EVLI

TOKMANNI

Food & Staples Retailing/Finland, December 5, 2018

Company update

CMD: strategy and targets reaffirmed

Tokmanni's CMD provided an update into the company's strategic focus areas and targets. The CMD reaffirmed that the sourcing improvement potential, which has been key to our investment case, remains intact and is of high importance in management's agenda. We continue to expect margins to improve in upcoming years and hence retain "Buy" rating with TP of EUR 9 for the shares.

Targeting EUR 1bn in sales by 2020E

Tokmanni targets EUR 1bn in sales by 2020E with further store network expansion and LFL growth. After the recent Ale-Makasiini acquisition the store count is now 186 stores vs. the target of 200 stores. At the targeted expansion pace (12,000m2 or ~5 stores annually) the target of 200 stores will be reached within the next few years. Growth plans beyond this were not addressed.

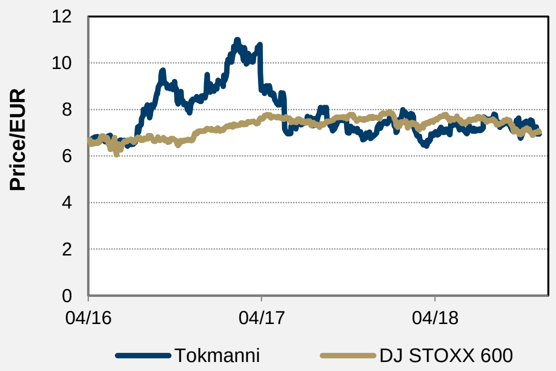
EBITDA to 10% via improved sourcing and OPEX scalability

Tokmanni continues to target 10% adj. EBITDA margin. This does not include impact of upcoming IFRS 16. The target implies 2-3% margin improvement compared to the level reached in recent years. 1-2% of this is to come from the gross margin, which is to improve primarily driven by increased direct sourcing and by increased share of private label products in the mix. The targeted gross margin improvement is in line with what we had already incorporated into our estimates and it reaffirms the validity of further sourcing improvement potential. OPEX scalability should contribute the remaining 1-1.5%. Positive LFL growth is expected to be a key driver behind OPEX scalability.

Maintaining "Buy" on margin improvement potential

We have included the acquired Ale-Makasiini into our estimates, but for other parts our estimates remain broadly intact. We expect earnings to improve in 2019-2020E driven primarily by gross margin improvements via more efficient sourcing. We consider valuation moderate against the margin improvement potential and hence retain "Buy" rating for the shares.

Rating: BUY



Share price, EUR (Last trading day's closing price)	6.95
Target price, EUR	9.0
Latest change in recommendation	18-Apr-17
Latest report on company	25-Oct-18
Research paid by issuer:	Yes
No. of shares outstanding, '000's	58,869
No. of shares fully diluted, '000's	58,869
Market cap, EURm	409
Free float, %	100.0
Exchange rate	1.000
Reuters code	TOKMAN.HE
Bloomberg code	TOKMAN FH
Average daily volume, EURm	na.
Next interim report	-
Web site	https://yritys.tokmanni.fi/

Analyst	Joonas Häyhä
E-mail	joonas.hayha@evli.com
Telephone	+358 9 4766 9662

BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2016	776	48	6.1%	33	0.44	19.5	0.8	7.2	12.9	0.51
2017	797	41	5.1%	35	0.48	15.2	0.7	13.0	13.8	0.41
2018E	869	51	5.9%	46	0.62	11.3	0.6	10.2	10.8	0.45
2019E	912	58	6.4%	54	0.73	9.5	0.6	7.1	9.3	0.51
2020E	945	68	7.2%	65	0.89	7.8	0.6	6.1	7.7	0.62

Market cap, EURm	409	BV per share 2018E, EUR	3.0	CAGR EPS 2017-20, %	22.9
Net debt 2018E, EURm	145	Price/book 2018E	2.3	CAGR sales 2017-20, %	5.9
Enterprise value, EURm	554	Dividend yield 2018E, %	6.5	ROE 2018E, %	21.4
Total assets 2018E, EURm	502	Tax rate 2018E, %	20.7	ROCE 2018E, %	14.4
Goodwill 2018E, EURm	129	Equity ratio 2018E, %	35.1	PEG, P/E 18/CAGR	0.8

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

Investment summary

99.5% of revenue came from physical stores in 2017

Tokmanni is the largest discount retailer in Finland, selling both non-grocery and grocery products in six different product categories. It is the only discount retailer with a nationwide store network. 99.5% of revenue came from physical stores in 2017.

Targeting EUR 1bn in sales and 10% adj. EBITDA margin

Tokmanni's CMD provided an update into the company's strategic focus areas and targets. The company targets EUR 1bn in sales by 2020E with further store network expansion and LFL growth. With 186 stores currently and at the targeted store network expansion pace (12,000m2 or ~5 stores annually) Tokmanni is set to reach its target of 200 stores within the next few years. Growth plans beyond this were not addressed. On the profitability side 10% adj. EBITDA margin is still targeted. The 10% target implies 2-3% margin improvement compared to level reached in recent years. 1-2% of this is to come from the gross margin, which is to improve primarily driven by increased direct sourcing and by increased share of private label products in the mix. The targeted gross margin improvement is in line with what we had already incorporated into our estimates and it reaffirms the validity of further sourcing improvement potential, which has been key to our investment case. OPEX scalability should contribute the remaining 1-1.5%. Positive LFL growth is expected to be a key driver behind OPEX scalability.

Financial performance has improved notably in 2018E and we expect earnings to improve further in 2019-2020E

The competitive field for Tokmanni is wide and fragmented and in general competition has been tight in recent years. Tokmanni's revenue growth has been based on new store openings rather than LFL growth in recent years, but in 2018E financial performance has notably improved. LFL growth has turned from negative in 2017 (-1.3%) to positive in Q1-Q3'18 (+6.0%), supported by favourable weather in H1, assortment improvements and investments into prices to reinforce customer trust. Solid LFL growth prompted a revenue guidance upgrade for 2018E in touch with Q3 earnings. Despite an active take on pricing, the gross margin has also improved YTD to 33.7% from 33.2% last year, while OPEX have been well controlled. We expect adj. EBITDA of EUR 66m vs. 55m in 2017A and see earnings improving further in 2019-2020E. Improving gross margin is by far the biggest driver for the adj. EBITDA improvement we project for upcoming years.

"Buy" with TP of EUR 9 reiterated

We approach Tokmanni's valuation through our DCF model and valuation multiples. Our DCF model indicates fair value of EUR 11.5, but this is with a 6.5% terminal EBIT margin assumption that has not been reached historically. When using 5% terminal EBIT margin assumption (company reached 6% each year in 2013-2016) our DCF model would yield a fair value of EUR 9 per share. On our estimates Tokmanni now trades at 5-10% EV/EBITDA discount compared to Nordic non-grocery -focused peers in 2019-2020E. On EV/EBIT and EV/FCF the discount is higher. We conclude valuation looks moderate against the margin improvement potential and hence we retain "Buy" rating with TP of EUR 9 intact. Our TP and estimates value Tokmanni at 11.4x EV/EBIT in 2019E, which is close to the Nordic non-grocery -focused peer median of 11.1x.

Company description – Market leader in the Finnish discount retail market

Tokmanni is the largest discount retail chain in Finland

Tokmanni is the largest discount retail chain in Finland when measured with both revenue and the number of stores. The company currently has 186 stores across Finland, which makes Tokmanni the only nationwide discount retailer in Finland. Tokmanni operates in leased/rented premises and does not generally own properties. The Group's revenue is fully generated through the sale of goods, i.e. the group has no sale of services.

Sales structure – both non-grocery and grocery products

Both non-grocery and grocery products in six different categories

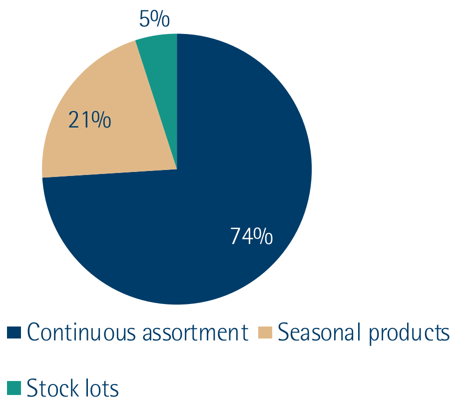
Tokmanni's total revenue was EUR 797m in 2017. According to FTGA (Finnish Grocery Trade Association), EUR 275m of this came from grocery products. Tokmanni's product assortment consists of over 25,000 products in six different categories. The company has not reported category-specific revenues. Tokmanni's product categories are (in no specific order):

- Garden
- Health, beauty and well-being
- Cleaning and storage
- Home improvement
- Home decoration and kitchen
- Clothing

Business is somewhat seasonal and weather-sensitive

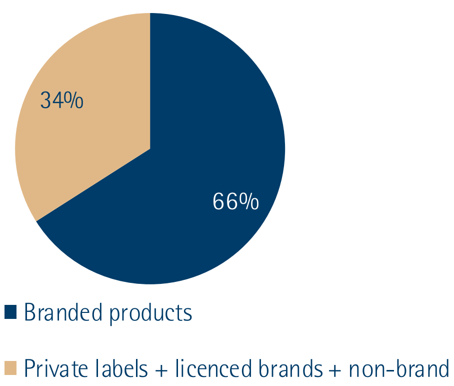
Tokmanni's business is somewhat seasonal with Q4 being the largest quarter due to Christmas. Q1 is the smallest quarter in terms of revenue. Seasonal products are an important part of Tokmanni's business, as they are often private label products which carry higher gross margins. Demand for seasonal products is weather-sensitive and weather has been mentioned to impact the business in Q1 (winter products) and especially Q2 (garden, yard and home products). Tokmanni's business was negatively impacted in H1'17 by mild winter in Q1'17 and late arrival of spring in Q2'17, whereas warm spring had a positive impact in Q2'18.

Tokmanni - Revenue split 2017



Source: Tokmanni

Tokmanni - Revenue split 2017



Source: Tokmanni

Online was 0.5% of revenue in 2017

Business is in physical stores, but online is developed

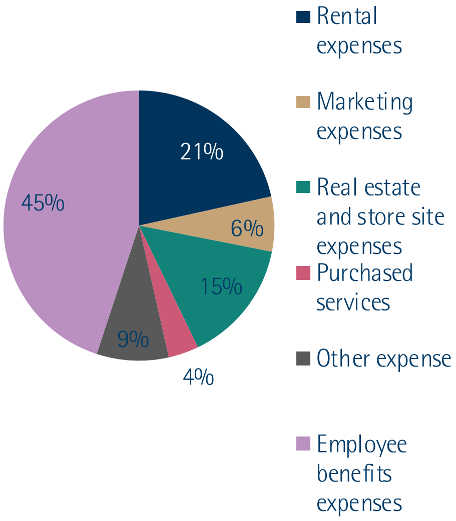
99.5% of Tokmanni revenue came from physical stores in 2017. Online was 0.5% of revenue. Tokmanni's business is thus primarily based on physical stores, but the importance of online is recognized and efforts to develop an omni-channel approach have proceeded. During 2018 Tokmanni has moved its online store onto a new platform and the number of products that can be bought online nearly doubled to approximately 10,000 products compared to the start of the year.

