LapWall

Extensive report

06/02/2023

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✔ Inderes corporate customer

This report is a translation of the report "Iskussa seuraavaan noususykliin" published on 6/1/2023 at 8:26 am.

In good shape for the next up-cycle

Reflecting our largely positive estimate changes following the KW-Component transaction, we revise our target price for LapWall to EUR 4,00 (was EUR 3.75) and raise our recommendation to Buy (was Accumulate). LapWall is a prefabricator of wood-based wall and roof elements in Finland. LapWall's portfolio is well aligned with trends in the construction sector, and we believe the company is well positioned for profitable growth when the current miserable (residential) construction cycle normalizes. We still think the share price is very moderate and, especially in the medium term, the expected return is well above the required return.

LapWall is a construction products company focused on the Finnish market

Founded in 2011, LapWall offers predominantly wood-based wall and roof elements under the LAPWALL LEKO brand, which are used in a wide range of building types from detached houses to apartment buildings and from industrial buildings to schools. The company's customers are construction companies and building factories in Finland, to whom LapWall sells its products mainly installed. LapWall's goal is to continue its profitable growth in Finland in the coming years, and the company took a strategically important step in May by acquiring the prefab business of its competitor KW-Component in the wall panel segment and signing a long-term supply agreement with Kastelli-talot. LapWall's strategy is based on increasing production capacity, raising productivity, increasing market share, and improving the level of prefabrication. We consider the strategy to be clear and sharp. In our view, given the slow growth of the Finnish construction market over time, the rising market share of wood in construction and the company's certain competitive advantages, LapWall has the potential to grow to a much larger size in Finland. LapWall's competitors include construction companies' and prefab house factories' own production, small independent prefabricators and other building materials. In the face of direct competition, LapWall has clear economies of scale from purchases to investment capacity, and LapWall is the most profitable company in the industry. In our view, the main risks to LapWall are cyclical demand, the prolongation of the current downturn, inflation, and new types of competition.

We expect profitable growth in the medium term, even if the economic cycle brings earnings down this year

In light of market trends and the slow growth outlook for the Finnish economy, we forecast LapWall's revenue to grow at an annual rate of around 7% in 2023-2026, which is slightly below the company's target of EUR 70 million for 2026. We expect growth to be concentrated towards the end of the period, given the weak business cycle in the wall panel segment this year (i.e. we forecast clear decline in revenue in 2023). The drop in volumes puts pressure on the company's profitability this year, down from last year's excellent and above-target performance. In the medium term, we expect the company to reach its adjusted EBIT margin target of 12-15%, driven by volume growth, M&A synergies, and productivity investments.

We consider valuation to be attractive

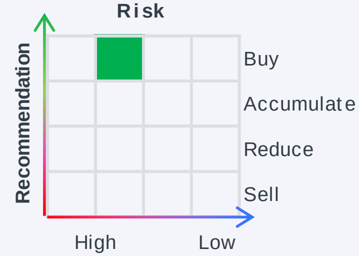
Our LapWall projections for 2023-2024 have P/E ratios of 12x and 9x and corresponding EV/EBIT ratios of 9x and 6x. We consider the levels to be very moderate in absolute terms relative to our required rate of return. We therefore believe that there is upside to the valuation and that the 12-month expected return is supported by a good dividend yield of 5%. In the medium term, we also believe that the expected return is well into double digits, based in particular on earnings growth and dividends. Thus, we believe that at current price levels, patient investors get a very good expected return from LapWall over the next few years.

Recommendation

Buy
(previous Accumulate)

4.00 EUR
(previous EUR 3.75)

Share price:
3.24 EUR



Key figures

	2022	2023e	2024e	2025e
Revenue	52.5	44.9	52.9	59.0
growth-%	9%	-14%	18%	12%
EBIT adj.	8.3	5.1	7.0	8.4
EBIT-% adj.	15.8 %	11.4 %	13.3 %	14.3 %
Net Income	5.7	3.3	4.7	5.9
EPS (adj.)	0.42	0.27	0.38	0.46
P/E (adj.)	8.6	12.0	8.6	7.1
P/B	3.2	2.6	2.3	2.0
Dividend yield-%	5.3 %	4.9 %	5.6 %	6.2 %
EV/EBIT (adj.)	5.5	8.5	6.0	4.6
EV/EBITDA	4.8	6.9	5.0	3.8
EV/S	0.9	1.0	0.8	0.7

Source: Inderes

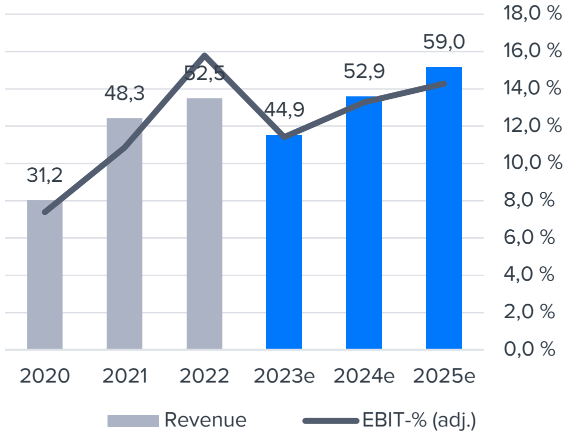
Guidance (Unchanged)

The company aims to provide financial guidance for 2023 in connection with the Q2 business review on August 8, 2023.

Share price

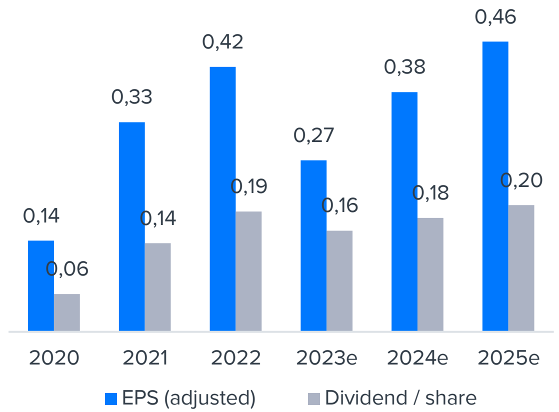
Source: Millstream

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- The company is well-positioned for growth in wood construction
- Strong competitive position enables market share growth
- Synergies from the Termater deal
- Room for improvement in productivity through investment
- Moderate valuation of the IPO price leaves upside for valuation multiples

Risk factors

- Finland's economic and construction cycle
- Inflation and pricing power
- New types of stronger competition
- Slowing down the proliferation of environmental trends and wood construction
- Project risks

Valuation	2023e	2024e	2025e
Share price	3.24	3.24	3.24
Number of shares, millions	14.9	14.9	14.9
Market cap	48	48	48
EV	44	42	39
P/E (adj.)	12.0	8.6	7.1
P/E	14.5	10.2	8.2
P/B	2.6	2.3	2.0
P/S	1.1	0.9	0.8
EV/Sales	1.0	0.8	0.7
EV/EBITDA	6.9	5.0	3.8
EV/EBIT (adj.)	8.5	6.0	4.6
Payout ratio (%)	71.4 %	56.6 %	50.3 %
Dividend yield-%	4.9 %	5.6 %	6.2 %

Source: Inderes

Contents

LapWall in brief

LapWall is a building materials company focused on the manufacture of wooden wall and roof elements in Finland. LapWall operates in the construction industry value chain, offering both prefabricated products and directly related installation services.

2011
Year of establishment

6%
Average revenue growth 2019-2022

9.7%
Average adjusted EBIT margin 2019-2022[1]

52.5 MEUR
Revenue 2022

8.3 MEUR **(15.8% of revenue)**
Adjusted EBIT 2022

125
Personnel at end of 2022

2011–2015

- LapWall was founded in 2011 with the business idea of improving construction productivity by offering customers 3D-designed elements and strictly conceptualized installation options.
- In the mid-2010s, the company sought to accelerate its growth by expanding into the Swedish market and into supply packages for builders and construction companies.

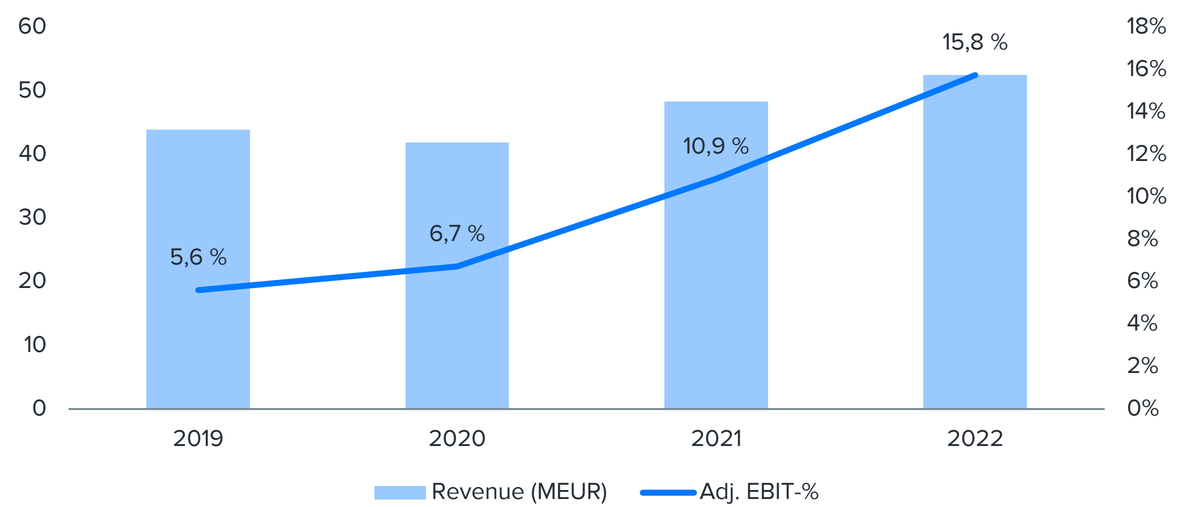
2017–2021

- LapWall acquired Metsä Wood's project business, i.e., the Pälkäne factory that manufactured roofing elements
- From 2017, LapWall returned to the Finnish market and to prefabricated production, which together with the cost restructuring restored profitability.
- LapWall's Swedish operations were driven into bankruptcy in 2020.

2022–

- LapWall strengthened its roof element business by acquiring Termater at the beginning of February 2022
- LapWall went public in April 2022 and raised capital to implement its growth strategy
- Profitability reached excellent levels in a hot construction cycle, but the market started to cool down in H2'22
- Adjusting to a weak housing market cycle
- KW-Component business deal and major Kastelli contract 5/2023

Revenue and profitability development[1]



Source: LapWall, Inderes
[1]Pro forma incl. Termater (excl. KW-Component deal)

Business model 1/5

Main products and services

LapWall's revenue comes from roof and wall elements and services related to their installation. However, the division into products and services does not make sense, as the company does not sell services without product delivery and most of the deliveries involve installation. Of course, the amount of service work related to deliveries can vary within certain limits and LapWall offers some additional services in addition to the installation service related to deliveries, while keeping away from the construction work belonging to construction companies. Wall and roof elements are used in terraced, semi-detached and apartment buildings, nursing homes, kindergartens, schools, commercial premises and industrial buildings. Thus, the supply is suitable for a wide range of building types and the company is not dependent on activity in just one type of building.

We estimate that just under a third of LapWall's sales are wall panels for single-story buildings, while roof elements account for roughly 60%. The rest of the revenue is generated from wall elements, roof element systems and facade elements for multi-story buildings. We estimate that the profitability of any one product group is not structurally superior to another, but that the more important factors in margin formation are the customer, project and delivery success, and the efficiency level of the plant producing the product group.

LapWall sells both its wall and ceiling panels under the LAPWALL LEKO brand. LAPWALL LEKO includes around 50 standard products for cost-effective prefabrication of large and small buildings. In practice, this means standardized products except for length, width and appearance (e.g., standardized joints), which keeps factory utilization high and installation work simple.

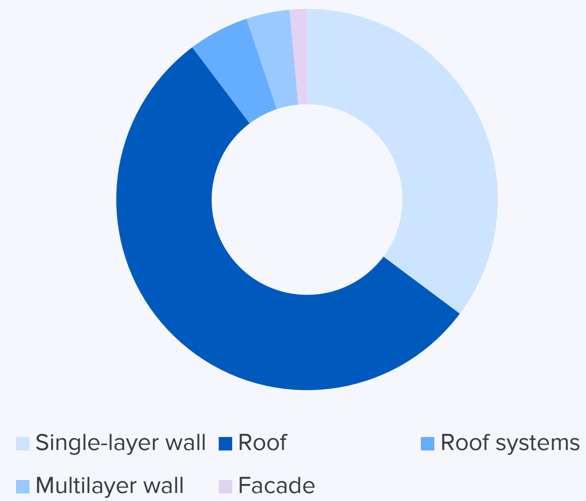
The roof elements are assembled in the factory on LVL frames, and the wall elements are made of strength graded timber. The inside of the frame is filled with glass wool for roof elements and stone or glass wool for wall elements. In addition, products such as sawn timber and plasterboard are used as raw materials for finishing the element and its cladding. The company buys or at least is able to buy its raw materials in Finland and there are several suppliers for the main raw materials.

The figures in this section do not take into account the KW-Component transaction in May 2023. However, the business to be acquired is entirely similar in nature to LapWall's business, so we estimate that its inclusion will not materially change the company's business model or business profile.

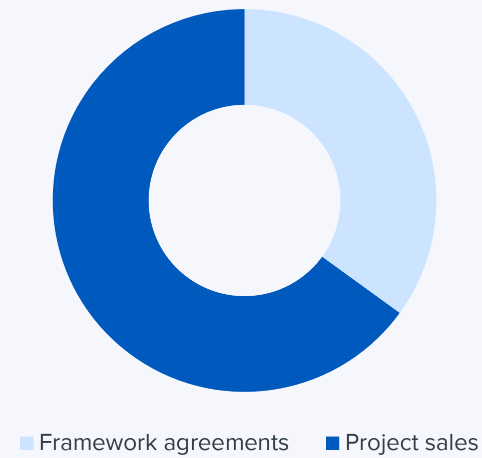
Business structure and customers

LapWall's revenue is generated entirely in Finland, where the company's customers are builders and construction companies. LapWall has not directly disclosed its customers, but we estimate that the company works with almost all major builders and house factories. LapWall does not sell directly to consumers. We believe it makes sense to focus on operating with professional builders to manage risk and optimize project sizes.

Estimated sales distribution



Estimated sales distribution by contract type



Source: LapWall, Inderes

Business model 2/5

LapWall's customer satisfaction (NPS) has been high at around 65-70 points for the last couple of years, so the company has been able to reassure its customers across the board.

