Exel Composites

Extensive report

10/9/2024

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Inderes corporate customer

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inderes.

At the beginning of a transformational journey

Last fall, Exel announced its transformative strategy, and the first phase of actions is progressing as scheduled. Nevertheless, we believe that demand in the company's target markets remains sluggish, especially in its main market, Europe. Considering this, we have also slightly lowered our projections for the coming years. Given the current outlook, we believe the stock is fairly reasonably priced, and so we reiterate our target price of EUR 0.38, but lower our recommendation to Reduce (was Accumulate).

Long-standing composites manufacturer with a transformative strategy

Exel is a specialist in the design and manufacture of composite products for demanding industrial end-uses. The company is implementing a two-phase transformative strategy, divided into the current stabilization and profitability phase, and a later phase of strong organic growth (2028 revenue target: 200 MEUR). In particular, the company is targeting growth in large and fast-growing energy and decarbonization applications (especially wind power applications, we estimate). At the same time, it aims to significantly improve its profitability (2028 target: adj. EBIT-% > 10%), in part by increasing factory utilization rates and reducing fixed costs (incl. optimizing the factory network). We think the measures are sensible overall, but much remains to be done to achieve the ambitious targets. The most obvious risks to the strategy are, in our opinion, the volatility of investment-driven demand (incl. the development of the wind power market) and, secondly, the growing role of volume applications and their lower margin profile.

Dark clouds remain over near-term demand outlook

The growth prospects for the company's target markets are forecast to be on a fairly healthy footing, with the market growing by an average of 5-7% over the next few years, depending on the source. On the other hand, we believe that there are currently darker clouds hanging over the short-term development of the demand environment, especially with the lackluster performance of the European economy (incl. interest rates and weak industrial confidence). We therefore estimate that a clearer pick-up in demand will have to wait until well into next year and that the company will not enter a more pronounced growth phase until 2026 (incl. increased production at the Indian factory). Reflecting this, we have made small negative revisions to our forecasts in the report, mainly for next year. In the medium term, however, we expect the revenue growth and the strategic measures taken (e.g. reduction of fixed costs, increase in utilization rates) to support the company's profitability and improve the operating margin level in the coming years (adj. EBIT-% 2024e-2027e: 3.0-6.8%), but remain well below the financial targets.

Stock is not overvalued but needs more wind in the sails from the market

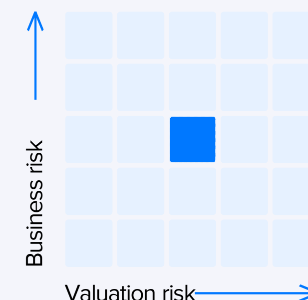
We forecast a challenging valuation picture for the stock overall this year and still slightly elevated next year (2025e: P/E 19x, EV/EBIT 11x, EV/EBITDA 5x) compared to our acceptable valuation range (P/E 10x-14x, EV/EBIT 8x-12x, EV/EBITDA 5x-8x). However, if the company continues on the path we expect, we see the valuation for 2026 as a whole already at an attractive level (P/E 10x, EV/EBIT 8x, EV/EBITDA 4x). On the other hand, given the as yet unproven turnaround, its timing and the volatile performance in recent years, we think it is premature to rely too heavily on this. Looking at the bigger picture, we believe that the best approach at this stage is to switch to a wait-and-see stance on the stock in order to monitor market developments and the implementation of the company's internal strategic measures.

Recommendation

Reduce
(was Accumulate)

EUR 0.38
(was EUR 0.38)

Share price:
0.39



Key figures

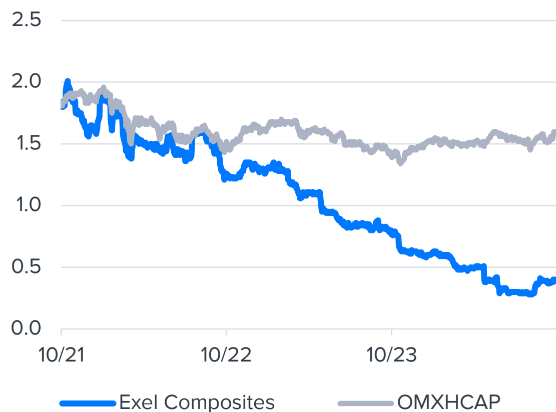
	2023	2024e	2025e	2026e
Revenue	97	104	111	130
growth-%	-29%	7%	7%	17%
EBIT adj.	-2.4	3.1	4.8	7.5
EBIT-% adj.	-2.5 %	3.0 %	4.4 %	5.8 %
Net Income	-9.1	1.1	2.1	4.0
EPS (adj.)	-0.56	0.01	0.02	0.04
P/E (adj.)	neg.	31.6	19.4	10.3
P/B	1.7	1.1	1.0	0.9
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	17.6	11.4	7.5
EV/EBITDA	15.6	6.3	5.2	4.2
EV/S	0.7	0.5	0.5	0.4

Source: Inderes

Guidance (Unchanged)

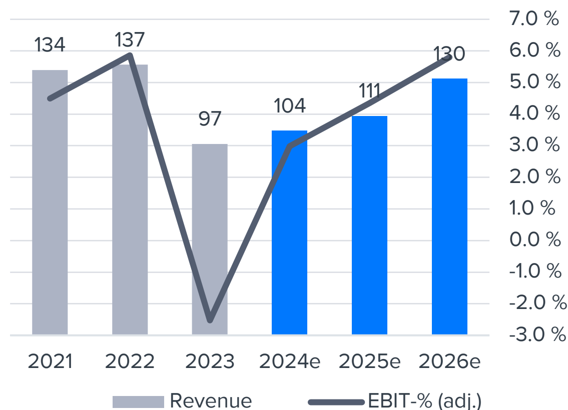
Exel Composites expects that revenue will increase in 2024 (2023: 97 MEUR) and adjusted operating profit will increase significantly compared to 2023 (2023: -2.4 MEUR).

Share price



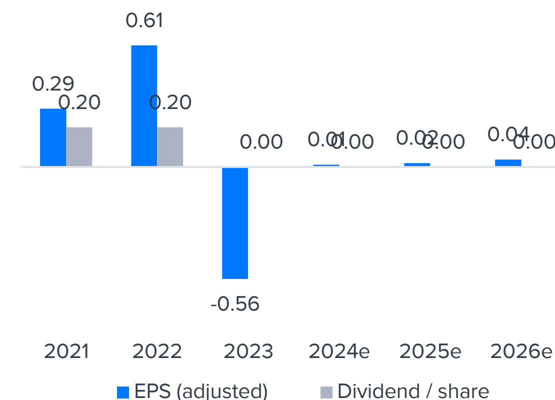
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Growing composite market creates a good base for organic growth
- Upside in profitability relative to full potential (incl. reduction in fixed costs)
- Materializing the global structure of production and relative economies of scale in a new, more focused strategy

Risk factors

- Failure in the implementation of the new strategy
- Somewhat cyclical and volatile demand
- With a chronically short absolute order book, business opportunities can weaken relatively quickly
- The somewhat fixed nature of the cost structure creates sensitivity to changes in demand
- Concentrated customer portfolio

Valuation	2024e	2025e	2026e
Share price	0.39	0.39	0.39
Number of shares, millions	106.7	106.7	106.7
Market cap	41	41	41
EV	55	55	57
P/E (adj.)	31.6	19.4	10.3
P/E	37.8	19.4	10.3
P/B	1.1	1.0	0.9
P/S	0.4	0.4	0.3
EV/Sales	0.5	0.5	0.4
EV/EBITDA	6.3	5.2	4.3
EV/EBIT (adj.)	17.7	11.4	7.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

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Exel Composites in brief

Exel is a company specializing in the design, manufacture as well as sales and marketing of composite products and solutions for a range of demanding industrial applications.

1960
Year of establishment

1998
IPO

96.8 MEUR
Revenue 2023

-2.4 MEUR
Adjusted EBIT 2023

4.7%
Average adjusted EBIT margin in 2019-2023

621
Personnel at end of Q2'24

-2015

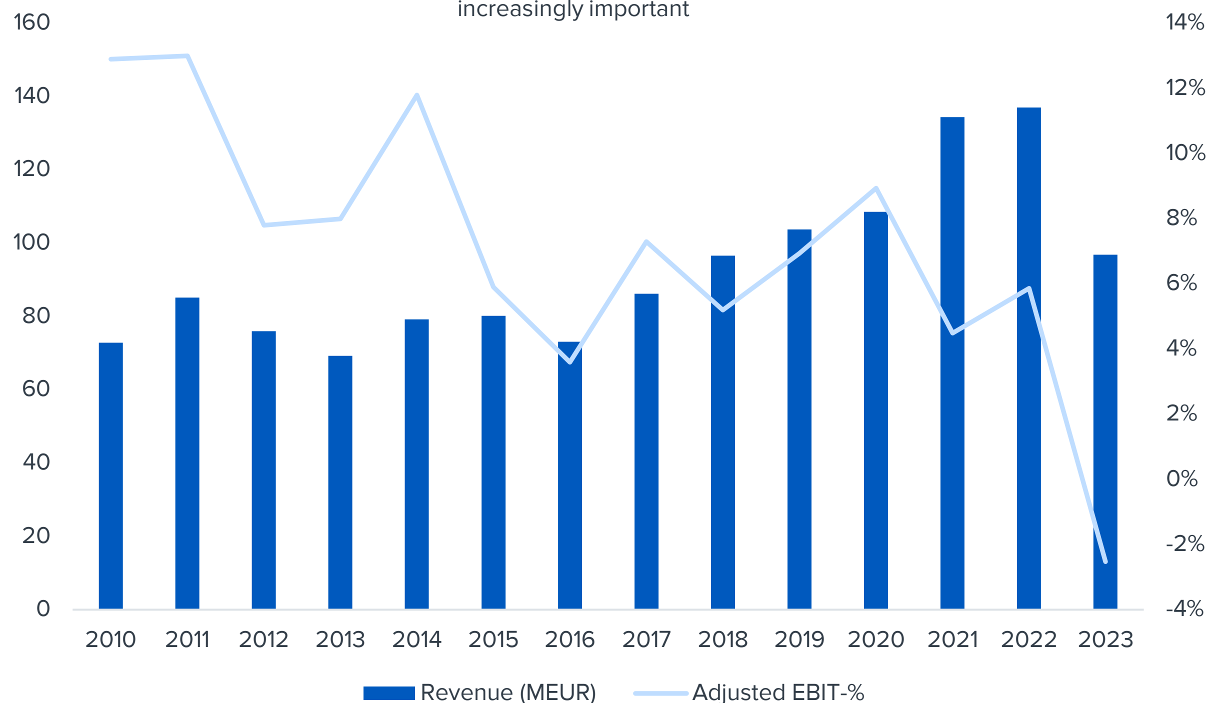
- In the early 2010s, macroeconomic challenges are holding back investment-driven demand
- Telecommunications is driving revenue growth, but at the same time creates a risk concentration in the customer portfolio
- The sales mix is concentrated in the top segment of the high-margin profile

2016-2022

- Telecommunications sector faces challenges and customer risk materializes
- In line with the strategy at the time, the geographical foothold is expanded through the acquisitions of JHFRP (China) and DSC (USA), as well as through a joint venture in India
- Profitability development hampered by challenges in the US
- The wind power sector becomes increasingly important

2023-

- Macroeconomic factors (e.g. inflation, interest rate developments, geopolitical tensions) weaken demand across the board in the wind sector and in investment-driven demand in general.
- Exel announces a transformative strategy to deliver strong growth and improved profitability by the end of 2028
- As part of this, the company is streamlining its factory network



Source: Exel, Inderes

Company description and business model 1/4

Supplier of customized solutions

Exel is a manufacturing company specializing in the design, manufacture, sales and marketing of sophisticated composite products (a compound of two or more materials) suitable for a wide range of industrial end-uses. The composites it manufactures are materials consisting of reinforcements and resins. It uses glass and carbon fibers as its main reinforcements, reflecting their lightness and durability. Accordingly, the company's factory network consists of production lines based on the continuous manufacturing process, i.e. pultrusion or pullwinding, with pultrusion as the main method. We understand that Exel also has a leading market position in this niche segment of the global composites market. The vast majority of products supplied by Exel are designed to meet detailed customer needs, resulting in a relatively high degree of customization in the offering.

Exel is headquartered in Vantaa. The company has so far seven production units, located in Finland (2), China, Belgium, Austria, the USA and India (joint venture with Kineco Group). However, it is worth noting that the company announced in September 2024 that it had launched a consultation process regarding its intention to close its factory in Belgium (see more details in the section Strategy and financial targets).