Cost structure – physical store network generates most of OPEX

OPEX are primarily caused by the store network

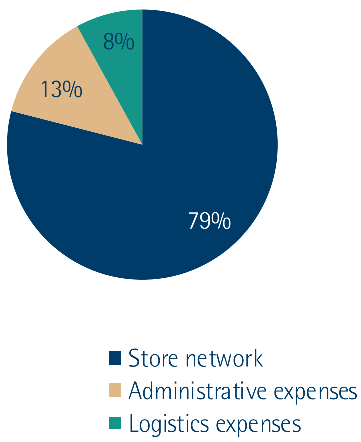
Tokmanni reports its operational expenses in two main items: employee benefits expenses (ie. personnel costs) and other operating expenses. Personnel costs are the company's biggest individual cost item, followed by rental expenses as well as real estate and store site expenses. In 2017 79% of OPEX were related to the store site network, 13% to logistics operations and 8% to administration.

Tokmanni - OPEX split by type 2017



Source: Tokmanni

Tokmanni - OPEX split by function 2017



Source: tokmanni

Sourcing – focus is on increasing direct purchasing

The supplier network is wide and de-centralized

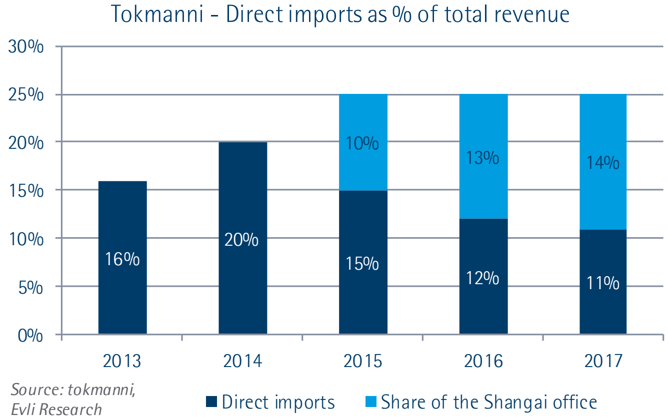
Tokmanni sources its products from agents, importers and straight from manufacturers in Finland, Europe and Asia. Products sourced from Finland generate about 70% of Tokmanni's revenue. Share of Europe is about 12% and Asia is about 18%. The supplier network is wide and de-centralized. Tokmanni is committed to responsible sourcing, and it seeks to buy products only from responsible suppliers.

Strategic focus in sourcing is on increasing sourcing directly from suppliers

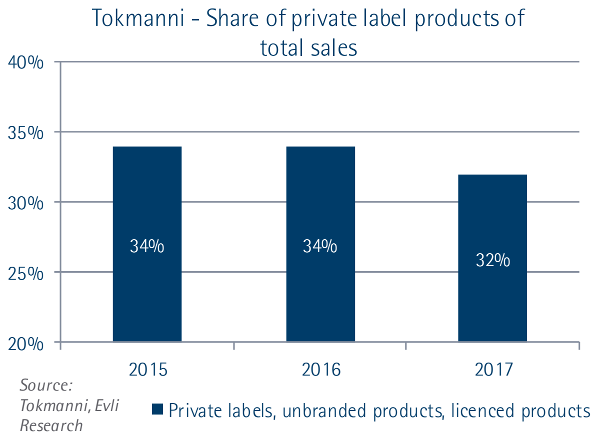
Tokmanni's strategic focus in sourcing is on increasing sourcing directly from suppliers, as cutting out the middlemen improves Tokmanni's gross margin and strengthens the price competitiveness and price image. More efficient sourcing has been primarily linked to the joint venture with Norwegian Europris: Tokmanni has had a purchasing joint venture with in Shanghai with Europris since 2013 with 50/50 ownership. Sourcing benefits of the JV are based cutting out the middlemen and by combining purchasing volumes. In 2015 Tokmanni estimated that the average gross margin benefit of products sourced via the Shangai office was typically some 10-15%-points.

Increasing direct imports is of high importance

The revenue share of direct imports grew from 16% in 2013 to 25% in 2015, but remained flat at 25% in 2016 and 2017. Sourcing via the Shanghai office has increased in 2016-2017, but has been offset by decline in other direct imports. Increasing the share of direct imports is of high importance on the company's agenda.



Source: tokmanni, Evli Research



Source: Tokmanni, Evli Research

Exposure to FX risks via sourcing is limited

Tokmanni is, although to a limited degree, exposed to FX risks from its foreign purchases. USD is the most significant foreign currency. In 2017, about 90% of purchases were in EUR and 10% in USD. According to Tokmanni's hedging principles, about half of the purchases in USD are hedged for an average length of five months. The company's financial liabilities do not involve any currency risk. Sensitivity is EUR +/- 1.8m at pre-tax profit level should EUR strengthen/weaken 10% against USD.

Logistics and warehousing

Tokmanni's logistics centre is located in Mäntsälä

Most of Tokmanni's products are delivered to stores from its logistics center, located in Mäntsälä. The Mäntsälä logistics centre has been designed to serve a store network of some 200 stores. After the acquisition of Ale-Makasiini in October 2018, Tokmanni's store count is 186 stores.

Balance sheet

Balance sheet structure was renewed in touch with the IPO

Tokmanni's renewed its balance sheet structure in touch with the IPO in spring 2016 by using the IPO proceeds to repay shareholder loans totaling of EUR 96m. Simultaneously the company re-negotiated its financing arrangements. As a result the company's financial expenses decreased significantly: net financial expenses were EUR 15m in 2016 and EUR 6m in 2017, compared to the EUR 21-23m in 2013-2015.

At the end of 2017 Tokmanni's net debt/adj. EBITDA was 2.4x, above the target level of <2.0x. After the recent Ale-Makasiini acquisition we expect net debt/adj. EBITDA to be some 2.5x and gearing ~80% at the end of 2018E. Our estimates do not reflect the upcoming IFRS 16 changes.

Strategic and financial targets

Strategic target is to continue strengthening the market position by leveraging key competitive advantages

Tokmanni's strategic target is to continue strengthening its position as Finland's leading discount retailer by leveraging its key competitive advantages: the strong perceived price image, an attractive and wide assortment and a good in-store customer experience. Tokmanni aims to deliver stable and profitable growth over the long term by (1) leveraging its unified brand image, demand-driven category management, continuous store concept and assortment development and through further investments in digital and omni-channel services to drive LFL revenue growth; (2) continuing to increase the amount of net new selling space by approximately 12,000 square meters annually, translating into approximately five new or relocated stores, and (3) improving profitability and working capital management through improved processes and tools in sourcing, supply chain management and category management as well as improving its store efficiency.

Tokmanni's long-term financial targets include (these do not reflect upcoming IFRS 16 changes):

- Store openings: Tokmanni targets to increase the amount of net new selling area by approximately 12,000 square meters annually, translating into approximately five new or relocated stores. The annual increase has varied in recent years, but on average the target has been met. New stores have historically reached "full" revenue potential in about two years' time. Positive EBITDA has been typically reached within the first operating year. Payback time on invested CAPEX has been about 2-3 years.

- LFL growth: Tokmanni's long-term target is to achieve low single digit LFL revenue growth. LFL growth was ~0% in 2013-2016 and -1.3% in 2017. LFL growth has notably improved during 2018.

- Profitability: Tokmanni seeks to improve its adj. EBITDA margin to 10%. Compared to historical levels this implies 2-3% EBITDA margin improvement, of which 1-2% is to come from increased direct sourcing and increase share of PL products. 1-1.5% is to come from OPEX scalability.

- Leverage: Tokmanni aims to keep net debt/EBITDA below 2.0x. At the end of 2017 Tokmanni's net debt/adj. EBITDA was 2.4x. After the recent Ale-Makasiini acquisition we expect net debt/adj. EBITDA to be some 2.5x at the end of 2018E.

- Dividend policy: Tokmanni aims to pay out approximately 70% of its net earnings as dividends. Capital structure, financial condition, general economic and business conditions as well as future prospects are considered when issuing dividends. Tokmanni has payed out above 70% of reported EPS in 2016-2017.

Guidance for 2018E

Tokmanni upgraded its revenue guidance for 2018E in touch with Q3'18 earnings

Tokmanni upgraded its revenue guidance for 2018E in touch with Q3'18 earnings. Tokmanni now expects revenue growth to be "strong" (previously: "good"), based on new store openings and "good" (previously: "low single-digit") LFL growth. Profitability (adj. EBITDA margin) is expected to increase in 2018E. CAPEX in 2018E to be at the level of depreciations, which were EUR 14m in 2017.

Market and competitive field

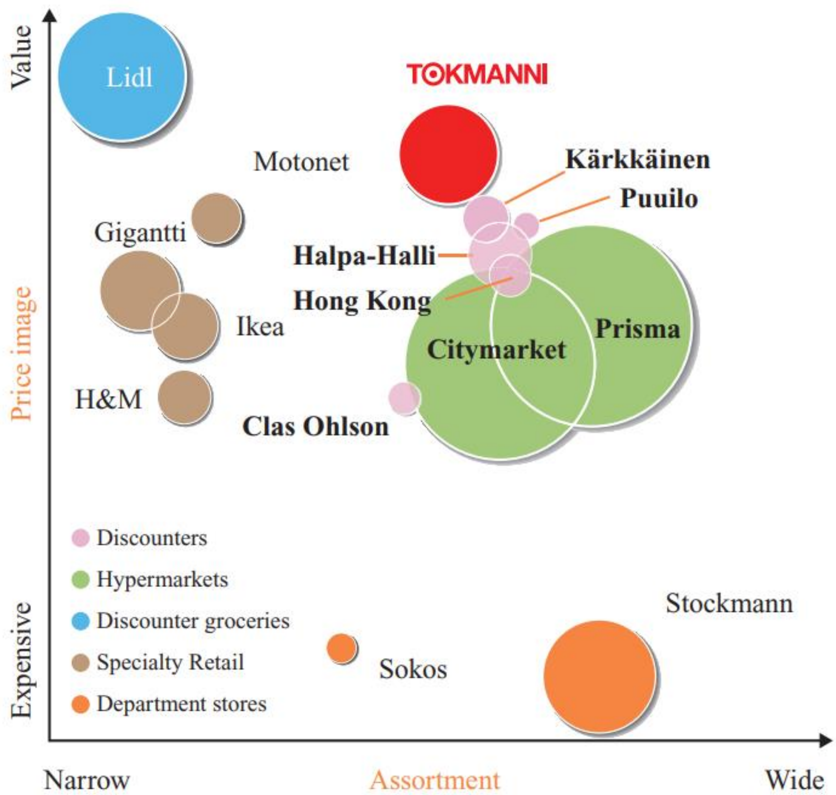
The competitive field is fragmented

Tokmanni's target market is large and the competitive field is fragmented. The competitive environment includes direct competitors such as hypermarkets, general discount stores and department stores, as well as indirect and product-group specific competitors such as specialty retailers and online. In general markets have offered limited growth in recent years.

The competitive field is wide and fragmented

Main competitors include hypermarkets, other discount retailers, online retailers and specialty retailers

Tokmanni's main competitors include hypermarkets (K-Citymarket and Prisma) and other discount retailers in Finland (such as Halpa-Halli, J. Kärkkäinen, Hong Kong, Veljekset Keskinen, Minimani and Clas Ohlson). Tokmanni also competes with a wide variety of specialty retailers (such as Gigantti, H&M, Ikea ja XXL) and online retailers.



