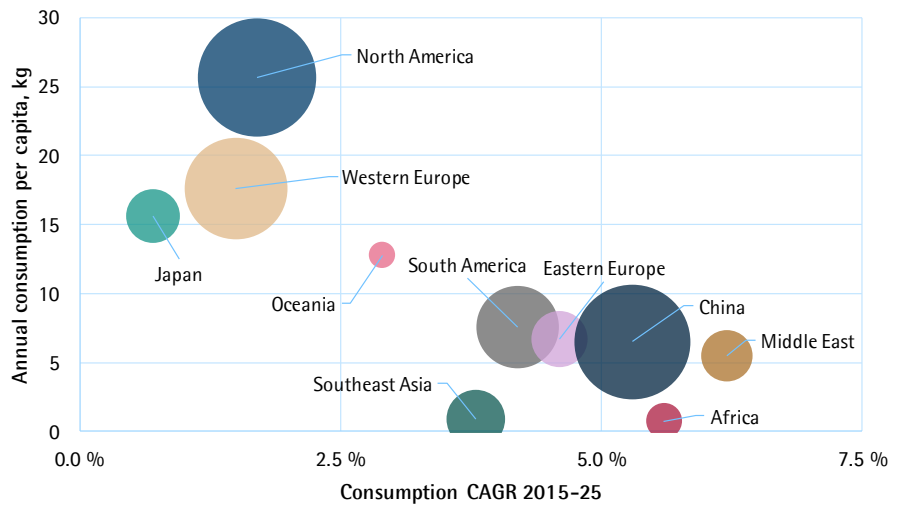
Household wipes were a big business in the US even before the pandemic

Euromonitor estimates the total retail market value for wipes (excluding workplace wipes) within the geographies where Suominen is currently present amounts to close to USD 10bn (based on 2019 figures). Consumer wiping markets are basically the same size in Europe and North America when counting baby wipes, personal care wipes and moist toilet wipes; however, when home care wipes are included North America leaps ahead with its respective value of some USD 2.3bn. Moreover, the figures basically imply Americans use wipes at a significantly higher per capita frequency compared to Europeans, since Europe has a total population roughly twice that of North America. Although the Eastern European half somewhat dilutes the overall European consumer wiping intensity, the fact remains even Western Europeans wipe considerably less than their American counterparts. This observation holds true for the more intimate wipes applied to human bodies, and even more so for household cleaning wipes.

Americans continue to wipe more intensely than Europeans

The pandemic appears to have permanently lifted demand for hard-surface disinfecting wipes. Their usage is now widely encouraged although it appears most viral transmission is facilitated by airborne fluids in person-to-person contact situations. It seems disinfecting wipes' popularity has leaped greatly in the US despite having been already high even before the pandemic set in: Nielsen Homescan estimates some 79% of US households now consider disinfecting wipes a staple item, compared to the roughly 50% figure measured prior to the outbreak. The pandemic spring was especially busy for certain parts of the wiping supply chain as Clorox CEO said the company sold, in some cases, as much in one week as they would normally sell in one month. In our view European household wiping has also advanced significantly following the outbreak yet remains considerably lower than in the US on an absolute as well as per capita basis.

Figure 20: Tissue paper geographic markets, estimated 2019 consumption figures



Source: RISI, Evli Research

Note: Bubble size indicates total annual tissue paper consumption for a given region (in millions of tonnes)

We would expect Asian countries like Japan and South Korea to be attractive from household wiping perspective

We provide an illustration of global wiping market opportunities based on estimates concerning tissue paper usage (as provided by RISI), the global market for which has been trending at an annual rate of some 3% at least prior to the pandemic. The figures are only indirectly applicable proxies for different wiping segments since they are about the use of tissue paper, but they should nevertheless illustrate how different geographies might look like from a consumer wiping perspective. We note toilet paper represents roughly 60% of total tissue paper consumption (total global tissue paper consumption should easily top 40m tonnes in 2020). Unsurprisingly North America is still the largest market for tissue paper in absolute terms, driven by very high per capita consumption, although China is bound to take over in a few years' time. The figures indicate the average American consumes some 45% more tissue paper than their European peer. Meanwhile a typical Japanese person consumes 10% less tissue paper compared to an average Western European. Based on this data we would expect countries like Japan (and other similarly advanced Asian countries such as South Korea) to support consumer wipes markets comparable to those of Western Europe in terms of per capita wiping frequency. We would expect these countries to offer interesting opportunities particularly from household wiping perspective. Single-use surface wipes arguably represent a superior alternative to reusable products such as cloth rags and towels even in a household setting since wipes eliminate the potential for cross-contamination. Moreover, this consideration is rather pronounced in an industrial context.

Industrial wipes are substituting rags in many different workplaces

Like wiping products meant for consumers' private use, industrial wipes can be either wet or dry and can be impregnated with specific-purpose ingredients to address e.g. polishing, cleaning or anti-bacterial concerns. Industrial wipes can be applied to many different contexts including heavier duties in manufacturing, maintenance and automotive industries as well as in lighter uses closer to household wiping requirements, like for instance food service and janitorial purposes. Demand for such single or limited-use institutional wipes has advanced significantly due to their convenience and efficiency relative to industrial rags and towels (these reusable textiles are disadvantaged because of their laundering and liquid-waste handling requirements). Shop rags can carry around contaminants like heavy metal residue from other workplaces even after laundering. Single-use wipes meanwhile provide consistent specifications and performance, not to mention the ease of incorporating desired features. Industrial nonwovens wipes can even absorb liquids to a greater degree as well as more quickly than rags. In early 2020 Smithers forecast industrial wipes to be the fastest growing wipes segment with a double-digit growth rate through to 2024. In our opinion the

pandemic will slightly alter this picture at least during the initial phases of the period, given that household wipes have already enjoyed such a remarkable surge in popularity. Nevertheless, we expect the demand outlook remains strong also for industrial wipes.

Wood-based fibers are gaining more share in wipes

Sustainability is another major trend that plays out also in the wipes market. A significant share of wipes (excluding certain categories like moist toilet tissue products, which utilize mainly cellulose) currently on the market still relies on synthetic fibers due to their strength and tear-resiliency. Besides such qualities wiping brands and consumers consider absorbency and touch important. Wood-based cellulosic fibers have hence been popular since they are naturally absorbent and soft (although certain synthetic fibers can be even softer). Liquid absorption and pleasing feel on skin are properties that render pulp fibers rather competitive ingredients in the overall raw materials mix. This applies to wipes meant for cleaning as well as personal care purposes. As consumers are increasingly keen to buy environmentally friendly products there is industry-wide pressure to introduce novel wiping solutions that are wholly made of plant-based fibers. Softwood pulp is often an important ingredient in the modern product mix thanks to its relatively long fibers that can lend the required durability and strength but also provide absorbency and softness. This is especially true for moist toilet tissue products, where wet-strength and porosity considerations tend to favor the selection of softwoods over hardwoods. For example, Smithers identifies the replacement of lower performing products with higher performance sustainable products as a significant retail trend in 2020.

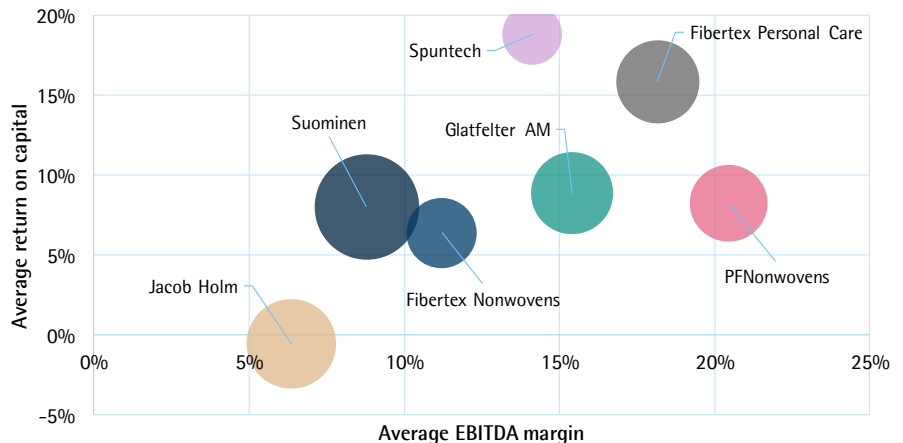
Nonwovens manufacturers

Suominen is the ninth-largest nonwovens supplier globally. The competition is dispersed and includes numerous regional, national and international actors. Suominen identifies Jacob Holm, Sandler and Glatfelter as the main challengers in wiping applications and sees Ahlstrom-Munksjö, Jacob Holm and PF Nonwovens as the key competitors in medical products. Large global players like Berry Global and Kimberly-Clark are also present in wipes as well as hygiene applications. Freudenberg Performance Materials is another large global player with expertise in nonwovens but a focus outside wipes. We estimate Suominen to be a global leader in wiping nonwovens with a market share in the teens, followed by Sandler, Jacob Holm, Berry Global and Kimberly-Clark. For example, Berry Global's Health, Hygiene & Specialties segment is present in numerous product categories including diapers, feminine care, adult incontinence, filtration as well as disinfectant wipes.