Europe largest geographic market

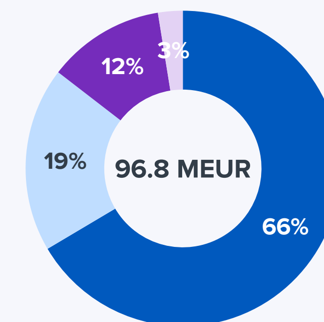
In 2023, the company's revenue was around 97 MEUR (2022: 137 MEUR), while the operational EBIT fell quite exceptionally below zero to -2.4 MEUR (2022: 8.0 MEUR) due to the sharp drop in revenue. Geographically, Europe has been by a wide margin the most important region for the company's business, accounting for around 59% of Exel's revenue on average in 2019-2023 (2023: 66%). The second largest region for the company over the past five years has been North America with 22% (2023: 19%) and the third largest Asia-Pacific with 17% (2023: 12%). Conversely, as part of an organizational change this year, Exel has moved to reporting by business unit rather than geographic region.

Customer base diversified across several industries

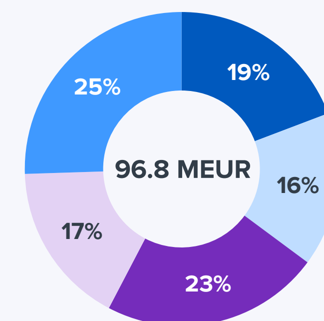
Since the beginning of the year, Exel has had two business units, Engineered Solutions and Industrial Solutions. Of these, Engineered Solutions concentrates on the production of tailored solutions with a higher degree of customization and therefore generally shorter production runs. Industrial Solutions, on the other hand, concentrates on the manufacture of selected volume applications. However, the company has only reported the revenue development of these units for this year, so it is still difficult to draw any major conclusions about them. We have discussed their strategic roles in more detail on page 11.

The company also reports revenue trends by customer industry, whereas its financial results are reported only at the group level. Its five current customer industries are: Buildings and infrastructure, Energy, Transportation, Industrial, and Other, which we have looked at in more detail on the next page.

Geographical distribution of revenue 2023



Breakdown of revenue by customer industry 2023



Source: Exel, Inderes

Company description and business model 2/4

Buildings and infrastructure was Exel's third largest customer industry in 2023, accounting for around 19% of the company's revenue last year. Typical product applications include window and door profiles and other various structural profiles. The demand, as we understand it, is largely a continuous flow of deliveries. We estimate that the applications to be manufactured fall within Engineered Solutions and that the variations in the product applications to be manufactured are quite extensive.

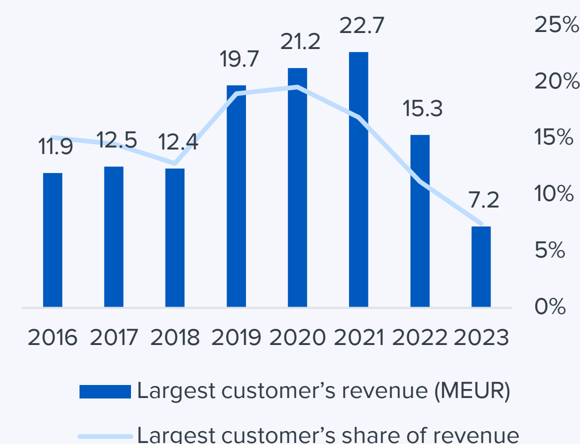
The company's second largest customer industry last year was **Energy** with a 23% share. Common end products for this customer industry are, for example, wind power turbine blade reinforcements and stiffeners, and other power plant support structures such as handrails and service platforms. Energy also includes cable core products, cable trays and insulating rods. We estimate that customer industry applications are split between both Engineered and Industrial Solutions, with wind power solutions accounting for the majority of Industrial Solutions. Overall, we estimate that the customer industry demand is investment-driven and that there is a relatively lower margin profile, reflecting the product portfolio, which is partially comprised of volume applications.

Last year, **Transportation** accounted for about 17% of Exel's revenue. Typical applications in the customer industry include profiles for the transport equipment industry (e.g. side panels for trains and buses, airship body structures, truck floor stiffeners). Accordingly, we expect demand in the customer industry to also be investment driven. As we understand it, demand in the customer industry is split between Engineered and Industrial Solutions, the latter of which we assume includes the announced agreement with Foton Bus and Coach for composite profiles for electric buses.

Industrial, on the other hand, accounted for around 16% of the company's revenue in 2023. End-use applications in this customer industry again include a variety of solutions for different industries, which are typically investment driven. Examples of product applications include components for paper and textile machines as well as various masts and radomes. We estimate the applications to be at the more customized end of the spectrum.

In 2023, the largest customer industry was **Other**, which accounted for around 25% of the company's revenue. Customer applications include various defense applications as well as sanitation and maintenance applications. These include camouflage netting support poles and non-magnetic mine detector handles as well as other telescoping poles. With a relatively broad portfolio, we estimate that customer industry demand is split between more stable and more investment-driven end uses. As a whole, we estimate that the applications produced within this customer industry fall into the Engineered Solutions and in terms of margins, relatively higher end of the spectrum.

Overall, we believe that the business structure is fairly balanced across customer industries. In addition, most of the industries are at an advanced stage of development and have at least reasonable growth prospect.



Examples of potential customers*

*Based on Inderes' estimate of potential customers. Exel itself only occasionally discloses its customers.

Source: Exel, Inderes, companies

Company description and business model 3/4

By contrast, mirroring the demand dynamics in the industrial sector, Exel's supply flows are subject to volatility caused by investment-driven demand. This is partly mitigated by the different demand drivers in different customer industries and their different timing. However, these do not protect the company from the potential weakening of overall demand that has occurred with the slowdown in industrial activity in recent years.

Relatively concentrated customer portfolio

It is also worth noting that we estimate Exel's customer portfolio to be relatively concentrated, although our total portfolio estimate is several hundred customers. In 2023, Exel's largest customer (a wind power customer) accounted for only about 7% of its revenue (2022: 11%). However, it is worth noting that the largest customer still accounted for 17-20% of revenue in 2019-2021. We estimate that this development is explained by the cooler outlook for renewable energy investments in recent years, reflecting, among other things, rapidly rising interest rates and, in some cases, electricity price movements.

Overall, however, we estimate that the 10-20 largest customers account for well over half of the total revenue. This being the case, the majority of Exel's customers are relatively small in size, making the role of the most important customers more pronounced. As a result, the loss of a key customer, a substantial reduction in market share per customer, or difficulties faced by the customer itself (cf. investments in the wind power industry) could also hurt Exel's business. However, we understand that key customer relationships are long, which, combined with a tailored offering, limits the risk of customer loss (higher threshold for customers to switch suppliers).

Design and production form the strong core

Exel's business model is conventional for an industrial player as the company sells and manufactures the products it designs. The composite products supplied by Exel are individual components in its customer's or the customer's customer's application (e.g. a wind turbine blade reinforcement). This means that Exel's solutions are usually tailored to the customer's specific needs, making the overall offering highly customizable. As part of its strategy, the company is making some further efforts to standardize its products. Nevertheless, we estimate that the relatively high degree of customization supports Exel's position in the value chain.

We understand that the components supplied by the company represent a relatively low proportion of the total cost of the end-customer's investment. This, combined with the above-mentioned factors, gives the company pricing power, especially for products with a higher degree of customization. However, there is no commonality in customization rates and sourcing logics between customer sectors, which means that in our view there is also a definite inherent variation in Exel's sectoral pricing ability (cf. wind power vs. defense applications).

On the other hand, we feel that a weakness of the tailor-made offering lies in the diversification of production, which can make it difficult to optimize efficiency levels, which we believe has also been a problem for the company historically. In this context, the company is seeking to increase the production focus of its factories as part of its new strategy.

Following the dynamics outlined above, we believe that Exel's core activities are design (incl. material development) and production. From an overall perspective, the role of design in particular is essential as it lays the foundation for a competitive offering, contributing to customer acquisition and retention. We consider design work to be long term, and we understand that the time interval from the first customer contact to the finished product application can be long (1-3 years). We believe that Exel's long operating history and customer relationships, together with a portfolio that spans multiple customer industries, means that its design expertise is comprehensive and of high quality.

On the manufacturing side, the company uses continuous processes, in particular pultrusion technology, as well as pullwinding technology and the continuous lamination production method. Thanks to these methods, the company has the ability to manufacture simple rods and tubes as well as more complicatedly shaped profiles. As such, we believe the company has good capabilities on the manufacturing side, which, together with its design expertise, underpins its overall competitiveness in these niche segments of composite manufacturing.

Overall, however, it is worth noting that due to the generic nature of the operating model, we do not believe that it in itself differentiates Exel from other operators or creates clear sustainable competitive advantages. In our view, the company's key strengths, some of which have yet to be fully leveraged, are its broad customer and application portfolio, its global reach and its larger size than many of its competitors.

Company description and business model 4/4

Order backlog structurally rather short

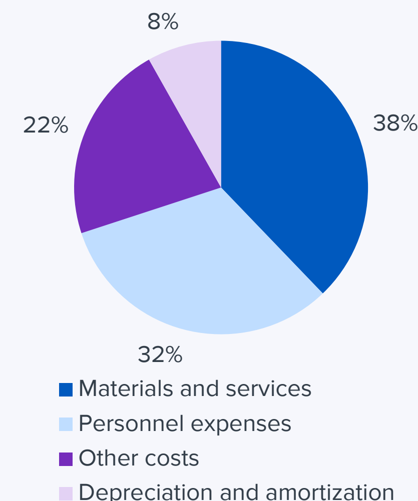
Exel typically receives preliminary demand forecasts from its customers for the next 6-12 months. However, these only turn into firm orders some weeks before the actual delivery. This is what makes Exel's hard order book structurally short and in our estimate, only just over a quarter long. As such, the order book is not a particularly good indicator for the longer term, although it does give a moderately good estimate of short-term trends. However, the structure of the order book is not gapless, as we understand that there can be distinct differences in the way different customer industries and customers operate. In turn, in addition to the order/supply chain, the short structure of the order book also partly reflects on cost management, as there are quite limited short-term flexibility points in capacity and cost structure when order intake forecasts fail.

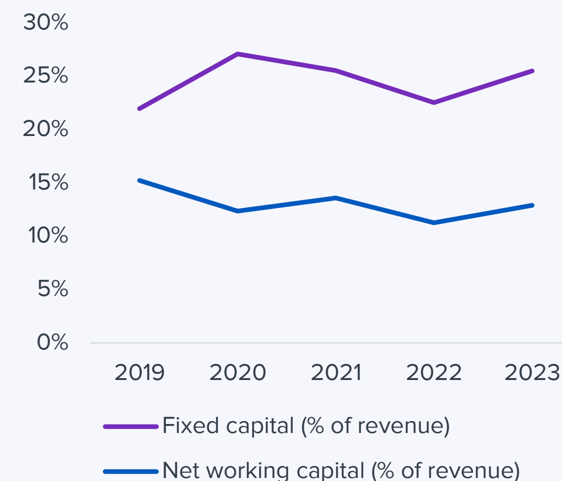
Cost structure is moderately rigid

Exel's cost structure is moderately rigid, as we estimate that costs that can be defined as fixed have historically accounted for around 25-35% of total costs. The fixed cost structure is largely explained by the engineering resources required for the business model and the global network of sales and production facilities. The high level of fixed costs (combined with a high material margin) creates a reasonable operational leverage in Exel's operations. Thus, in situations of idle capacity, the company is able to scale its fixed costs as its revenue grows and increase its result at a faster rate than revenue growth. However, the operational leverage also works in the other direction, and when revenue declines, earnings levels suffer more severely than revenue slows down, mirroring the inflexibility of fixed costs. We have discussed the cost structure in more detail in the section Cost structure and financial situation.

Capital requirements are not huge

Exel's operations don't tie up huge amounts of capital, even though the company operates in a manufacturing industry and, as mentioned above, it has quite rigid cost structure. Over the last five years, the share of fixed assets (incl. IFRS 16) in revenue has fluctuated between 22% and 27%, which we consider to be a tolerable level. In turn, Exel's activities have typically tied up 10-15% of net working capital, a much more moderate amount than the fixed capital requirement. Working capital over time has also been partly financed by customers, as trade receivables have maintained a cycle time that is consistently faster than that of trade payables. We consider that this contributes to our view that Exel has at least a reasonable position in the value chain (including sufficient bargaining power with customers and material suppliers). Overall, a reasonable commitment of capital is a positive factor, as the limited capital requirements and efficient use of capital set the stage for a good return on capital and shareholder value creation.