Competitive advantages (and disadvantages)

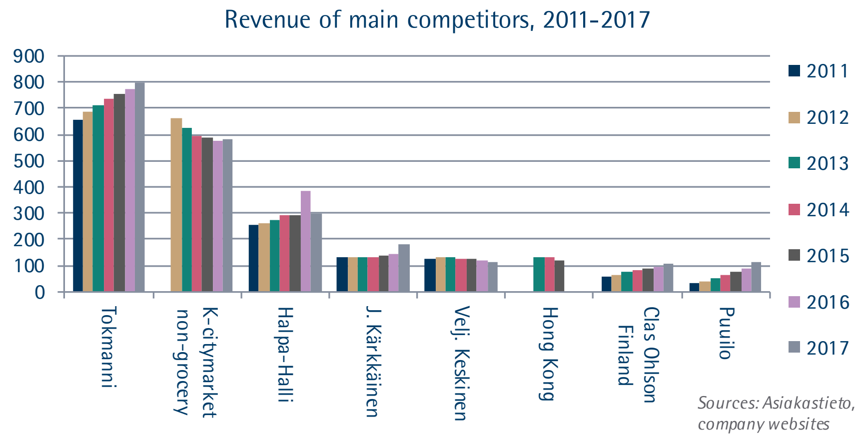
Tokmanni believes to have some competitive edge against each competitor groups, but in certain aspects it also falls behind its competitors:

- Hypermarkets: Tokmanni believes its low perceived price image provides the company with a competitive advantage over hypermarkets. On the downside, hypermarkets offer a large product assortment in both grocery (incl. fresh food) and non-grocery products, whereas Tokmanni's grocery assortment is limited.
- Other discount retailers: Tokmanni is the only discount retailer in Finland with a nationwide store network. Most discount retail competitors are regional operators. Furthermore, we understand Tokmanni has also been the only discount retailer in Finland with direct access to factories, although this is about to change as

competitor Hong Kong was recently acquired by Swedish Rusta, which has purchased products directly from factories in Asia.

- Specialty retailers: Tokmanni's primary competitive advantage compared to specialty retailers is its considerably wider assortment and a nationwide store network. On the downside, Tokmanni's category-specific assortment may fall behind that of specialized retailers (home electronics for example). Specialty retailers may have affordable prices and a strong assortment of private label goods.
- Department stores: Department stores offer a wide assortment of consumer goods but their perceived price image is often higher.
- Online retailers: Tokmanni's store network allows physical access to products, but on the other hand online retailers typically have competitive prices and a wide assortment.

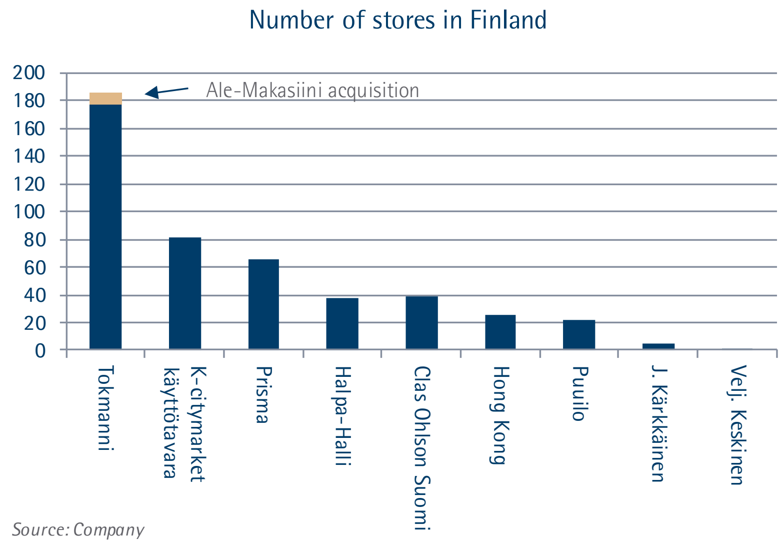
Revenue development of Tokmanni's main competitors has varied in recent years



Sources: Asiakastieto, company websites

Tokmani is the only discount retailer in Finland with a nationwide network

Tokmani is the only discount retailer in Finland that has a nationwide network. Most discount retail competitors operate regionally. Hypermarkets (K-Citymarket and Prisma) have a good store network coverage in Finland.

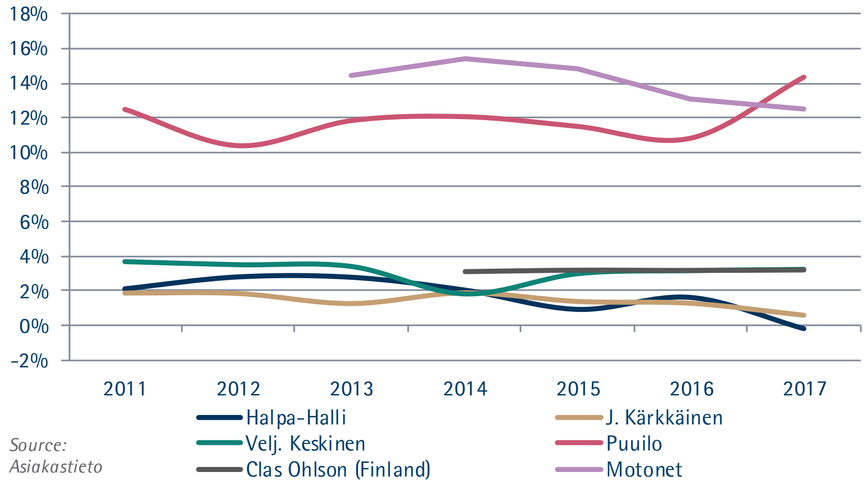


Source: Company websites

Most competitors have generated EBIT margins in the range of 1-4%

Profitability among Tokmanni's competitors also varies. Most competitors have generated EBIT margins in the range of 1-4%. Puuilo and Motonet have been the most profitable competitors in recent years with above 10% EBIT margins. Profitability of some competitors has not been reported, but at least Hong Kong's profitability reportedly turned negative before it was acquired by Swedish Rusta in spring 2018.

EBIT margins of main competitors, 2011-2017



Source: Asiakastieto

Changes in the competitive environment

Competition has been tight in recent years

In general, the competitive field for Tokmanni is fragmented and competition has been tight in recent years. Structurally the most notable change has been Anttila's bankruptcy and retreat from the market in 2016. The bankruptcy had a negative impact on Tokmanni in the short-term due to the clearance sale, but should have benefited the remaining players in the longer term.

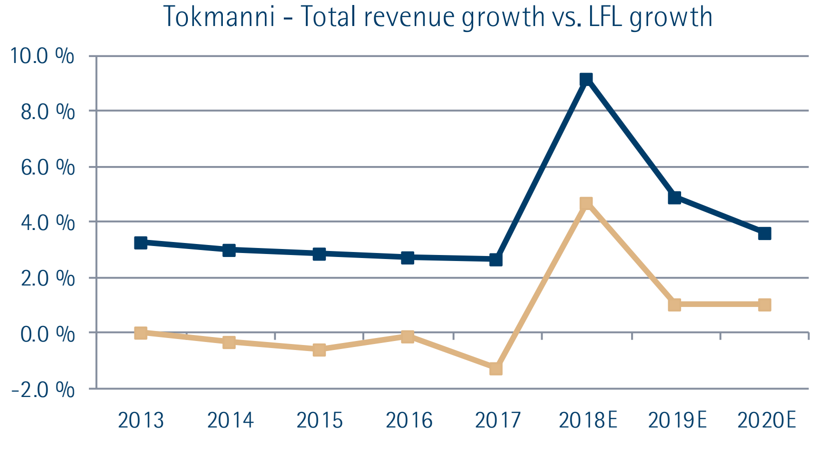
Certain signs of consolidation have been witnessed in the wider Nordic market during 2018E

Certain signs of consolidation have been witnessed in the wider Nordic market during 2018E. Tokmanni recently acquired a small rival Ale-Makasiini; Europris acquired a 20% stake in Swedish ÖoB which will benefit Tokmanni as well via the Shanghai sourcing office; and Swedish Rusta acquired Finnish Hong Kong, which may become a more prominent competitor as Rusta is able to offer access to direct sourcing from factories in Asia. Before Rusta's acquisition of Hong Kong, Tokmanni was presumably the only discount retailer in Finland with direct access to factories in Asia. Hong Kong was reportedly loss-making and in the middle of a debt restructuring process before the acquisition. Hong Kong has EUR ~100m sales vs. Tokmanni ~870m in 2018E.

Financial performance and estimates

LFL growth has been clearly positive during 2018E

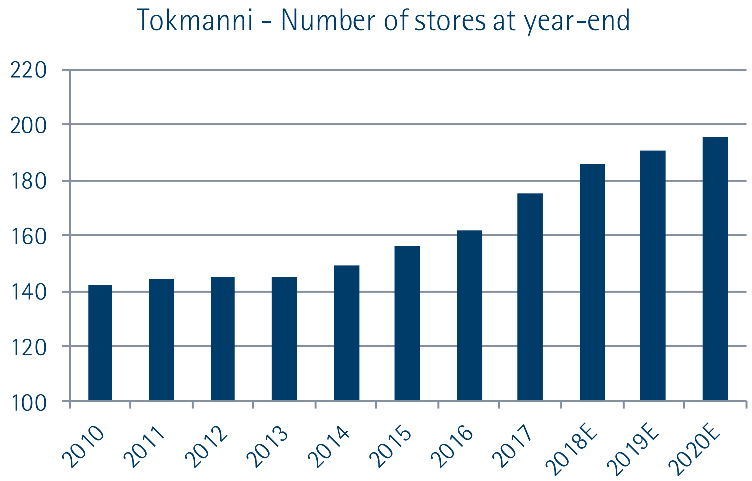
Tokmanni's revenue CAGR in 2010-2017 was 3.3%. Growth in 2013-2017 was fully based on expanding the store network, as LFL growth was broadly zero in each year in 2013-2016 and negative (-1.3%) in 2017. Negative LFL growth of -1.3% in 2017 was driven by unfavorable weather in H1'17 and tight competition. LFL growth has improved notably in 2018E. Favorable weather supported LFL growth to reach 7% in H1'18. LFL continued at good 4% level in Q3'18. In addition to favorable weather in H1'18, assortment improvements and investments into prices have been cited as positive contributors to good LFL growth in 2018E. We expect LFL growth to be 4.7% in FY18E and 1.0% in FY19-20E.



Source: Tokmanni, Evli Research

Following the acquisition Tokmanni has 186 stores in Finland vs. the target of ~200 stores

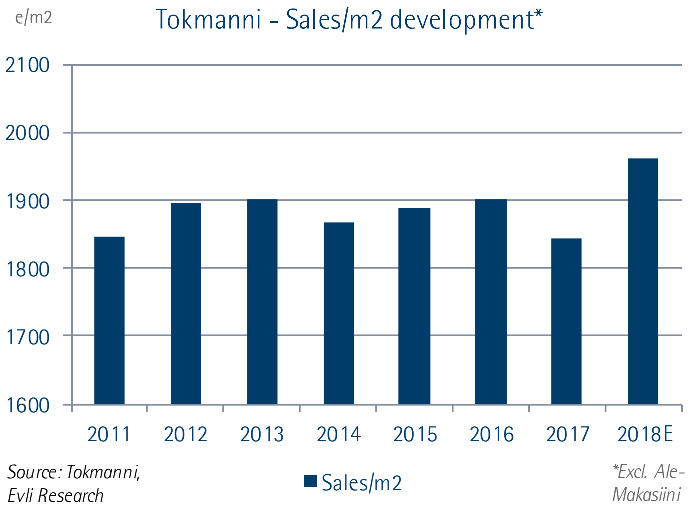
Tokmanni's store network has continuously expanded in 2010-2018. Tokmanni had 177 stores at the end of Q3'18 and it expects to increase selling space by 9,500m2 organically in 2018E. In addition to organic expansion, Tokmanni acquired operations of Ale-Makasiini in Oct 2018. Ale-Makasiini had nine stores in Finland; revenue was EUR 20m and EBIT 1m in 2017. Following the acquisition Tokmanni has 186 stores in Finland vs. the target of ~200 stores.