Competition intensified in certain product categories (e.g. baby wipes and flushable toiletries) and geographic regions (especially Europe) a few years back when competitors invested in new capacity, leading to a much more unfavorable supply situation from Suominen's point of view. Both Sandler and Jacob Holm, for example, added capacity and Suominen's financial figures consequently began to sour in 2016 as delivery volumes and pricing came under pressure especially in the US at first and later in Europe as well.

The nonwovens producers we have examined averaged a 14% EBITDA margin and some 10% return on invested capital during the period 2015-19; meanwhile Suominen averaged a 9% EBITDA margin and 8% ROIC. These figures indicate Suominen's long-term target profitability (above 12% EBITDA margin) is indeed set at a realistic level.

Figure 21: Suominen and peers' size & performance comparison, 2015-19



Source: Company reports, FactSet, Bloomberg

Note: Bubble size indicates average annual revenue during the sample period

Fibertex Nonwovens, a subsidiary of the Danish publicly traded conglomerate Schouw & Co., reported DKK 1.7bn in 2019 revenue and about an 8% EBITDA margin. Fibertex Nonwovens is basically not in direct competition with Suominen as the Danish manufacturer focuses on industrial nonwovens for applications in e.g. cars, construction and filtration. However, Schouw also owns another separate nonwoven manufacturer called Fibertex Personal Care, one of the largest spunlace nonwovens manufacturers globally with a reported DKK 2.2bn in 2019 revenue. The company focuses on baby diapers, sanitary towels and incontinence products and achieved a 16% EBITDA margin in 2019.

Glatfelter is a global US-based supplier of engineered materials. Glatfelter's Airlaid Materials segment supplies nonwovens for various applications including feminine hygiene and wipes. We assume the Airlaid Materials segment has similar capital intensity compared to the Composite Fibers segment. Jacob Holm, another Danish competitor, is a spunlace nonwovens producer serving markets such as beauty and health care, hygiene, critical cleaning and high-performance materials as well as consumer wipes. PFNonwovens, based in Czech Republic, is a spunmelt nonwovens producer and mainly supplies material for the personal hygiene market i.e. disposable hygiene products such as baby diapers, adult incontinence and feminine hygiene products. Spuntech, based in Israel, is another spunlace nonwovens manufacturer.

M&A transactions activity

Global nonwovens supply is fragmented across numerous larger and smaller producers. Some amount of consolidation is likely and there is scope for significant amounts of M&A activity. We note there are at least two larger companies involved in nonwovens manufacturing, namely Berry Global and Freudenberg, that could have the capacity to act as industry consolidators also going forward.

Table 1: Nonwovens sector M&A deals and valuations

Target	Seller	Acquirer	Announced	Completed	EV (EURm)	EV/S ₁)	EV/EBITDA ₁)	EV/EBIT ₁)
Low Et Bonar Plc	Public shareholders	Freudenberg	Sep-19	May-20	234	0.5x	neg.	neg.
J.H. Ziegler GmbH	DPE Deutsche Private Equity GmbH	Teijin Frontier Co., Ltd.	Jul-18	Aug-18	125	1.8x	11.8x	37.2x
Georgia-Pacific (nonwovens assets)	Georgia-Pacific LLC	Glatfelter P. H. Company	Jun-18	Oct-18	160	1.9x	10.3x	n/a
DuPont Ciptex S.A.	Grupo Ciptex; DuPont do Brasil S.A.	Fibertex Nonwovens A/S	Feb-18	Feb-18	11	0.7x	5.5x	n/a
E.D. Oates Pty Ltd	GUD Holdings Limited	Freudenberg	Nov-17	Jan-18	53	1.1x	n/a	n/a
Pegas Nonwovens s.r.o. (77.66% Stake)	Public shareholders	R2G Rohan Czech s.r.o.	Jul-17	Oct-17	509	2.5x	10.9x	16.7x
Pantex International S.p.A.	Green Arrow Capital SGR SpA	Fitesa Industrial Ltda	Feb-17	Feb-17	91	1.4x	10.8x	22.6x
MGF Gutsche GmbH & Co. KG	Gutsche family	Lydall, Inc.	Nov-16	Dec-16	55	n/a	11.5x	13.0x
Texel Inc.	ADS, Inc.	Lydall, Inc.	Jul-16	Jul-16	93	1.4x	8.6x	n/a
Novita SA (63.17% Stake)	Lentex SA	Tebesa Sp. z o.o. (Vaporjet)	Jun-16	Aug-16	30	1.6x	6.8x	9.0x
Japan Vilene Company, Ltd. (55.44% Stake)	Public shareholders	Freudenberg and Toray Industries	Aug-15	Sep-15	473	1.1x	12.4x	26.4x
AVINTIV Specialty Materials Inc.	Blackstone Group LP.	Berry Global Group, Inc	Jul-15	Oct-15	2 237	1.3x	18.0x	134.6x
Novita SA (36.83% Stake)	Public shareholders	Lentex SA	Nov-14	Nov-14	26	1.3x	7.7x	13.0x
Non Woven Solutions, LLC	Private investors	Fibertex Nonwovens A/S	Oct-14	Oct-14	20	1.5x	n/a	n/a
Suominen Oyj (26.89% Stake)	Ahlstrom Oyj	Ahlström Capital Oy	Oct-14	Oct-14	218	0.5x	4.7x	8.1x
Novita SA (29.59% Stake)	Public shareholders	Lentex SA	Apr-14	Jul-14	22	1.1x	6.5x	11.0x
Companhia Providencia Industria e Comercio	Haitong Capital S.C.R., S.A.	AVINTIV Specialty Materials Inc.	Jan-14	Jun-14	395	1.6x	10.1x	15.8x
Fiberweb Plc	Public shareholders	AVINTIV Specialty Materials Inc.	Sep-13	Nov-13	196	0.5x	5.9x	20.8x
Ahlstrom Corporation (Home and Personal)	Ahlstrom Corporation	Suominen Oyj	Aug-11	Nov-11	170	0.6x	n/a	27.9x
Tharreau Industries SA (85.27% Stake)	Principal shareholder	Fibertex Nonwovens A/S	Mar-11	May-11	35	0.7x	4.0x	4.8x
AVINTIV Specialty Materials Inc.	MatlinPatterson Global Advisers LLC	Blackstone Group LP.	Oct-10	Jan-11	485	0.8x	7.0x	14.9x
Average					268	1.2x	9.0x	25.0x
Median					125	1.2x	8.6x	15.8x

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

Based on the data obtained primarily from Mergermarket, we find quite large variations in target company profitability (in terms of EBITDA margin), and consequently realized EV/S valuation multiples fluctuate a lot. Valuation levels tend to follow EBITDA more closely and a typical target in our sample is valued at somewhat below 10x trailing EV/EBITDA.

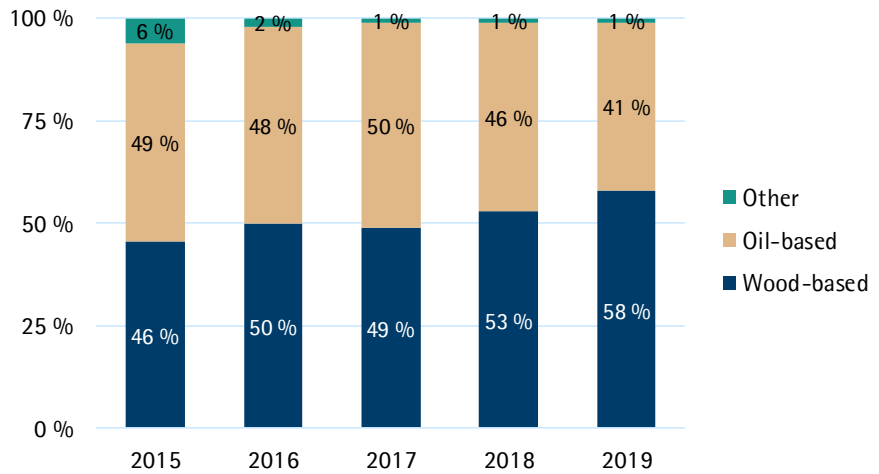
Financials and estimates

Suominen operates a rather asset light business model compared to certain other manufacturing sectors e.g. the pulp and paper industry. However, it should be noted Suominen made certain large investments in the middle of the past decade and since the company's level of capital expenditures is now relatively low the result is a high current cash flow. It is also important to mind that Suominen's profitability is quite sensitive to fluctuations in raw materials prices, at least in the short-term.

Income statement

Raw materials purchases make up the bulk of Suominen's cost structure, accounting for some 60-70% of expenses. In 2019 wood-based fibers, i.e. viscose and pulp, amounted to 58% of raw materials purchases in terms of volume. In other words, 2019 saw a meaningful reduction in the share of oil-based raw materials (polypropylene and polyester). Wood-based raw materials have gained significantly more share in recent years and we would expect this development to continue going forward as well. In addition to raw materials Suominen's COGS includes freight and energy costs.