A balanced customer structure

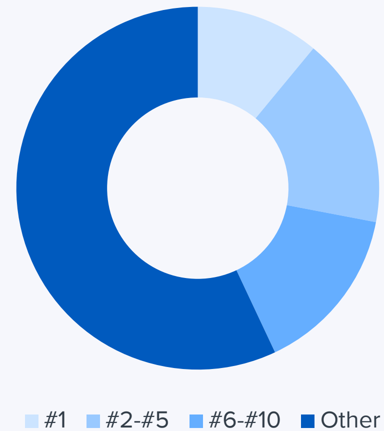
The company's customer structure is fairly balanced, as in 2022 LapWall's largest customer accounted for around 11% of the company's revenue and the top 10 customers accounted for 42%. Therefore, in our view, the company does not bear a significant risk related to individual customers, taking into account that even large customers typically have deliveries for several projects. As a project company, the largest customers and their shares can also vary from year to year depending on the progress of the projects, which also partly offsets the risks associated with individual customers. Thus, we consider LapWall's customer structure as a whole to be good, considering that from a profitability perspective, spreading the customer structure over myriad very small customers or projects is probably not optimal either.

Project sizes vary significantly

We estimate that LapWall's largest projects are in the EUR 3-5 million range, but the average delivery size is a few hundred thousand euros. Thus, individual projects can carry a lot of weight from the perspective of the company's revenue and profit generation on an annual basis, but in principle one project can't be a complete game changer. Typically, sales margins in the sales phase of large projects are slightly lower than in smaller projects. On the other hand, larger projects have more room to sell additional services for delivery as the project progresses, which in certain cases can support the overall profitability of the project. Thus, in order to optimize margins, efficiently fill factories and manage risk levels, we believe LapWall should be able to attract an equal share of large and small projects from the market.

We estimate that under normal circumstances around a third of LapWall's sales come through framework agreements, which provides a degree of continuity to the company's business, as orders from framework agreement customers typically recur annually. In turn, two thirds consist of a one-off project deals with no continuity, but of course project clients frequently come back in Finland's small construction scene. We estimate that LapWall has cross-sales to builders and house factories based on framework and project contracts (i.e. there can be sales to the same customer through both framework contracts and projects). We do not believe that selling under one type of contract or to one end-use is structurally a better business than the other, but that profitability varies case by case. We estimate that LapWall will still seek to add framework contract revenue that has been declining recently to its portfolio due to its greater predictability and smoother workload. The Kastelli agreement that joined the KW-Component deal was also a significant step in this direction.

Breakdown of LapWall sales by customer size in 2022



Inderes' assessment of some of LapWall's clients[1]

YIT
LAPTI
DESIGNTALO
SKANSKA
KASTELLI
SRV

Source: LapWall, Inderes

[1]Inderes estimate, LapWall has not published its customers

Business model 3/5

Factories play a key role

We believe that the core of LapWall's business is design, production and installation, which the company does at its factories in Pyhäntä, Pälkäne and Veteli, as well as on customer sites. In addition to the raw materials mentioned, the main inputs are labor (incl. own staff and hired assembly staff) and, of course, capital tied up in factories and inventories. In our assessment, the company's production facilities are competitive (incl. automation and sufficient size) and in good technical condition, especially compared to the competition. LapWall also has the cash flow and balance sheet to invest in its factories.

From a profitability perspective, we believe that production success is of paramount importance to the company, which means maintaining high capacity utilization in the factories, good material efficiency (incl. waste minimization) and a sufficiently competitive procurement function. In addition, the success of project installation is crucial to ensure that the gains in production efficiency are not destroyed at the final delivery stage. Successful production and installation also requires strong design skills, as design mistakes typically accumulate at later stages. Therefore, we see investing in 3D-based design as a critical part of the whole.

Forward visibility for some months

LapWall's order book has fluctuated in the range of EUR 16-25 million during H1'21-H2'22. We estimate that the order book reflects the normal construction cycle, which is determined by construction starts and lead times. The time lag is typically 1-1.5 years, and the lead time does not change significantly with the business cycle. LapWall's customers order the inputs they need for projects on buildings so that they are available at the right time for building completion. This way the construction site progresses in the desired sequence. This order schedule also takes into account LapWall's production lead time, which is typically a few weeks from the start of raw material purchases to the assembly of the finished elements. Considering these factors, we estimate that LapWall's hard order book typically ranges from 1 to 6 months in terms of revenue, with the lower end of the range representing a weak business cycle and the upper end representing an excellent business cycle. Due to the slowdown in wall element sales in late 2022 (caused by the weakness of the housing market), LapWall's order book at the end of the year was 17% below the comparison period at EUR 15.6 million. The order book is therefore still satisfactory, although the cooling of the construction cycle is already very clearly reflected in it.

Given the length of the hard order book, the visibility on the volume of LapWall's business outside the company is not particularly long at any point in the cycle. However, a stable order book even around the mid-point of the range provides the company with sufficient visibility to fill factories and a slight fall or rise in the volatile order book within the range does not necessarily imply a corresponding immediate movement in revenue. Indeed, we believe that short visibility is in the nature of the industry and the building cycle and is unlikely to change.

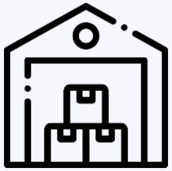
Lapwall's delivery process

Design

- The elements are designed separately for each project, taking into account the standard factory solutions and the customer's choice of components

Production

- Highly automated and efficient production in Pyhäntä, Pälkäne or Veteli



Storage

- Factory-finished products are stored in dry warehouses to ensure quality before installation

Transportation

- The partners deliver the finished elements to the site on time and dry, and LapWall staff take care of the installation.

Installation

- The standardized and factory-based concept allows for efficient installation and quick weatherproofing of the building

Source: LapWall, Inderes

Business model 4/5

Thus, other building product companies in a similar value chain position face the situation as somewhat similar. However, like almost all companies in the construction value chain, LapWall's business is to some extent cyclical in nature.

Pricing model

Our assessment is that LapWall's pricing model is a traditional cost-based model, which the company approaches through the level of production costs and the target margin. This provides an understanding of a certain base margin. However, in order to maximize margins, the company adjusts the target margin to take account of the competitive situation and the prevailing price level in the market. Typically, the price levels for elements in the market have been fairly stable over time. Due to high and widespread inflation in 2022 and strong demand, there was clear upward pressure on prices over the past year, but more recently, falling lumber prices and weakening demand have brought prices back down.

In our view, LapWall seeks to position itself above its direct prefab competitors in terms of pricing, as the company's quality and delivery (incl. credibility) are superior to many of its peers. This together with efficient production and good project management underpins the company's cost structure. In turn, competitors find it difficult to win business from LapWall at the same price level (given the lower quality and delivery performance), which forces competitors to compete on price. At this price premium, we estimate that the company will be able to win enough orders thanks to its other competitive advantages.

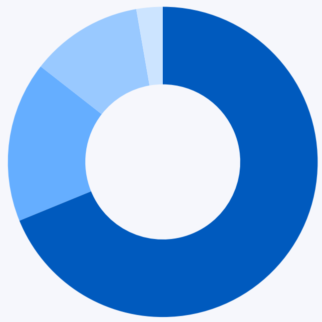
In our view, the company's pricing model is typical for the industry, and we understand that, e.g., value-based pricing models have not been widely used in the construction sector. We do not doubt that the model will work given LapWall's business dynamics. Recently, the model seems to have worked well, as in 2022 the company got price increases in before the acceleration of raw material inflation and, similarly, in a weaker environment in Q1'23 prices fell more slowly than raw material prices.

The cost structure is typical of an industrial company

By the figures, LapWall's business structure and business model are fairly typical for an industrial company. LapWall's sales margins are at a quite normal level for an industrial company in the range of 36-41% (2019-2022). Material and service costs, which account for around 59-64% of revenue, includes raw materials and contract work. We estimate that raw materials - LVL, sawn timber and insulation and other components - account for about half of the total costs, while contract labor used especially for assembly work accounts for 10-15%. Among raw materials, lumber prices can fluctuate strongly with the economic cycle, but LVL and insulation prices have been less volatile.

The lower parts of the income statement continue to be very straightforward, with personnel costs for own staff accounting for around 15% of revenue last year and other costs (incl. premises, energy, sales, marketing, travel, freight, etc.) around 10-12% of revenue. The company has no other significant operational cost items. Depreciation is around 2-3% of revenue, reflecting the low capital intensity of LapWall's business.

Cost breakdown before goodwill amortization 2022



Content and nature of cost items

- Materials and services: LVL, stone wool, sawn timber, hired labor (assembly). In estimate, 1/3 of the item is temporary labor and the rest is raw materials. A cost item that is completely variable in nature.
- Personnel costs: 125 in-house staff (H2'22), about half employees and half clerical staff, average cost about €60K/year. Mainly a fixed item, but flexibility can be obtained through, for example, lay-offs.
- Other costs: administration, freight, energy, sales, marketing, factory overheads. Includes both variable and fixed items, with an emphasis on the latter.
- Depreciation: Depends on the company's investment pace. Depreciation periods are mainly 5-10 years, so the item is fixed.

Source: LapWall, Inderes

Business model 5/5

Thus, there is a tolerable degree of flexibility in the cost structure, and we estimate that about 20% of LapWall's costs are fixed in the short term, while the remaining 80% are variable costs. With this cost structure, the business has leverage, particularly in terms of filling empty capacity and falling utilization rates.

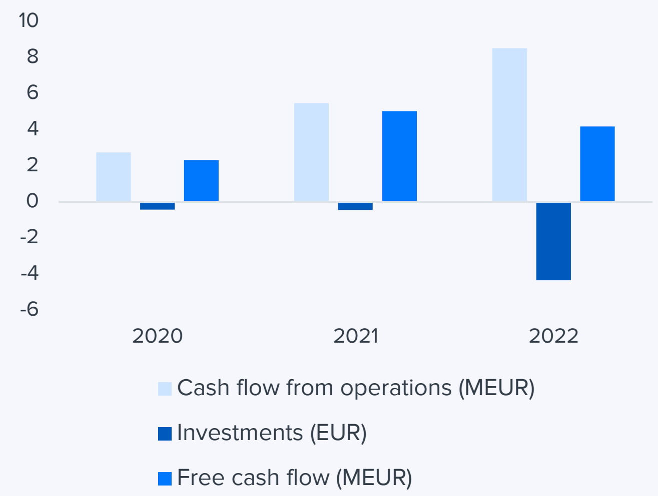
However, the small drop in volume does not completely erode the company's profitability, given the quick adaptability of costs. Maintaining a sufficiently high volume level is still critical for profitability, so that fixed costs are spread over a sufficiently high revenue mass. However, we do not believe that LapWall's traditional industrial business model is scalable and that it is difficult to improve margins through growth after a certain level. We estimate this limit to be roughly around a 20% EBITDA margin, or around a 15% EBITA margin.

Low capital commitment

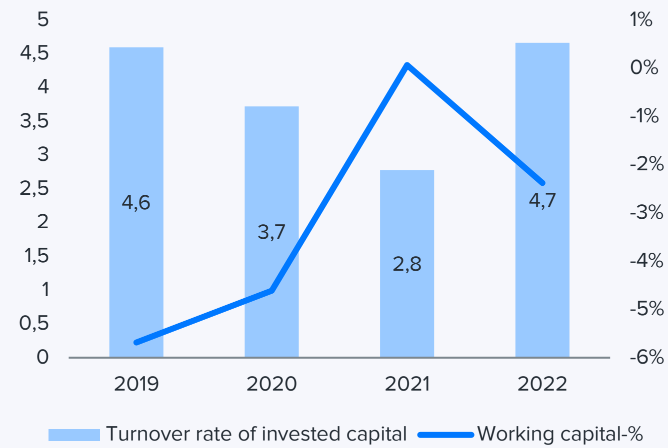
LapWall's 2022 fixed assets to revenue ratio was 18%, but historically the ratio has been only slightly higher. Thus, prefabrication is not very capital-intensive even though the company owns part of the factory buildings. This is largely because factories in the manufacturing industry have light equipment (comparing to e.g. factories in the heavy processing industry). For investors, the situation is naturally positive, as the limited capital-intensity and investment needs support the company's return on capital and cash flow. However, capital needs are not completely non-existent, which also limits the ability of new competition to challenge LapWall. For example, we estimate that the company's own employees could not easily set up a competing business, unlike in, e.g. pure service businesses, as starting a factory requires not only skills but also investments of several million euros.

In terms of working capital, the company's profile is unusual given its industry and value chain position, as LapWall's net working capital has been mostly negative in recent years. We estimate that LapWall has been able to maintain its working capital through tight management of customer and credit risk. In our estimate, the company will only supply customers with a higher-than-normal risk profile for a full upfront payment. In addition, LapWall is a big customer for raw material suppliers locally and we estimate that the company will receive good payment terms from, e.g., forestry groups with a payment period of at least one month. In this way, trade payables and advances are sufficient to cover payment terms granted to low-risk customers (e.g. large construction companies) and the capital tied up in the inventories required to run the business. Slightly negative net working capital is very positive for investors, as daily operations can grow within the capacity of the factories without the need for additional financing. In down cycles, negative net working capital can certainly cause cash flow friction, but thanks to LapWall's profitability and balance sheet structure, we still believe that managing this feature should not be a problem for the company.