Source: Tokmanni, Evli Research

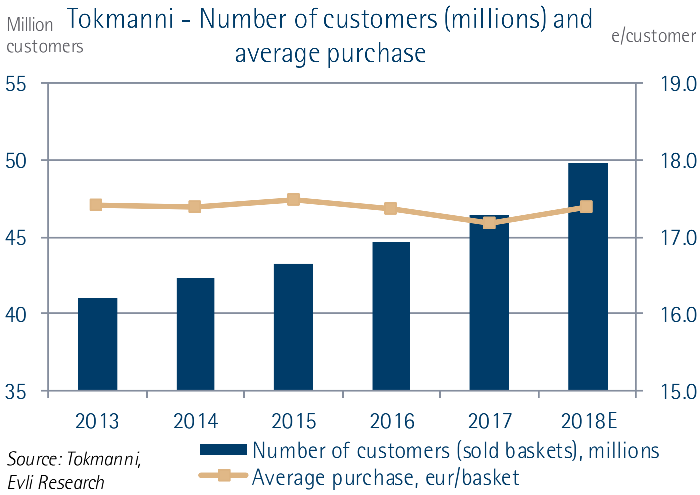
Average sales/m2 has increased in 2018E

Tokmanni's average sales/m2 was quite stable at EUR 1850-1900 per m2 in 2011-2017, but has increased in 2018E. Sales/m2 in individual stores varies to some extent. Tokmanni has previously stated sales/m2 in small stores was typically ~20% higher than average, whereas sales/m2 in large stores was typically ~20% below average. The differences are driven by location: small stores are typically at city centers where customer flows are higher. Sales/m2 in newly opened stores typically grows gradually and reached maturity in about two years' time.



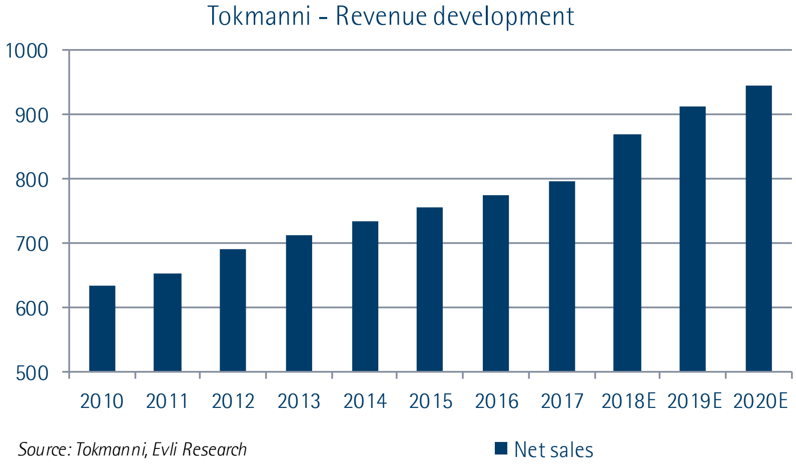
Average purchase has been stable at 17.2-17.5 euros/customer

Tokmanni's customer numbers have grown quite well in line with the increase of the store count. The average purchase has been stable at 17.2-17.5 euros/customer.



We expect ~4-5% revenue growth in 2019-2020E

We forecast Tokmanni's revenue development based on LFL growth and the planned store network expansion. We expect LFL growth of 1.0% in 2019-2020E and 12,000m2 of new selling space in 2019-2020E. We expect these and the Ale-Makasiini acquisition to yield revenue growth of ~4-5% in 2019-2020E.



Source: Tokmanni, Evli Research

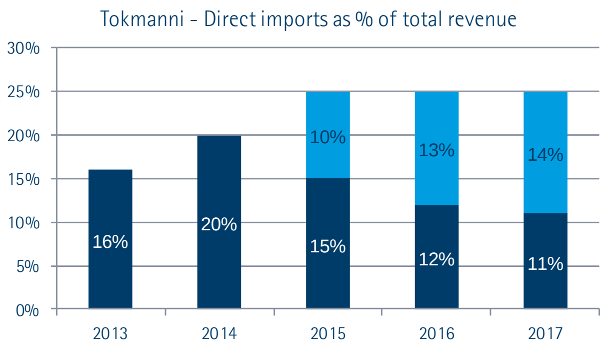
Targeting 1-2% gross margin improvement

The gross margin weakened in 2017, but has improved again in 2018E

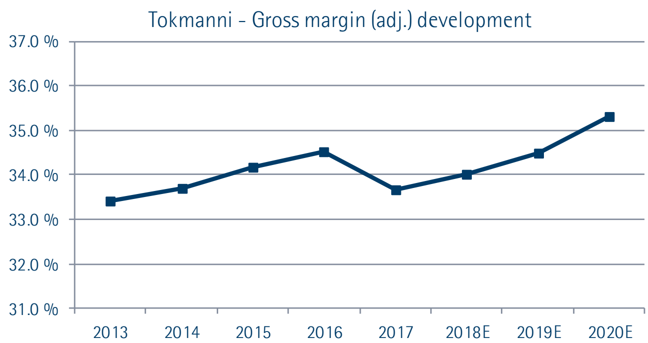
Tokmanni's gross margin improved gradually in 2013-2016 on the back of increased direct imports, increased the share of private labels in the mix, increased efficiency of purchasing processes and more efficient pricing. Increased direct purchasing in 2013-2016 was primarily related to increased use of the sourcing company in Shanghai. In 2017 Tokmanni had a very weak H1, with mild winter and cold spring hurting sales of higher-margin seasonal products. Weak demand for seasonal products in H1'17 impacted the share of private labels in the mix (32% in 2017 vs. 34% in 2016) and gross margin negatively. During 2018 the gross margin has been improving again, with YTD gross margin at 33.7% vs. 33.2% a year ago.

Tokmanni is targeting 1-2% gross margin improvement, primarily via more efficient sourcing

At the 2018 CMD Tokmanni disclosed that the company is targeting 1-2% gross margin improvement, primarily via more efficient sourcing and increased share of private labels in the mix. The revenue share of direct imports improved in 2014-2015, but has since then been flat at 25%. The revenue share the Shanghai office has increased, but it has been offset by decreasing share of other direct imports. We expect the overall revenue share of direct sourcing to improve and thereby expect the gross margin to improve gradually in 2019-2020E.



Source: tokmanni, Evli Research

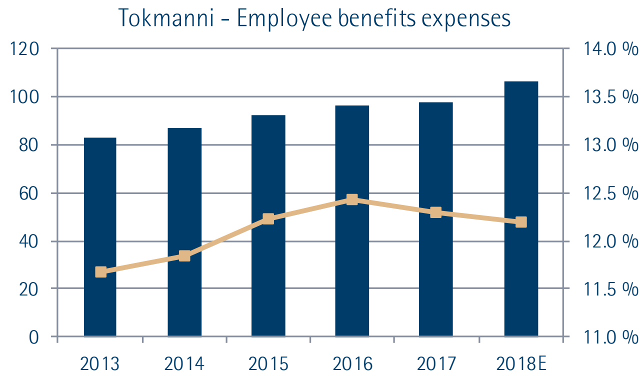


Source: Tokmanni, Evli Research

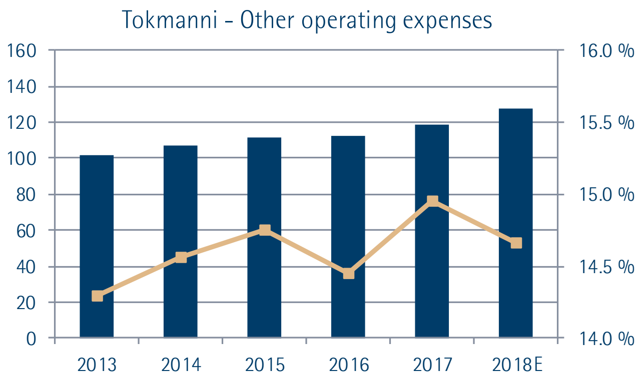
Targeting lower OPEX as percentage of sales

Tokmanni targets to decrease the share of OPEX from revenue by 1-1.5%

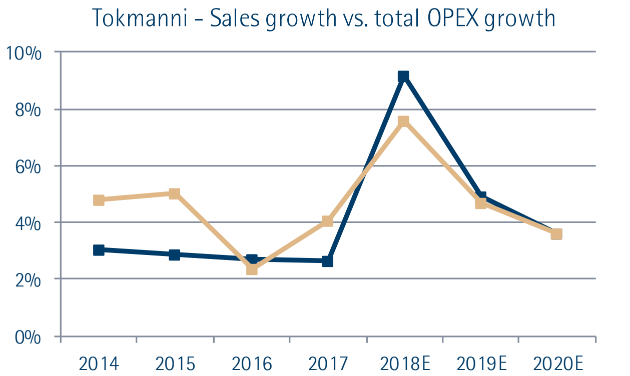
Tokmanni's operating expenses (OPEX) have historically increased in absolute terms due to the growing store network, but as percentage of sales OPEX have been broadly flat in recent years. In 2014-2015 OPEX grew faster than sales, mainly due to investments into brand renewal and store concepts. OPEX as % of sales have been broadly were broadly flat in 2016 vs. 2015, but increased in 2017 vs. 2016 with weak sales especially in H1'17. In 2018E LFL growth has been clearly positive, supporting scalability. At the 2018 CMD Tokmanni disclosed that the company is targeting to decrease the share of OPEX from revenue by 1-1.5%. Positive LFL growth is expected to be a key driver behind OPEX scalability. In our estimates we have taken a somewhat more conservative approach and have incorporated limited OPEX-% improvement for upcoming years.



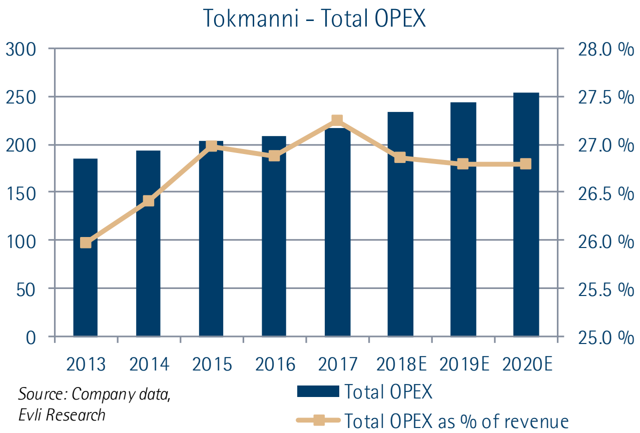
Source: Company data, Evli Research



Source: Company data, Evli Research



Source: Company data, Evli Research



Source: Company data, Evli Research

We expect EBITDA and EBIT growth to continue in 2019-2020E

Improving gross margin is by far the biggest driver for the adj. EBITDA improvement we project for upcoming years

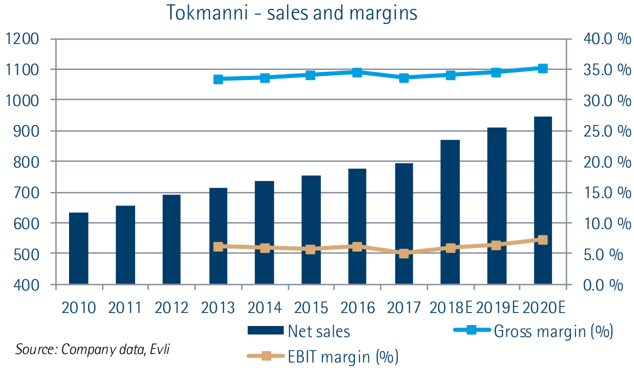
Tokmanni's adj. EBITDA grew slightly with increased revenue and gross margin in 2013-2016. Adj. EBITDA weakened in 2017 on the back of negative LFL growth and weaker gross margin. Adj. EBITDA is improving again in 2018E with clearly positive LFL growth, slightly improved gross margin and OPEX growing slightly less than sales. We expect adj. EBITDA to improve in 2019-2020E on the back of increased direct imports improving the gross margin. We expect new store openings to continue at the 12,000m2 targeted level and expect conservative 1.0% LFL growth in 2019-2020E. We expect OPEX as % of sales to remains broadly flat. Improving gross margin is by far the biggest driver for the adj. EBITDA improvement we project for upcoming years.