Source: Exel, Inderes

Risk profile of the business model

Assessment of Exel's overall business risk

	Factor	Comment
1 OPERATING LANDSCAPE	Change rate in the industry	The industry is mature and there are no considerable technology risks.
	Company's strategic development stage	Exel has a long operational history and a good reputation. However, the company is undergoing a transformative strategy, which is still in its early stages.
2 REVENUE	Market cyclicality	In the short term, demand is quite cyclical reflecting the project and investment driven customer industries.
	Revenue diversification and continuity	The customer portfolio is concentrated, and the strong order book is structurally short, but customer relationships are long-lasting.
3 PROFITABILITY	Cost structure	The partially fixed underlying nature of the cost structure creates operational leverage, which nevertheless creates vulnerability to earnings volatility in line with revenue.
	Pricing power	Customized product offering supports value chain position as well as pricing power, especially for the most tailored products.
4 CAPITAL STRUCTURE	Capital commitment	Operations do not tie up significant amounts of capital and no major investments are expected in the short term.
	Balance sheet position	Financial position strengthened through rights offering, but performance needs to be strengthened before any major investments can be made.

LOW RISK LEVEL — HIGH RISK LEVEL

Source: Inderes

Strategy and financial targets 1/4

Focus areas of the transformative strategy

Last fall, Exel announced its transformative strategy to become a more integrated designer and manufacturer of composite solutions made with the pultrusion process, for both volume and customer-specific applications. The strategic focus areas are:

- Capturing organic profitable growth from large and fast-growing sustainability-driven energy and decarbonization applications. The company is increasingly focusing on industries with strong growth potential, where product needs are more standardized and the volumes are higher. Such industries include, for example, wind power, building and infrastructure, and transportation.
- Increasing value to customers by helping them choose composites as part of their applications. This is done by offering engineering support, productization and post-processing
- Leveraging new operating model.
- Having high ambition and focusing on rigorous execution.

Transition to two business units

Also as part of its strategy, at the beginning of 2024, Exel transitioned to two customer-focused business units: 1) Industrial Solutions, which concentrates on selected applications with high growth potential, and 2) Engineered Solutions, which concentrates on tailored solutions in multiple industries. According to the company, the change will ensure greater customer collaboration and more efficient operations.

The company will serve its volume product customers with dedicated customer service teams and factories designed for efficient, continuous production. Meanwhile, Exel will serve its custom and specialty product customers with a local sales network and a global network of factories specializing in custom manufacturing. At the same time, the company will strengthen its design and development capabilities for composite solutions in both business units, which we see as positive for longer-term competitiveness.

Factory network review underway

In the light of the new structure, the company is in the process of reorganizing its factory network in line with the needs of its business units. As part of this, it has announced that it is conducting a strategic review of its three factories to determine their future role, in addition to the restructuring already undertaken (centralization of production in China, closure of the UK factory). As a result, it aims to have correspondingly larger production units that are scalable, more efficient and better resourced. The measures are also aimed at increasing factory utilization rates and thereby profitability. We also anticipate that the goal will be for factories to specialize in manufacturing certain types of applications, which would allow for continuous improvement and optimization of production for different applications.

Priority areas of the strategy

Source: Exel, Inderes

Strategy and financial targets 2/4

The company completed its first strategic review last fall, when it decided to change the role of its US factory to focus on tailored products (previously including wind power, which now goes to other factories). Correspondingly, it expected the restructuring to result in annual cost savings of around 3.0 MEUR in the longer term. This was, however, offset by the one-off expenses of 4.3 MEUR that the company recorded for last year.

Similarly, the company announced in September that it had completed its second strategic review of a factory in Belgium. To this end, Exel has initiated a consultation process with employee representatives with the intention of closing down production at the factory. In practice, the final formal decision to close the factory has not yet been taken, although we consider the closure to be virtually certain. In this regard, the company has also not commented on the potential cost savings or one-off costs of the closure. However, in light of the company's previous comments, we believe it has the capabilities and spare capacity to serve its customers from its other production facilities.

The last factory to be strategically reviewed, though, has not yet been announced, and we do not believe the company is in as much of a rush to do so as it was with its US and Belgian units. However, we think it likely that steps will be taken on this in the reasonable future.

In the future, the company will concentrate the manufacture of volume applications in its Asian production facilities (China and India) and the manufacture of tailored applications in Europe and the US. As part of the centralization of production, Exel is also in the process of equipping a new factory in India, set up through a joint venture with the Kineco Group (Kineco Exel, in which Exel has a 55% stake). The Indian factory in question will accordingly be optimized for serving wind power industry customers in India and globally.

At this point, the final roles of the factories have not yet been announced, and we remain to see whether the company will go into more detail about the future roles of the factories, for example at the customer industry or application level, once the strategic reviews have been completed.

On the whole, we see a reduction in the factory network as justified, despite the benefits of strong geographic coverage (e.g. greater flexibility of production to manufacture different applications in different factories, transportation distances). The rationale behind this is that we understand that historically, average factory utilization rates have been far from optimal. Therefore, by reducing the size of the factory network and refocusing the factories, we see opportunities for the company to extract significantly more from existing assets.

Strategy consists of two phases

The company has similarly divided its strategy period into two phases: 1) a stabilization and profitability phase and 2) a growth phase. The stabilization and profitability phase lasts approximately from 2024 to 2025, after which Exel will enter a growth phase in which it aims to achieve its long-term financial targets by the end of 2028 (see next page for more details).

In the short term, laying the foundations for growth

Examples of actions in the stabilization and profitability phase include the introduction of a new simplified two-business unit structure, optimizing the factory network, increasing operational efficiency and developing a more standardized offering for selected applications. Work on these has so far, in our view, progressed quite well and on schedule. As described earlier, the main work on the agenda at the moment is to complete the consultation process for the Belgian factory and to take final decisions on the factory. In contrast, we believe that increasing the efficiency of operations and developing a more selective offering will be a longer-term process that will also be part of the growth phase.

Meanwhile, in the second phase of the strategy, the company is aiming for strong organic growth and increased profitability, taking full advantage of its production facilities and new sales model, as well as its expertise in customized and volume applications. Organic growth will be targeted in particular in large and fast-growing energy and decarbonization applications, in line with the focus of the strategy.

Strategy and financial targets 3/4

In Engineered Solutions, opportunities have been identified particularly in buildings and infrastructure (e.g. door and window profiles), transportation profiles and other special applications (e.g. tubes and cable core products). In Industrial Solutions, on the other hand, the largest distinct area is in wind power applications (e.g. turbine blade reinforcements and stiffeners). In addition, Industrial Solutions includes various profiles for transportation equipment (e.g. Foton contract). In addition, the company aims to grow new product application areas into volume applications.

Reflecting the overall picture, we do not expect Exel to be active in the M&A market in the coming years, at least at the outset, but rather to focus on organic growth. Instead, once the company is firmly in the growth phase, we see potential for acquisitions to further complement its technology portfolio and/or expand its customer base.

Long-term targets

Exel's long-term financial targets are:

- **Growth:** Annual revenue exceeding 200 MEUR by 2028
- **Profitability:** Adjusted EBIT-% > 10% by 2028
- **Financial position:** Net debt to adjusted EBITDA below 3x by 2028

Improvement of utilization rates, in particular, central to achieving financial targets

At the CMD last fall, the company's roadmap to double its revenue (TTM Q3'23: 106 MEUR) included the recovery of volumes from existing customers (especially wind power) (30 MEUR) and a significant growth in Industrial and Engineered Solutions (70 MEUR). The company also announced that it was reviewing its portfolio of lower-margin products, which it expected to have a slight negative impact. Since then, however, the company's rolling revenue has started to decline again (TTM Q2'24: 93 MEUR), which we estimate has increased the role of volume recovery beyond what was originally planned.

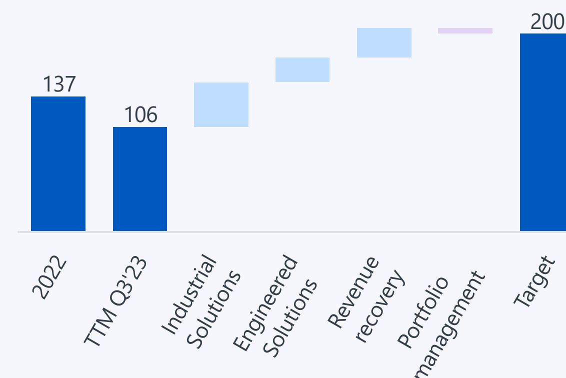
According to the company, if it reaches its target in terms of revenue, around 60% could come from Engineered Solutions and 40% from Industrial Solutions. It aims to support growth by increasing customer value (advice, engineering support, productization, post-processing), new customer acquisition, product development innovations, partial standardization of products and changes to the organizational model (incl. utilization rates).

Accordingly, achieving the profitability target will be based especially on increasing the utilization rates of existing production facilities and lines well above current levels, where the company also sees clear opportunities with its new business model (e.g. partial standardization of products and focused production facilities). In addition, profitability is targeted to be improved partly through the same themes as revenue, i.e. by increasing customer value (e.g. machining, equipment, surface treatments, painting) and by reducing fixed costs (e.g. measures already taken on the factory network and completion of the strategic review of the factory network).

Strategic measures taken

Measure	Stage
Decision to build a factory in India	Completed
Strategic evaluation of the US factory	Completed
New operational model	Completed
Organization of resources by business unit	Completed
Strategic evaluation of the Belgian factory	Completed, consultation process ongoing
Start of production at the Indian factory	Ongoing, target 2024
Sale of the UK property	Ongoing, target H2'24
Strategic evaluation of the 3rd plant	Not yet started

Roadmap by Exel for achieving the growth target (MEUR)



Source: Exel, Inderes

Strategy and financial targets 4/4

Targets are quite ambitious and strategy implementation will take time

We believe that the growth and profitability targets are very ambitious by historical standards (cf. revenue 2022: 137 MEUR, adj. EBIT-% 2019-2023 avg. 4.7%). Therefore, the company should succeed almost flawlessly in executing its strategy, especially in increasing revenue and optimizing production efficiency in order to reach the profitability margin. In terms of profitability, we estimate that the lower customization rates and lower margin profile of volume-based applications will pose an additional challenge. On the other hand, in historical terms, the profitability target is underpinned by efforts to reduce fixed costs.

In turn, given the investment-driven demand, we believe the company will need a significant boost from the market to meet its revenue target. As for example the industry structure for volume products is currently narrow, the growth target is also strongly linked to the brisk growth of the wind power market and Exel's competitiveness in the industry (cf. the competitive threat from Chinese manufacturers). The two wind power customers announced for the Indian factory this year (Vestas and an unnamed operator) and the volumes that will ultimately be realized from these contracts (the volumes or values of the contracts have not been disclosed) play an important role here, as we estimate the potential volumes to be substantial at best (tens of millions of euros). As a trade-off, we assume that the purchase commitments are quite limited, which means that the range of outcomes is quite wide.

At the same time, given the cyclical nature of the wind power market, we believe that the company should succeed in attracting new volume customers from other industries in order to increase revenue and stability. In contrast, in line with the company's previous comments, achieving the growth target should not require major investments in production lines (excl. the ongoing investment in the Indian factory), but should be possible through more efficient utilization rates. However, investments may be directed, for example, towards the facilities and equipment needed to provide any additional services.

For the financial position, on the other hand, we believe the target is at a reasonable level given the nature of the business, although we estimate the comfort zone to be slightly below the target level (around 2.0x-2.5x).

We believe the company's overall strategy is sound and, if successful, has the potential to create significant shareholder value. At the same time, there are risks associated with any major changes and they will require at least some implementation time (e.g. changes in the factory network, changes in production philosophy, acquisition of new customers).

We expect capital to be directed to strategy implementation rather than profit distribution in the short term

Regarding the distribution of profits, the company has not updated its policy in connection with the strategy update, and its aim is to pay an annual dividend of at least 40% of net result, as far as the company's current financial situation and growth opportunities allow. In light of the company's low earnings levels so far, the recent rights offering, and the strategic development phase, we expect the company to focus on directing capital for the future growth phase of the strategy for the time being.