Operating and free cash flow

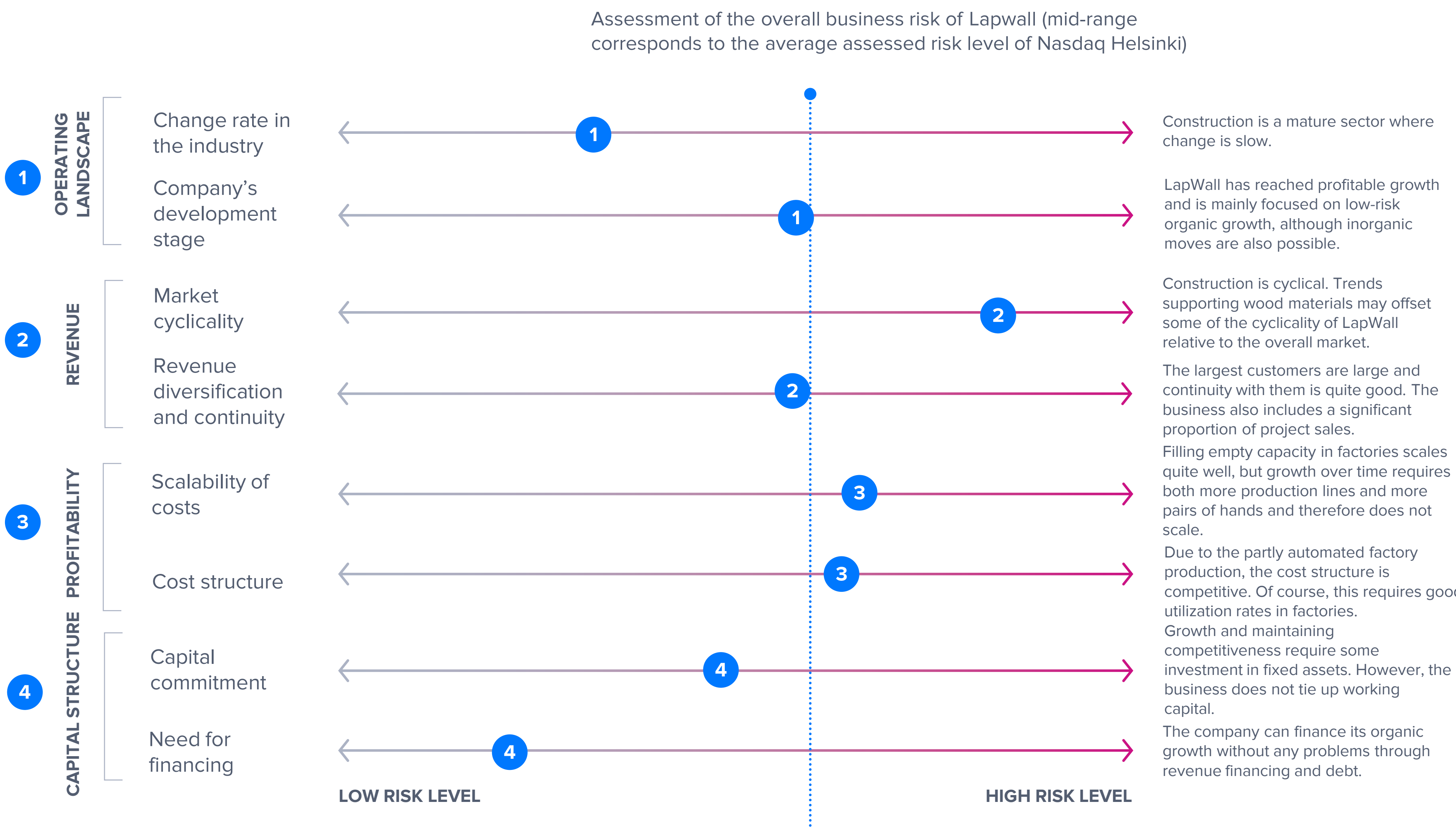


Capital commitment



Source: LapWall, Inderes

Risk profile of LapWall's business model



Source: Inderes

Strategy and financial objectives 1/4

The cornerstones of the strategy in brief

Between 2022 and 2026, LapWall will implement a strategy focused on organic profitable growth, based on the LAPWALL LEKO brand and always including design and installation. The company only deals with builders and house factories and does not aim to sell to consumers or up or down the value chain in its customers' territory. LapWall has not defined its strategy geographically, but in practice we believe that the current strategy is built purely on the Finnish business, where the company aims to gain market share both within the prefab market and to increase the share of prefab in the overall market. We believe that the company would consider internationalization if it were possible to go abroad via, e.g., existing customers. LapWall did hint in the Q1 business review that the company is looking to explore strictly conceptualized exports to Sweden, but there is still very little concrete evidence of this.

In our view, LapWall's strategy is quite straightforward and sharp, as the company intends to focus largely on its current business structure, especially in Finland. From an investor's perspective, we believe this is an option with a good risk/return ratio, as there is no need to go into new uncharted areas, yet there is still potential for profitable growth. Of course, domestic growth will have to come mainly from wall elements, as the market share in roof elements is already high. In the long term at the latest, i.e., after the current strategy period, we estimate that the internationalization of the business will be in the cards again, as we estimate that LapWall's growth would slow down to market growth rate after reaching a market share of around 30% (incl. walls and roofs).

Competitive advantages and disadvantages

The investment in current products and markets is also supported by LapWall's competitive advantages, which we believe are quality, efficiency, the productized LAPWALL LEKO brand, and an environmentally friendly product offering. LapWall will also seek to strengthen these competitive advantages as, in order to drive organic growth and improve profitability, we expect the company to invest in increasing capacity at its current plants and improving production efficiency during the strategy period. Capacity investments include a new sub-manufacturing plant, while on the efficiency side, the company will invest in solutions that reduce production costs, such as automation and robotics.

We believe that LapWall can use these measures to support its competitive advantages in the short to medium term, given the limited ability of its direct current competitors to make similar investments. Over time, we see the reputable LAPWALL LEKO brand as a slightly more sustainable source of competitive advantage than others. However, it would be easier for other players to invest in automation and environmental friendliness if they had access to sufficient resources, and LAPWALL LEKO is not a competitive advantage that is fully protected over time due to, e.g., copying risks. We no longer see any real competitive disadvantages for the company in domestic competition, as the company has already been able to fully clear the burdens of the strategy failure in the late 2010s, both on the cost structure and on the balance sheet, before the IPO. In international markets, low awareness of the company would certainly be a challenge at the beginning.

Acquisitions

LapWall suggests that acquisitions are also part of its strategy. We estimate that this has been accentuated by the recent housing market cycle, which has been weakened particularly as a result of rising interest rates. We think it's logical to open this door more. The company also has a strong track-record from the successful acquisition of Metsä Group's Pälkäne project business in 2017 and the Termater deal in early 2022. In addition, the recent KW-Component acquisition, which we discuss in more detail later in this section, looks promising in our view.

We estimate that LapWall has acquired new products and expanded its customer base through the acquisition. In order for a company to allocate its capital to acquisitions rather than organic growth in Finland, we believe that the acquisition targets should be similar. There are a limited number of pockets of this type on the market, given LapWall's current offering and customer base. However, mere consolidation of the market through acquisitions is not an option in our view, as each transaction would involve a new (and often small) plant and the volume of factories would have to be large enough to be profitable.

Strategy and financial objectives 2/4

Thus, aggressive consolidation would almost certainly only work on paper in the case of LapWall, even though the fragmented structure of the market and the low profitability of the industry may well mean that there are plenty of bargains to be had in the wall element segment, especially in the current weak economic climate.

LapWall acquires the prefab business of its competitor KW-Component

LapWall announced in May that the company and KW-Component Oy have signed an agreement whereby KW-Component's prefab business will be transferred to LapWall through a business transaction. In connection to the deal, LapWall and Kastelli signed a long-term framework agreement for the supply of wooden prefab elements.

The transaction is expected to be completed on May 31, 2023. The purchase price of the business is EUR 4.2 million, half of which will be paid in cash consideration payable at closing and the other half in LapWall shares payable later in two installments on June 29. 2023 and November 30, 2023. A directed share issue will be carried out for the seller. The assets transferred to the buyer are the main machinery of the business and inventories corresponding to the level of current revenue. No debts or receivables are transferred in the arrangement.

KW-Component's product range includes not only timber-framed wall elements, but also industrial timber-framed apartment buildings based on prefabricated elements, which are not part of the deal. In recent years, the volume of the wood-framed wall element business to be bought has been around EUR 10 million and the EBITDA margin between 6% and 18%. About 70-80% of this volume has been delivered to Kastelli and about 20-30% to project customers. This year, the small-house market has contracted sharply and the full-year 2023 revenue forecast for the acquired business is around EUR 4-5 million.

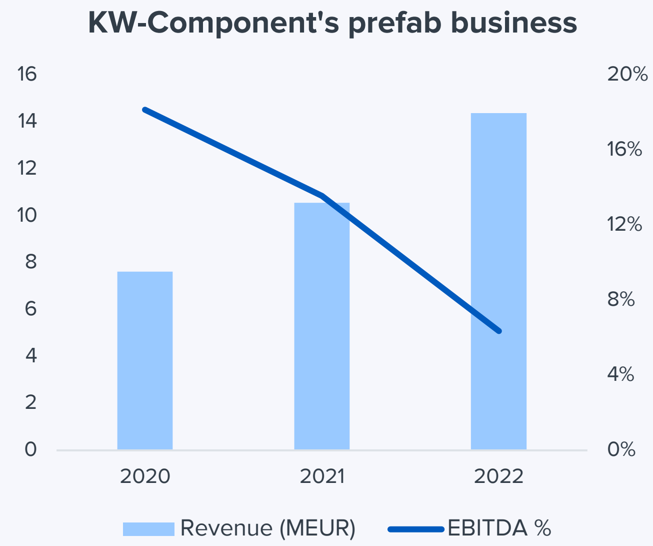
LapWall also signed a supply agreement with Kastelli as part of the arrangement

In connection with the transaction, LapWall and Kastelli-talot signed a contract for the supply of wooden elements, which is valid until the end of 2028. The contract includes a 5-year extension option.

Kastelli-talot is a Finnish small-house builder that designs, manufactures and implements house packages, turnkey detached houses and villas. In addition to Kastelli-talot, the Kastelli Group also includes Easyin, which specializes in housing association-style regional construction.

We estimate that the value creation of the transaction will come in particular from the Kastelli agreement

We estimate that KW-Component's prefab business is above average of Lapwall's Finnish peers in terms of both growth and profitability in recent years. However, KW-Component's strong growth in 2020-2022 has not been profitable. However, we do not believe that some of the challenges in the margin and cost structure of recent years are structural.



Source: LapWall, Inderes

Strategy and financial objectives 3/4

In the current weak housing market cycle, LapWall's wall element factory in Pyhäntä has plenty of spare capacity. We also estimate that the Pyhäntä plant has sufficient capacity to meet normal demand with reasonable investment. Therefore, we do not believe that LapWall was looking for the capacity of KW-Component's Raahe plant, but the most important part of the arrangement is the long-term supply agreement with KW-Component's largest customer (and part-owner), Kastelli-talot. The agreement is expected to make Kastelli-talot immediately one of LapWall's largest customers and, in a normal business cycle, its largest customer. As such, we believe the agreement is of strategic importance to LapWall. In addition, other small project customers will increase LapWall's market share in the wall element segment. The potential cost synergies of the arrangement were not disclosed by LapWall in the press release, and we estimate that they will depend largely on the production arrangements.

The purchase price will be low once the housing down cycle turns

The purchase price of the business acquired from KW Component, based on a very low revenue forecast for the current year, corresponds to an EV/S multiplier of around 0.8x-1.0x, which is on par or slightly below LapWall's own multiple. From this point of view, we consider the purchase price to be reasonable. For the current year, we estimate the earnings multiple to be negative as, given the expected decline in revenue, we expect the numbers of the acquired business to be difficult to keep in the black this year. Based on the average EBITDA margin for 2020-2022, the transaction price would correspond to a low EV/EBITDA multiple of 3.3x, reflecting the good value creation potential in an improving business cycle already without synergies. In a normal small-house construction cycle. the Kastelli account also provides LapWall with a reasonably predictable roughly EUR 10 million revenue load. We estimate that the current net value of the margin from this revenue will be sufficient to fully justify the purchase price. However, this is naturally subject to a recovery in the construction sector and a long-term partnership. Synergies would naturally bring the multiples down and further increase the potential for value creation.

However, we believe that there is still uncertainty about the actual purchase price, as according to the press release, the price of the share component of the arrangement has not been locked in, but the number of shares to be allocated to the sellers as consideration depends on LapWall's share price at the end of June and November. We think this is a bit unusual but given the small equity component (around 4% of Wednesday's market value), the risks are fairly limited in both directions. We do not consider the use of the share as a means of payment to be fully optimal in other respects either given the share valuation and the very strong balance sheet (net gearing of -35% at the end of 2022). However, the chosen model leaves LapWall with strong buffers against cyclical risks and the firepower to continue implementing its growth strategy, and the dilution of the share series is not excessive.

We think the overall picture of the arrangement looks very good for LapWall

Overall, we believe that the arrangements appear to be very good for LapWall, given 1) the significant Kastelli account in a normal business cycle 2) the moderate valuation in a normal business cycle 3) the synergy potential that can be significant. However, the scope of value creation will depend on the timing and scale of the recovery in the housing down cycle and on synergies, both of which are still subject to uncertainty, especially in the short term.

Strategy

-2019

2019 - 2022

2023-

Aggressive market capture

- The establishment of the company in 2011 and organic growth in Finland (incl. Pyhäntä plant expansion)
- Acquisition of Metsä Wood's project business and prefabrication operations in Pälkäne
- Expansion into Sweden in the mid-2010s, first through export sales and later through own subsidiary
- Low profitability and running into problems due to unsuccessful internationalization

Business recovery

- Focus on element manufacturing
- Driving the Swedish subsidiary into bankruptcy
- Efficiency measures and profitability improvements in all parts of the organization
- Cleaning up the balance sheet with write-downs
- Adjusting to the COVID crisis and market recovery
- Strengthening market position and product range through the Termater acquisition

Organic growth

- Organic growth with the market and gaining market share
- Investments to improve the efficiency (automation) and increase the capacity of existing factories
- Clear increase in market share in the single-layer wall element market
- Adapting to cyclical fluctuations
- Considered acquisitions to expand the customer base

Must Win Battles in the strategy

Actualized

- Focus on the core business of strictly conceptualized element manufacturing and installation
- Stabilizing the financial position after the problems of 2017-2018
- Improving productivity and raising profitability to the highest level by far in a competitive environment
- Takeover of the Termater and realization of synergies (incl. procurement)

Near future, 1-2 years

- Defending margins in a potentially partly inflationary and slowing demand environment
- Launching an investment program to support capacity and efficiency
- Focus on the Finnish market and carefully considered export deliveries to Sweden
- Increasing market share in all product groups
- Takeover of the KW-Component's business and realizing synergies

Next 5 years

- Increasing the degree of prefabrication in construction
- Implementing an investment program to support capacity and efficiency
- Above-market organic growth
- Continued competitiveness through, e.g., productivity and automation development
- Considering the internationalization of element production
- Increasing return of capital to owners

Source: Inderes

Strategy and financial objectives 4/4

Financial objectives

LapWall's financial targets are:

- EUR 70 million revenue by the end of 2026. The growth target is to be achieved mainly through organic growth, but acquisitions are also possible
- In the medium term, maintaining an operating margin of 12-15% adjusted for goodwill amortization (adj. EBIT-%).
- Payout ratio is 30-50% of the profit for the financial year, but investments, outlook, and performance are considered when deciding on the dividend distribution.

Achieving the growth target requires, in purely organic terms, an annual growth rate of around 7.5% from the 2022 level over the next four years. We estimate that this is roughly double the expected average market growth, but given LapWall's competitive advantages, we do not consider it at all impossible to capture market share. For the current year, however, the growth outlook is negative in light of Q1 and order book developments, so in effect the bar for growth in the coming years is set higher. Due to the cyclical nature of the construction sector, growth is not necessarily steady and single-year growth is affected by both the business cycle and the capacity available to the company. Thus, years of zero and negative growth and double-digit growth rates are almost likely for the company in the near future.