Estimates summary

Tokmanni	2013	2014	2015	2016	2017	2018E	2019E	2020E
Key sales assumptions								
Sales space increase, 1000m2 (organic)	11	18	7	8	24	10	12	12
# of stores at year-end	145	149	156	162	175	186	191	196
LFL growth (%)	*0.0%*	*-0.3%*	*-0.6%*	*-0.1%*	*-1.3%*	*4.7%*	*1.0%*	*1.0%*
Net sales	**712.8**	**734.3**	**755.3**	**775.8**	**796.5**	**869.5**	**912.1**	**945.2**
Growth-%	*3.3 %*	*3.0 %*	*2.9 %*	*2.7 %*	*2.7 %*	*9.2 %*	*4.9 %*	*3.6 %*
Materials and services (adj.)	-474.6	-486.8	-497.2	-507.9	-528.4	-573.7	-597.4	-611.6
Growth-%	-	*2.6 %*	*2.1 %*	*2.2 %*	*4.0 %*	*8.6 %*	*4.1 %*	*2.4 %*
% of sales	*66.6 %*	*66.3 %*	*65.8 %*	*65.5 %*	*66.3 %*	*66.0 %*	*65.5 %*	*64.7 %*
Gross profit (adj.)	**238.2**	**247.5**	**258.1**	**267.9**	**268.1**	**295.9**	**314.7**	**333.7**
Gross margin (%)	*33.4 %*	*33.7 %*	*34.2 %*	*34.5 %*	*33.7 %*	*34.0 %*	*34.5 %*	*35.3 %*
Fixed costs (adj.)	-185.1	-193.9	-203.7	-208.5	-217.0	-233.5	-244.4	-253.2
Growth-%	-	*4.8 %*	*5.0 %*	*2.4 %*	*4.1 %*	*7.6 %*	*4.7 %*	*3.6 %*
% of sales	*26.0 %*	*26.4 %*	*27.0 %*	*26.9 %*	*27.2 %*	*26.9 %*	*26.8 %*	*26.8 %*
Other income	3.5	3.6	4.0	3.4	3.8	3.7	3.7	3.7
Share of profits in associated comp.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	-12.6	-13.5	-14.8	-15.2	-14.3	-14.6	-16.0	-15.9
EBITDA (adj.)	**56.7**	**57.1**	**58.4**	**62.8**	**54.9**	**66.1**	**74.0**	**84.1**
EBITDA margin (%)	*8.0 %*	*7.8 %*	*7.7 %*	*8.1 %*	*6.9 %*	*7.6 %*	*8.1 %*	*8.9 %*
EBIT (adj.)	**44.1**	**43.6**	**43.6**	**47.7**	**40.6**	**51.5**	**58.0**	**68.2**
EBIT margin (%)	*6.2 %*	*5.9 %*	*5.8 %*	*6.1 %*	*5.1 %*	*5.9 %*	*6.4 %*	*7.2 %*
NRIs in reported gross profit	0.0	1.1	-0.6	0.5	-0.9	0.4	0.0	0.0
NRIs in reported fixed costs	-1.1	-1.8	-4.0	1.0	-0.8	0.9	0.0	0.0
EBIT (reported)	**43.0**	**43.0**	**39.0**	**49.2**	**38.9**	**52.8**	**58.0**	**68.2**
EBIT margin (%)	*6.0 %*	*5.9 %*	*5.2 %*	*6.3 %*	*4.9 %*	*6.1 %*	*6.4 %*	*7.2 %*
Net financials	-23.0	-22.2	-20.9	-15.3	-5.9	-5.7	-4.0	-3.0
Profit before taxes (reported)	**20.1**	**20.8**	**18.1**	**33.9**	**33.0**	**47.1**	**54.0**	**65.2**
Taxes	-4.8	-4.2	-3.4	-6.8	-6.6	-9.5	-10.8	-13.0
Tax rate (%)	*23.9 %*	*20.1 %*	*18.8 %*	*20.1 %*	*20.0 %*	*20.1 %*	*20.0 %*	*20.0 %*
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (reported)	**15.3**	**16.6**	**14.7**	**27.1**	**26.4**	**37.6**	**43.2**	**52.1**
Average number of shares (million)	58.9	58.9	58.9	58.9	58.9	58.9	58.9	58.9
EPS (reported)	**0.26**	**0.28**	**0.25**	**0.46**	**0.45**	**0.64**	**0.73**	**0.89**
Dividend and capital return	**-**	**-**	**-**	**0.51**	**0.41**	**0.45**	**0.51**	**0.62**
Payout ratio (%)				*111%*	*92%*	*70%*	*70%*	*70%*

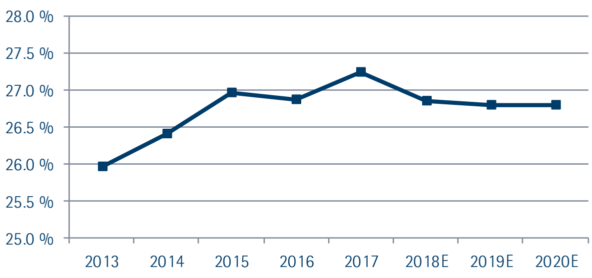
Source: Tokmanni, Evli Research

Tokmanni - sales and margins



Source: Company data, Evli

Tokmanni - Fixed costs as % of sales



Source: Company data, Evli Research

Valuation – "Buy" reiterated with TP of EUR 9

Our DCF model implies upside

We approach Tokmanni's valuation through our DCF model as well as though peer and historical valuation multiples. Our DCF model indicates fair value of EUR 11.5, but this is with a 6.5% terminal EBIT margin assumption that has not been reached historically. When using 5% terminal EBIT margin assumption (company reached 6% each year in 2013-2016) our DCF model would yield a fair value of EUR 9 per share.

Valuation multiples look moderate

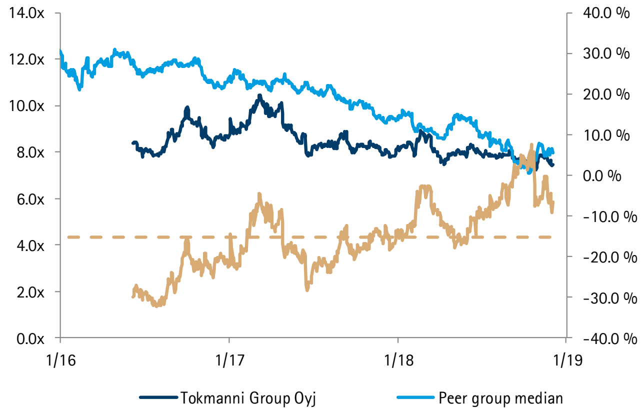
On our estimates Tokmanni now trades at 5-10% EV/EBITDA discount compared to Nordic non-grocery -focused peers in 2019-2020E. On EV/EBIT and EV/FCF the discount is higher. On our 2019E estimates Tokmanni now trades at 13-14% discount to its own 12m forward historical (6/2016 – 12/2018) EV/EBITDA and EV/EBIT multiples of 8.4x and 10.8x, respectively.

"Buy" with TP of EUR 9

We consider valuation moderate against the margin improvement potential and hence retain "Buy" rating with TP of EUR 9. Our target price and estimates value Tokmanni at 11.4x EV/EBIT in 2019E, ie. close to the Nordic non-grocery -focused peer median of 11.1x.

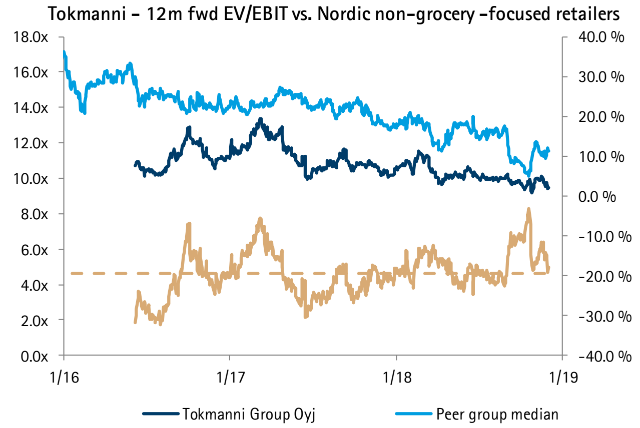
Tokmanni – 12m forward multiples vs. Nordic non-grocery -focused peers (6/2016 – 12/2018)