Revenue development and target level in 2028 (MEUR)

Adjusted EBIT-% development and target level in 2028

Source: Exel, Inderes

Industry and competitive landscape 1/5

Composites are a small part of the materials market

The size of the composites market varies depending on the classification and source, but according to market research presented by Exel at its Capital Markets Day, the total value of the global composites market (incl. all technologies and material combinations) was estimated to be around 85 BNUSD in 2022. This, in turn, is estimated to represent only about 1% of the total global materials market, which is dominated by steel, plastic and aluminum.

Similarly, the pultrusion technology that Exel primarily uses is a niche technology in the overall composites market. According to market research commissioned by the company, the size of the pultrusion market would have been around 4 BNUSD in 2022, while the latest estimate from Lucintel, for example, puts the size of the market at around 3 BNUSD in 2023. Furthermore, viewed at the top level, the pultrusion market is split approximately 70/30 between outsourced independent pultrusion operators (incl. Exel) and pultrusion operators that produce internally, according to market research commissioned by Exel. However, as a whole, both the pultrusion market and the overall composite market are very large compared to Exel's size, and we do not believe that the size of the market itself will limit its growth potential in the coming years.

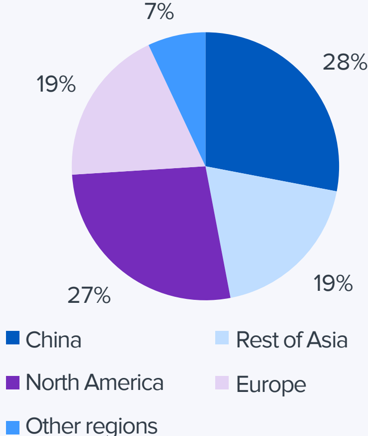
Market emphasis on Western markets and China

The main advantages of composite materials over traditional materials relate to lightness, durability, energy efficiency, long economic life and as a combination of these, lower life cycle costs in general. On the other hand, the higher purchase price, especially compared to competing materials, and the still limited recycling possibilities, despite increasing investments in the end-of-life of composite applications, weigh on the other end of the scale.

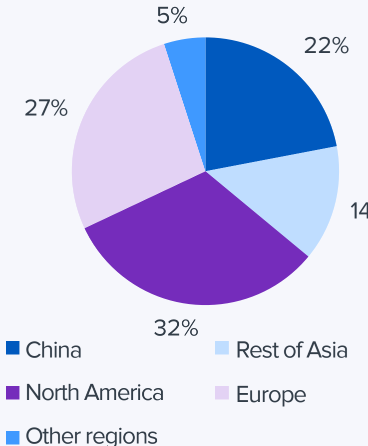
Geographically, therefore, the composites and pultrusion market focuses on areas where their benefits compensate for higher acquisition costs. In more price-intensive areas with higher financing costs (i.e. developing economies) the foothold of overall benefits and a life-cycle approach has not been as strong, which has driven demand towards competing materials and slowed down the progress of composites on these markets. An exception to this framework of developing economies is China, where demand for composites has remained strong throughout history. According to our estimates, the relatively strong development in China is explained by the country having a lot of composite production.

According to the JEC, an organization promoting composite materials, the largest geographic region in terms of volume was Asia (incl. e.g. Australia) in 2022, accounting for just under half of the total composites market. China, correspondingly, accounted for around 60% of the Asian market. The Americas, for their part, were the second largest region with about 29% of the total volume, although the volume is concentrated virtually entirely in the North American market. The remainder of the market (24%) came from Europe, the Middle East and Africa (EMEA), with volumes concentrated in Europe, in turn.

Global composites market breakdown, 2022 (volume)



Global composites market breakdown, 2022 (value)



Source: JEC, Lucintel, Inderes

Industry and competitive landscape 2/5

However, it is worth noting that the market for higher value-added composite applications (e.g. aerospace applications) is currently concentrated in North America and Europe, accounting for approximately 60% of these geographic markets in dollar terms.

Growth outlook is good for the market

The global megatrends mentioned above (e.g. sustainability, urbanization, green transition) are directing material choices towards more lightweight solutions with longer operational lives and are growth drivers for the pultrusion market that is relevant for Exel. Against this backdrop, Exel's commissioned market research, for example, estimates that the international composites market will continue to grow at a rate of around 7% in the coming years (2022-2027e), with the fastest geographical growth in Asia and North America. Similarly, Lucintel has estimated that the global pultrusion market will grow at a rate of around 5% by the end of the decade and that growth will be quite broad-based across a wide range of application segments (for more details, see next page).

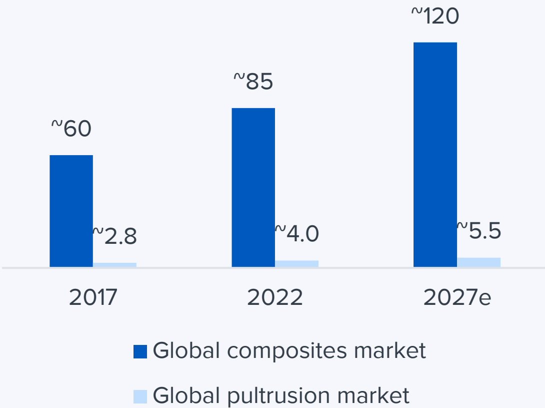
These levels are somewhat significantly higher than the global GDP growth rate, and in order for this to materialize, composites would need to capture market shares from other materials, as we do not assume that the entire material market will grow faster than the global economy. Given the structural advantages of composites and the underlying megatrends, we see a reasonably good basis for this, too. We also believe that composites have historically been able to do this (cf. e.g. the market study commissioned by Exel showing that the composites market grew by 7% p.a. between 2017 and 2022) despite their higher price point. Nevertheless, we expect the market demand and position of composites in the short and medium term to be affected by the price development of competing materials. Therefore, the market share development for composites has not been, nor do we expect it to be, linear.

Overall, we believe that the industry's growth profile is quite healthy in the big picture and offers opportunities for Exel. On the other hand, in a worse-case scenario in the medium term, uncertainties in the global economy (incl. geopolitical tensions) and concerns about recessions might cause at least some time-lag and temporary negative effects on the growth outlook. On a relative basis, we see Exel being better positioned than many smaller players in the different scenarios, with its global presence and its application portfolio spanning many industries. As stated earlier and seen in recent years, however, this does not protect the company from a potential global economic slowdown in the face of declining investment-driven demand. It is also worth noting that, based on the current geographical structure of the company's revenue, we expect the company's development to be also linked to the economic development in Europe.

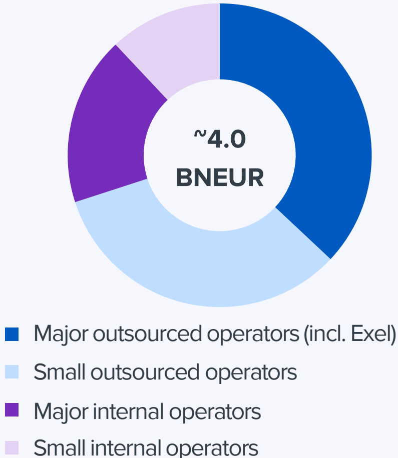
Different end-uses and fragmentation

The composites and pultrusion market can be divided into several segments based on end-use applications. For example, JEC and Lucintel have divided the pultrusion market into six segments: construction, wind energy, transportation, electrical and electronics, consumer goods, and other applications.

Estimated market development in the coming years (BNEUR)



Breakdown of the pultrusion market



Source: Exel, Inderes

Industry and competitive landscape 3/5

There are certain differences between the end-uses, such as the degree of customization of the applications and thus also the volumes. For example, the blade reinforcements for the wind power industry are in our opinion high-volume, low-customization applications, while in certain niche areas (e.g. equipment for process industry) we believe the situation is the opposite. However, except at the extremes of low customization demand, the degree of customization in end-use applications is high, which diversifies manufacturers' production operations and makes it difficult to achieve process-based economies of scale. Due to this dynamic, the structure of the industry is fragmented, as there are many small players and players that only focus on individual industries and/or product applications

According to market research commissioned by the company and our estimate, Exel is one of the biggest players on the pultrusion market and involved in almost all end use industries. The company positioning itself in several industrial sectors is smart in our opinion, because this way the company can get more out of wider design and production resources than if it would focus on individual activity fields. In addition, we think it makes sense from a risk management perspective, as the underlying industries have different demand drivers and this has a smoothing effect on demand fluctuations. On the other hand, as noted earlier, it does not protect against a broader slowdown in investment-driven demand.

A rather fragmented competitive field

Due to the fragmented structure of the industry the competitive field is also quite fragmented. As a result, in our understanding, it varies by industry sector, product application, geographic region and customer size. Against this backdrop, a majority of the company's competitors are, in our estimation and according to the market research commissioned by Exel, clearly smaller players (~5-10 MEUR in terms of revenue according to our estimates), primarily local and operating in a relatively narrow industry and customer portfolios.

The pultrusion manufacturers that primarily compete with Exel are unlisted companies and there is no precise data available on direct competitors. According to our view, Exel's main unlisted competitors are the Danish Fiberline (part of the Gurit Group, wind power), the French Epsilon Composites (cable core products), and the US companies Creative Composites Group, Strongwell and Marvin Composites (various glass fiber applications in the US market). Next to the largest pultrusion manufacturers, in our opinion, the company also competes with large material manufacturers that are vertically integrated. We understand that such players include Avient Corporation, SGL Carbon and Hexcel.

In our view, the profitability structure of the competitive field is quite polarized both into companies that generate strong profitability (EBIT margin ~10%) and companies that battle chronic profitability difficulties (EBIT margin <5%).

Growth of the pultrusion market

Source: JEC, Lucintel, Inderes

Industry and competitive landscape 4/5

Due to the basic nature of the manufacturing industry (i.e. relatively fixed cost structures) and due to the diversity of production, building sustainable cost and scale-based competitive advantages is extremely challenging in our opinion. Thus, we feel the factors that drive profitability is positioning oneself in the right industries, product applications and customer types within these segments, as well as managing the capacity of one's own production facilities.

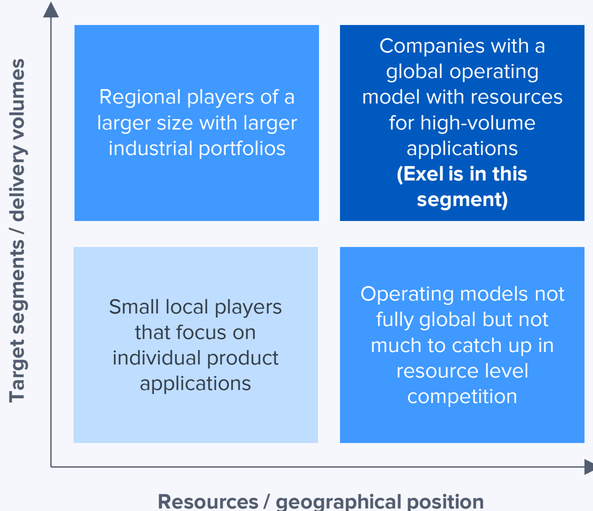
However, as a leading player in the pultrusion market, Exel is in our view in a position to compete on the fronts of both volume and more customized products, especially through the ongoing refocusing of its production facilities. As a whole, we do not see any structural weaknesses or deficiencies in the company's structure that would undermine its ability to rejoin the ranks of the industry's highly profitable companies. The company still has a lot to prove in this regard, however, and we expect that this will inevitably take time in the light of the transformative strategy currently in its early stages.

Opportunities for a larger player in the industry

The fragmented structure of the industry offers, in our view, more opportunities than threats for Exel. We therefore think this will bring opportunities for a larger player like Exel on the organic side, as we believe customers will see it as a more credible operator (incl. risk management) compared to smaller ones. Theoretically, in our view, the market should also offer various opportunities for international inorganic expansion of the customer and industrial portfolio. But we do not see this as relevant for Exel in the short to medium term, as the company is focused on implementing its own organic growth strategy. After what we believe was a challenging last year for almost all pultrusion operators, the market has seen consolidation at the smaller end of the spectrum, including through the acquisition-driven Creative Composites. Nevertheless, with the structure still fragmented, this is likely to continue in the future as well.

However, the drawback of the fragmented structure is that the large number of small players can weaken the pricing power of the entire sector (i.e. a wide offering limits cumulative negotiation powers). In addition, the fragmented structure can also slow down the final breakthrough of composites into large volume product applications (e.g. transport equipment industry) especially in global market segments, as the number of sufficiently large and credible players is low from the end user's perspective. However, the fragmented structure can act as a small incentive towards companies operating in different parts of the value chain (e.g. equipment and raw material manufacturers). The growth of such a vertical integration could change the structure of the competitive field considerably and create pressure on the players' own relative competitive position. According to our view, this has to some degree materialized in pultrusion in recent years, due to carbon fiber manufacturers that have expanded more heavily than before.