LapWall even exceeded its profitability targets last year in a favorable economic climate. However, looking at a longer time series, the company has not met its target. However, given the business dynamics of product companies in the construction sector, the local nature of LapWall's competition and the company's improved competitiveness in recent years, we believe that maintaining profitability at the target level is realistic in the longer term. In our view, achieving the target level would be a good performance from the company, as at this level of profitability and with a typical balance sheet structure, the ROIC would significantly exceed the cost of capital (i.e. the company would clearly be able to create added value).

In our opinion, the dividend policy is very typical for a First North company, as there is a strong desire to allocate capital to growing the business. Given the company's capital requirements for continued organic growth, negative working capital, the IPO and a very strong balance sheet after a strong year of results in 2022, we see the payout ratio target as very realistic, provided the earnings position does not disappoint significantly. At best, the company can offer investors a balanced mix of growth and a reasonable dividend in the absence of major M&A activity. In principle, we expect LapWall to aim for a certain stability in its dividend distribution. For a cyclical company, this may cause the payout ratio to fluctuate in individual years, although this is not explicitly stated in the company's policy.

LapWall and growth targets

LapWall and profitability targets

Source: LapWall, Inderes

Market and competitive field 1/4

Wood competes with steel and concrete

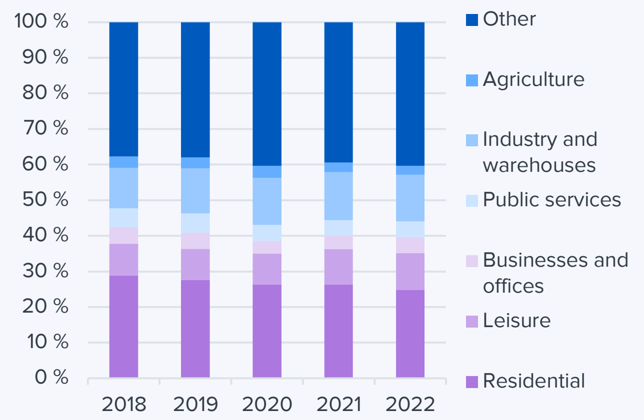
As a whole, the Finnish building materials market is in the billions, as the value of all new construction in Finland in 2022 will be just over EUR 14 billion. For the time being, the main materials on the market are steel and concrete instead of wood, as according to the Ministry of the Environment, the total market share of wood in Finnish construction is only 40%. This includes not only prefabricated elements but also other methods of wood construction, when non-prefab "long goods" construction and the use of wood products as part of other primary materials. In Europe, the share of wood construction is only 4%, illustrating the latent international potential of wood.

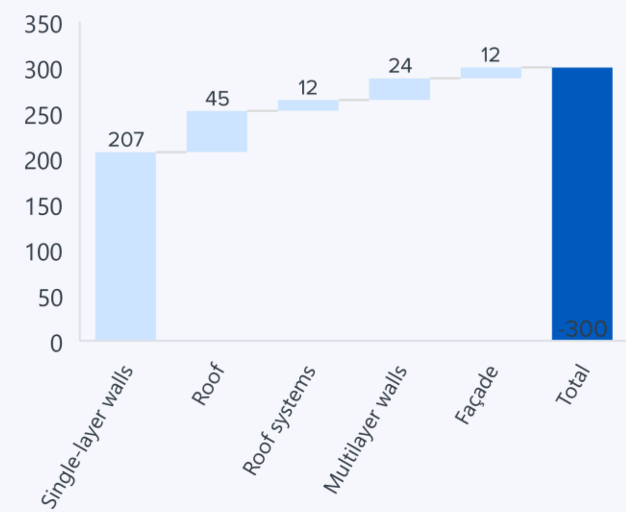
The advantages of steel and concrete as materials are their low unit cost, the widespread use of these materials in established construction methods, and a certain ease of use, for example in terms of installation and fire regulations. In contrast, weaknesses include high emissions from production and the total cost of construction with these materials not necessarily being as low as the unit costs would suggest. Similarly, the strengths of wood and wood-based elements include environmental friendliness (incl. carbon neutrality), good suitability for industrial prefabrication to improve productivity and quality, and improved price competitiveness (incl. clarification of fire regulations). Wood and wood elements are also well suited for hybrid concepts, where the frame material can be concrete and steel.

Wood is well-suited for building trends

We estimate that the key trends in the construction market over the next few years will be climate change, productivity improvements, and urbanization. Urbanization is a long-term global trend, while improving productivity has been on the agenda of Finnish construction companies for a long time due to the sector's very modest profitability development. We believe that LapWall is well positioned for these trends, as the company has operations in Finland's growth centers, its products are made in industrial prefabrication that enables productivity and quality improvements, and its carbon-negative prefabricated wood solutions also support sustainable development. However, the share of wood elements in tall buildings, which are important for urbanization, is not optimal.

LapWall's management estimates that the relevant market for LapWall in Finland is roughly EUR 300 million. The bulk of the market share, estimated at around 70%, is made up of wall elements for single-story buildings, due to the already high market share of wood in small house construction. Multi-layer wall elements are still a small market with an estimated market size of only around EUR 20-25 million, as wood is still rarely used in high-rise buildings, where the market is dominated by steel and concrete. We estimate that the market for roof elements is around EUR 40-45 million and the market for roof systems around EUR 10 million, which together account for about one fifth of the total Finnish market for elements. Facade elements are a small market of around 12 MEUR in Finland so far.





Source: RT, LapWall, Inderes, Statistics Finland
Inderes's estimate based on Lapwall's 2022 financial statements

Market and competitive field 2/4

Long-term market growth potential is limited and in the short term the cycle is weak

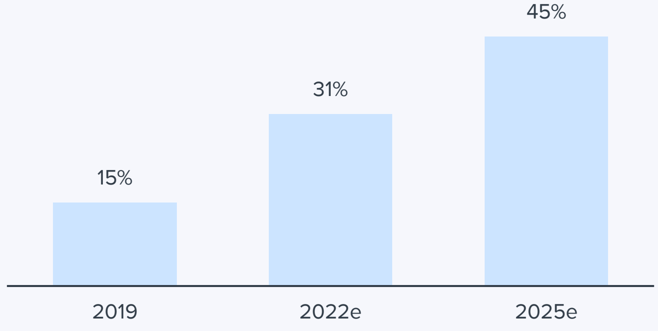
The growth of the overall prefab market is driven by construction volumes, especially for new construction, and thus the long-term growth of the overall insulation market can be thought of as mirroring the growth in construction. In Finland, we estimate construction growth prospects to be moderate at around 1.5-2%, reflecting the slow long-term GDP growth assumption. However, annual variation can be significant as the sector is cyclical.

According to construction research company Forecon, the volume of residential construction is forecast to fall by around 14% in 2023. In 2024, housing construction is expected to fall by a further 6%. Total construction is expected to decline by around 4-5% in 2023 and by more than 2% in 2024. In its spring 2023 review, the Confederation of Finnish Construction Industries RT predicts that the total volume of construction will fall by 3.5% this year and stay flat next year. The Ministry of Finance-led *Economic trends in construction* group forecasts housing starts to be around 33,000-34,000 units in 2023 and 31,000-33,000 units in 2024. The outlook for industrial investment and office construction has turned more positive at the start of the year and is expected to remain at current levels in 2023. For industrial construction, 2022 was a peak year in terms of output growth. According to the MoF, new construction will be driven by commercial construction this year, and expectations for renovation construction are at a moderate level. According to an investment survey published by the Confederation of Finnish Industries in January 2023, fixed investment in manufacturing is expected to grow by 8% this year. Overall, MoF expects construction to decline by 3-4% in 2023, and the decline is likely to continue in 2024 (-1%). In turn, cost increases are expected to slow down.

Of course, after the great year 2022, the short-term outlook is not very positive for LapWall either, due to the weak outlook for housing construction. In the longer term, we believe it is important for LapWall to better penetrate the large apartment building market, either through an increase in direct wooden apartment buildings or hybrid construction, and to increase its market share in the small house prefab wall segment. Of course, the Kastelli deal already gives a boost to the latter factor.

We expect the market share of wood and prefab to continue to grow in construction, driven by regulatory and construction technology developments (incl. productivity improvements), among other things. We estimate that the growth potential of the prefab market could roughly double relative to the long-term growth in overall construction volumes, i.e., to be around 3-4% per year. In practice, this would mean an annual growth potential of around EUR 10 million for the Finnish wood element market, which we estimate to be fairly close to the average actualized growth over the last 5-10 years. Thus, LapWall has a reasonable growth outlook in the market, but to achieve a profile of a growth company, the company must continue to gain market share from other players in the industry.

Ministry of Environment target: Wood construction market share in public construction



Estimated market development (MEUR)

Source: LapWall, RT, Inderes, Ministry of the Environment, Forecon, Confederation of Finnish Industries, Ministry of Finance, Confederation of Finnish Construction Industries

Market and competitive field 3/4

Rising environmental trends support wood materials

The Ministry of Environment has been aiming to increase the share of wood construction in public construction from 15% in 2019 to 45% by the end of 2025, which we estimate would require a significantly faster annual growth rate in the wood element market than the estimated growth rate we mentioned earlier. We consider the Ministry of Environment's target to be ambitious and do not base our market growth expectations on it. However, the target illustrates the pressure for change arising from environmental factors on material choices in construction and thus market growth in wood construction. Similar pressure comes from the strategies of a number of construction companies (driven not only by regulation but also by consumer demands), almost all of which mention reducing emissions as an objective. Wood construction is an excellent option for this because it is carbon negative. Construction is estimated to produce up to 30% of global carbon dioxide emissions, so material choices are a big source of emissions. Thus, changes in material choices also play a role in overall climate change.

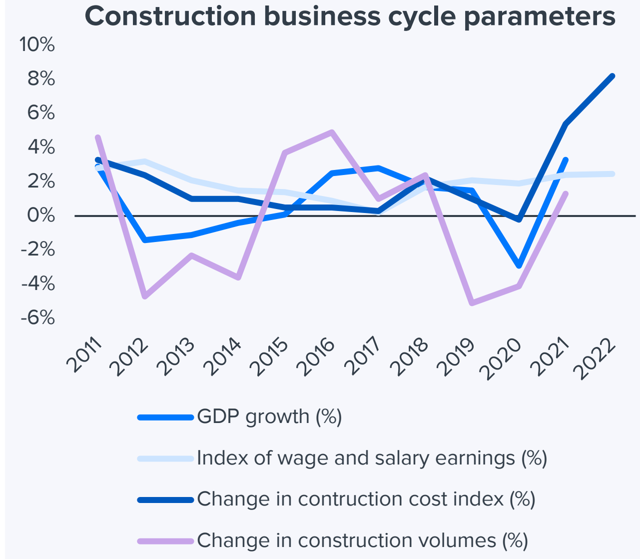
The company's market share is just over 20% in Finland

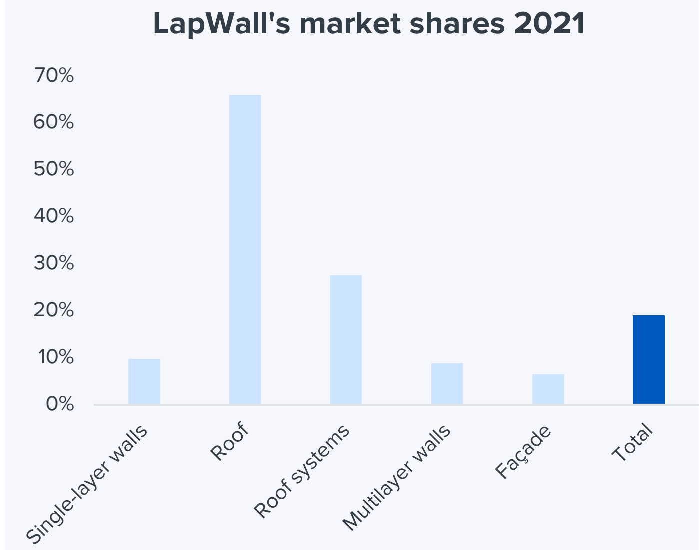
LapWall's market share in wall elements is roughly 15%. Therefore, in wall elements, there should be no barriers to increasing market share, and grow faster than the market, as long as competitiveness is in place. By contrast, LapWall's market share in roof elements is over 70%. This market share naturally forces growth to the level of market growth, but in return for excellent market position and pricing power, which should support the build-up of profitability. LapWall's market share in roof element systems is in the 30% range, which is also a good level. LapWall has a market share of just over 20% of the total Finnish wood element market after the acquisition of KW-Component and with this LapWall is the market leader in the Finnish element market.

Thus, the overall market share upside potential is largely concentrated on the wall elements business, where we estimate that the company has room for a market share of around 30% in Finland in the long run before the growth rate reverts to market growth levels. Thus, LapWall could easily exceed the EUR 70 million target for 2026 within the limits of the Finnish market, but winning market share will of course require strong strategy execution and competitiveness.

Direct competition comes from two fronts

As noted, LapWall is the market leader and by far the biggest player in the sector. Overall, the competitive field is very fragmented and difficult to interpret, as there are many small players in the sector and construction companies and house factories (e.g. Sikla, Jukka-talot, Sievi-talot) often have their own prefabricated element production. As a whole, the direct competition that LapWall faces comes from these three sources, and of course all the other choices of materials and construction methods are significant indirect competitors. However, we will focus directly on competition in this section, as we have already discussed competition between wood elements and other materials.





Source: LapWall, Inderes

Market and competitive field 4/4

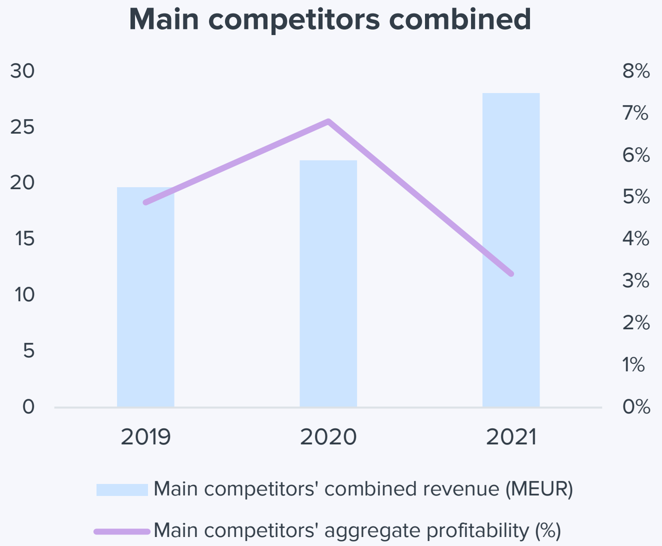
Assessing the competitive situation is fundamentally complicated by the fact that it is almost impossible to estimate the volume and turnover of the builders' and house factories' own production from outside the companies. Of the larger construction companies, at least Lehto and YIT have had their own wood element production, but builders have not been particularly keen to commit their capital to wood element factories, apart from Lehto. We estimate that volumes at Lehto's factories have fallen sharply due to the company's problems and that its prefab element factories are also likely to be sold. In house factories, own prefabrication has been more common, and we estimate that builders' and house factories' in-house prefabrication accounts for more than half of the total market, especially in low-rise buildings. There are also a wealth of element factories in Finland, and these are on average small SMEs.