Figure 22: Suominen raw materials mix volume development

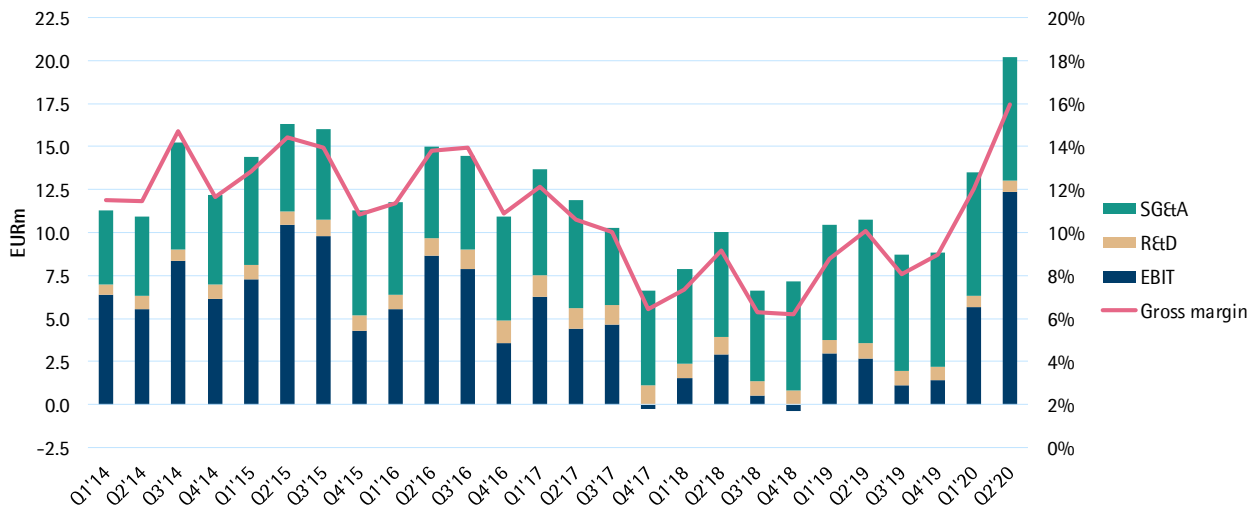


Source: Suominen

While the current market situation might produce some additional positive pricing surprises, in the long-term nonwovens' prices should closely follow those of raw materials

Raw material price pass-through clauses are included in about 50% of Suominen's revenue base. The clauses transfer raw material price inflation (or deflation) to Suominen's nonwovens delivery prices with a lag of 2-5 months. The lag leaves quarterly results vulnerable to fluctuations; the gross margin should normalize within a quarter or two as adjustments take place in response to episodic raw materials price changes. However, prolonged periods of raw material price inflation, like the one which began in late 2016 and lasted two years, render the clauses ineffective as the nonwovens price hikes do not catch up with ballooning variable costs fast enough. On the other hand, the dynamic can also work in reverse and be favorable to Suominen's profitability. Indeed, this happens to be the case now as especially oil-based raw materials like polyester and polypropylene have seen their prices slide amid the pandemic. Meanwhile pricing for wood-based materials viscose and pulp has remained more stable. We gather Suominen works with many alternative raw material suppliers and thus the cost of purchases should closely reflect prevailing wider market prices. It should nevertheless be noted there are certain quality standard issues which could limit the extent of perfect market competition. Suominen's customers are often demanding and Suominen can itself be deeply involved with certain suppliers. It is possible that in the current somewhat exceptional circumstances Suominen might benefit from certain market discrepancies, while in the long-term perspective such pricing opportunities are unlikely to exist.

Figure 23: Suominen quarterly gross margin, profitability and fixed cost structure development



Source: Suominen

Currency exchange rates affect Suominen’s revenue and operating profit. While the impact on EBIT tends to be quite small fluctuations in the EUR/USD exchange rate can have a significant effect on Suominen’s reported revenue. This was particularly the case in FY '15 as the translation effect contributed some EUR 45m to Suominen’s top line in the wake of a surge in the value of the dollar.

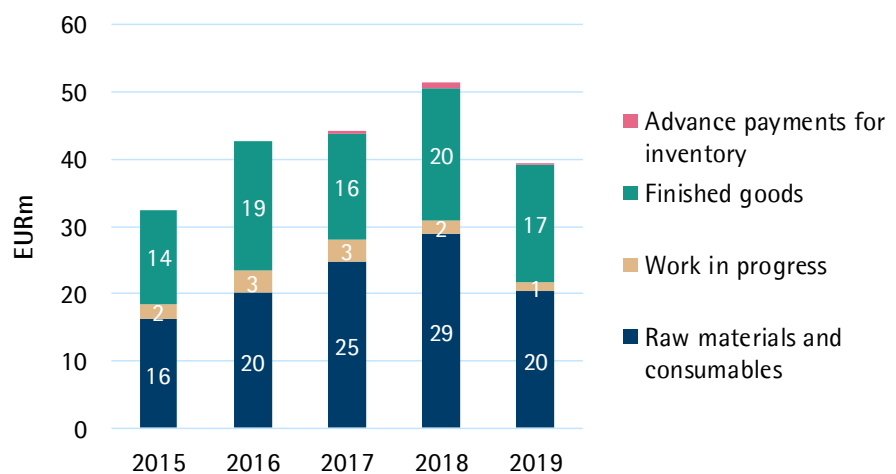
Sales, marketing and administration expenses is the most important fixed cost item and is now running at a rate of slightly above EUR 7m on a quarterly basis. In terms of depreciation charges, a given production plant can be considered to have an economic lifespan of about 20 years. Suominen now depreciates its assets at a quarterly rate of some EUR 5.5m, or EUR 22m per annum. Suominen’s research and development activities employ close to 20 personnel and expense around EUR 3.5m annually or some 0.75-1.00% of revenue.

Balance sheet

Suominen’s business can be characterized to stand within mid-range in terms of capital intensity. Property, plant and equipment is the major line item on the asset side. The figure currently stands at about EUR 110m. Suominen owns four of its production plants completely, including land, buildings and production lines. The company operates the plants in Italy, Spain and Windsor Locks, CT on leased land and buildings. Together the lease liabilities amount to around EUR 13m.

Suominen can at times carry rather significant amounts of inventories. On average inventories amount to around EUR 40m, of which slightly more than half is raw materials and consumables in nature. Work in progress and inventory advance payments tend to be no more than a few million, and so finished goods inventories are usually somewhat smaller than raw materials stocks.

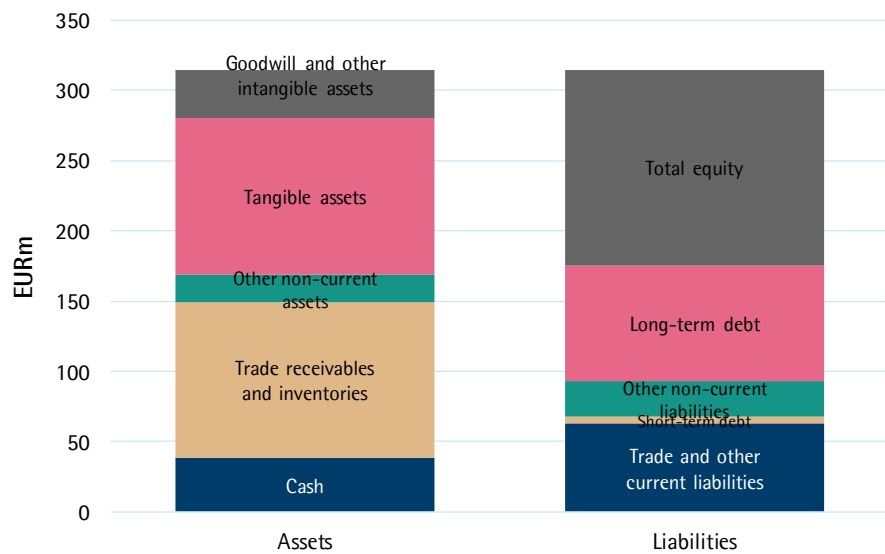
Figure 24: Suominen inventories composition



Source: Suominen

Trade receivables usually amount to some EUR 50m but are often offset by somewhat higher trade payables. Meanwhile Suominen’s cash position has tended to stay close to around EUR 35m. The company has recently been able to improve its net working capital position particularly thanks to destocking efforts.

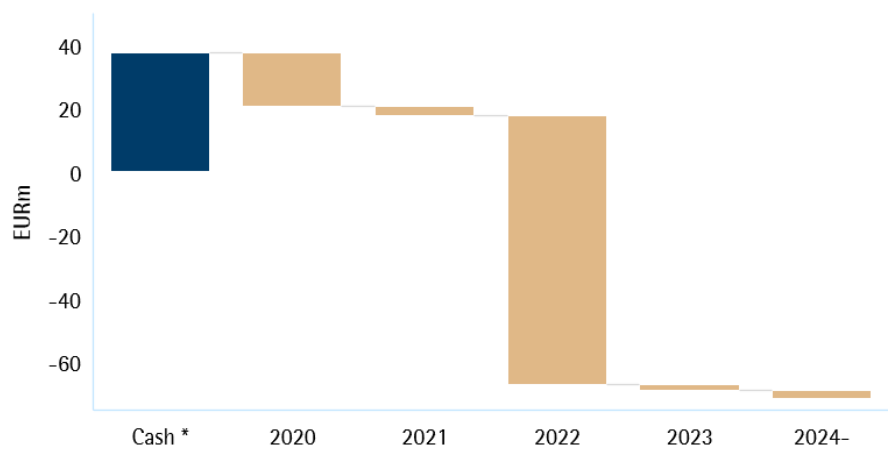
Figure 25: Suominen balance sheet composition (Jun 2020)



Source: Suominen

The company's equity book value stands at roughly EUR 140m; gearing consequently amounts to around 45% and is therefore within the stated 40-80% target range.