Structure of competitive field



Selected competitors

Source: companies, Inderes

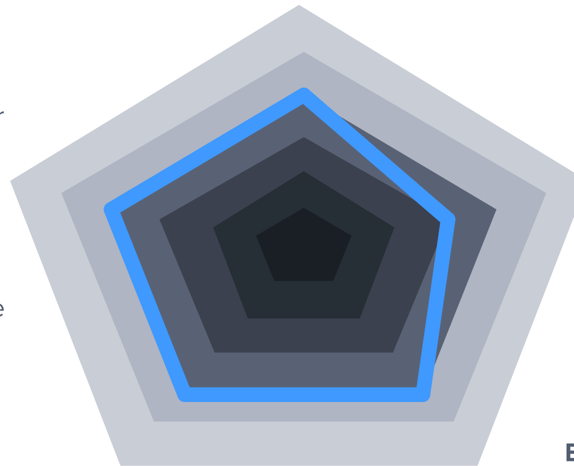
Industry and competitive landscape 5/5

Current competitive situation (moderate*)

- The number of manufacturers is large on a global scale, but the position of operators in the value chain is reasonable and customer relationships are often long
- Own rigid cost structures increase price pressure and thus tighten competition
- Healthy long-term growth prospects for the industry provide opportunities for most operators (especially the largest)

Threat of substitutes (moderate*)

- On product application level, the threat of substitutes mainly comes through the customer portfolios
- On technology level, there is a threat of competing production methods, but it is not alarmingly high
- We believe there is some threat from substitute materials due to relative price competitiveness and the characteristics of potential new materials



Suppliers' bargaining power (low*)

- There are no producers or distributors with a dominant position on the supply side
- The ability to differentiate is not high on the production level, which limits the bargaining power to other levels
- Composite manufacturers typically have long supply chains, and the importance of a single supplier has not been emphasized
- Incentives for vertical integration of material manufacturers are not very high

Threat of new competitors (moderate*)

- Ramping up operations requires reasonable capital investments but the longer-term growth picture is healthy
- Vertical integration a bigger threat than new players entering the field
- Switching costs can be high in established customer relationships, which limits the enthusiasm of new players
- Reaching economies of scale is challenging and even a small player can reach good margins

Buyers' bargaining power (moderate*)

- Customers' supply chains are usually quite long and the dependency on individual suppliers does not become excessive
- Customized product portfolio increases the costs of switching suppliers and weakens the buyer's negotiation power
- The threat of vertical integration among OEM companies is low and it does not increase the customers' negotiating power much
- Composite components represent a modest share of the total cost of the final application, and equipment manufacturers' decisions are not primarily driven by price (note, however, that they play a major role in high-volume products).

Source: Inderes

*Inderes' view of the threats caused by wind power for Exel on the scale no threat, minor, low, moderate, significant and high.

Cost structure and financial situation 1/3

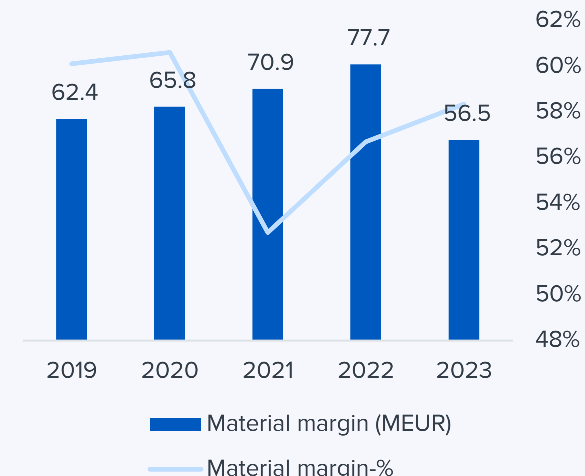
Material margin remains at a good level

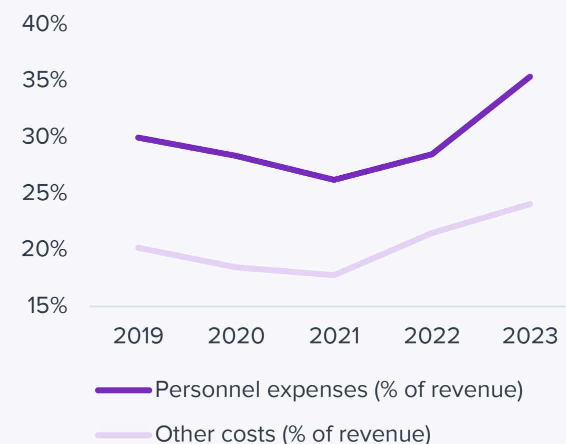
The largest single item in Exel's cost structure is materials and services, which has historically accounted for around 38-49% of total costs. By their very nature, materials and services are almost entirely variable and therefore non-scalable. Relative to revenue, the share of materials and services has in turn fluctuated between 39% and 47% in 2019-2023, partly due to changes in the sales mix. Consequently, the material margin, which provides some concrete indication of the company's pricing power, has been between 53% and 61%. Again, this is a good performance for a manufacturing company and, in our view, reflects the pricing power and reasonably good value chain position of Exel's offering. On the other hand, we do not consider it realistic to raise the margins above historical levels, as the company also seeks growth in fundamentally lower-margin volume applications.

We expect the company to seek efficiencies in the use of production resources

The second largest item in the cost structure is personnel expenses, reflecting the company's moderately personnel-intensive operating model (incl. internal design and sales resources and production). As is typical for personnel costs, the expenses include a relatively high proportion of fixed elements in the short term, while the proportion of variable elements increases in the longer term. At the same time, we expect design expenses in particular to remain relatively fixed in the longer term, with scalable elements to a certain extent. However, considering the company's growth strategy, we believe it is possible that the company will increase its product development and sales efforts (incl. personnel) in the medium term, but that the absolute change in euro terms will be limited. Instead, reflecting the ongoing review of the factory network in line with the strategy, we estimate that the company will seek efficiency gains, especially in the use of production resources (incl. headcount). Looking at this overall picture, we estimate that it will aim to reduce the relative share of personnel expenses in revenue to at least the lower end of the historical range (2019-2023: 26-35%). Naturally, this will also require successful revenue growth.

The share of other expenses in Exel's revenue has fluctuated respectively between around 18% and 24%. Other expenses include both fixed and partially variable expenses, the latter consisting other variable production expenses (e.g. molds and dies, energy and packing costs). Conversely, fixed costs include maintenance and repair costs, travel expenses, and legal and other consulting services. In our view, the share of other expenses is relatively high, which we believe is mainly explained by other variable production expenses (share of other expenses in 2019-2023 38-54%). This also contributes to limiting the potential for efficiency gains and scaling of other expenses, although we believe that there is still room for improvement in this area through strategic measures (e.g. utilization rates, downsizing of the factory network). On the other hand, however, we expect the company to be able to keep the growth of other expenses at a more moderate level compared to that of revenue in the future, in line with the fixed components of other expenses.





Source: Exel, Inderes

Cost structure and financial situation 2/3

Balance sheet strengthened by rights issue

We have reviewed Exel's balance sheet based on the figures at the end of H1'24, which also include the impact of the 21.8 MEUR rights issue (gross value) in Q2'24. At the end of H1, the company' balance sheet total was 116 MEUR. In its Q2 report, the company stated that its new two-year financing agreement of just over 52 MEUR entered into force in June 2024, with the aim of refinancing the company's previous bank loans. In this context, the company reported that it used 6.5 MEUR of the net proceeds from the share issue (20.1 MEUR) to repay debt at the beginning of Q3. Therefore, excluding the events related to the financing agreement (incl. partial refinancing of loans), we estimate that the Q2 figures give a fairly up-to-date picture of Exel's balance sheet structure.

Well over half (63%) of the balance sheet's non-current assets (42.7 MEUR) consisted of tangible assets (incl. right-of-use assets). Correspondingly, the company had approximately 12.8 MEUR of goodwill on its balance sheet related to previous acquisitions. Exel reports in accordance with IFRS standards and therefore does not remove goodwill from its balance sheet. The remaining non-current assets included other intangible assets, other non-current receivables and deferred tax assets.

Correspondingly, current assets consisted mainly of trade and other receivables (21.9 MEUR), inventories (18.6 MEUR) and cash backed by the rights issue (32.4 MEUR).

Debt still high on the balance sheet at the end of H1

Equity, for its part, amounted to 37.2 MEUR in the balance sheet, reflecting the rights issue and including a marginal minority interest (0.1 MEUR). Correspondingly, the company had 49.1 MEUR of interest-bearing liabilities (incl. lease liabilities) at the end of H1, largely consisting of current liabilities (45.9 MEUR). Of the current liabilities, 14.0 MEUR, in turn, were short-term commercial papers used for working capital management (i.e. not repayments of long-term financial loans). Considering the timing of the issue and the new financing agreement, we believe that the situation at the end of H1 gave a somewhat overly gloomy picture of the company's debt structure, and we expect that the company has already refinanced (incl. the 6.5 MEUR repayment) a significant part of its current liabilities by now.

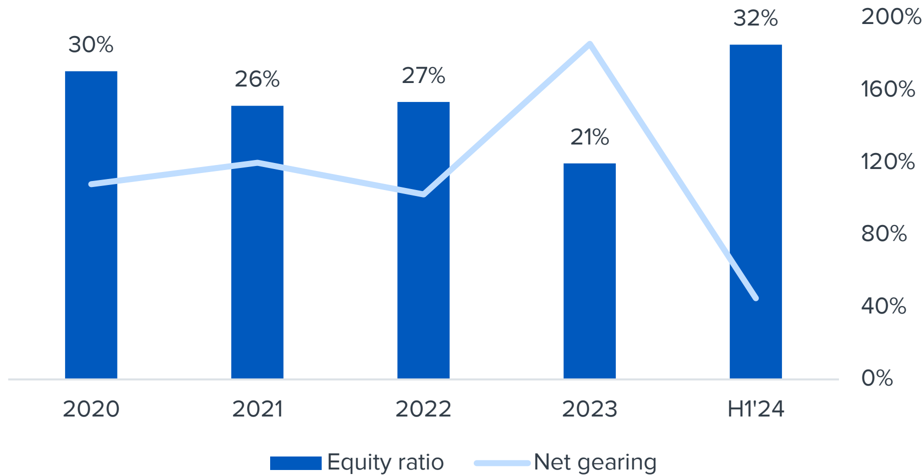
In the light of the aforementioned overall picture, the company's net interest-bearing liabilities amounted to 16.7 MEUR at the end of H1. Compared to the adjusted EBITDA of the last 12 months, the net debt ratio was still elevated at 3.9x, above the target level and reflecting the recent weak performance. Accordingly, the equity ratio was 32% and the net gearing ratio 45%. So, while the overall indicators were not yet particularly strong, we see the company's room for maneuver significantly strengthened by the issue and expect the indicators to improve as the turnaround in earnings gradually progresses. In the short term, however, we think it is possible that the company will have to slightly postpone possible major investments given the current earnings level.

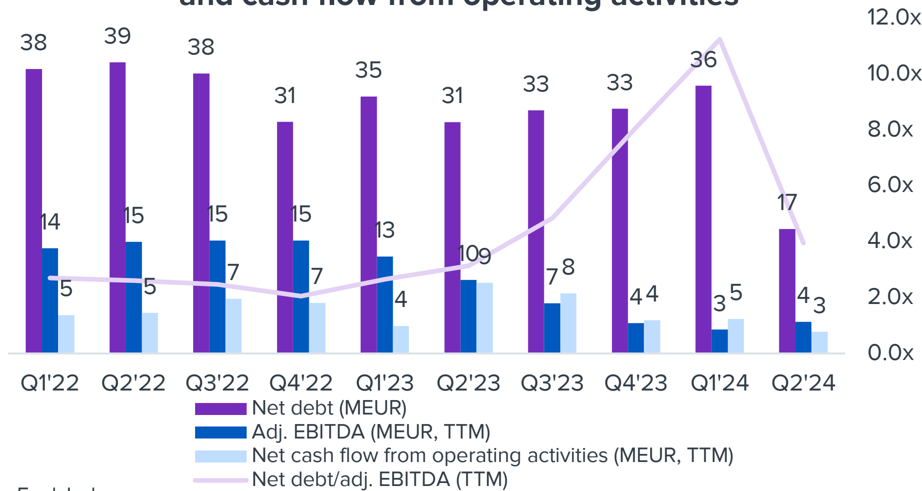
Interest-free liabilities amounted to 29.8 MEUR, mainly consisting of current trade payables and other non-current liabilities (27.9 MEUR).