As far as we know, apart from LapWall, no other operator in Finland generates a turnover of more than EUR 10 million from external sales of prefabricated elements. LapWall's main direct competitors are KW-Component, Seikat and SP-Elements. There are also a number of even smaller and very local players in Finland. In practice, LapWall does not face foreign competition, as the elements are expensive and difficult to transport over long distances.

The company should be able to be by far the most profitable player in the competitive field

Overall, we estimate that the profitability of Finnish wood-based element producers is weak, as LapWall's direct competitors appear to be generating only marginally positive operating profits and the weakening business cycle is not easing their position. In our view, direct competitors are simply too small, given the size and profitability of their businesses, to invest in the automation and design expertise needed in factories to achieve high efficiency. In addition, small prefabricators are not credible partners for large construction companies, at least not for large projects. It is difficult to assess the role of wood element factories in the profitability of house factories and builders, but we do not expect their profitability to be particularly high, given the overall profitability of the sector and prefabrication partly being outside of their core businesses. As such, we consider LapWall's competitive position based on market leadership and investment capability to be very good, and we believe that the company should be able to have clearly the best profitability in the industry.

In light of the weak profitability of the competitive field, we see the possibility that capacity will naturally exit the market, especially if the current downturn is prolonged. The first signs of this are also visible, with company such as Sikla-Elements having recently gone into company restructuring. A reduction in supply could support the profitability and market share of the remaining players. It also opens up opportunities for the strongest players to consolidate a fragmented market through M&A, even if the industrial logic of consolidation in the sector as such is not necessarily watertight in all cases in our view. LapWall would of course be one of the few potential consolidators in the industry, at least on paper.



Source: Asiakastieto, incl. SP-Elements, Sievi-Elements, Seikat

Financial position

Nothing odd in the balance sheet

By far the largest asset on LapWall's consolidated balance sheet is tangible assets, which amounted to EUR 9.2 million in non-current assets at the end of 2022. The item includes the company's production facilities, in particular machinery and equipment, and related land and buildings. We estimate that the value of tangible assets is easily justifiable, and we do not see any write-down risks. In non-current assets, the company also had intangible assets of EUR 2.8 million, which includes mostly FAS amortizable group goodwill. Other ordinary intangible assets (e.g. investments in IT infrastructure) amount to roughly EUR 0.4 million. We do not see any write-down risks in intangible assets either.

The largest items in current assets are working capital items, i.e., trade receivables and inventories, which are typical for a company operating partly in the manufacturing industry. At the end of 2022, their values were EUR 3.2 million and EUR 2.7 million respectively. Unusually for a manufacturing company, LapWall's working capital has generally been slightly negative and, due to its strict customer credit policy and relatively long payment terms, the company is able to finance its day-to-day operations from customer funds. At the end of the year, accrued income amounted to EUR 1.7 million and cash on hand to EUR 7.8 million. For cash, we expect the company to earn a small interest yield of 1-2% in the current interest rate market.

LapWall's balance sheet total at the end of 2022 was EUR 28.2 million. In our view, the balance sheet as a whole is quite light compared to the size of the business, which is of course driven by the moderate capital intensity of the business and negative working capital.

Balance sheet is in good condition

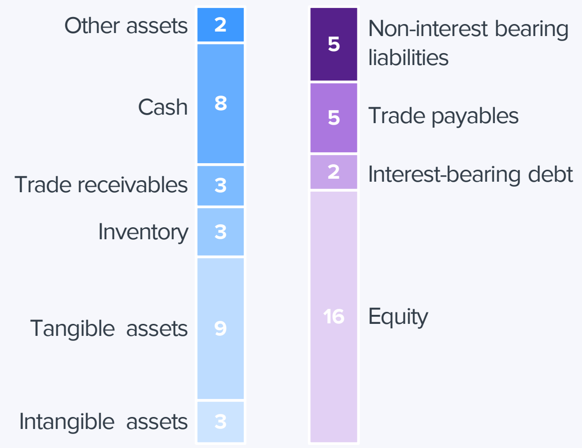
On the liability side of the balance sheet, LapWall's equity at the end of 2022 was EUR 15.9 million. The interest-bearing debt on the balance sheet was around EUR 2.3 million, so LapWall's financial costs are low and the rise in interest rates does not put any significant upward pressure on them. In addition, the company had around EUR 4.6 million in trade payables and EUR 4.8 million in other interest-free liabilities. Other non-interest-bearing liabilities included accruals of EUR 2.4 million and advances from customers of around EUR 2.2 million. Thus, the liabilities on the balance sheet are clear.

LapWall had an equity ratio of 61% and a net gearing of -35% at the end of the year. As such, we believe the company is in a very strong financial position, which provides strong buffers for a weaker economic cycle. In addition, we estimate that revenue financing will be able to cover a substantial part of growth investments, as long as the company's performance does not collapse. In our view, LapWall could only really need external financing for larger M&A activities. Its strong balance sheet also allows it to pay a good dividend to investors, in line with its dividend policy.

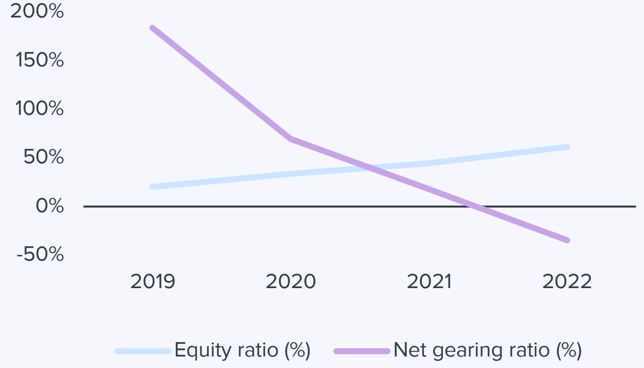
KW-Component does not materially change the balance sheet position

We estimate that the KW-Component deal will increase the amount of group goodwill on the balance sheet by just under EUR 4 million. Due to the funding model of the deal being based on roughly equal proportions of equity and cash components, LapWall's financial position won't change much.

Balance sheet at the end of 2022



Development of key balance sheet figures



Source: LapWall

Estimates 1/4

Estimate model

We forecast LapWall's revenue development in the short and medium term through the company's estimated order book, estimated market growth, and changes in market shares. In turn, we forecast the company's profitability in the short and medium term by modeling the company's sales margin and fixed cost structure. Our long-term estimates are based on expected market growth and our assessment of the group's long-term normalized margin potential and historical profitability performance.

Our estimates include KW-Component from the completion of the deal, i.e., from May 31, 2023.

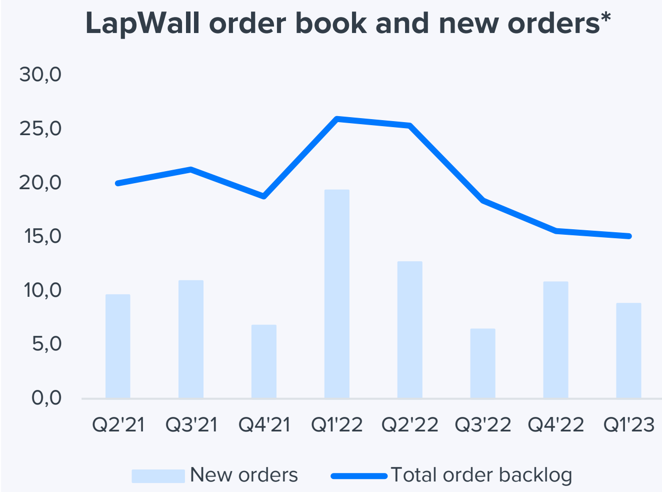
Q1 figures lagged far behind comparison period as the cycled turned

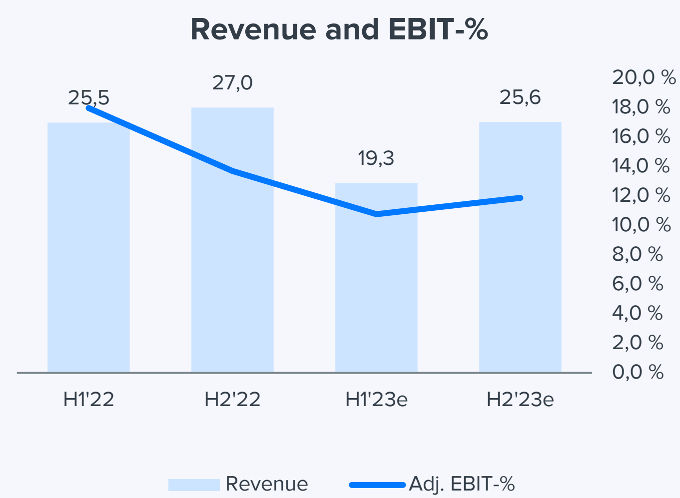
LapWall's starting point for the current year was not the best possible, as the company already sold less than it delivered in Q2'22-Q4'22 and thus the order book at the beginning of the year was down 17% year-on-year at EUR 15.6 million. The reason for the development of the order book was especially the wall element market for residential construction, which had already started to decline in 2022. The weakening of housing construction is rooted in rising interest rates and falling consumer confidence. In contrast, the starting point to 2023 for roof elements was clearly better.

Mirroring the signs of the order book, LapWall's revenue dipped 23% to EUR 9.3 million in Q1. We estimate that the decline in revenue was mainly driven by a volume reduction in the wall element segment related to residential construction. However, based on comments indicating the company's strong sales margin, we estimate that prices have held up at least moderately. LapWall's operating profit adjusted for goodwill amortization fell by 46% in Q1 to EUR 1.1 million. Thus, the development of profitability was very good, especially in view of the low level of revenue, and LapWall's adjusted EBIT margin of 12.9% achieved in Q1 was within the company's target range despite the weak revenues (cf. medium-term target of 12-15% adj. EBIT-%). In other words, the company's cost structure was very resilient in Q1, even though the burden of volume reductions on relative profitability and especially on absolute profitability is unavoidable in a factory-driven business.

At the end of Q1, LapWall's order book was 42% below the record level of the comparison period at EUR 15.1 million. Thus, the outlook for short-term revenue growth remains weak, although LapWall expected revenue to pick up during the spring and the KW-Component acquisition should provide a good EUR 2 million of inorganic support for growth for the rest of the year. The sluggish growth outlook is naturally a reflection of the gloomy situation in residential construction on the demand for wall panels. In this context, LapWall has also laid off its staff at the Pyhäntä plant for up to 90 days in Q2.

As expected, LapWall did not provide guidance for the current year so far, but the company aims to provide guidance in its H1 report in August.





Source: ThomsonReuters, *not incl. KW-Component

Estimates 2/4

We expect the company to issue a guidance in August for a decline in revenue and adjusted EBIT for the current year, reflecting the situation described above.

Revenue seeks momentum lower

We forecast LapWall's revenue to decline by 15% this year to EUR 45 million. The decline in revenue is explained by both declining wall element volumes and sales prices that are coming down in line with raw materials. We expect roof element volumes to remain stable. We expect the decline to be slightly accentuated in H1, while H2 is already facing slightly lighter comparison figures and the slightly brighter sales outlook in spring and the KW-Component deal will have time to support H2's revenue level. The rise in revenue estimates for the current year comes from KW-Component.

Earnings come down with revenue

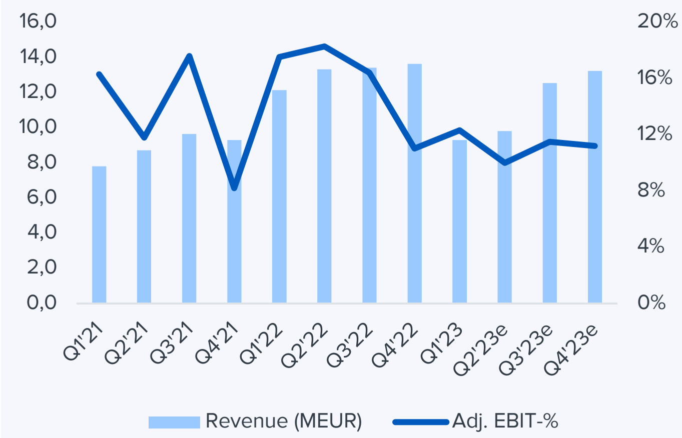
We estimate LapWall's sales margin to improve slightly to around 42% in 2023, with the decline in raw material prices slightly outpacing the decline in sales prices, especially in H1. The sales margin is also partly supported by the improvement in Termater's pricing, where we do not yet believe that all the targeted synergies have been achieved. We do not expect KW-Component to have much impact on the sales margin this year.

We expect personnel costs to decrease marginally this year, as the positive impact of the Pyhäntä plant layoffs of about EUR 1 million and last year's reduction in headcount will offset the personnel costs associated with the acquisition of KW-Component and wage inflation of about 3%.

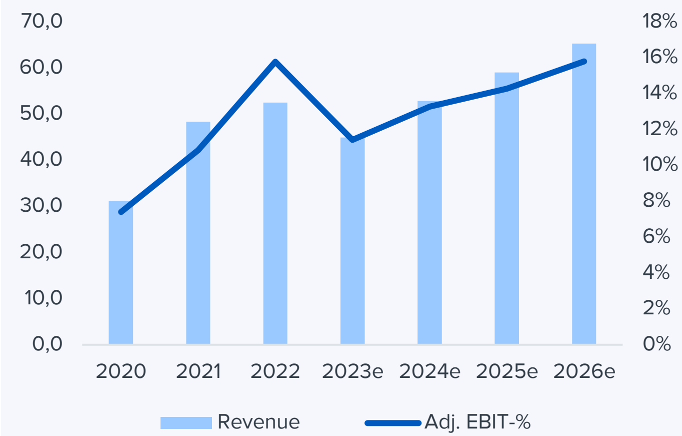
However, the relative share of personnel costs rises to 16% as revenue declines. We expect other operating expenses to follow a similar trend, with the clear decline in volumes pushing other operating expenses slightly down year-on-year despite inflation. We estimate other operating expenses to be just under 11% of revenue this year, which we believe is slightly above the company's normal level and the level achieved in recent years. We expect normal depreciation to remain stable at 3% of revenue. In relative terms, the share of depreciation also increases due to the fall in revenue. Taking these factors into account, we expect LapWall's goodwill-adjusted EBIT to fall by 38% to EUR 5.1 million this year, mainly for volume reasons. This corresponds to an adjusted operating profit margin of 11%, slightly below the target level. The impact of the acquisition of KW-Component on adjusted revenue is slightly negative in our estimate for this year.