Tokmanni - 12m fwd EV/EBITDA vs. Nordic non-grocery -focused retailers



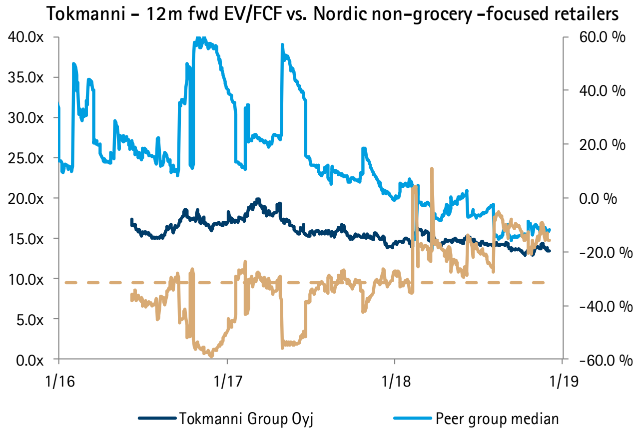
Source: Factset

Tokmanni - 12m fwd EV/EBIT vs. Nordic non-grocery -focused retailers



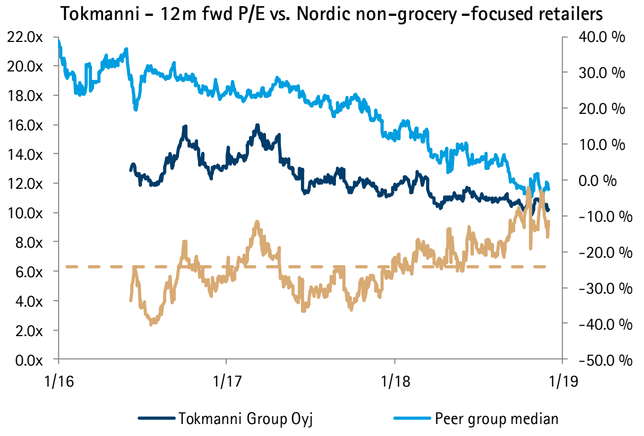
Source: Factset

Tokmanni - 12m fwd EV/FCF vs. Nordic non-grocery -focused retailers



Source: Factset

Tokmanni - 12m fwd P/E vs. Nordic non-grocery -focused retailers



Source: Factset

Relative valuation

TOKMANNI PEERS	MCAP local FX	EV/EBITDA 18	EV/EBITDA 19	EV/EBITDA 20	EV/EBIT 18	EV/EBIT 19	EV/EBIT 20	EV/FCF 18	EV/FCF 19	EV/FCF 20	P/E 18	P/E 19	P/E 20
Nordic non-grocery focused retailers													
Byggmax Group AB	2071	8.4x	6.8x	5.9x	15.7x	11.1x	9.2x	20.1x	13.3x	11.7x	11.4x	8.6x	7.4x
Clas Ohlson AB Class B	4858	7.7x	7.0x	6.4x	12.2x	11.0x	9.6x	14.9x	14.2x	13.7x	14.3x	13.4x	12.0x
Europris ASA	3770	7.5x	7.0x	6.5x	8.6x	8.1x	7.5x	15.2x	12.2x	10.9x	9.4x	9.0x	8.5x
Stockmann Oyj Abp Class B	151	8.8x	9.2x	9.3x	23.6x	31.3x	30.0x	4.7x	32.1x	41.8x			
Verkkokauppa.com Oy	212	13.4x	11.0x	9.0x	14.9x	12.3x	9.8x		15.8x	13.0x	23.3x	18.9x	15.9x
XXL ASA	5644	10.0x	8.3x	7.3x	13.3x	10.7x	9.2x	35.1x	26.4x	20.3x	14.3x	11.2x	9.7x
Nordic grocery focused retailers													
Axfood AB	33414	11.7x	11.6x	11.5x	16.1x	16.1x	16.0x	21.9x	30.2x	28.9x	21.4x	21.2x	20.8x
ICA Gruppen AB	66781	11.6x	11.3x	11.0x	15.5x	15.2x	14.8x	35.8x	28.7x	25.6x	18.1x	18.2x	17.9x
Kesko Oyj Class B	5139	11.0x	10.4x	9.9x	15.6x	14.6x	13.9x	17.4x	23.7x	20.7x	21.1x	19.4x	18.5x
International discount retailers													
B&M European Value Retail SA	3402	12.0x	10.3x	9.1x	14.1x	12.1x	10.7x	31.6x	21.2x	16.4x	16.5x	14.3x	12.6x
Big Lots, Inc.	1691	5.1x	4.9x	4.7x	7.5x	7.2x	7.1x	14.4x	12.6x	7.9x	9.4x	8.8x	8.1x
Costco Wholesale Corporation	99188	17.0x	15.3x	14.1x	22.5x	20.4x	18.7x	37.1x	41.3x	37.4x	33.6x	29.3x	26.9x
Distribuidora Internacional de Alimentacion	386	4.3x	4.2x	4.0x	10.7x	10.1x	9.3x		68.0x	163.2x	5.9x	6.1x	5.0x
Dollar General Corporation	27642	11.6x	10.6x	9.9x	14.0x	12.8x	11.8x	23.1x	21.3x	18.6x	17.2x	15.6x	14.1x
Dollar Tree, Inc.	20525	9.8x	8.8x	8.0x	13.1x	11.7x	10.4x	18.9x	18.4x	15.9x	15.9x	14.8x	13.4x
Dollarama Inc.	11732	15.3x	14.5x	13.3x	16.7x	15.8x	14.5x	29.8x	23.1x		21.4x	19.0x	16.8x
Don Quijote Holdings Co.,Ltd.	1096301	18.9x	17.7x	14.1x	24.9x	23.7x	18.9x			38.9x	29.7x	26.3x	22.5x
Five Below, Inc.	5828	25.3x	20.3x	16.4x	31.0x	25.0x	20.2x	126.7x	52.0x	48.4x	40.6x	33.7x	27.4x
Ollie's Bargain Outlet Holdings Inc	5444	29.8x	25.0x	20.8x	34.2x	28.2x	23.5x	91.6x	63.3x	71.2x	49.3x	41.3x	34.5x
Target Corporation	36168	7.2x	7.1x	7.1x	11.3x	11.2x	11.3x	22.1x	18.4x	17.2x	12.8x	12.3x	11.8x
Walmart Inc.	278353	9.9x	9.9x	9.7x	14.8x	14.9x	14.4x	23.2x	20.6x	20.6x	19.8x	20.3x	19.4x
Nordic non-grocery peers median	**4858**	**8.6x**	**7.7x**	**6.9x**	**14.1x**	**11.1x**	**9.4x**	**15.2x**	**15.0x**	**13.3x**	**14.3x**	**11.2x**	**9.7x**
Nordic grocery focused retailers		**11.6x**	**11.3x**	**11.0x**	**15.6x**	**15.2x**	**14.8x**	**21.9x**	**28.7x**	**25.6x**	**21.1x**	**19.4x**	**18.5x**
Discount retailers median	**16129**	**11.8x**	**10.5x**	**9.8x**	**14.4x**	**13.8x**	**13.1x**	**26.5x**	**21.3x**	**20.6x**	**18.5x**	**17.3x**	**15.4x**
Tokmanni (Evli est.)	**409**	**8.4x**	**7.3x**	**6.2x**	**10.8x**	**9.3x**	**7.7x**	**32.2x**	**12.5x**	**10.1x**	**11.3x**	**9.5x**	**7.8x**
Tokmanni premium vs. Nordic non-grocery focused peers		*-3%*	*-5%*	*-10%*	*-24%*	*-16%*	*-19%*	*112%*	*-17%*	*-24%*	*-21%*	*-15%*	*-19%*
Tokmanni premium vs. Nordic grocery focused peers		*-28%*	*-35%*	*-43%*	*-31%*	*-39%*	*-48%*	*47%*	*-56%*	*-61%*	*-47%*	*-51%*	*-58%*
Tokmanni premium vs. int. discount peers		*-29%*	*-30%*	*-37%*	*-25%*	*-33%*	*-42%*	*22%*	*-41%*	*-51%*	*-39%*	*-45%*	*-49%*

TOKMANNI PEERS	Ticker	Dividend yield 18	Dividend yield 19	Dividend yield 20	EBIT margin 18	EBIT margin 19	EBIT margin 20	ROCE-% 18	ROCE-% 19	ROCE-% 20	ROE-% 18	ROE-% 19	ROE-% 20
Nordic non-grocery focused retailers													
Byggmax Group AB	BMAX-SE	5.6%	8.1%	8.5%	4.0%	5.0%	5.6%	10.4%	13.6%	14.9%	13.2%	16.5%	18.2%
Clas Ohlson AB Class B	CLAS.B-SE	8.1%	8.2%	7.4%	4.6%	5.0%	5.7%	15.8%	17.5%	19.7%	15.6%	16.9%	18.5%
Europris ASA	EPR-NO	7.8%	8.1%	8.4%	10.0%	9.9%	10.0%	16.0%	16.1%	16.3%	22.0%	21.4%	21.1%
Stockmann Oyj Abp Class B	STCBV-FI	0.0%	0.0%	0.0%	2.9%	2.2%	2.4%	2.2%	1.7%	1.8%	-2.2%	-0.7%	-0.4%
Verkkokauppa.com Oy	VERK-FI	4.1%	4.6%	5.3%	2.5%	2.7%	3.0%	23.7%	25.7%	27.4%	22.0%	25.5%	28.0%
XXL ASA	XXL-NO	4.5%	4.9%	5.3%	5.8%	6.5%	6.8%	10.6%	12.3%	13.3%	10.2%	12.2%	13.1%
Nordic grocery focused retailers													
Axfood AB	AXFO-SE	4.5%	4.5%	4.5%	4.2%	4.1%	4.1%	34.8%	34.4%	34.4%	36.2%	36.4%	36.8%
ICA Gruppen AB	ICA-SE	3.4%	3.5%	3.6%	4.1%	4.1%	4.1%	10.5%	10.4%	10.3%	11.1%	10.6%	10.3%
Kesko Oyj Class B	KESKOB-FI	4.5%	4.8%	5.1%	3.2%	3.4%	3.5%	12.6%	13.3%	13.7%	11.5%	12.2%	12.6%
International discount retailers													
B&M European Value Retail SA	BME-GB	2.4%	2.8%	4.2%	8.0%	8.0%	8.2%	15.9%	17.2%	18.5%	20.4%	21.3%	22.4%
Big Lots, Inc.	BIG-US	2.9%	3.1%	3.6%	4.8%	4.9%	4.9%	21.0%	19.8%	19.5%	26.5%	26.2%	23.7%
Costco Wholesale Corporation	COST-US	0.9%	1.1%	1.2%	3.2%	3.2%	3.2%	20.8%	20.8%	20.6%	23.4%	22.8%	21.2%
Distribuidora Internacional de Alimentacion	DIA-ES	9.1%	5.2%	6.8%	1.9%	2.0%	2.1%	12.6%	12.2%	13.3%	25.1%	23.9%	27.1%
Dollar General Corporation	DG-US	1.1%	1.2%	1.3%	8.5%	8.5%	8.5%	20.9%	21.3%	22.0%	24.1%	23.4%	22.6%
Dollar Tree, Inc.	DLTR-US	0.0%	0.0%	0.0%	8.1%	8.2%	8.4%	12.8%	13.0%	13.9%	15.6%	14.0%	13.2%
Dollarama Inc.	DOL-CA	0.4%	0.5%	0.5%	23.1%	23.3%	23.4%	47.1%	50.0%				3437.4%
Don Quijote Holdings Co.,Ltd.	7532-JP	0.5%	0.5%	0.5%	5.5%	5.0%	4.9%	8.2%	6.8%	8.0%	12.4%	11.7%	12.1%
Five Below, Inc.	FIVE-US	0.0%	0.0%	0.0%	12.0%	12.2%	12.4%	27.3%	27.5%	28.3%	26.6%	26.4%	24.1%
Ollie's Bargain Outlet Holdings Inc	OLLI-US	0.0%	0.0%	0.0%	12.8%	13.2%	13.5%	15.8%	16.5%	19.0%	12.5%	13.3%	14.6%
Target Corporation	TGT-US	3.7%	4.0%	4.3%	5.5%	5.4%	5.3%	15.4%	15.3%	14.8%	24.3%	24.0%	25.7%
Walmart Inc.	WMT-US	2.2%	2.3%	2.4%	4.3%	4.1%	4.1%	15.6%	15.3%	15.5%	18.5%	17.7%	17.6%
Nordic non-grocery peers median		**5.0%**	**6.5%**	**6.4%**	**4.3%**	**5.0%**	**5.6%**	**13.2%**	**14.8%**	**15.6%**	**14.4%**	**16.7%**	**18.3%**
Nordic grocery focused retailers		**4.5%**	**4.5%**	**4.5%**	**4.1%**	**4.1%**	**4.1%**	**12.6%**	**13.3%**	**13.7%**	**11.5%**	**12.2%**	**12.6%**
Discount retailers median		**1.0%**	**1.1%**	**1.2%**	**6.8%**	**6.7%**	**6.7%**	**15.8%**	**16.9%**	**18.5%**	**23.4%**	**22.8%**	**22.5%**
Tokmanni (Evli est.)		**6.5%**	**7.4%**	**8.9%**	**5.9%**	**6.4%**	**7.2%**	**14.4%**	**15.4%**	**17.9%**	**21.4%**	**23.4%**	**25.6%**