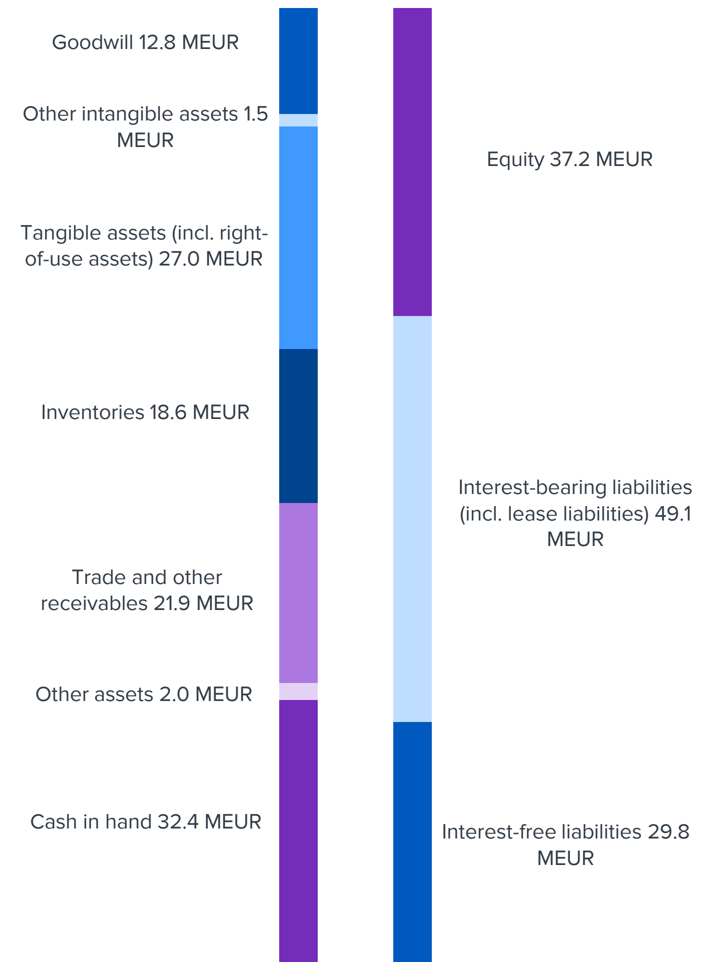
Cash flow potential should be adequate

After the normal working capital requirements tied to organic growth and the maintenance investments needed for the production plant network, we believe that Exel should have the potential to achieve a reasonably good (above 40%) cash flow ratio (free cash flow/EBITDA) in the longer term, provided the turnaround is successful. This could be considered a good level for a manufacturing company. Over the past five years, however, Exel has made a fairly large investment for its size (the new factory in Austria) and has experienced strong fluctuations in profitability. This makes it difficult for our estimates to find support in recent history, and we will have to wait for more concrete evidence for the time being. However, we believe that the strategic measures taken by the company (such as the downsizing of the factory network) also contribute to our estimates.

Cost structure and financial situation 3/3







Source: Exel, Inderes

Estimates 1/4

Estimate model

We forecast the development of Exel's revenue in the short and partly medium term mainly through the orders received, the size of the order backlog, the estimated developments in the underlying customer industries and the company's own relative competitiveness and position. At the same time, it is good to acknowledge that Exel's progress is also partly correlated with global industrial investment-driven demand. Our longer-term estimates are largely based on a combination of expected growth in composites and the structural characteristics of the company.

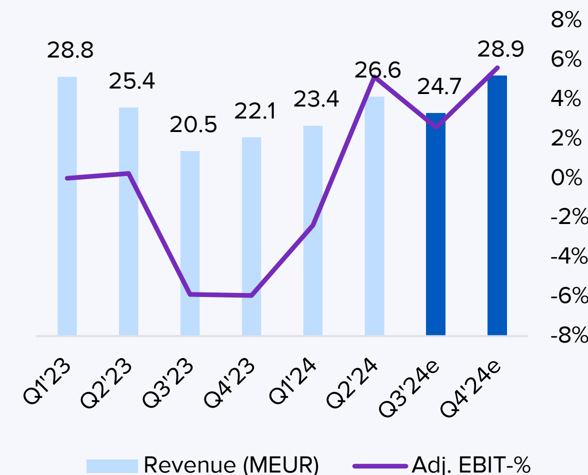
Our assessment of short and medium-term profitability focuses instead on the impact of both the growth we expect and the benefits of strategic measures (e.g. reducing fixed costs, increasing utilization rates). In the longer term, we assess profitability using Exel's historical profitability levels and the profitability potential (incl. sales mix performance) we estimate for the company. We haven't taken into account possible mergers and acquisitions in our estimates, as these are virtually impossible to predict.

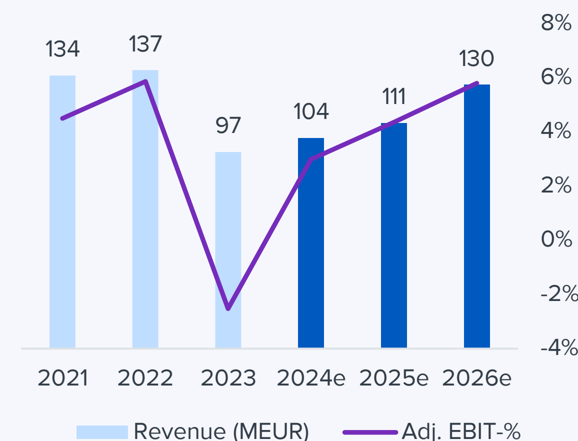
Estimates for 2024

For the current year, Excel has guided for an increase in revenue (2023: 96.8 MEUR) and a significant increase in adjusted EBIT compared to last year (2023: -2.5 MEUR). After H1'24, however, the company has accumulated 50.0 MEUR in revenue (cf. H1'23: 54.2 MEUR) and adjusted EBIT of 0.8 MEUR (cf. H1'23: 0.1 MEUR). However, it is good to note that H2'23 was very challenging for the company and it was able to start the second half of this year in a much stronger position in terms of order book (order book H1'24: 34.5 MEUR vs. H1'23: 26.4 MEUR).

In connection with the Q2 results, the company commented that market activity was busier in H1'24 than in H2'23 in all of its strategic sectors, with the exception of construction. However, there are still no signs of a broad-based recovery in demand and the company commented additionally that sentiment was indecisive and that it had also seen some signs of cooling off in the market during the summer. Looking ahead, it expected customer activity to remain at the same level as at the beginning of the year for the remainder of the year.

In our view, the situation has not changed in the early fall, at least not for the better. We believe that there are again darker clouds hanging over the near-term development of the company's demand environment, especially with the weak economic development (incl. interest rates and weak industrial confidence) in Europe, the most important geographic market. Recently, economic data from other major markets (US, China) have also weakened on the industrial side, which in itself does not provide support for the market environment in the short term. In view of this and the company's own expectations, we estimate that a more marked pick-up in demand will have to wait until well into next year.





Source: Inderes

Estimates 2/4

On the other hand, we believe that achieving the guidance for the current year should be relatively easy (especially the result) given the weak comparison figures, taking into account the order book at the end of Q2, provided there are no sudden significant deteriorations in the operating environment. Based on recent developments, we do not think we can rule out a further downturn in demand, but we see this more as a risk for next year. However, the chronically short structure of Exel's order book means that its business opportunities can change relatively quickly in either direction. In addition, there is some uncertainty in the operational performance of the company (e.g. cost structure) due to the ongoing implementation of the transformative strategy, although we understand that the execution has progressed so far without major challenges.

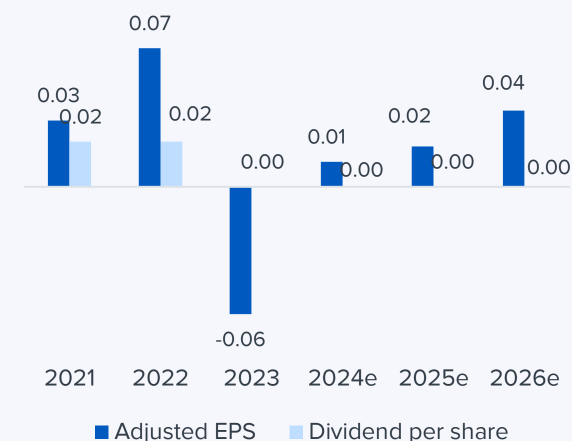
We have made small negative revisions in absolute terms to our forecasts for the next few years (mainly to 2025, see page 27 for more details) to reflect the weaker market environment. We also made small adjustments to the current year's projected allocations.

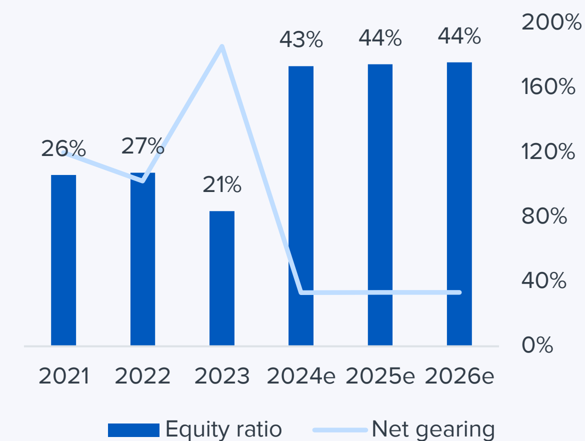
In line with this, we expect Exel's revenue to increase by 7% to 104 MEUR this year. A key driver for the more positive development towards the end of the year than in the comparison period is the significantly higher order book, although its exact timing is hard to predict. Moreover, we do not expect the demand situation to be materially weaker than in the comparison period, at least not yet, which would provide sufficient load for the rest of the year to ensure a positive development.

Accordingly, we expect the adjusted EBIT to settle to 3.1 MEUR corresponding with a 3.0% adjusted EBIT margin. The positive development is mainly due to the growth in revenue and the decrease in fixed costs from the comparison period. With numerous strategic measures underway, visibility on the actual evolution of the company's operating cost structure has remained limited. In addition, given the ongoing strategic review of the factory network, for example, we anticipate that it will be some time before we have clearer figures in this regard.

Reported EBIT is currently expected to stand at 2.9 MEUR. However, our forecasts do not yet include the very likely one-off expenses related to the virtually certain closure of the Belgian factory, or the sale of the UK property, as planned in H2, for that matter.

On the bottom line of the income statement, we expect net financial expenses to settle at -1.4 MEUR, but for Exel it is worth noting that this item is significantly affected by currency exchange rate movements on intercompany loans with no cash flow effect. Therefore, the financial expenses in the income statement may not correspond very closely to the actual financial expenses to be paid.





* Figures for 2021-2023 are calculated using the current number of shares increased by the issue for illustrative purposes to improve comparability.
Source: Inderes

Estimates 3/4

Taxes, on the other hand, are expected to be around the level of recent years (around 30%). Taking this into account, we expect the company's adjusted earnings per share to be EUR 0.01 (calculated on the number of shares including the rights issue). We do not expect the company to pay a dividend on its result, but rather to use the capital to implement its strategy for now.

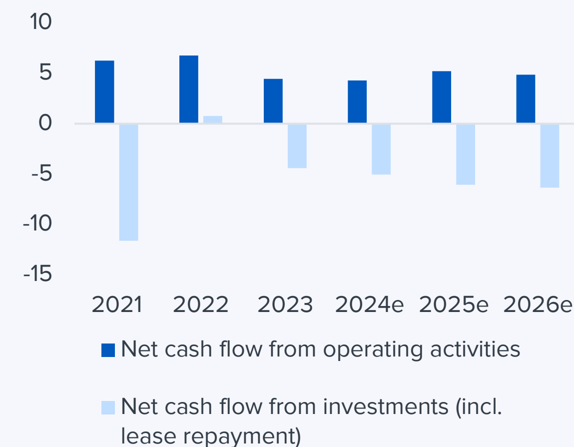
We estimate the company's operating cash flow at 4.3 MEUR, whereas after investments (incl. lease repayment), it will fall slightly below zero to -0.7 MEUR. However, following the rights issue, we expect the company's financial position to be at a good level, reflecting our projected earnings development (2024e net debt/adj. EBITDA 1.4x).