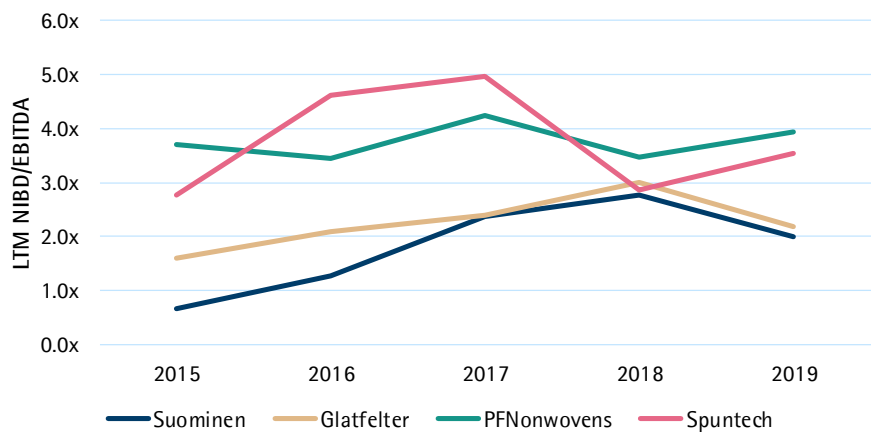
Figure 26: Suominen cash position and interest-bearing liabilities' maturity schedule



Source: Suominen
* YE 2019

Suominen's interest-bearing liabilities have tended to amount to slightly over EUR 100m in recent years. In September 2017 the company issued an EUR 85m unsecured bond that carries a fixed annual 2.50% coupon rate and matures in October 2022. The bond is listed on Nasdaq Helsinki. Suominen also entered into a syndicated credit facility agreement in connection with the issuance of the bond. The credit line is a EUR 100m single-currency RCF with a maturity of four years and carries a floating rate of interest. In early 2020 Suominen had drawn an outstanding balance of EUR 10m from the facility. Suominen also lately decided to ensure its financial position and liquidity by renewing the facility. Meanwhile the company's lease liabilities amount to some EUR 13m. All in all, we view Suominen's liquidity and solvency situation good.

Figure 27: Suominen and public competitors' financial leverage, 2015-19



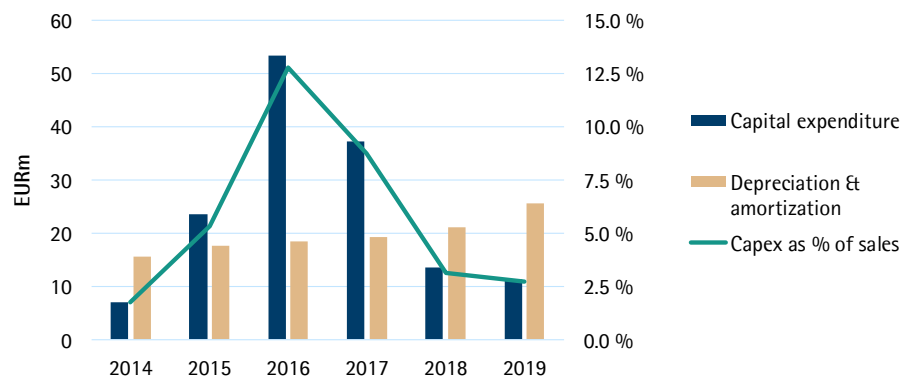
Source: Company reports, FactSet

In terms of NIBD/EBITDA Suominen is currently levered at around 1x on a trailing twelve months' basis. Compared to a select group of publicly traded competing nonwovens producers Suominen has employed financial leverage in a quite conservative manner: Suominen averaged LTM NIBD/EBITDA clearly below 2x during the period 2015-19 while the three peers did some 3.25x.

Cash flow and returns on capital

Suominen's capital expenditure needs seem very moderate for now since the company has communicated a focus on optimizing the current plant network's efficiency and expansion through M&A or greenfield is not imminent. The very high capital expenditures seen in 2016-17 reflect e.g. the investment in Bethune.

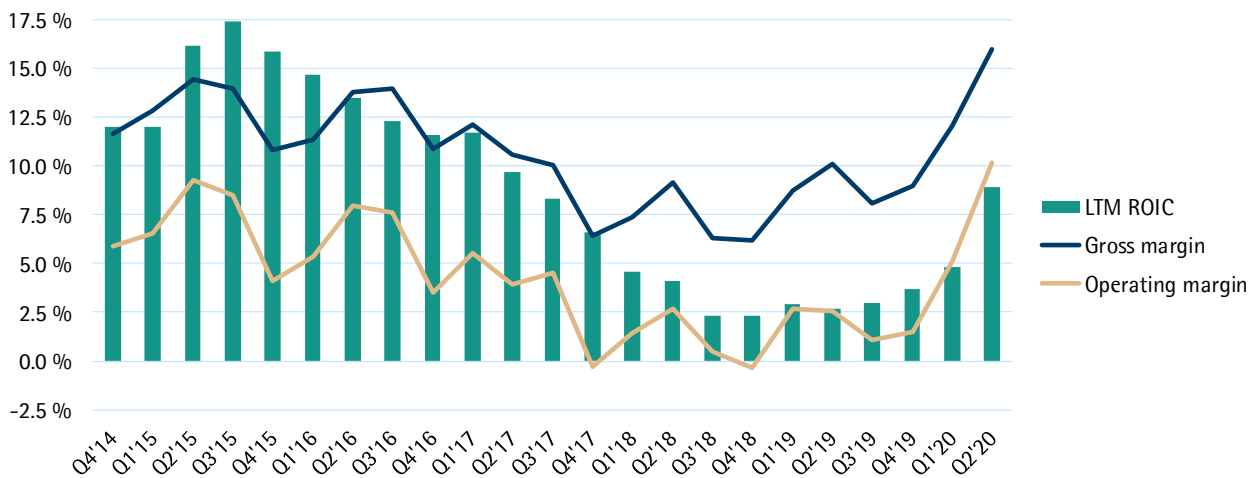
Figure 28: Suominen capital expenditures and depreciation & amortization



Source: Suominen

Suominen spent some EUR 11m in 2019 on capital expenditures, most of which was attributable to the Green Bay plant growth investment initiative as well as the group-wide ICT systems renewal. Suominen's eight plants are now all operating with updated ICT systems.

Figure 29: Suominen quarterly profitability and return on invested capital



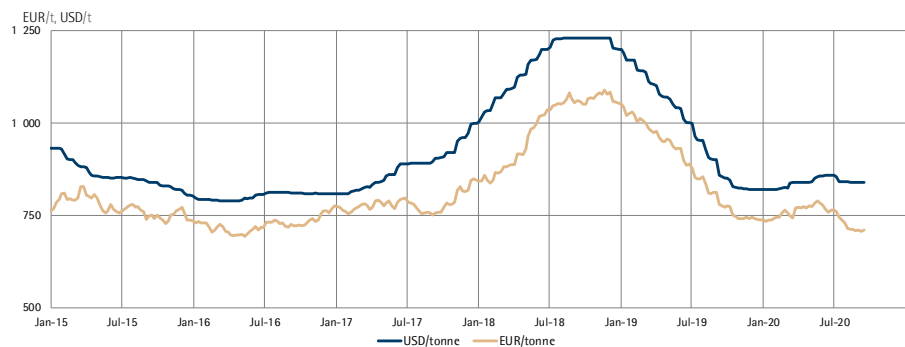
Source: Suominen

Suominen now enjoys a strong cash conversion rate as a result of recent years' big investments; going forward capital expenditures are likely to be quite modest. Annual depreciation charges are still significantly higher than before the major investment period of 2015-17 i.e. at around EUR 22m in FY '20 compared to some EUR 15m in 2013-14.

Estimates

Raw materials price movements can potentially have a significant short-term impact on Suominen's profitability. The overall raw materials price picture now seems to suggest stabilization after a period of very soft development. Low raw materials prices helped support Suominen's profitability in H1'20; we expect the nonwovens price dynamic will provide some headwind for Suominen's profitability in H2'20 as Suominen's delivery prices adjust downwards to accommodate the lower raw materials prices.