On the bottom line, we expect LapWall's goodwill amortization to increase to EUR 0.7 million this year due to the acquisition of KW-Component. As a result, our EBIT estimate for 2022 is EUR 4.4 million. We forecast financial expenses to be only EUR 0.1 million this year, thanks to low interest-bearing debt and low financial income. LapWall no longer has any recoverable losses available. Thus, we forecast the company's tax rate to be 23%, as goodwill amortization is non-deductible. Taking these factors into account, our adjusted EPS estimates for the current year is EUR 0.28, which is 6 cents higher than our reported EPS estimate. Our earnings estimates for this year are slightly lower, mainly due to KW-Component.

Revenue and profitability per quarter



Revenue and profitability per year



Source: Inderes

Estimates 3/4

Given the positive result, moderate investments of around EUR 2 million (incl. Veteli plant expansion and small equipment investments), and the free cash flow of LapWall following the acquisition of KW-Component, we forecast free cash flow to be around zero this year. The company's financial position still remains net cash positive and thus very strong.

The medium-term outlook doesn't come without challenges either

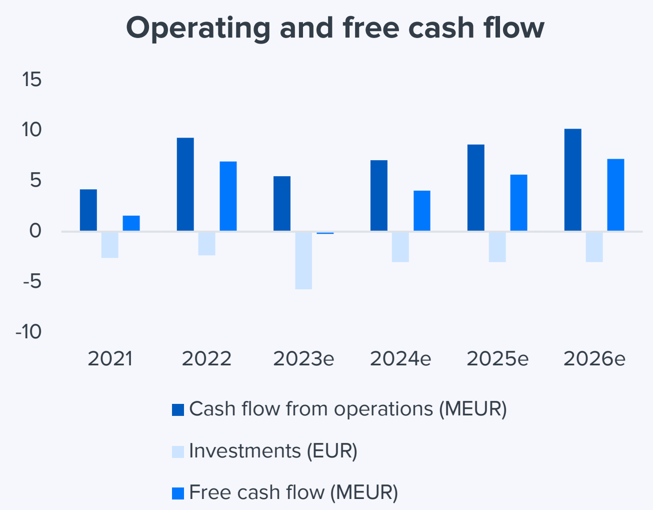
LapWall's outlook for the coming years is sluggish and uncertain at this stage, as the Finnish economy is generally expected to grow at a miserly 0-2% in the coming years. The consensus expects inflation to slow down, but inflation, which is clearly higher than in the last 10 years, is here to stay. Thus, inflation and interest rates will start to decline in the coming years, but not particularly rapidly, unless economic growth falters more severely. Moreover, the contraction in construction volumes in the market may continue in 2024 already because of the low number of starts in 2023. We expect market growth to support LapWall from 2025 at the earliest, but it may not be particularly strong even if economic growth does not pick up.

On the other hand, we expect the sluggish market to challenge the competitive landscape even more than LapWall. As the difficult market situation becomes more protracted, we believe that the company is increasingly well placed to address the market headwinds through organic market share gains and individual export deliveries.

We expect the company to deliver profitable growth even in a weaker market

Between 2024 and 2026, we expect LapWall's revenue to grow by 11-17% to reach EUR 65 million in 2026. Growth is based on slow market growth, organic market share gains in Finland and individual export deliveries. Most of the growth will be organic, as the growth support from KW-Component acquisition will be limited in the first 5 months of 2024. We forecast the price component to remain broadly stable compared to 2023-2024, so growth will be volume-driven. Our estimate for 2026 is slightly below the company's target due to the calming effect of higher interest rates on construction demand in particular. Most of the estimate revisions in the coming years are due to KW-Component.

Our estimates for 2024-2026, adjusted for goodwill amortization, is EUR 7.0-10.3 million. The estimates correspond to an adjusted operating margin of around 13-16%, within the company's target range. We estimate that the company will be able to increase margins slightly over time by automating factories and improving raw material efficiency, while volume growth will scale up the efficiency of other fixed operating costs in particular towards peak levels in 2022. In terms of personnel costs related to own staff, at this stage we expect efficiency to improve, as wage inflation is also expected to be at a brisk 3-4% and the company will also add some staff to achieve volume growth. In these years, we also expect the company to achieve clear production synergies from the KW-Component acquisition, especially in terms of personnel and other costs. We expect normal depreciation to increase slightly, reflecting certain efficiency investments.



Source: Inderes

Estimates 4/4

On the lower lines of the income statement, we forecast PPA depreciation to land at EUR 0.9 million for the coming years, financing costs to be around zero and the tax rate at 22-23%, reflecting the non-deductibility of goodwill amortization. As a result, our adjusted EPS estimates for 2024-2026 are EUR 0.38-0.57 and the reported EPS is around 6-7 cents below these levels. Our dividend estimates for 2024-2026 are EUR 0.18-0.22, in line with the just under 50% payout ratio on adjusted EPS at the upper end of the company's policy. Our adjusted EBIT and EPS estimates for the coming years have increased by 10-14% as a result of the KW-Component arrangement.

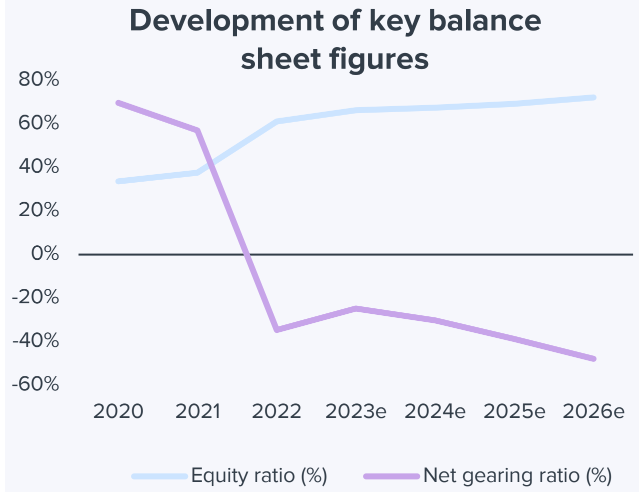
We estimate LapWall's investments for 2024-2026 to be around EUR 3 million per year, focused on opening bottlenecks in existing factories and improving automation. We do not expect LapWall to tie up working capital even in growth mode due to the structure of the business model, so our FCF projections for 2024-2026 are EUR 4.1-7.2 million. The net profit and the clearly positive FCF keep the company's balance sheet very strong and the net cash position positive in the medium term. The company would therefore have ample room for inorganic growth through M&A and/or larger-than-expected organic growth investments.

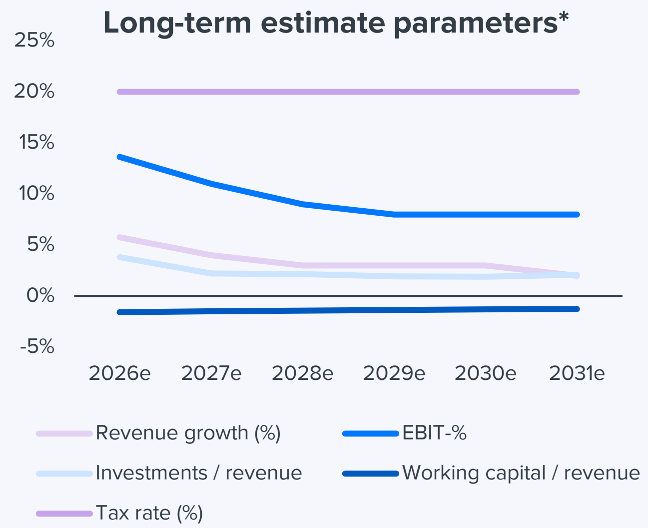
Our long-term growth and profitability estimates are well below short-term expectations

If our estimates are realized, LapWall's market share of the Finnish prefab market would be 20-25% at the end of 2026. Thus, the Finnish market for prefabricated elements would not yet pose a limit to the company's growth. Due to Finland's growth potential and so far limited signs of internationalization, our long-term estimates are based almost entirely on the Finnish market, and even in the long term our estimates only include individual export transactions.

From 2027 onwards, we forecast LapWall's revenue to grow by around 3-5% p.a. Our terminal growth estimate is in line with Finland's long-term growth assumption at 2.0%. We expect the company's adjusted EBIT margin to be in the range of 9-12% in the long term. We forecast terminal profitability at 8.0%, as we expect competition in the sector to intensify in one way or another also in Finland. This is below the company's current profitability level, but still slightly above its long-term historical performance (EBIT-%: 7.1%). Thus, given the current track-record, we consider a more moderate margin expectation than current levels to be justified for the time being.

We expect financing costs to remain low in the long term, while the tax rate is expected to move towards Finland's corporate tax rate of 20% as goodwill amortization comes to an end. We estimate that LapWall's investments will fall below depreciation after the 2023-2026 investment program, before in the terminal period investments will again roughly reach depreciation levels. We believe that, despite the growth, the company has the capacity to easily maintain the 30-50% payout ratio of its dividend policy also in the long term, even if investments continue and the company goes international. As we have anticipated a slowdown in LapWall's growth, our long-term payout ratio estimates are above the company's current dividend policy.





Source: Inderes

Income statement and estimate revisions

Income statement	2021	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	2024e	2025e	2026e
Revenue	**48.3**	**25.5**	**27.0**	**52.5**	**19.3**	**25.6**	**44.9**	**52.9**	**59.0**	**65.3**
Group	48.3	25.5	27.0	52.5	19.3	25.6	44.9	52.9	59.0	65.3
Goodwill amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**6.6**	**5.2**	**4.4**	**9.5**	**2.7**	**3.6**	**6.3**	**8.4**	**10.2**	**12.4**
Depreciation	-1.8	-0.8	-0.9	-1.8	-0.9	-1.1	-1.9	-2.3	-2.6	-3.0
EBIT (excl. NRI)	**5.2**	**4.6**	**3.7**	**8.3**	**2.1**	**3.0**	**5.1**	**7.0**	**8.4**	**10.3**
EBIT	**4.8**	**4.3**	**3.5**	**7.8**	**1.8**	**2.6**	**4.4**	**6.1**	**7.5**	**9.4**
Group	5.2	4.6	3.7	8.3	2.1	3.0	5.1	7.0	8.4	10.3
Goodwill amortization	-0.5	-0.2	-0.2	-0.5	-0.3	-0.5	-0.7	-0.9	-0.9	-0.9
Net financial items	-0.2	-0.7	0.0	-0.7	-0.1	-0.1	-0.1	0.0	0.1	0.2
PTP	**4.6**	**3.6**	**3.4**	**7.0**	**1.8**	**2.5**	**4.3**	**6.1**	**7.6**	**9.6**
Taxes	-0.9	-0.7	-0.7	-1.4	-0.4	-0.6	-1.0	-1.4	-1.7	-2.1
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**3.7**	**2.9**	**2.8**	**5.7**	**1.4**	**2.0**	**3.3**	**4.7**	**5.9**	**7.5**
EPS (adj.)	**0.33**	**0.21**	**0.20**	**0.42**	**0.11**	**0.16**	**0.27**	**0.38**	**0.46**	**0.56**
EPS (rep.)	**0.29**	**0.20**	**0.19**	**0.38**	**0.10**	**0.13**	**0.22**	**0.32**	**0.40**	**0.50**

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	42.6	44.9	5%	47.2	52.9	12%	52.1	59.0	13%
EBITDA	6.4	6.3	-1%	7.5	8.4	12%	9.1	10.2	12%
EBIT (exc. NRIs)	5.2	5.1	-2%	6.2	7.0	14%	7.4	8.4	14%
EBIT	4.7	4.4	-6%	5.7	6.1	8%	6.9	7.5	9%
PTP	4.6	4.3	-6%	5.7	6.1	7%	7.0	7.6	9%
EPS (excl. NRIs)	0.28	0.27	-5%	0.35	0.38	10%	0.42	0.46	10%
DPS	0.16	0.16	0%	0.18	0.18	0%	0.20	0.20	0%

Source: Inderes

Source: Inderes *2021 earnings pro forma 2020-2021. Share count is pre-IPO share count, 2023e-2026e share count estimate based on current share price level and share component of KW Component arrangement.

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**11.5**	**12.1**	**15.9**	**16.6**	**16.9**
Goodwill	3.0	2.4	5.4	4.5	3.6
Intangible assets	0.2	0.4	0.4	0.4	0.4
Tangible assets	8.3	9.2	10.0	11.6	12.9
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	**8.4**	**16.1**	**14.1**	**16.7**	**20.5**
Inventories	3.0	3.2	2.7	2.9	3.2
Other current assets	1.8	2.3	2.3	2.3	2.3
Receivables	1.6	2.7	2.5	3.2	3.6
Cash and equivalents	2.1	7.8	6.6	8.3	11.4
Balance sheet total	**19.9**	**28.2**	**30.0**	**33.3**	**37.4**

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**7.1**	**15.9**	**18.6**	**20.9**	**24.2**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-2.2	4.8	5.5	7.8	11.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	9.3	10.9	13.0	13.0	13.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**2.6**	**1.9**	**1.5**	**1.5**	**1.5**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	2.3	1.4	1.0	1.0	1.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.3	0.5	0.5	0.5	0.5
Current liabilities	**10.2**	**10.5**	**9.9**	**10.9**	**11.7**
Short term debt	3.8	1.0	1.0	1.0	1.0
Payables	3.4	4.6	4.0	5.0	5.9
Other current liabilities	2.9	4.8	4.8	4.8	4.8
Balance sheet total	**19.9**	**28.2**	**30.0**	**33.3**	**37.4**

Valuation 1/4

No smoke or mirros needed in LapWall's valuation

In our view, LapWall is priced in the market primarily on earnings-based valuation multiples, which we consider primarily in absolute terms and secondarily relative to a peer group of other building materials companies. We focus on the multiples of the current and next year's estimates in the valuation, as the visibility of the company's business in the cyclical value chain of construction is limited and the company's track-record is short. Due to the cyclical nature of the result, the actual result cannot be relied on heavily in turnaround situations either.