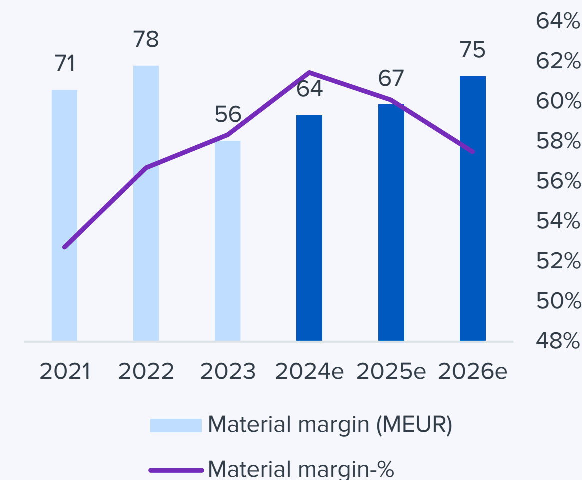
Estimates for 2025-2026

Looking back at the overview of the situation, we see dark clouds hanging over Exel's growth next year, at least for the first half of the year. At present, there is little to cheer about in the outlook for European industry in particular, despite the interest rate cuts that have begun and the expectation of further rate cuts over the next 12 months. On the one hand, we see a silver lining in a possible weaker scenario, allowing Exel to implement a new operational approach and complete the strategic review of the factory network undisturbed. On the other hand, we expect the company to start ramping up the new production facility in India towards the end of this year, which should contribute to progress from next year onwards, including through the wind power contracts announced this year. With regard to the Indian factory, however, it should be noted that its future is very much tied to the orders that are ultimately realized by the wind power customers and furthermore that only 55% of its earnings contribution is attributable to Exel shareholders.

Taking into account the still very complex overall picture, but also the continued low level of revenue in the current year, we expect the company's revenue to grow by about 7% to 111 MEUR next year. As things stand, we expect the economic environment to affect Exel's customers' (especially European) decision-making in the early months of the year, with a more pronounced recovery in demand towards the end of next year. However, we expect growth to be supported both by slowly rising volumes at the Indian production facility (especially from Q4'25 onwards, when the recently announced Vestas contract is due to start) and also, to some extent, by a recovery in demand for other applications.

In 2026, by contrast, as the economic environment picks up, we expect also the partially pent-up demand to be released in the form of orders for Exel. In our estimation, the market environment will once again provide the company with more attractive opportunities to grow with its largest customers (incl. wind power) and to win business from new customers. Accordingly, we expect its revenue to grow by up to 17% to 130 MEUR, driven by the growth of the Indian joint venture (the Vestas contract and the previously announced wind power account).





* Estimates of cash flow from operations are based on projected financing costs. Thus, they may differ from the figures in the other tables

Source: Inderes

Estimates 4/4

Due to the uncertainties surrounding the next year (incl. fluctuations in demand and production) and our forecast of still moderate revenue growth, we expect the company's operating margin development to remain moderate. However, we expect the margin level to rise to 4.4%, supported by revenue growth and a decline in fixed costs, which will bring our operational earnings forecast to 4.8 MEUR. Meanwhile, in 2026, we expect the strong revenue growth based on volume applications to weigh on the company's material margin, but on the other hand, the strong growth in revenue should scale down other cost items in light of current data (e.g. decline in fixed cost items). Against this backdrop, we expect the strong revenue growth to push the EBIT margin to 5.8%, which is still at a moderate level compared to the company's target for 2028 (adj. EBIT-% above 10%).

On the lower lines, we expect financial costs to stabilize around the current year's levels and the tax rate to remain around historical levels. Based on this, we forecast earnings per share for 2025-2026 to be in the range of EUR 0.02-0.04. But we do not expect the company to return to dividend payments until the 2027 results, when the growth phase is more solidly underway and the working capital situation gradually returns to normal. Of course, this also depends in part on potential future investment needs and the final level of working capital commitment (we estimate longer than normal payment periods for wind power applications).

Despite the upward earnings trend, we expect operating cash flow to remain at a relatively moderate level in the coming years, reflecting the working capital commitment. Based on this and investments (incl. maintenance investments and possible other smaller investments in line with the strategy), we expect the company's free cash flow to be slightly below zero in the coming years. Nevertheless, we expect the company's financial position to remain strong, which would theoretically also allow the company to make inorganic moves during the strategy period. However, looking at developments in recent years, we believe that maintaining financial flexibility will remain one of the company's key priorities.

Long-term estimates

In our longer-term forecasts, we expect Exel's growth to be supported particularly by the expected growth prospects for composites. We expect the company's growth to continue at a vigorous level until the end of the decade (growth 2027e-2029e: 5-9%). In our current forecasts, we expect Exel's revenue to grow significantly until 2028, reaching around 151 MEUR. However, this is far below the company's very ambitious target of 200 MEUR. As discussed earlier in this report, we believe that reaching this target would require the company to execute its strategy almost flawlessly. In addition, reaching the target level would require, in our view, strong market headwinds (incl. the wind power market), which we find difficult to count on at this stage. In the longer term, we expect the company's growth to gradually slow in line with the expected growth of the global economy (2030e-2033e: 2-4%).

In turn, we expect the EBIT margin to rise to just under 7% in 2027-2028, which is also well below the company's target of over 10%. This is due to a prolonged period of earnings volatility, risks related to the implementation of the new strategy, and lower margins associated with the targeted growth in volume applications (incl. potentially increasing competition from China). Similarly, in the longer term, we estimate its margin level to be around 6%, which is broadly in line with its historical development. At the same time, it should be noted that Exel's performance is likely to remain volatile in both directions due to fluctuations in investment-driven demand and changes in the product mix.

Overall, however, we do not see any real structural impediments to the company achieving its profitability target through a leaner cost structure and targeted efficiency improvements For the time being, though, the scales weigh more heavily on the company's historical track record and demand fluctuations beyond its control. Therefore, at this stage, we will continue to monitor more concrete results in terms of achieving the profitability target (incl. successful expansion of the customer portfolio) before making any major long-term forecast changes.

Income statement and estimate revisions

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**137**	**28.8**	**25.4**	**20.5**	**22.1**	**96.8**	**23.4**	**26.6**	**24.7**	**28.9**	**104**	**111**	**130**	**142**
Group	137	28.8	25.4	20.5	22.1	96.8	23.4	26.6	24.7	28.9	104	111	130	142
EBITDA	**10.1**	**1.5**	**1.5**	**1.1**	**-0.2**	**3.8**	**0.9**	**2.6**	**2.1**	**3.1**	**8.7**	**10.7**	**13.3**	**15.5**
Depreciation	-7.1	-1.8	-1.7	-1.7	-3.5	-8.7	-1.5	-1.4	-1.5	-1.5	-5.8	-5.8	-5.8	-5.9
EBIT (excl. NRI)	**8.0**	**0.0**	**0.1**	**-1.2**	**-1.3**	**-2.4**	**-0.6**	**1.4**	**0.6**	**1.6**	**3.1**	**4.8**	**7.5**	**9.6**
EBIT	**3.0**	**-0.3**	**-0.2**	**-0.7**	**-3.7**	**-4.9**	**-0.6**	**1.2**	**0.6**	**1.6**	**2.9**	**4.8**	**7.5**	**9.6**
Net financial items	0.6	-1.2	-0.4	0.2	-2.0	-3.4	-0.1	-0.3	-0.5	-0.5	-1.4	-1.5	-1.5	-1.5
PTP	**3.6**	**-1.5**	**-0.7**	**-0.4**	**-5.7**	**-8.3**	**-0.6**	**0.8**	**0.1**	**1.1**	**1.5**	**3.3**	**6.0**	**8.1**
Taxes	-1.5	-0.7	-0.2	-0.2	0.1	-1.1	0.0	-0.3	0.0	-0.2	-0.5	-0.9	-1.6	-2.1
Minority interest	0.1	0.0	0.0	0.1	0.0	0.2	0.1	0.1	0.0	0.0	0.1	-0.3	-0.4	-0.5
Net earnings	**2.3**	**-2.1**	**-0.9**	**-0.6**	**-5.6**	**-9.1**	**-0.5**	**0.7**	**0.1**	**0.9**	**1.1**	**2.1**	**4.0**	**5.5**
EPS (adj.)	**0.61**	**-0.15**	**-0.05**	**-0.10**	**-0.27**	**-0.56**	**-0.01**	**0.01**	**0.00**	**0.01**	**0.01**	**0.02**	**0.04**	**0.05**
EPS (rep.)	**0.19**	**-0.18**	**-0.07**	**-0.05**	**-0.47**	**-0.77**	**-0.01**	**0.01**	**0.00**	**0.01**	**0.01**	**0.02**	**0.04**	**0.05**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	1.9 %	-15.7 %	-33.3 %	-39.2 %	-28.8 %	-29.3 %	-18.9 %	4.7 %	20.5 %	31.0 %	7.0 %	7.1 %	17.0 %	9.0 %
Adjusted EBIT growth-%	33.0 %	-99.7 %	-97.9 %	-166.5 %	-242.7 %	-130.5 %		2013.8 %	-153.4 %	-224.1 %	-226.3 %	56.4 %	55.9 %	27.3 %
EBITDA-%	7.4 %	5.1 %	5.8 %	5.2 %	-0.8 %	4.0 %	3.9 %	9.8 %	8.5 %	10.7 %	8.4 %	9.6 %	10.2 %	10.9 %
Adjusted EBIT-%	5.9 %	0.0 %	0.3 %	-5.9 %	-5.9 %	-2.5 %	-2.4 %	5.2 %	2.6 %	5.6 %	3.0 %	4.4 %	5.8 %	6.8 %
Net earnings-%	1.7 %	-7.3 %	-3.5 %	-2.8 %	-25.2 %	-9.4 %	-2.3 %	2.5 %	0.4 %	3.0 %	1.1 %	1.9 %	3.1 %	3.9 %

Source: Inderes

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	104	104	-1%	116	111	-4%	133	130	-2%
EBITDA	8.7	8.7	0%	11.5	10.7	-7%	13.9	13.3	-4%
EBIT (exc. NRIs)	3.1	3.1	0%	5.6	4.8	-14%	7.9	7.5	-5%
EBIT	2.9	2.9	0%	5.6	4.8	-14%	7.9	7.5	-5%
PTP	1.5	1.5	0%	3.8	3.3	-13%	6.3	6.0	-4%
EPS (excl. NRIs)	0.01	0.01	0%	0.02	0.02	-14%	0.04	0.04	-5%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Investment profile

Return from turnaround company to growth company

With the demand environment having deteriorated sharply over the past two years or so, Exel's profitability took an exceptional plunge into the red last year. We therefore consider its investment profile to be that of a turnaround company for the time being, although the first cautious positive signs were seen in connection with the Q2'24 result. We also see this as supported by the company's two-phase strategy, which is currently still in the stabilization and profitability phase. Given the fragile market situation, we also see a risk of a more prolonged turnaround. In our view, Exel has long been profiled as a growth company before recent years, and there have been no structural changes in the growth prospects of the company's key target markets that would change this profile in the longer term. However, we expect that the company will need a boost from the market to get on a more solid organic growth path.

Strengths and value drivers

Organic growth: Growth in composite materials is driven by global megatrends, which we believe should provide Exel with a good platform for organic growth in line with its current strategy as investment-driven demand picks up. As a leading player in the pultrusion market, we believe it should also have the economies of scale to seize new opportunities and simultaneously grow with existing customers.

Achieving the earnings potential: We do not believe the company has achieved its full potential in a sustainable manner in the past, and we are positive on its transformative strategy. We therefore see this as the basis for a significant improvement in margins as revenue grows thanks to the measures taken as part of the strategy (e.g. reducing fixed costs, increasing utilization rates). However, in our view, reaching the target level (adj. EBIT-% above 10%) will require near-flawless execution of the strategy (incl. a lower margin profile for volume applications) and market headwinds.

Inorganic growth potential: The pultrusion market is structurally fragmented and we believe the industry will continue to consolidate in the future. We see this as creating inorganic growth opportunities for a larger player like Exel, both in terms of new customers and production technologies. However, in view of the strategic focus, we believe that potential acquisitions will only be realistic in a few years' time.

Risks and weaknesses

Demand fluctuations: A significant portion of Exel's revenue comes from investment and project-driven industrial sectors, where demand is subject to cyclical fluctuations. Consequently, sudden changes in demand can have a negative impact on the company's revenue and operating profit relatively quickly. This is also underlined by the structural shortness of the hard order backlog.

Failure in executing strategy: We believe that there are risks associated with the implementation of the transformative strategy, which involves some changes of a larger scale (e.g. new operational model, downsizing of the factory network). At present, we also see the company's growth strategy as strongly linked to the recovery of the wind power market, which is still subject to uncertainty. In addition, the future earnings profile of the wind power applications manufactured at the new production facility in India is still unproven.