Figure 30: European softwood pulp prices

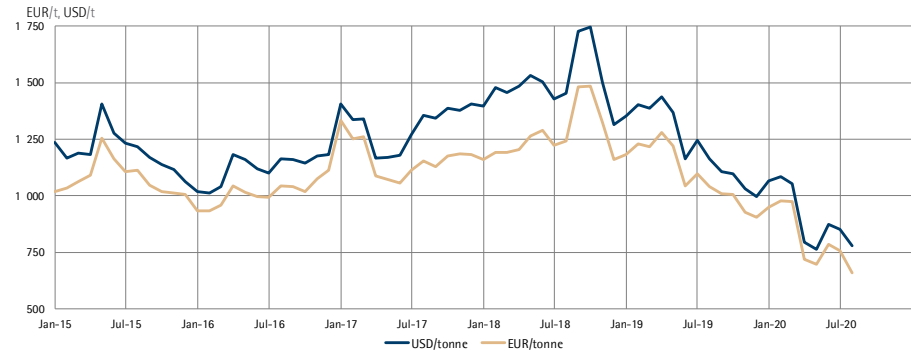


Source: FOEX

Although pulp prices declined steeply during 2019 from their previous year's record-highs a strong rebound still seems unlikely. European and Chinese prices have both basically flatlined for the last twelve months and in our view the current outlook suggests similar development for the rest of 2020. We would also find any significant increases in other key raw materials prices, especially for oil-based polypropylene and

polyester, surprising in the short-term given the current uncertain and challenging macroeconomic outlook.

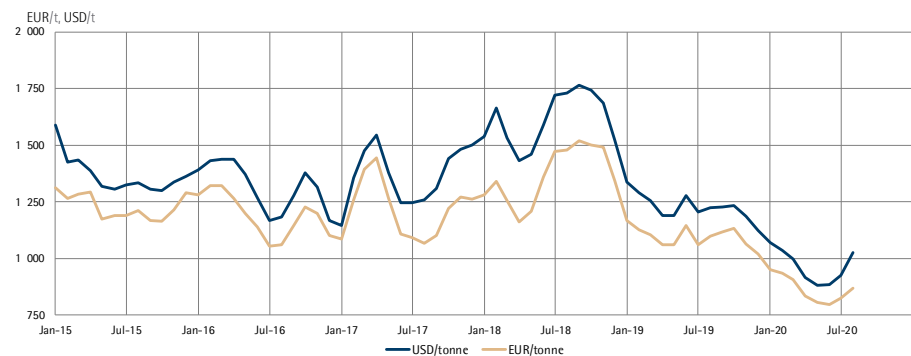
Figure 31: Chinese polyester prices



Source: Bloomberg

Oil-based nonwovens raw material polyester has witnessed soft pricing trends for the past two years or so. Polyester prices continued to decline throughout 2019 and the onset of the pandemic has not helped. Meanwhile polypropylene prices have slid in a similar fashion in the wake of low oil prices.

Figure 32: US polypropylene prices



Source: Bloomberg

In practice nonwovens and raw materials prices are highly correlated as the former tends to follow the latter's development with a lag of few months. The current exceptional circumstances might lead to some situations where nonwovens manufacturers can defend their pricing relative to weak raw materials prices, however we see this at best a short-term opportunity and thus not a particularly meaningful issue when it comes to Suominen's long-term business prospects.

We see some profitability headwinds for H2'20 compared to Q2'20

According to Suominen's latest outlook the company expects 2020 comparable operating profit to improve significantly from 2019. This guidance has somewhat limited information value after the Q2'20 earnings release as Q2'20 EBIT was by itself meaningfully larger than the FY '19 EBIT. Indeed, H1'20 EBIT stood more than twice the amount of FY '19 EBIT. In Suominen's case the onset of the pandemic basically marked several years' profitability leap in the span of just a few months. Gross margin reached a record high of 16.0% in Q2 as raw materials prices continued to decline faster than Suominen's nonwovens delivery prices. Delivery volumes were also very high. The outlook for H2'20 is slightly dampened by the fact that several Suominen plants will go through scheduled maintenance shutdowns and thus production volumes will be lower. We also see some downward gross margin pressure going forward as nonwovens prices are likely to continue adjusting to lower raw materials prices. We expect gross margin to decline

to 15% in Q3'20 and further to 14% in Q4'20. For FY '21 we are expecting 13.5% gross margin, which can be compared to e.g. the 13.1% figure achieved back in FY '15.

Table 2: Suominen estimates summary

Suominen EURm	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	2018 FY	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 FY	2020 Q1	2020 Q2	2020E Q3E	2020E Q4E	2020E FY	2021E FY
Sales	374	402	444	417	426	431	110	104	104	94	411	110	122	114	107	453	467
Sales growth, %		8 %	11 %	-6 %	2 %	1 %	3 %	-6 %	-1 %	-14 %	-5 %	0 %	18 %	10 %	13 %	10 %	3 %
Geography																	
Europe	150	153	172	171	174	171	42	39	37	32	150	37	45	41	38	161	170
Americas	224	249	272	246	252	260	68	65	66	62	262	73	77	73	69	292	297
COGS	-334	-352	-386	-365	-384	-400	-101	-94	-96	-86	-377	-97	-103	-97	-92	-388	-404
Gross Profit	40	50	58	52	42	31	9.6	9.7	7.7	7.8	35	13.3	19.5	17.1	15.0	65	63
Gross-%	10.7 %	12.4 %	13.1 %	12.5 %	9.9 %	7.3 %	8.8 %	9.3 %	7.4 %	8.3 %	8.4 %	12.1 %	16.0 %	15.0 %	14.0 %	14.3 %	13.5 %
SGA & R&D	-22.4	-24.6	-28.0	-27.9	-28.9	-29.2	-7.5	-7.4	-7.1	-6.6	-28.5	-7.8	-7.8	-7.5	-7.5	-30.6	-30.0
Other	1.7	0.8	1.8	1.3	1.7	2.5	0.8	0.4	0.5	0.2	1.9	0.2	0.7	0.2	0.2	1.3	0.8
EBIT	18.9	25.9	31.8	25.6	15.0	4.6	3.0	2.7	1.1	1.4	8.1	5.7	12.4	9.8	7.7	35.6	33.8
IAC	-0.5	-1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT ex IAC	19.4	26.9	31.2	25.6	15.0	4.6	3.0	2.7	1.1	1.4	8.1	5.7	12.4	9.8	7.7	35.6	33.8
EBIT-% ex IAC	5.2 %	6.7 %	7.0 %	6.1 %	3.5 %	1.1 %	2.7 %	2.6 %	1.0 %	1.5 %	2.0 %	5.2 %	10.1 %	8.6 %	7.2 %	7.9 %	7.2 %
Depreciation	-13.9	-15.6	-17.7	-18.5	-19.4	-21.0	-6.3	-6.4	-6.7	-6.0	-25.5	-5.6	-5.6	-5.5	-5.5	-22.2	-22.0
EBITDA ex IAC	33.3	42.5	48.9	44.2	34.3	25.6	9.3	9.1	7.8	7.4	33.6	11.3	18.0	15.3	13.2	57.8	55.8
EBITDA-% ex IAC	8.9 %	10.6 %	11.0 %	10.6 %	8.1 %	5.9 %	8.5 %	8.8 %	7.5 %	7.8 %	8.2 %	10.3 %	14.7 %	13.4 %	12.3 %	12.7 %	12.0 %

Source: Suominen, Evli Research

We expect profitability to stay strong, but FY '20 results will likely set the bar high for further gains

Although Suominen's positioning now looks strong, in our view long-term estimates can't be weighed that much

Despite some profitability headwinds in H2'20 relative to Q2 it nevertheless seems 2020 is shaping up to be such a strong year for Suominen that it might be hard to improve further in 2021. The company booked EUR 18.1m in H1'20 EBIT, a performance on par with the strong figures witnessed back in 2015 i.e. before profitability plunged. We estimate Suominen will post a 12.7% EBITDA margin for FY '20. We expect the margin to decline to 12.0% in FY '21 since we see Suominen's FY '20 gross margin levels abnormally high. In practical terms we estimate Suominen's FY '21 EBIT/EBITDA to develop flat or slightly down compared to FY '20. While Suominen's gross margin probably peaked in Q2'20 it is also reasonable to expect rather strong top line growth going forward. On the other hand, we see some caution is in order when estimating growth rates for the coming years, given that 2020 is already proving to be a bumper year.

With regards to Suominen's long-term development, we see the company is now in a strong position to achieve its strategic financial target of above 12% EBITDA margin already in an early phase of the 2020-25 strategy period. When it comes to top line growth, we expect Suominen to have a reasonable chance of achieving its above market rate growth target since the company's focus on introducing new sustainable products seems to be paying off. Our revenue growth estimates for the coming years, at around a few percentage points per year, indeed appear somewhat conservative given Suominen's favorable positioning and the overall good wiping market outlook.