In our view, the most appropriate multiples for the company are EV/EBIT and P/E, which we adjust for non-cash goodwill amortization. EV/EBITDA is also a useful figure as LapWall has FAS accounting, but its relative comparability is poor compared to IFRS peers. However, EV/EBITDA gives an indication of LapWall's relatively good cash flow potential, as the company pays low financing costs and has a limited working capital commitment. Naturally, the cash flow-based P/FCFE is also suitable for LapWall, especially in absolute terms.

We utilize the EV/S multiple as a valuation thermometer, whereas with LapWall being in the light manufacturing industry, we feel that the P/B figure has no practical relevance. We also believe that dividend yield plays a minor role in the overall valuation picture, as we believe that LapWall profiles itself primarily as a growth company, although we project that capital may also be available for distribution to shareholders in the coming years due to good cash flow prospects, moderate investment needs, and a strong balance sheet.

In addition to valuation multiples, we also utilize the DCF model. In the DCF valuation, which is based on our long-term estimates and focuses mainly on the distant future, the forecast risks are the most tangible of all. Therefore, the role of the DCF model in valuation is to serve as a reality check and to support short-term valuation multiples. Thus, its weight in the valuation of the stock is moderate.

Factors affecting the valuation of LapWall:

The short- and medium-term growth outlook for wood elements is good. In our view, the near-term growth potential for wood elements is higher than the overall building materials market, driven by environmental reasons. Furthermore, LapWall has the potential to capture market share from weaker competitors. Good growth prospects and competitive advantages compared to other Finnish precast manufacturers support the acceptable valuation.

Good margin profile for wood elements. LapWall's sales margins are quite good and the best players in the building materials sector have demonstrated their ability to make high margins, which supports valuations in the sector. However, we see no clear room for improvement in the company's profitability from the excellent level of 2022, so earnings growth will have to come mainly from revenue growth.

Valuation	2023e	2024e	2025e
Share price	3.24	3.24	3.24
Number of shares, millions	14.9	14.9	14.9
Market cap	48	48	48
EV	44	42	39
P/E (adj.)	12.0	8.6	7.1
P/E	14.5	10.2	8.2
P/B	2.6	2.3	2.0
P/S	1.1	0.9	0.8
EV/Sales	1.0	0.8	0.7
EV/EBITDA	6.9	5.0	3.8
EV/EBIT (adj.)	8.5	6.0	4.6
Payout ratio (%)	71.4 %	56.6 %	50.3 %
Dividend yield-%	4.9 %	5.6 %	6.2 %

Source: Inderes

Source: Inderes

Valuation 2/4

Despite this, we believe the company's medium-term earnings growth prospects are good, which supports the valuation.

LapWall's portfolio is environmentally friendly. In our view, LapWall's good positioning in the green trend and ESG themes will increase investor interest in the company and may support an acceptable valuation of the business in the longer term.

The track-record of profitable growth is short. LapWall's short track-record of good profitability and lack of longer-term track-record of different types of cyclical situations partly cloud the acceptable valuation.

LapWall is part of a cyclical value chain. This keeps investor risks high and excludes certain types of investors from the company's potential investors.

Finland's long-term growth potential is limited. Investors cannot rely purely on a good short- to medium-term growth outlook in the valuation, but the slow long-term market growth outlook in Finland is already weighing slightly on the stock's valuation.

The business model scales only slightly over time. As a company based on factories and labor, LapWall cannot scale beyond a certain limit in the long term. This limits the valuation accepted by investors for the business.

LapWall's small size and geographical concentration in Finland raises its risk profile relative to many other larger and more diversified companies and limits the interest of certain types of investors.

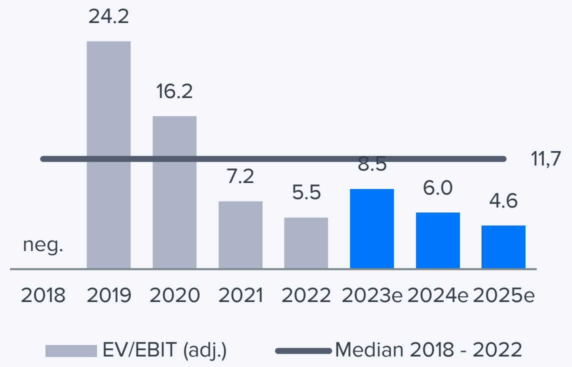
LapWall's acceptable valuation level

Considering these valuation factors, we believe that LapWall should be valued at 8x-12x EV/EBIT and 10x-14x P/E, respectively. These levels would also correspond to a 1x-1.5x EV/S multiple, which we believe is the best thermometer for LapWall even in different types of cyclical situations. As the company's profitable growth track-record lengthens, we believe there is scope for the multiples to move towards the upper end of the ranges. However, given the uncertainties surrounding the economy and equity markets, as well as the prevailing high interest rate expectations, we believe that for the time being it is justified to seek acceptable levels at the lower end of the ranges, especially looking beyond the current year.

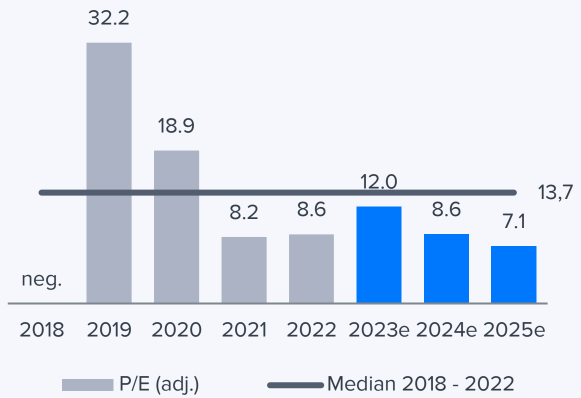
Multiple-based valuation

LapWall's adjusted P/E ratios based on this and next year's estimates are 12x and 9x, and the corresponding EV/EBIT ratios are 9x and 6x. In relation to our accepted ranges, the valuation is very moderate even with current year's earnings below potential, whereas if next year's earnings growth materializes even in line with our estimates, the stock would be very cheap. The EV/S multiples paint the same picture for the current year and next year at around 1x or below. Thus, in our view, a multiples-based approach provides a clearly positive signal of the company's valuation.

EV/EBIT



P/E (adj.)



Valuation 3/4

Compared to a peer group of building materials companies, LapWall's P/E ratios for this and next year 17x and 12x and the corresponding adjusted EV/EBIT multiples are 15x and 10x. LapWall's discount relative to the peer group averages around 25% for earnings-based multiples. We believe that a certain discount is justified by the company's smaller size and shorter track-record than its peers, yet we believe the discount to be excessive. As a result, we believe LapWall's relative valuation is attractive on both this and next year's estimates.

Required return remains quite high

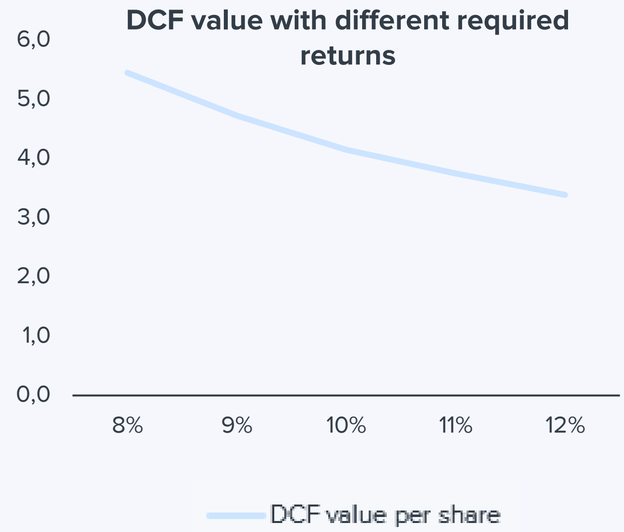
The DCF model is sensitive to the required return (and especially to terminal period estimates) and determining the exact required return is subjective. In our view, LapWall's required return should be around 10-11% at this stage, which implies a WACC of 9-10%, taking into account our estimated capital structure, cost of debt and tax shield on debt. In our view, this required return is high for a company with good cash flow and a strong balance sheet over the entire DCF forecast horizon. However, the cyclical nature of the industry, the short track-record and the generally high required returns due to interest rates still require a safety margin in our view. We see a slight downside in the required return over the 2–3-year horizon if LapWall remains on its profitable growth path and the general situation in the financial markets (e.g. interest rates) does not change materially.

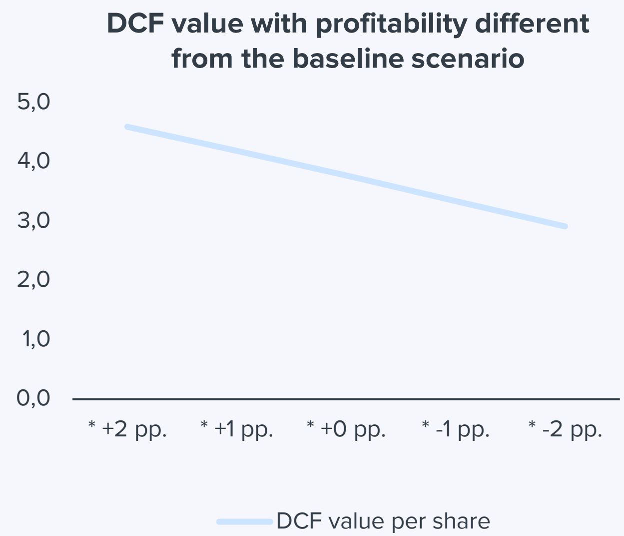
In the baseline cash flow model scenario, we use a WACC of 10.2% and a cost of equity of 10.9%. The risk-free rate is 2.5%, while the market risk premium is 4.75%. The interest rate on the debt is 5% and we have set the liquidity premium at 0.75% for the time being.

The DCF shows a green light too

With these assumptions and our long-term estimates in the previous section, we arrive at a DCF-based fair value for LapWall of around EUR 4/share in our baseline scenario. In the baseline scenario, the weight of the terminal period in the value of cash flows is very reasonable at 44%. Thus, we do not believe the model is particularly aggressive, although it does assume that LapWall will continue to grow profitably through the rest of the decade, and in our projections the company will also consistently achieve profitability above historical levels in all forecast years.

At the upper and lower limits of our required return range, we get a fair value of around EUR 4-5 per share. Growth and profitability are more or less equally sensitive. The wide ranges reflect the sensitivity of the model to individual parameters, but overall, we believe that the current price level is very reasonable on a DCF basis. If several parameters were changed at once, the value range that the model indicates for LapWall would widen further and would no longer tell us anything about the pricing of the stock in practice.





Source: Inderes

Valuation 4/4

Valuation using financial objectives

We believe that LapWall's financial targets also provide a benchmark for valuation. However, one must tread carefully here, as the targets are far away in time. The uncertainty surrounding the achievement of listed companies' targets is high, although LapWall has plotted a credible path to achieving its targets and has built up a short track-record of growth and profitability in line with its targets.

If these targets are met, LapWall's adjusted EBIT in 2026 would be at least EUR 8.4-10.5 million. We estimate that after normal depreciation, very low financial expenses and a normal tax rate of 20% this would leave the company with a net profit of around EUR 6-8 million, assuming organic growth and no material additional goodwill amortization or financial expenses from acquisitions after KW-Component. In addition, the company would have a good track-record of growth and profitability over 5 years in this scenario. Against this background, we believe that LapWall could be priced in 2026 at least at the upper end of our range, i.e., EV/EBIT 11x and P/E 14x, if interest rates do not rise substantially from current levels. With these numbers, LapWall's fair value in 2026 could be around EUR 5.5-7.5 per share. We assume here that the company aims to be net debt-free.

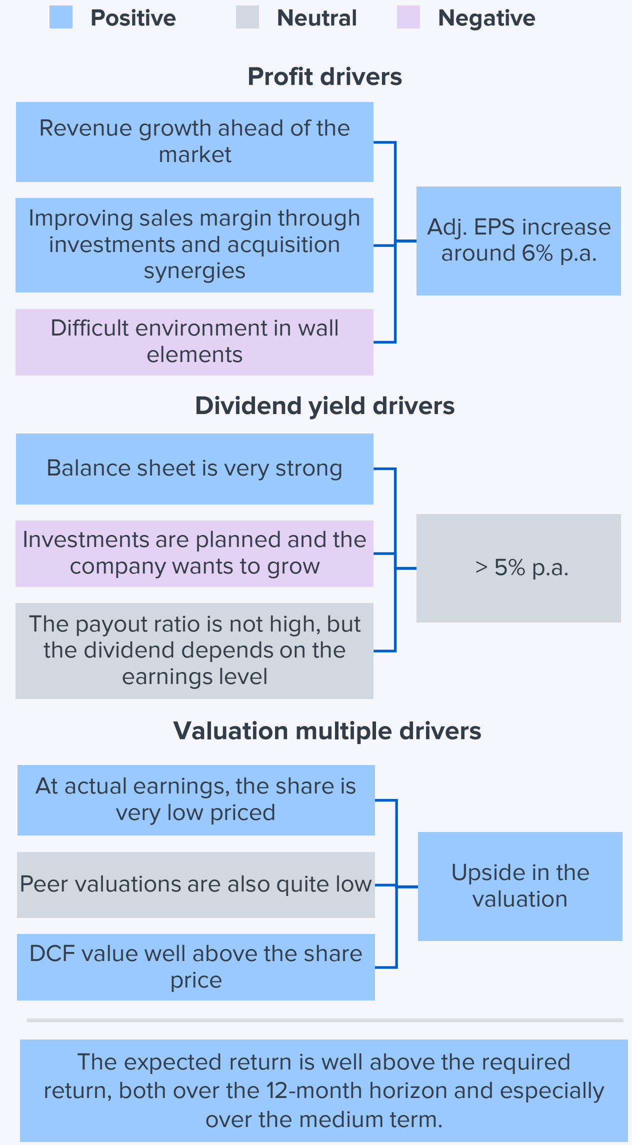
Thus, based on the share price, the company would have an annual upside of around 20-30% over an investment period of less than 3 years, topped by good annual dividends of 5-7% between 2023 and 2025. The total annual return on these would clearly exceed investors' required returns and reflect the significant medium-term potential of the stock, if the company's targets are even partially met. However, we stress that this means that the expected return must be very attractive for investors at this stage, as the assumptions are still based on a favorable (but not necessarily perfect) and far-off scenario. Thus, we believe that valuation through financial targets supports our view of an attractive stock price as indicated by other methods.

The return/risk ratio is clearly positive

In our view, LapWall's expected return is well above the required return in the short and medium term. The medium-term expected return consists of all three components, while the 12-month expected return depends on the dividend and the increase in valuation multiples (i.e. negative earnings growth in 2023). In our view, LapWall has the makings to be a steady grower and value creator in the medium term, as well as a good dividend payer.