TOKMANNI PEERS	Cash conversion (FCF/EBITDA) 18	Cash conversion (FCF/EBITDA) 19	Cash conversion (FCF/EBITDA) 20	CAPEX/sales 18	CAPEX/sales 19	CAPEX/sales 20	Net debt/EBITDA 18	Net debt/EBITDA 19	Net debt/EBITDA 20	Equity ratio 18	Equity ratio 19	Equity ratio 20
Nordic non-grocery focused retailers												
Byggmax Group AB	42%	51%	51%	3%	2%	2%	3.0x	2.3x	1.8x	37%	39%	40%
Clas Ohlson AB Class B	51%	49%	47%	3%	3%	3%	-0.2x	-0.1x	0.0x	50%	49%	49%
Europris ASA	49%	57%	59%	1%	1%	1%	1.7x	1.4x	1.1x	39%	40%	41%
Stockmann Oyj Abp Class B	188%	29%	22%	4%	4%	4%	6.9x	7.1x	7.2x	48%	48%	46%
Verkkokauppa.com Oy	-3%	70%	70%	0%	0%	0%	-3.3x	-2.7x	-2.3x	32%	31%	30%
XXL ASA	28%	32%	36%	3%	2%	3%	2.3x	1.9x	1.6x	50%	51%	52%
Nordic grocery focused retailers												
Axfood AB	53%	38%	40%	2%	3%	3%	-0.3x	-0.2x	0.0x	38%	37%	36%
ICA Gruppen AB	32%	39%	43%	3%	3%	3%	1.1x	1.0x	0.9x	42%	42%	43%
Kesko Oyj Class B	63%	44%	48%	2%	2%	2%	0.2x	0.2x	0.2x	49%	49%	49%
International discount retailers												
B&M European Value Retail SA	38%	48%	55%	3%	2%	2%	1.6x	1.2x	1.0x	47%	48%	48%
Big Lots, Inc.	35%	39%	60%	4%	4%	3%	0.5x	0.5x	0.4x	38%	39%	49%
Costco Wholesale Corporation	45%	37%	38%	2%	2%	2%	0.1x	0.0x	-0.2x	32%	35%	38%
Distribuidora Internacional de Alimentacion SA	-56%	6%	2%	4%	3%	4%	3.2x	3.2x	3.0x	8%	8%	9%
Dollar General Corporation	50%	50%	53%	3%	3%	3%	1.0x	0.8x	0.7x	51%	52%	54%
Dollar Tree, Inc.	52%	48%	50%	4%	3%	3%	1.5x	0.9x	0.5x	50%	56%	62%
Dollarama Inc.	51%	63%	na.	5%	3%		2.2x	2.4x	2.2x	-14%	-20%	
Don Quijote Holdings Co.,Ltd.	-94%	-118%	36%	6%	3%	3%	3.0x	4.3x	3.2x	37%	29%	32%
Five Below, Inc.	20%	39%	34%	9%	8%	7%	-0.4x	-0.4x	-0.4x	66%	65%	69%
Ollie's Bargain Outlet Holdings Inc	33%	39%	29%	6%	2%	2%	-0.2x	-0.6x	-0.7x	81%	81%	80%
Target Corporation	32%	39%	41%	5%	4%	4%	1.6x	1.6x	1.7x	29%	30%	30%
Walmart Inc.	43%	48%	47%	2%	2%	2%	1.4x	1.3x	1.3x	36%	35%	35%
Nordic non-grocery peers median	**46%**	**50%**	**49%**	**3%**	**2%**	**3%**	**2.0x**	**1.6x**	**1.3x**	**43%**	**44%**	**44%**
Nordic grocery focused retailers	**53%**	**39%**	**43%**	**2%**	**3%**	**3%**	**0.2x**	**0.2x**	**0.2x**	**42%**	**42%**	**43%**
Discount retailers median	**37%**	**39%**	**41%**	**4%**	**3%**	**3%**	**1.4x**	**1.0x**	**0.8x**	**38%**	**37%**	**48%**
Tokmanni (Evli est.)	**26%**	**58%**	**62%**	**3%**	**2%**	**2%**	**2.2x**	**1.8x**	**1.3x**	**35%**	**38%**	**41%**

Source: Factset, Evli Research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	6.95	PV of Free Cash Flow	348	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	11.56	PV of Horizon value	491	WACC, %	7.6	Market risk premium, %	5.8
Share price potential, %	66.3	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	12.9	Marketable securities	43	Minimum WACC, %	7.1	Equity beta coefficient	0.90
Minimum value	10.4	Debt - dividend	-201	Maximum WACC, %	8.1	Target debt ratio, %	20
Horizon value, %	58.5	Value of stock	681	Nr of shares, Mn	58.9	Effective tax rate, %	25

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	797	869	912	945	969	993	1,018	1,043	1,069	1,096	1,118	1,140
Sales growth, %	*2.7*	*9.1*	*4.9*	*3.6*	*2.5*	*2.5*	*2.5*	*2.5*	*2.5*	*2.5*	*2.0*	*2.0*
Operating income (EBIT)	41	51	58	68	73	74	76	78	70	71	73	74
EBIT margin, %	*5.1*	*5.9*	*6.4*	*7.2*	*7.5*	*7.5*	*7.5*	*7.5*	*6.5*	*6.5*	*6.5*	*6.5*
+ Depreciation+amort.	14	15	16	16	16	16	16	16	17	17	18	
- Income taxes	-8	-11	-12	-14	-15	-15	-15	-16	-14	-14	-15	
- Change in NWC	-14	-15	-5	-4	-3	-3	-3	-3	-3	-3	-2	
NWC / Sales, %	*10.3*	*11.2*	*11.2*	*11.2*	*11.2*	*11.2*	*11.1*	*11.1*	*11.1*	*11.1*	*11.1*	
+ Change in other liabs	-1	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-13	-24	-14	-15	-16	-17	-18	-19	-19	-20	-21	-22
Investments / Sales, %	*1.7*	*2.8*	*1.6*	*1.6*	*1.7*	*1.7*	*1.7*	*1.8*	*1.8*	*1.9*	*1.9*	*1.9*
- Other items	-1	1	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	18	17	43	52	55	56	57	58	50	51	52	951
= Discounted FCF (DFCF)		17	40	45	44	42	39	37	30	28	27	491
= DFCF min WACC		17	40	45	45	42	40	38	31	29	28	563
= DFCF max WACC		17	40	44	44	41	38	36	29	27	26	432

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3	2018Q4E	2018E	2019E	2020E
Net sales	157	196	195	249	797	174	218	211	267	869	912	945
EBITDA	-1	12	16	29	55	1	16	18	31	66	74	84
EBITDA margin (%)	*-1.0*	*5.9*	*8.3*	*11.5*	*6.9*	*0.5*	*7.3*	*8.6*	*11.6*	*7.6*	*8.1*	*8.9*
EBIT	-5	8	13	25	41	-3	12	15	27	51	58	68
EBIT margin (%)	*-3.3*	*4.1*	*6.5*	*10.1*	*5.1*	*-1.6*	*5.7*	*6.9*	*10.2*	*5.9*	*6.4*	*7.2*
Net financial items	-1	-1	-2	-2	-6	-1	-1	-1	-1	-6	-4	-3
Pre-tax profit	-6	7	11	23	35	-4	11	13	26	46	54	65
Tax	2	-1	-2	-5	-7	1	-3	-2	-5	-9	-11	-13
Tax rate (%)	*26.2*	*16.4*	*21.7*	*20.5*	*19.0*	*19.3*	*23.5*	*19.1*	*20.0*	*20.7*	*20.0*	*20.0*
Net profit	-5	6	9	19	28	-3	8	11	21	36	43	52
EPS	-0.08	0.10	0.15	0.32	0.48	-0.06	0.14	0.18	0.35	0.62	0.73	0.89
EPS adjusted (diluted no. of shares)	-0.08	0.10	0.15	0.32	0.48	-0.06	0.14	0.18	0.35	0.62	0.73	0.89
Dividend per share	0.00	0.00	0.00	0.00	0.41	0.00	0.00	0.00	0.00	0.45	0.51	0.62
SALES, EURm												
Group	157	196	195	249	797	174	218	211	267	869	912	945
Total	157	196	195	249	797	174	218	211	267	869	912	945
SALES GROWTH, Y/Y %												
Group	*-1.1*	*1.9*	*4.5*	*4.4*	*2.7*	*10.9*	*11.0*	*7.8*	*7.5*	*9.1*	*4.9*	*3.6*
Total	*-1.1*	*1.9*	*4.5*	*4.4*	*2.7*	*10.9*	*11.0*	*7.8*	*7.5*	*9.1*	*4.9*	*3.6*
EBIT, EURm												
Group	-5	8	13	25	41	-3	12	15	27	51	58	68
Total	-5	8	13	25	41	-3	12	15	27	51	58	68
EBIT margin, %												
Group	*-3.3*	*4.1*	*6.5*	*10.1*	*5.1*	*-1.6*	*5.7*	*6.9*	*10.2*	*5.9*	*6.4*	*7.2*
Total	*-3.3*	*4.1*	*6.5*	*10.1*	*5.1*	*-1.6*	*5.7*	*6.9*	*10.2*	*5.9*	*6.4*	*7.2*

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	713	734	755	776	797	869	912	945
Sales growth (%)	*0.0*	*3.0*	*2.9*	*2.7*	*2.7*	*9.1*	*4.9*	*3.6*
Costs	-656	-677	-697	-713	-742	-803	-838	-861
Reported EBITDA	57	57	58	63	55	66	74	84
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*7.9*	*7.8*	*7.7*	*8.1*	*6.9*	*7.6*	*8.1*	*8.9*
Depreciation	-13	-13	-15	-15	-14	-15	-16	-16
EBITA	44	44	44	48	41	51	58	68
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	44	44	44	48	41	51	58	68
EBIT margin (%)	*6.2*	*5.9*	*5.8*	*6.1*	*5.1*	*5.9*	*6.4*	*7.2*
Net financials	-23	-22	-21	-15	-6	-6	-4	-3
Pre-tax profit	21	21	23	33	35	46	54	65
Extraordinary items	-1	-2	-5	2	-1	1	0	0
Taxes	-5	-4	-3	-7	-7	-9	-11	-13
Minority shares	0	0	0	0	0	0	0	0
Net profit	15	15	15	27	27	37	43	52
BALANCE SHEET, EURm								
Assets								
Fixed assets	93	93	97	95	94	103	102	101
% of sales	*13*	*13*	*13*	*12*	*12*	*12*	*11*	*11*
Goodwill	129	129	129	129	129	129	129	129
% of sales	*18*	*18*	*17*	*17*	*16*	*15*	*14*	*14*
Inventory	147	151	160	155	170	191	201	208
% of sales	*21*	*21*	*21*	*20*	*21*	*22*	*22*	*22*
Receivables	15	16	16	18	22	22	23	24
% of sales	*2*	*2*	*2*	*2*	*3*	*3*	*3*	*3*
Liquid funds	47	52	49	58	43	52	55	57
% of sales	*7*	*7*	*6*	*7*	*5*	*6*	*6*	*6*
Total assets	435	446	455	459	462	502	514	523
Liabilities								
Equity	16	33	48	167	163	176	193	215
% of sales	*2*	*5*	*6*	*21*	*20*	*20*	*21*	*23*
Deferred taxes	5	6	6	5	5	5	5	5
% of sales	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Interest bearing debt	315	306	294	174	177	197	187	169
% of sales	*44*	*42*	*39*	*22*	*22*	*23*	*20*	*18*
Non-interest bearing current liabilities	83	84	91	104	107	113	119	123
% of sales	*12*	*11*	*12*	*13*	*13*	*13*	*13*	*13*
Other interest free debt	15	18	16	10	11	11	11	11
% of sales	*2*	*2*	*2*	*1*	*1*	*1*	*1*	*1*
Total liabilities	435	446	455	459	463	502	514	523
CASH FLOW, EURm								
+ EBITDA	57	57	58	63	55	66	74	84
- Net financial items	-23	-22	-21	-15	-6	-6	-4	-3
- Taxes	-4	-4	-3	-7	-7	-9	-11	-13
- Increase in Net Working Capital	-79	-3	-3	17	-14	-15	-5	-4
+/- Other	-1	-2	-5	2	-1	1	0	0
= Cash flow from operations	-51	26	27	59	27	37	54	64
- Capex	-235	-13	-18	-13	-13	-14	-14	-15
- Acquisitions	0	0	0	0	0	-10	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-285	13	8	46	14	13	40	49
+/- Change in interest-bearing debt	315	-9	-12	-120	3	21	-11	-17
+/- New issues/buybacks	1	1	0	91	-1	0	0	0
- Paid dividend	0	0	0	0	-30	-24	-26	-30
+/- Change in loan receivables	15	0	0	-8	-1	0	0	0
Change in cash	46	5	-3	9	-15	9	3	2