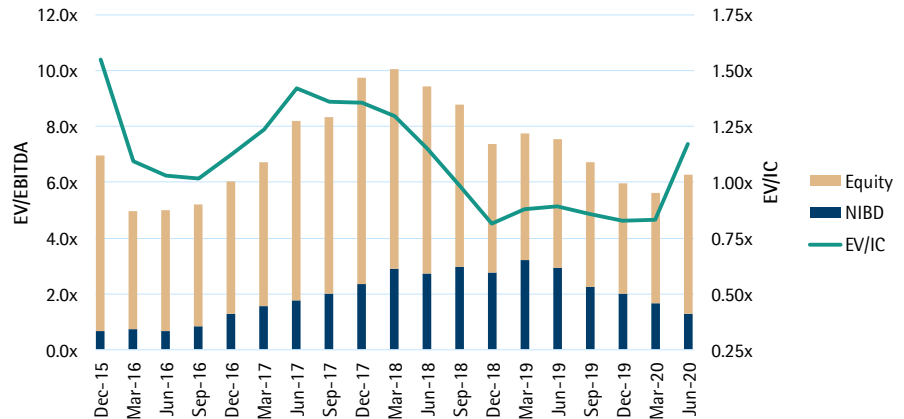
Valuation

We consider Suominen's current valuation within the context of both its own historical (both trailing and forward-looking) multiples and relative to peer group valuations. We also provide some context for Suominen's valuation in a potential takeover situation.

Suominen has been valued on average at about 7.1x EV/EBITDA (based on trailing twelve months' figures) during the last five years. In terms of EV/EBIT the figure amounts to roughly 22x. Meanwhile Suominen's valuation has on average translated to a 10% premium relative to invested capital, a figure which has hovered close to EUR 240m during the last five years or so. Based on these historical valuation levels we view Suominen's current respective trailing earnings-based multiples to be reasonable

considering the present point in the earnings-cycle (Suominen is now valued at around 1.4x EV/IC, which we also consider reasonable in the current context).

Figure 33: Suominen capital structure and valuation



Source: Suominen, FactSet

Note: EBITDA calculation is based on trailing twelve months' figures

We still see upside to Suominen's current valuation multiples

Suominen has tended to trade at about 6.5x EV/EBITDA (in terms of current fiscal year estimates) during the past five years, while the respective average EV/EBIT multiple amounts to some 15x. The comparable EV/EBITDA and EV/EBIT multiples for the median peer have averaged some 8.7x and 14.3x, respectively. In this context we view Suominen's current earnings-based valuation multiples attractive. Suominen's current P/B multiple, amounting to about 1.9x, is not that cheap compared to the recent years' 1.4x average. Then again, the recent past mostly represents rather subdued levels of profitability. We note Suominen was valued at a P/B multiple of some 2.25x in late 2015 i.e. back when profitability had not dipped. The median peer has averaged a P/B multiple of about 2.8x, although there's a lot of variation between the sample constituents.

Table 3: Suominen and peer valuation multiples

SUOMINEN PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			EBIT-%		
		19	20	21	19	20	21	19	20	21
Ahlstrom-Munksjo	1674	8.5x	8.2x	7.0x	18.7x	18.0x	12.7x	4.7 %	5.6 %	7.4 %
Berry Global Group	5389	10.6x	7.9x	7.7x	17.3x	13.2x	12.5x	10.6 %	10.9 %	11.2 %
Kimberly-Clark	42310	13.2x	12.5x	12.2x	18.6x	15.7x	15.3x	16.2 %	19.3 %	19.5 %
N.R. Spuntech Industries	193									
Neenah	531	11.2x	9.4x	7.5x	16.8x		12.2x	8.9 %	-2.0 %	8.0 %
P. H. Glatfelter	494	9.7x	7.2x	7.0x	18.3x	14.3x	11.9x	6.2 %	6.6 %	7.6 %
PFNonwovens	247									
Peer Group Average	7263	10.6x	9.1x	8.3x	17.9x	15.3x	12.9x	9.3 %	8.1 %	10.7 %
Peer Group Median	531	10.6x	8.2x	7.5x	18.3x	15.0x	12.5x	8.9 %	6.6 %	8.0 %
Suominen (Evli est.)	286	6.6x	5.7x	5.4x	27.5x	9.3x	8.9x	2.0 %	7.9 %	7.2 %
<i>Suominen prem./disc. to peer median</i>		-37 %	-31 %	-28 %	50 %	-38 %	-28 %	-78 %	20 %	-10 %

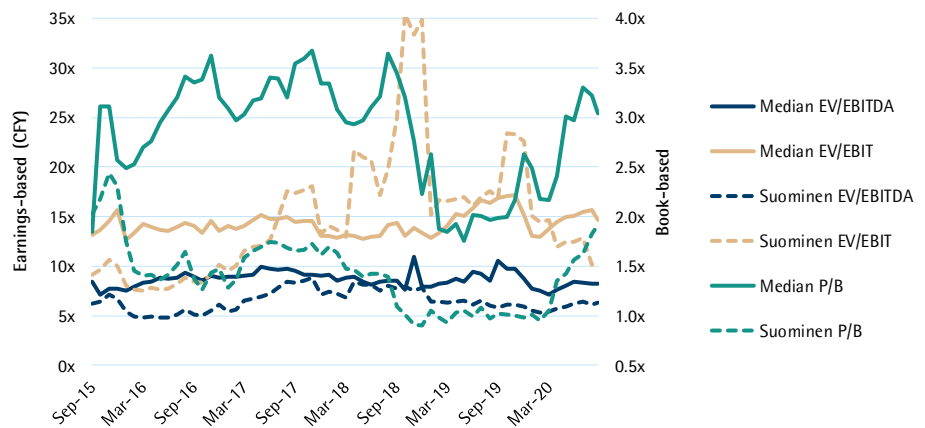
Source: FactSet, Evli Research

In our opinion peer multiples are not that relevant for Suominen's valuation purposes

Our peer group for Suominen's includes a few rather large names like Berry Global and Kimberly-Clark as well as certain mid-size ones, namely Ahlstrom-Munksjö and Neenah Paper (which happen to be quite similar businesses relative to each other). Suominen is somewhat smaller than the sample median in terms of market capitalization. In our view the relatively small size explains a part of Suominen's significantly lower earnings-based valuation multiples relative to peer group medians and averages. In our opinion Suominen's lower valuation multiples are warranted in the sense that the peers tend to be larger and have much more diversified product portfolios, whereas Suominen is basically a pure play on nonwovens wipes. The peers also seem to exhibit more stable

financial performance. In our opinion Glatfelter is the single-most relevant peer since the company's Airlaid Materials segment supplies airlaid nonwovens for both dry and wet wiping purposes (customers include e.g. Procter & Gamble, Johnson & Johnson and Kimberly-Clark). However, Glatfelter also has another reporting segment, namely Composite Fibers, which supplies customers with e.g. teabag filter materials. We therefore likewise see Glatfelter's multiples to be of somewhat limited use in the context of Suominen's valuation.

Figure 34: Suominen and peer group median valuation multiples



Source: Bloomberg

There are a few large players that could potentially contemplate acquiring Suominen

There could be upside to Suominen's current trailing earnings-based valuation multiples should the company find itself in the position of an acquisition target. We find there could be upside especially in terms of current EV/S and EV/EBITDA multiples as a typical target in the sample was valued at some 1.2x Sales and ca. 9x EBITDA (compared to Suominen's current trailing respective multiples of 0.8x and 7.7x). These multiples should also be applicable to Suominen in the sense that the typical target in our sample falls roughly in the same size-category as Suominen i.e. valued at a few hundred million euros. Without gauging the likelihood of any takeover proposal, we note there are at least two possible industrial acquirers. Both Berry Global and Freudenberg Performance Materials have a presence in nonwovens manufacturing and in this sense should be potential strategic buyers with easily enough financial muscle to facilitate an acquisition. Berry Global competes directly with Suominen in wipes while Freudenberg Performance Materials focuses on different applications like lightweight cargo covers for the automotive industry and healthcare uses such as first aid dressings.

Table 4: Suominen current trailing multiples and sector M&A valuations

Acquisition target	EV (EURm) ¹⁾	EV/S ¹⁾	EV/EBITDA ¹⁾	EV/EBIT ¹⁾
Suominen	343	0.8x	7.7x	16.7x
Sample average	268	1.2x	9.0x	25.0x
Sample median	125	1.2x	8.6x	15.8x

1) Sample multiples based on latest reported fiscal year; Suominen's multiples based on LTM Q2'20 financials
Source: Mergermarket, Evli Research

We see upside potential in short as well as long term

Our EUR 5.50 target price is in accordance with our positive view regarding Suominen's continued strong profitability. The target price would imply some 6x EV/EBITDA and 10x EV/EBIT multiples (based on our estimates for '20 and '21), levels which we consider still leave further long-term upside potential. With respect to DCF valuation we see equity valuation potential meaningfully upwards of EUR 6 per share (even with bit conservative

medium-term growth expectations), however in our opinion such long-term valuation approach should be applied somewhat cautiously given the nonwovens business' rather limited visibility and tough value-chain positioning. We consequently rate Suominen's shares BUY.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	4.91 PV of Free Cash Flow	215 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	6.37 PV of Horizon value	226 WACC, %	7.9 Market risk premium, %	5.8
Share price potential, %	29.7 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	7.0 Marketable securities	33 Minimum WACC, %	7.4 Equity beta coefficient	1.00
Minimum value	5.9 Debt - dividend	-103 Maximum WACC, %	8.4 Target debt ratio, %	20
Horizon value, %	51.2 Value of stock	371 Nr of shares, Mn	58.3 Effective tax rate, %	28