In our view, the main risks to the company are the cyclicality of construction and the prolongation of the current weak cycle, new types of competition, inflation, and the slowing or reversal of environmental trends. If these risks were to materialize, the company's short- or longer-term growth and/or profitability could fall short of our estimates, but we believe the low valuation already provides some protection against forecast risks. We consider the stock's risk profile to be quite high, especially due to external risks. However, we think the stock's return potential is good enough to compensate for the risks and we still see buying the company as well justified at current levels.

Market value drivers as a listed company Q1'23 LTM-2026e



Investment profile

1. **Focusing on prefabricated wood products and mainly on the Finnish market**
2. **Market leadership and improved competitiveness**
3. **Structural uptake of environmentally friendly wood products as a material**
4. **Organic growth with competitive advantages and carefully considered acquisitions**
5. **Improving efficiency through investment and synergies**

Potential

- Growth prospects for ecological products are better than the overall market growth
- Strong competitiveness enables market share gains in Finland
- Reducing costs through investments in automation
- Selected acquisitions in a fragmented market
- Value upside as track-record accumulates

Risks

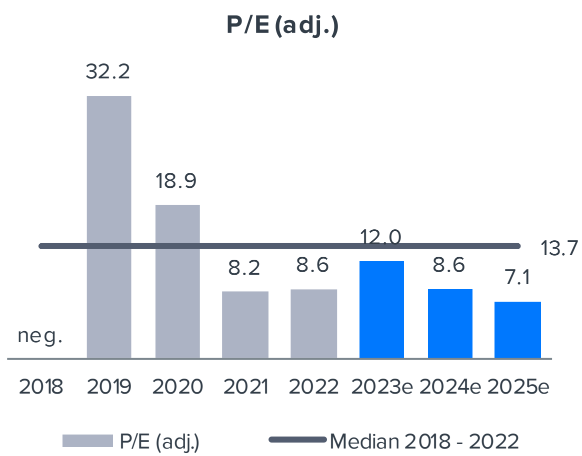
- Weaker-than-expected development of the Finnish economy and the construction cycle and or a prolongation of the current weak cycle
- Increased competition from new and stronger players
- Inflation
- Project risks
- Slowing or interrupting the breakthrough of environmental trends

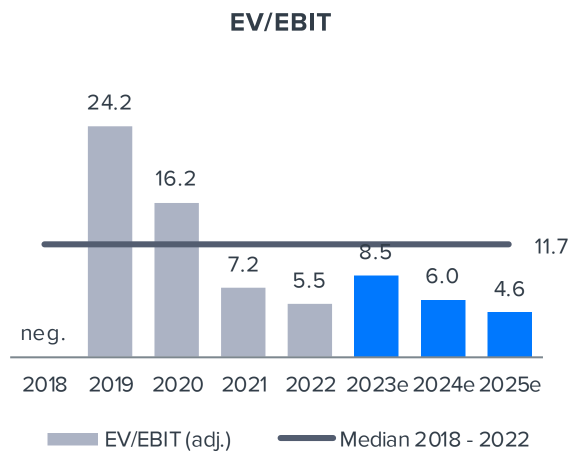
Source: Inderes

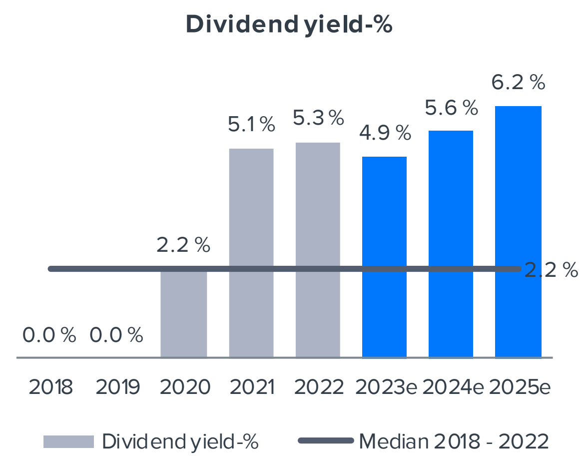
Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price		2.72	2.72	2.72	3.58	**3.24**	**3.24**	**3.24**	**3.24**
Number of shares, millions		12.4	12.4	12.4	14.2	**14.9**	**14.9**	**14.9**	**14.9**
Market cap		33.7	33.7	33.7	50.9	**48.2**	**48.2**	**48.2**	**48.2**
EV		39.9	37.4	37.7	45.4	**43.6**	**41.9**	**38.8**	**34.5**
P/E (adj.)		32.2	18.9	8.2	8.6	**12.0**	**8.6**	**7.1**	**5.7**
P/E		32.2	18.9	9.3	9.3	**14.5**	**10.2**	**8.2**	**6.4**
P/B		9.9	6.3	4.7	3.2	**2.6**	**2.3**	**2.0**	**1.7**
P/S		1.0	1.1	0.7	1.0	**1.1**	**0.9**	**0.8**	**0.7**
EV/Sales		1.2	1.2	0.8	0.9	**1.0**	**0.8**	**0.7**	**0.5**
EV/EBITDA		11.5	9.1	5.7	4.8	**6.9**	**5.0**	**3.8**	**2.8**
EV/EBIT (adj.)		24.2	16.2	7.2	5.5	**8.5**	**6.0**	**4.6**	**3.3**
Payout ratio (%)		0.0 %	41.7 %	48.1 %	49.5 %	**71.4 %**	**56.6 %**	**50.3 %**	**43.7 %**
Dividend yield-%		0.0 %	2.2 %	5.1 %	5.3 %	**4.9 %**	**5.6 %**	**6.2 %**	**6.8 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**
Lapwall	46	41	8.2	6.8	6.8	5.1	1.0	0.9	11.6	9.3	4.9	5.5	2.8
Uponor	2000	2108	15.7	13.8	11.0	10.1	1.6	1.5	23.0	19.9	2.6	2.7	4.0
EcoUp	28	29		14.3	7.2	4.8	0.7	0.6	78.8	17.5		1.6	1.3
Purmo	326	549	13.9	8.0	7.6	5.6	0.7	0.6	9.9	8.2	4.1	4.9	0.8
Inwido	485	572	8.1	8.3	6.0	6.1	0.8	0.8	9.7	9.8	6.3	6.1	1.0
Balco	87	103	11.4	9.6	7.8	7.0	0.9	0.9	15.0	11.8	3.0	3.4	1.3
Steico	649	767	16.3	13.0	10.1	8.3	1.7	1.6	20.2	15.9	0.9	1.0	2.2
Louisiana Pacific	4004	4210	17.3	10.9	11.8	8.1	1.7	1.6	23.3	14.4	1.6	1.6	2.8
LapWall (Inderes)	**48**	**44**	**8.5**	**6.0**	**6.9**	**5.0**	**1.0**	**0.8**	**12.0**	**8.6**	**4.9**	**5.6**	**2.6**
Average			**18.8**	**10.3**	**8.5**	**6.6**	**1.1**	**1.0**	**23.9**	**12.7**	**3.3**	**3.4**	**1.8**
Median			**14.8**	**9.6**	**7.8**	**6.1**	**0.9**	**0.9**	**17.6**	**11.8**	**3.0**	**3.1**	**1.3**
Diff-% to median			***-42%***	***-38%***	***-12%***	***-18%***	***5%***	***-9%***	***-32%***	***-27%***	***66%***	***81%***	***98%***

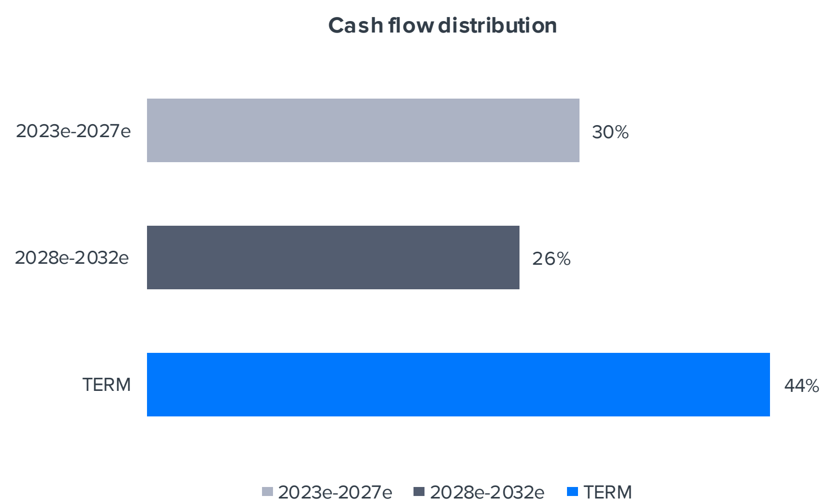
Source: Refinitiv / Inderes

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	8.6 %	-14.5 %	17.7 %	11.6 %	10.6 %	5.0 %	4.0 %	4.0 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	14.8 %	9.9 %	11.6 %	12.8 %	14.4 %	12.0 %	11.0 %	10.0 %	9.0 %	8.0 %	8.0 %	8.0 %
EBIT (operating profit)	**7.8**	**4.4**	**6.1**	**7.5**	**9.4**	**8.2**	**7.8**	**7.4**	**6.9**	**6.3**	**6.4**	
+ Depreciation	1.8	1.9	2.3	2.6	3.0	3.0	2.6	2.5	2.4	2.3	2.2	
- Paid taxes	-1.4	-1.0	-1.4	-1.7	-2.1	-1.9	-1.7	-1.6	-1.5	-1.4	-1.4	
- Tax, financial expenses	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	
- Change in working capital	1.3	0.2	0.1	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	
Operating cash flow	**9.3**	**5.5**	**7.1**	**8.6**	**10.2**	**9.4**	**8.7**	**8.3**	**7.8**	**7.2**	**7.3**	
+ Change in other long-term liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-2.3	-5.7	-3.0	-3.0	-3.0	-2.0	-1.5	-1.5	-1.5	-2.0	-2.2	
Free operating cash flow	**7.2**	**-0.2**	**4.1**	**5.6**	**7.2**	**7.4**	**7.2**	**6.8**	**6.3**	**5.2**	**5.1**	
+/- Other	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	7.0	-0.2	4.1	5.6	7.2	7.4	7.2	6.8	6.3	5.2	5.1	63.9
Discounted FCFF		**-0.2**	**3.5**	**4.4**	**5.1**	**4.7**	**4.2**	**3.6**	**3.0**	**2.3**	**2.0**	**25.3**
Sum of FCFF present value		57.9	58.1	54.6	50.2	45.1	40.4	36.1	32.6	29.6	27.3	25.3
Enterprise value DCF		**57.9**										
- Interest bearing debt		-2.3										
+ Cash and cash equivalents		7.8										
-Minorities		0.0										
-Dividend/capital return		-2.7										
Equity value DCF		**60.7**										
Equity value DCF per share		**4.1**										

WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.60
Market risk premium	4.75%
Liquidity premium	0.75%
Risk free interest rate	2.5 %
Cost of equity	**10.9 %**
Weighted average cost of capital (WACC)	**10.2 %**

Source: Inderes



Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	31.2	48.3	52.5	**44.9**	**52.9**
EBITDA	4.1	6.6	9.5	**6.3**	**8.4**
EBIT	2.3	4.8	7.8	**4.4**	**6.1**
PTP	1.9	4.6	7.0	**4.3**	**6.1**
Net Income	1.8	3.6	5.5	**3.3**	**4.7**
Extraordinary items	0.0	-0.5	-0.5	**-0.7**	**-0.9**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	17.2	19.9	28.2	**30.0**	**33.3**
Equity capital	5.4	7.1	15.9	**18.6**	**20.9**
Goodwill	2.4	3.0	2.4	**5.4**	**4.5**
Net debt	3.7	4.1	-5.5	**-4.6**	**-6.3**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	4.1	6.6	9.5	**6.3**	**8.4**
Change in working capital	-0.5	-1.5	1.3	**0.2**	**0.1**
Operating cash flow	3.6	4.2	9.3	**5.5**	**7.1**
CAPEX	-0.2	-2.6	-2.3	**-5.7**	**-3.0**
Free cash flow	2.9	1.6	7.0	**-0.2**	**4.1**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	1.2	0.8	0.9	**1.0**	**0.8**
EV/EBITDA (adj.)	9.1	5.7	4.8	**6.9**	**5.0**
EV/EBIT (adj.)	16.2	7.2	5.5	**8.5**	**6.0**
P/E (adj.)	18.9	8.2	8.6	**12.0**	**8.6**
P/B	6.3	4.7	3.2	**2.6**	**2.3**
Dividend-%	2.2 %	5.1 %	5.3 %	**4.9 %**	**5.6 %**

Source: Inderes

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	0.14	0.29	0.38	**0.22**	**0.32**
EPS (adj.)	0.14	0.33	0.42	**0.27**	**0.38**
OCF / share	0.29	0.34	0.66	**0.37**	**0.48**
FCF / share	0.23	0.13	0.49	**-0.01**	**0.27**
Book value / share	0.43	0.58	1.11	**1.25**	**1.41**
Dividend / share	0.06	0.14	0.19	**0.16**	**0.18**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	-8%	55%	9%	**-14%**	**18%**
EBITDA growth-%	18%	61%	45%	**-34%**	**33%**
EBIT (adj.) growth-%	40%	127%	58%	**-38%**	**37%**
EPS (adj.) growth-%	71%	130%	26%	**-35%**	**40%**
EBITDA-%	13.1 %	13.7 %	18.2 %	**14.1 %**	**15.9 %**
EBIT (adj.)-%	7.4 %	10.9 %	15.8 %	**11.4 %**	**13.3 %**
EBIT-%	7.4 %	9.8 %	14.8 %	**9.9 %**	**11.6 %**
ROE-%	40.7 %	57.7 %	47.5 %	**19.3 %**	**23.9 %**
ROI-%	21.9 %	39.5 %	49.6 %	**23.3 %**	**28.6 %**
Equity ratio	33.6 %	37.6 %	61.1 %	**66.2 %**	**67.4 %**
Gearing	69.6 %	57.0 %	-34.7 %	**-24.8 %**	**-30.2 %**

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Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
4/10/2022	Accumulate	3.40 €	3.11 €
5/19/2022	Accumulate	3.40 €	3.05 €
8/17/2022	Accumulate	4.00 €	3.55 €
11/1/2022	Accumulate	3.75 €	3.27 €
1/31/2023	Reduce	3.75 €	3.68 €
2/8/2023	Reduce	3.75 €	3.95 €
4/27/2023	Accumulate	3.75 €	3.51 €
6/1/2023	Buy	4.00 €	3.24 €

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