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	0	0	500	427	409	409	409
Net debt	254	245	116	134	145	132	113
Enterprise value	254	245	616	561	554	541	522
Sales	734	755	776	797	869	912	945
EBITDA	57	58	63	55	66	74	84
EBIT	44	44	48	41	51	58	68
Pre-tax	21	23	33	35	46	54	65
Earnings	17	19	26	28	36	43	52
Book value	33	48	167	163	176	193	215
Valuation multiples							
EV/sales	0.3	0.3	0.8	0.7	0.6	0.6	0.6
EV/EBITDA	4.4	4.2	9.8	10.2	8.4	7.3	6.2
EV/EBITA	5.8	5.6	12.9	13.8	10.8	9.3	7.7
EV/EBIT	5.8	5.6	12.9	13.8	10.8	9.3	7.7
EV/operating cash flow	5.6	5.0	8.9	17.1	13.8	9.4	7.8
EV/cash earnings	8.1	7.2	15.3	13.3	10.9	9.1	7.7
P/E	0.0	0.0	19.5	15.2	11.3	9.5	7.8
P/E excl. goodwill	0.0	0.0	19.5	15.2	11.3	9.5	7.8
P/B	0.0	0.0	3.0	2.6	2.3	2.1	1.9
P/sales	0.0	0.0	0.6	0.5	0.5	0.4	0.4
P/CF	0.0	0.0	7.2	13.0	10.2	7.1	6.1
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*13.1*	*11.4*	*9.4*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*14.6*	*12.3*	*10.2*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*3.0*	*2.7*	*2.5*
Per share measures							
Number of shares	22,274	22,274	58,869	58,869	58,869	58,869	58,869
Number of shares (diluted)	22,274	22,274	58,869	58,869	58,869	58,869	58,869
EPS	0.78	0.87	0.44	0.48	0.62	0.73	0.89
EPS excl. goodwill	0.78	0.87	0.44	0.48	0.62	0.73	0.89
Cash EPS	1.40	1.53	0.69	0.71	0.87	1.01	1.16
Operating cash flow per share	2.05	2.21	1.18	0.56	0.68	0.98	1.13
Capital employed per share	12.87	13.14	4.80	5.04	5.46	5.51	5.56
Book value per share	1.49	2.16	2.83	2.77	2.99	3.28	3.65
Book value excl. goodwill	-4.28	-3.61	0.65	0.58	0.81	1.09	1.46
Dividend per share	0.00	0.00	0.51	0.41	0.45	0.51	0.62
Dividend payout ratio, %	0.0	0.0	116.8	86.0	72.9	70.0	70.0
Dividend yield, %	0.0	0.0	6.0	5.7	6.5	7.4	8.9
Efficiency measures							
ROE	69.6	47.5	23.9	17.0	21.4	23.4	25.6
ROCE	13.0	12.9	14.1	12.1	14.4	15.4	17.9
Financial ratios							
Capex/sales, %	1.8	2.4	1.7	1.7	2.8	1.6	1.6
Capex/depreciation excl. goodwill,%	96.9	124.1	86.0	94.4	164.4	90.8	94.2
Net debt/EBITDA, book-weighted	4.4	4.2	1.8	2.4	2.2	1.8	1.3
Debt/equity, market-weighted	0.0	0.0	0.3	0.4	0.5	0.5	0.4
Equity ratio, book-weighted	7.4	10.9	36.3	35.2	35.1	37.5	41.1
Gearing	7.63	5.10	0.70	0.82	0.83	0.68	0.53
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Takoa Invest	10,267,688	71.360	17.4%
Keskinäinen Työeläkevakuutusyhtiö Elo	4,750,000	33.012	8.1%
Keskinäinen työeläkevakuutusyhtiö Varma	4,343,252	30.186	7.4%
Sijoitusrahasto Nordea Pro Suomi	2,670,267	18.558	4.5%
OP-Suomi Arvo -sijoitusrahasto	1,870,606	13.001	3.2%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	1,388,574	9.651	2.4%
Fondita Nordic Small Cap -sijoitusrahasto	863,000	5.998	1.5%
Eläkevakuutusosakeyhtiö Veritas	810,000	5.630	1.4%
OP-Suomi Pienyhtiöt -sijoitusrahasto	802,936	5.580	1.4%
Sijoitusrahasto Nordea Nordic Small Cap	769,128	5.345	1.3%
Ten largest	28,535,451	198.321	48%
Residual	30,333,301	210.816	52%
Total	58,868,752	409.138	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Harri Sivula	
CFO: Markku Pirskanen	Tel: +358 300 472 220
IR: Joséphine Mickwitz	

DEFINITIONS

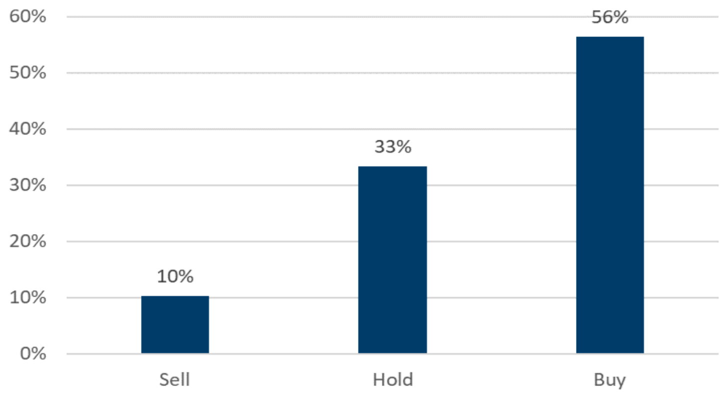
P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV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

Important Disclosures

Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at
https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:
http://research.evli.com
Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 16th of April 2018. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Häyhä

This research report has been prepared by Evli Research Partners Plc ("ERP" or "Evli Research"). ERP is a subsidiary of Evli Bank Plc. Production of the investment recommendation has been concluded on [5.12.2018, 8:00]. This report has been published on [5.12.2018, 9:10].

None of the analysts contributing to this report, persons under their guardianship or corporations under their control have a position in the shares of the company or related securities.

The date and time for any price of financial instruments mentioned in the recommendation refer to the previous trading day's closing price(s) unless otherwise stated in the report.

Each analyst responsible for the content of this report assures that the expressed views accurately reflect the personal views of each analyst on the covered companies and securities. Each analyst assures that (s)he has not been, nor are or will be, receiving direct or indirect compensation related to the specific recommendations or views contained in this report.

Companies in the Evli Group, affiliates or staff of companies in the Evli Group, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

Neither ERP nor any company within the Evli Group have managed or co-managed a public offering of the company's securities during the last 12 months prior to, received compensation for investment banking services from the company during the last 12 months prior to the publication of the research report.

ERP may pursue an assignment from the issuer(s) of the financial instruments mentioned in the recommendation or this report. These assignments may have a limited economic or financial impact on ERP and/or Evli. Under such assignments ERP may perform services including, but not limited to, arranging investor meetings or –events, investor relations communication advisory and production of research material.

ERP has signed an agreement with the issuer of the financial instruments mentioned in the recommendation, which includes production of research reports. This assignment has a limited economic and financial impact on ERP and/or Evli. Under the assignment ERP performs services including, but not limited to, arranging investor meetings or –events, investor relations communication advisory and production of research material.

ERP or another company within the Evli Group does not have an agreement with the company to perform market making services.

For the prevention and avoidance of conflicts of interests with respect to this report, there is an information barrier (Chinese wall) between Investment Research and Corporate Finance units concerning unpublished investment banking services to the company. The remuneration of the analyst(s) is not tied directly or indirectly to investment banking transactions performed by Evli Bank Plc or any company within Evli Group.

This report has not been disclosed to the company prior to its dissemination.

This report is provided and intended for informational purposes only and may not be used or considered under any circumstances as an offer to sell or buy any securities or as advice to trade any securities.

This report is based on sources ERP considers to be correct and reliable. The sources include information providers Reuters and Bloomberg, stock-exchange releases from the companies and other company news, Statistics Finland and articles in newspapers and magazines. However, ERP does not guarantee the materialization, correctness, accuracy or completeness of the information, opinions, estimates or forecasts expressed or implied in the report. In addition, circumstantial changes may have an influence on opinions and estimates presented in this report. The opinions and estimates presented are valid at the moment of their publication and they can be changed without a separate announcement. Neither ERP nor any company within the Evli Group are responsible for amending, correcting or updating any information, opinions or estimates contained in this report. Neither ERP nor any company within the Evli Group will compensate any direct or consequential loss caused by or derived from the use of the information represented in this publication.

This report or its copy may not be published or distributed in Australia, Canada, Hong Kong, Japan, New Zealand, Singapore or South Africa. The publication or distribution of this report in certain other jurisdictions may also be restricted by law. Persons into whose possession this report comes are required to inform themselves about and to observe any such restrictions.

Evli Bank Plc is not registered as a broker-dealer with the U. S. Securities and Exchange Commission ("SEC"), and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Evli Bank is not a member of the Financial Industry Regulatory Authority ("FINRA"). It and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance and disclosure of potential conflicts of interest. This research report is only being offered in U.S. by Auerbach Grayson & Company, LLC (Auerbach Grayson) to Major U.S. Institutional Investors and is not available to, and should not be used by, any U.S. person or entity that is not a Major U.S. Institutional Investor. Auerbach Grayson is a broker-dealer registered with the U.S. Securities and Exchange Commission and is a member of the FINRA. U.S. entities seeking more information about any of the issuers or securities discussed in this report should contact Auerbach Grayson. The securities of non-U.S. issuers may not be registered with or subject to SEC reporting and other requirements.

ERP is not a supervised entity but its parent company Evli Bank Plc is supervised by the Finnish Financial Supervision Authority.

Contact information

SALES AND TRADING HELSINKI

Equity Sales		**Trading**		**ETFs and Derivatives**	
Ari Laine	+358 9 4766 9115	Lauri Vehkaluoto (Head)	+358 9 4766 9130	Tobias Björk (Head)	+358 9 4766 9130
Lauri Ahokanto	+358 9 4766 9117	Pasi Väisänen	+358 9 4766 9120	Joachim Dannberg	+358 9 4766 9123
Niclas Henelius	+358 9 4766 9116	Antti Kässi	+358 9 4766 9120	Kimmo Lilja	+358 9 4766 9130
Structured Investments		**Corporate Bonds sales and trading**		**Derivatives Trading**	
Heikki Savijoki	+358 9 4766 9726	Jukka Hyvönen	+46 8 407 8138	Sami Järvinen	+358 9 4766 9110
Aki Lakkisto	+358 9 4766 9123	Thomas Kaukonen	+358 9 4766 9542		
Evli Investment Solutions					
Johannes Asuja	+358 9 4766 9205				
Markku Reinikainen	+358 9 4766 9669				

SALES AND TRADING STOCKHOLM

Urban Lawesson (Head)	+46 8 407 8021
Thomas Kåhrström	+46 8 407 8018

EQUITY RESEARCH

Joonas Häyhä	+358 9 4766 9662
Jonas Forslund	+358 9 4766 9314
Olli Pöyhönen	+358 9 4766 9643
Jerker Salokivi	+358 9 4766 9149

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
Kungsgatan 27, P.O. Box 16354
SE-111 56 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001