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	411	453	467	480	490	499	509	520	530	541	551	562
<i>Sales growth, %</i>	-4.6	10.2	3.0	2.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Operating income (EBIT)	8	36	34	34	34	35	36	36	37	38	39	39
<i>Operating income margin, %</i>	2.0	7.9	7.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
+ Depreciation+amort.	26	22	22	20	19	18	17	18	18	18	18	19
EBITDA	34	58	56	54	53	53	53	54	55	56	57	
- Paid taxes	-4	-6	-7	-7	-7	-7	-7	-8	-8	-8	-8	
- Change in NWC	-1	-4	-1	-1	-1	-1	-1	-1	-1	-1	-1	
<i>NWC / Sales, %</i>	9.0	9.0	9.0	9.0	9.0	8.9	8.9	8.9	8.9	8.9	8.9	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-11	-12	-13	-13	-14	-16	-18	-20	-20	-20	-22	
<i>opCAPEX / Sales, %</i>	2.6	3.0	2.9	2.8	2.9	3.3	3.6	3.9	3.9	3.8	4.0	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= FCFF	18	36	35	33	31	29	27	25	26	27	27	457
= Discounted FCFF		35	31	28	24	21	18	16	15	15	13	226
= DFCF min WACC		35	32	28	25	21	18	16	16	15	14	257
= DFCF max WACC		35	31	27	24	20	17	15	15	14	13	199

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	109.8	103.8	103.4	94.5	411.4	110.2	122.2	114.0	107.0	453.4	467.0	480.0
EBITDA	9.3	9.0	7.8	7.4	33.6	11.3	18.0	15.3	13.2	57.8	55.8	53.9
<i>EBITDA margin (%)</i>	<i>8.5</i>	<i>8.7</i>	<i>7.6</i>	<i>7.8</i>	<i>8.2</i>	<i>10.3</i>	<i>14.7</i>	<i>13.4</i>	<i>12.3</i>	<i>12.7</i>	<i>12.0</i>	<i>11.2</i>
EBIT	3.0	2.6	1.1	1.4	8.1	5.7	12.4	9.8	7.7	35.6	33.8	33.6
<i>EBIT margin (%)</i>	<i>2.7</i>	<i>2.5</i>	<i>1.1</i>	<i>1.5</i>	<i>2.0</i>	<i>5.2</i>	<i>10.1</i>	<i>8.6</i>	<i>7.2</i>	<i>7.9</i>	<i>7.2</i>	<i>7.0</i>
Net financial items	-1.5	-1.5	-1.1	-1.9	-6.0	-1.9	-1.9	-1.0	-1.0	-5.8	-2.6	-1.7
Pre-tax profit	1.5	1.1	0.0	-0.5	2.1	3.8	10.5	8.8	6.7	29.8	31.2	31.9
Tax	-0.5	-0.6	-0.1	-0.7	-1.9	-0.2	-2.2	-1.5	-1.5	-5.4	-6.6	-6.7
<i>Tax rate (%)</i>	<i>35.9</i>	<i>51.0</i>	<i>357.1</i>	<i>-132.6</i>	<i>90.5</i>	<i>4.6</i>	<i>21.1</i>	<i>17.0</i>	<i>22.4</i>	<i>18.1</i>	<i>21.0</i>	<i>21.0</i>
Net profit	1.0	0.5	-0.1	-1.2	0.2	3.6	8.3	7.3	5.2	24.4	24.6	25.2
EPS	0.02	0.01	0.00	-0.02	0.00	0.06	0.14	0.13	0.09	0.42	0.42	0.43
EPS adjusted (diluted no. of shares)	0.02	0.01	0.00	-0.02	0.00	0.06	0.14	0.13	0.09	0.42	0.42	0.43
Dividend per share	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.07	0.17	0.17
SALES, EURm												
Group	109.8	103.8	103.4	94.5	411.4	110.2	122.2	114.0	107.0	453.4	467.0	480.0
Total	109.8	103.8	103.4	94.5	411.4	110.2	122.2	114.0	107.0	453.4	467.0	480.0
SALES GROWTH, Y/Y %												
Group	3.0	-5.6	-1.4	-13.9	-4.6	0.4	17.7	10.3	13.3	10.2	3.0	2.8
Total	3.0	-5.6	-1.4	-13.9	-4.6	0.4	17.7	10.3	13.3	10.2	3.0	2.8
EBIT, EURm												
Group	3.0	2.6	1.1	1.4	8.1	5.7	12.4	9.8	7.7	35.6	33.8	33.6
Total	3.0	2.6	1.1	1.4	8.1	5.7	12.4	9.8	7.7	35.6	33.8	33.6
EBIT margin, %												
Group	2.7	2.5	1.1	1.5	2.0	5.2	10.1	8.6	7.2	7.9	7.2	7.0
Total	2.7	2.5	1.1	1.5	2.0	5.2	10.1	8.6	7.2	7.9	7.2	7.0

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	444.0	416.9	426.0	431.1	411.4	453.4	467.0	480.0
<i>Sales growth (%)</i>	<i>10.5</i>	<i>-6.1</i>	<i>2.2</i>	<i>1.2</i>	<i>-4.6</i>	<i>10.2</i>	<i>3.0</i>	<i>2.8</i>
EBITDA	48.9	44.1	34.3	25.6	33.6	57.8	55.8	53.9
<i>EBITDA margin (%)</i>	<i>11.0</i>	<i>10.6</i>	<i>8.1</i>	<i>5.9</i>	<i>8.2</i>	<i>12.7</i>	<i>12.0</i>	<i>11.2</i>
Depreciation	-17.7	-18.5	-19.3	-21.0	-25.5	-22.2	-22.0	-20.3
EBITA	31.2	25.6	15.0	4.6	8.1	35.6	33.8	33.6
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	31.2	25.6	15.0	4.6	8.1	35.6	33.8	33.6
<i>EBIT margin (%)</i>	<i>7.0</i>	<i>6.1</i>	<i>3.5</i>	<i>1.1</i>	<i>2.0</i>	<i>7.9</i>	<i>7.2</i>	<i>7.0</i>
Reported EBIT	31.8	25.6	15.0	4.6	8.1	35.6	33.8	33.6
<i>EBIT margin (reported) (%)</i>	<i>7.2</i>	<i>6.1</i>	<i>3.5</i>	<i>1.1</i>	<i>2.0</i>	<i>7.9</i>	<i>7.2</i>	<i>7.0</i>
Net financials	-5.3	-3.2	-2.6	-5.6	-6.0	-5.8	-2.6	-1.7
Pre-tax profit	25.9	22.4	12.4	-1.0	2.1	29.8	31.2	31.9
Taxes	-9.5	-7.2	2.0	-0.8	-1.9	-5.4	-6.6	-6.7
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	17.0	15.2	14.5	-1.7	0.2	24.4	24.6	25.2
Cash NRIs	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	122	160	160	156	143	132	123	116
Goodwill	15	15	15	15	15	15	15	15
Right of use assets	0	0	0	17	16	18	19	19
Inventory	33	43	44	52	45	50	51	53
Receivables	53	56	66	63	61	66	68	70
Liquid funds	64	38	35	32	33	36	37	38
Total assets	292	316	326	338	316	321	317	314
Liabilities								
Shareholder's equity	108	126	136	131	131	152	173	188
Minority interest	0	0	0	0	0	0	0	0
Convertibles	18	17	0	0	0	0	0	0
Lease liabilities	0	0	0	13	16	18	19	19
Deferred taxes	11	11	15	12	12	12	12	12
Interest bearing debt	97	94	110	102	86	61	34	14
Non-interest bearing current liabilities	56	65	63	75	66	73	75	77
Other interest-free debt	2	2	1	3	3	3	3	3
Total liabilities	292	316	326	338	316	321	317	314
CASH FLOW, EURm								
+ EBITDA	49	44	34	26	34	58	56	54
- Net financial items	-5	-3	-3	-6	-6	-6	-3	-2
- Taxes	-8	-6	0	6	-2	-5	-7	-7
- Increase in Net Working Capital	-8	-6	-8	6	-1	-4	-1	-1
+/- Other	-4	-2	-5	-3	0	0	0	0
= Cash flow from operations	23	26	19	28	25	43	45	44
- Capex	-22	-50	-34	-15	-11	-14	-14	-14
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	1	-23	-14	13	14	29	32	31
+/- New issues/buybacks	3	8	1	3	0	0	0	0
- Paid dividend	-2	-5	-6	-6	0	-3	-4	-10
+/- Other	16	-7	16	-12	-13	-23	-27	-20
Change in cash	17	-26	-3	-3	1	3	1	1

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	214	258	119	153	286	286	286
Net debt (excl. convertibles)	57	76	83	70	43	15	-6
Enterprise value	287	333	203	223	329	301	280
Sales	417	426	431	411	453	467	480
EBITDA	44	34	26	34	58	56	54
EBIT	26	15	5	8	36	34	34
Pre-tax	22	12	-1	2	30	31	32
Earnings	15	14	-2	0	24	25	25
Equity book value (excl. minorities)	126	136	131	131	152	173	188
Valuation multiples							
EV/sales	0.7	0.8	0.5	0.5	0.7	0.6	0.6
EV/EBITDA	6.5	9.7	7.9	6.6	5.7	5.4	5.2
EV/EBITA	11.2	22.2	44.1	27.5	9.3	8.9	8.3
EV/EBIT	11.2	22.2	44.1	27.5	9.3	8.9	8.3
EV/OCF	10.9	17.3	7.2	8.9	7.7	6.6	6.3
EV/FCFF	-15.6	-29.4	11.7	12.3	9.2	8.7	8.6
P/FCFE	-9.4	-18.0	9.0	10.8	9.7	9.0	9.3
P/E	14.0	17.8	-69.4	766.1	11.7	11.6	11.4
P/B	1.7	1.9	0.9	1.2	1.9	1.7	1.5
Target EV/EBITDA	0.0	0.0	0.0	0.0	6.3	6.0	5.8
Target EV/EBIT	0.0	0.0	0.0	0.0	10.2	9.9	9.4
Target EV/FCF	0.0	0.0	0.0	0.0	12.4	10.5	10.2
Target P/B	0.0	0.0	0.0	0.0	2.1	1.9	1.7
Target P/E	0.0	0.0	0.0	0.0	13.1	13.0	12.7
Per share measures							
Number of shares	51,666	58,259	58,259	58,259	58,259	58,259	58,259
Number of shares (diluted)	51,666	65,259	58,259	58,259	58,259	58,259	58,259
EPS	0.29	0.25	-0.03	0.00	0.42	0.42	0.43
Operating cash flow per share	0.51	0.33	0.48	0.43	0.74	0.78	0.76
Free cash flow per share	-0.44	-0.25	0.23	0.24	0.50	0.55	0.53
Book value per share	2.44	2.34	2.24	2.24	2.61	2.97	3.23
Dividend per share	0.11	0.11	0.00	0.05	0.07	0.17	0.17
Dividend payout ratio, %	37.3	44.3	0.0	1,456.5	16.7	40.0	40.0
Dividend yield, %	2.7	2.5	0.0	1.0	1.4	3.4	3.5
FCF yield, %	-10.6	-5.6	11.1	9.2	10.3	11.2	10.8
Efficiency measures							
ROE	13.0	11.0	-1.3	0.2	17.2	15.2	14.0
ROCE	11.4	6.2	1.9	3.4	15.3	14.8	15.1
Financial ratios							
Inventories as % of sales	10.2	10.4	12.0	11.0	11.0	11.0	11.0
Receivables as % of sales	13.5	15.6	14.7	14.7	14.6	14.6	14.6
Non-interest bearing liabilities as % of sales	15.7	14.8	17.5	16.0	16.0	16.0	16.0
NWC/sales, %	8.0	11.1	8.5	9.0	9.0	9.0	9.0
Operative CAPEX/sales, %	11.9	7.9	3.5	2.6	3.0	2.9	2.8
CAPEX/sales (incl. acquisitions), %	11.9	7.9	3.5	2.6	3.0	2.9	2.8
FCFF/EBITDA	-0.4	-0.3	0.7	0.5	0.6	0.6	0.6
Net debt/EBITDA, book-weighted	1.3	2.2	3.2	2.1	0.7	0.3	-0.1
Debt/equity, market-weighted	0.4	0.4	0.9	0.6	0.2	0.1	0.0
Equity ratio, book-weighted	45.3	41.8	38.7	41.4	47.4	54.5	59.8
Gearing, %	39.6	55.6	63.7	53.3	28.4	8.9	-3.0

COMPANY DESCRIPTION: Suominen manufactures nonwovens for global consumer brands on eight production plants located on three continents. The company sources the raw materials from fiber producers and sells the output as roll goods to global consumer brand manufacturers. Suominen's nonwovens are mainly used in wiping products such as wet wipes for baby care, personal hygiene, and household and workplace wiping. Other end-uses include hygiene and medical applications such as sanitary pads, diapers, and surgical drapes and swabs.

INVESTMENT CASE: Suominen's recent challenges with nonwovens' gross margins and delivery volumes are no longer present. In our view the demand outlook for household wiping products is especially strong. Suominen also seems to be making good progress with sustainable wiping products, meaning the company is increasingly able to replace synthetic raw materials with wood-based fibers. Although supply will no doubt grow in the long-term, the surge in wiping demand has nevertheless turned the current supply-demand balance much more favorable also from a nonwovens manufacturer's point of view. We view Suominen's long-term financial targets realistic.

OWNERSHIP STRUCTURE	SHARES	EURm	%
AC Invest two B.V.	13,953,357	68.511	24.0%
Oy Etra Invest Ab	7,770,000	38.151	13.3%
Varma Mutual Pension Insurance Company	4,500,000	22.095	7.7%
Euroclear Bank Sa/Nv	3,382,604	16.609	5.8%
Ilmarinen Mutual Pension Insurance Company	3,046,892	14.960	5.2%
Elo Mutual Pension Insurance Company	3,024,651	14.851	5.2%
Mandatum Life Insurance Company Limited	1,927,536	9.464	3.3%
Nordea Life Assurance Finland Ltd.	1,812,000	8.897	3.1%
Oy H. Kuningas Et Co Ab	1,567,416	7.696	2.7%
Evald and Hilda Nissi's Foundation	1,000,000	4.910	1.7%
Ten largest	41,984,456	206.144	72%
Residual	16,274,763	79.909	28%
Total	58,259,219	286.053	100%

EARNINGS CALENDAR

October 27, 2020

Q3 report

OTHER EVENTS**COMPANY MISCELLANEOUS**

CEO: Petri Helsky

Karvaamokuja 2 B, FI-00380 Helsinki

CFO: Toni Tamminen

Tel: +358 (0)10 214 300

IR: Emilia Peltola

DEFINITIONS

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

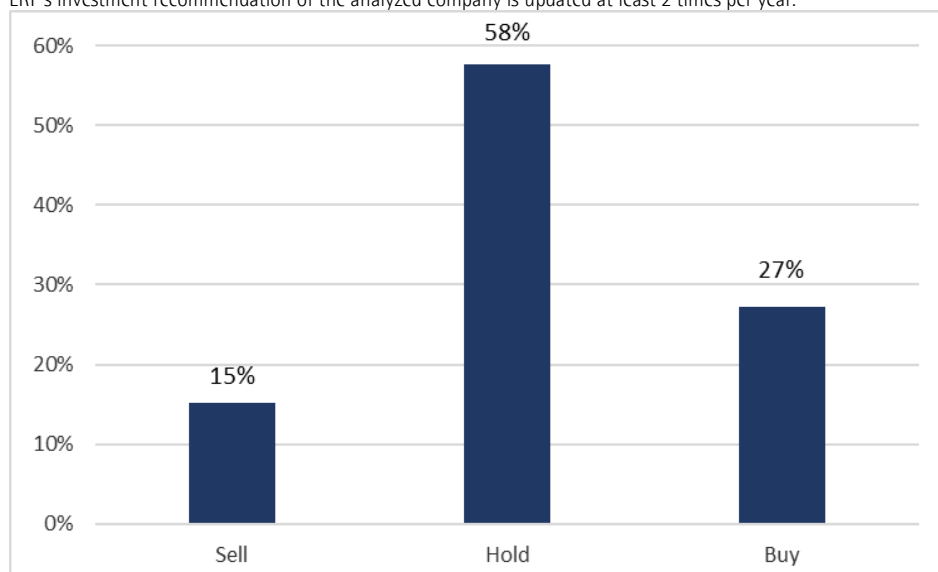
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Investment recommendations are defined as follows:

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

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

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Contact information**SALES, TRADING AND RESEARCH****Equity Sales**

Ari Laine +358 9 4766 9115
Lauri Ahokanto +358 9 4766 9117
Niclas Henelius +358 9 4766 9116

Trading

Lauri Vehkaluoto (Head) +358 9 4766 9120
Pasi Väisänen +358 9 4766 9120
Antti Kässi +358 9 4766 9120
Miika Roankanen +358 9 4766 9120

ETFs and Derivatives

Joachim Dannberg +358 9 4766 9123
Kimmo Lijja +358 9 4766 9130

Structured Investments

Heikki Savijoki +358 9 4766 9726
Aki Lakkisto +358 9 4766 9123

Equity Research

Jonas Forslund +358 9 4766 9314
Joonas Ilvonen +358 44 430 9071
Jerker Salokivi +358 9 4766 9149
Anna-Liisa Rissanen +358 40 157 9919

Evli Investment Solutions

Johannes Asuja +358 9 4766 9205
Markku Reinikainen +358 9 4766 9669



EVLI BANK PLC
Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail firstname.lastname@evli.com

**EVLI BANK PLC,
STOCKHOLMSFILIAL**
Regeringsgatan 67 P.O. Box 16354
SE-103 26 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001