Relative competitiveness of composites: Although the demand outlook for composite materials is expected to remain good, composites manufacturers do not operate in a vacuum. Thus, price changes of competing or substitute materials (e.g. aluminum and steel) or their raw materials may also have a negative impact on the relative position and competitiveness of composites. However, we believe that the competitive advantages of composites, such as light weight and lower life cycle costs, will provide some protection, at least against current competing materials. In the long term, though, ever-evolving material development may bring completely new materials suitable for industrial end-uses to the competitive field.

Loss of a key customer: We understand that Exel's customer base is relatively concentrated (10-20 customers account for well over half of revenue), so the loss of a single significant customer would have a visible impact on volumes and therefore profitability. Of course, the risk also extends to a loss of competitiveness on the part of the customer or the customer's customer. However, we believe that the relationships with the largest customers are long-standing and that these customers are established players in their own business.

Valuation 1/4

Earnings-based approach to valuation

We believe that Exel should be valued primarily on the basis of earnings-based multiples. In our view, the most useful multiples for the company are the net P/E ratio and the EV/EBITDA and EV/EBIT multiples that take into account the balance sheet structure. It should be noted, though, that the ownership structure of the Indian factory and its still uncertain future earnings contribution (incl. the value of the minority stake) may somewhat limit the usefulness of EV multiples in the future.

As absolute levels, we have used our estimated neutral multiples based on our view of the company's growth, profitability (incl. return on capital) and risk profile and the related sustainable elements. To some extent, we also apply Exel's historical valuation levels to determine the neutral multiple range. However, we don't use relative valuation to determine an acceptable valuation because there is no peer group of sufficient size and quality for the company.

We look at multiples mainly in terms of our forecasts for the current year and the next, as the visibility into Exel's business is relatively short. Nevertheless, in view of its strategic development phase and the market situation, we believe that some attention should also be paid to the medium-term multiples, even though forecasts looking several years ahead involve a heightened degree of uncertainty. This in turn limits the usefulness of the resulting multiples. For the same reason, the total return estimate for the coming years and the DCF model based on our long-term forecasts play a more supportive role in the valuation.

In addition to earnings multiples, the price of a company like Exel that operates in the manufacturing industry can be examined through a balance sheet-based P/B ratio. Admittedly, the company's business is significantly more capital-light than companies operating in the more traditional process industry that are thus even better suited to a balance sheet-based pricing environment. However, in our judgment, the balance sheet valuation can be used as one of the valuation thermometers in the face of potential changes in stock market sentiment.

Factors to be considered in valuation

In our view, factors affecting the acceptable valuation level of Exel in the short and medium term include:

+ Good growth prospects projected for the market

+ Strengthening of the turnaround and increasing confidence in its sustainability through actions in line with the strategy

+ In our view, the cash flow profile and ROIC should be at a reasonably good level as earnings levels rise and the fastest growth phase levels off.

- Demand drivers in the business are largely investment-driven, exposing the company's revenue and earnings levels to cyclical fluctuations

- Historical earnings disappointments and earnings volatility have so far shifted the focus to short-term development rather than longer-term potential

- Building sustainable competitive advantages in the industry is virtually impossible

Valuation	2024e	2025e	2026e
Share price	0.39	0.39	0.39
Number of shares, millions	106.7	106.7	106.7
Market cap	41	41	41
EV	55	55	57
P/E (adj.)	31.6	19.4	10.3
P/E	37.8	19.4	10.3
P/B	1.1	1.0	0.9
P/S	0.4	0.4	0.3
EV/Sales	0.5	0.5	0.4
EV/EBITDA	6.3	5.2	4.3
EV/EBIT (adj.)	17.7	11.4	7.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Source: Inderes

Valuation 2/4

Acceptable valuation range

Over the past seven years, Exel has been priced at a median 12-month forward-looking P/E multiple of around 13x, EV/EBIT multiple of around 11x and EV/EBITDA multiple of around 7x. The multiples are also relatively well aligned with the longer-term median levels of Nasdaq Helsinki (P/E 14x-15x, EV/EBIT 11x-14x, EV/EBITDA 8x-10x), although in principle we do not directly compare Exel's pricing to the general market pricing.

Given that the company has not yet accumulated significant evidence of a strengthening of its own operational performance against history (incl. a sustained increase in earnings and return on capital above historical levels) or a decline in the associated risk level (excl. financial position), we see the historical multiples as providing a relatively good backstop for the valuation for the time being. With this in mind, we currently estimate Exel's acceptable valuation to be around 10x-14x P/E, 8x-12x EV/EBIT and 5x-8x EV/EBITDA (previously 6x–8x). So far, we see the acceptable valuation hovering between the low and mid-point of the range, reflecting a turnaround that is still in its early stages and thus subject to uncertainty.

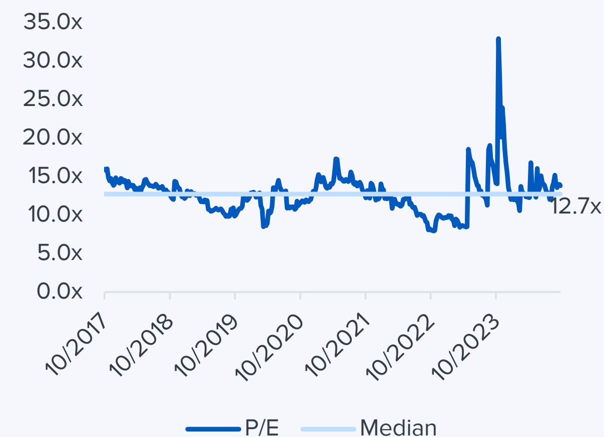
Instead, as growth and profitability (incl. return on capital) strengthen, we would see justifiable gradual upside in the acceptable valuation. However, this would require a more visible and sustained increase in growth and profitability, which the company is still far from delivering.

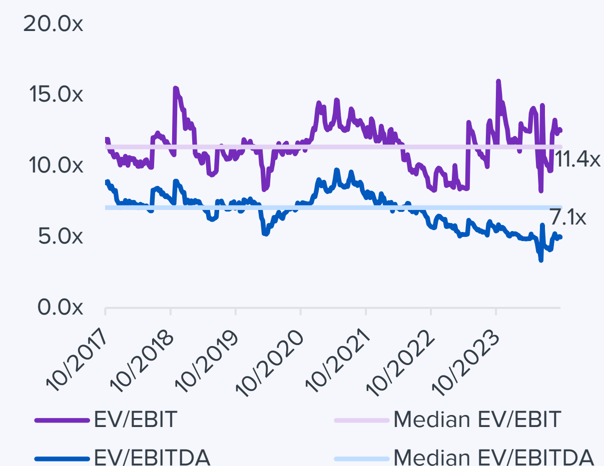
Absolute multiples

We forecast Exel's P/E ratios for 2024 and 2025 to be 32x and 19x, while the corresponding EV/EBIT ratios are 18x and 11x. These levels are, in our view, significantly high for the current year and remain elevated for next year as a whole, further reflecting the low short-term earnings level we forecast for Exel. In this context, it should also be noted that the P/E ratio in particular is quite sensitive to fluctuations in results.

Meanwhile, looking at the EV/EBITDA ratio, the valuation picture already looks cautiously attractive for the current year and there could already be upside for next year (EV/EBITDA 2024e 6x, 2025e 5x). At the same time, however, it is worth noting that we do not expect EBITDA to translate into free cash flow in the next few years, which undermines the desire to rely too heavily on the multiple.

However, if the company continues on the path we expect, we see the valuation for 2026 as a whole already at an attractive level (P/E 10x, EV/EBIT 8x, EV/EBITDA 4x). On the other hand, given the aforementioned as yet unproven turnaround, its timing and the volatile performance in recent years, we think it is premature to rely too heavily on this. Nevertheless, it gives an indication of the stock's potential in the medium term if the turnaround occurs as we expect. It must also be noted that, in addition to the timing of the turnaround, the risks to the forecast are heightened by factors such as the success of the ramp-up of the Indian factory and the level of minority stakes involved, which are still difficult to assess.





Source: Bloomberg, Inderes

Valuation 3/4

Similarly, based on the average adjusted realized result over the last five years, the P/E ratio at the current share price would be around 15x and the corresponding EV/EBIT ratio 10x, which are within our acceptable ranges. As for the historical average results, it is worth noting that they are burdened by last year's exceptionally weak performance. At the same time, however, we believe this gives a picture of the macroeconomic impact on the company's performance, which we also see as contributing to the pressure on the acceptable valuation.

Overall, however, we see the earnings-based valuation as an indication that the stock is currently loaded with certain expectations of a return towards historical earnings levels. As a result, we believe that the stock is now priced rather reasonably given the current outlook and the company's track record in recent years. This is reflected in the fact that one of the most important drivers of the share price in the coming years will be the implementation of successful strategic measures to increase earnings above historical levels, for which the current share price does not yet reflect excessive expectations.

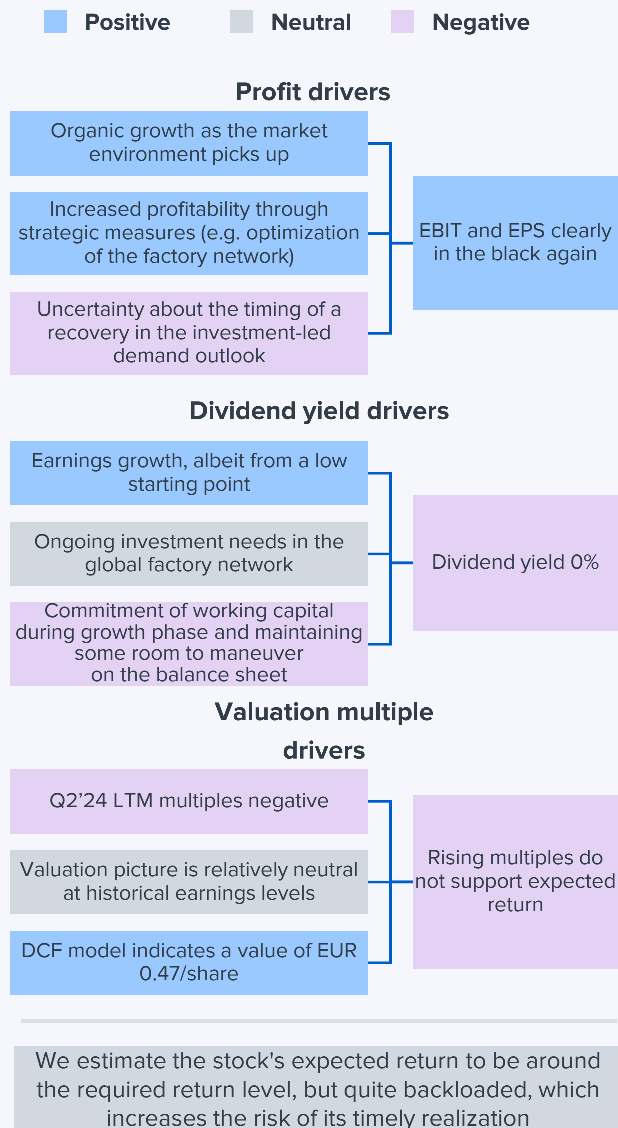
Total expected return on the share in the coming years

We have also looked at an investor's expected return over the next few years by simplifying the acceptable valuation and our 2026 earnings estimates. We believe that Exel's business could be valued at 12-13x P/E and 10-11x EV/EBIT at the end of 2026, based on our current forecasts, if the company had managed to restore its margins to around historical levels. The multiples would of course be influenced by the company's latest growth prospects and the general stock market conditions.

Based on this and our current estimates, we believe that the current business could be valued at roughly EUR 0.45-0.64 per share at the end of 2026. At the current share price of EUR 0.39, we estimate that the expected annual return would be in the range of about 15%. In contrast, we do not expect the dividend to support the expected return at current levels. From this perspective, the expected annual return would exceed the 11% cost of equity we use.

However, given the structurally short visibility of the business, which we highlighted earlier, we don't rely heavily on total expected returns for the coming years. We also note that the expected return is mainly driven by the EV-based valuation and that there are still significant uncertainties at this stage, for example regarding the level of working capital tied up in the Indian factory (i.e. net debt development). In addition, the realization of the expected return depends almost entirely on the achievement of the earnings growth we forecast for 2026 (i.e. the expected return estimated for the end of 2025 does not exceed the required return). Overall, however, the calculations provide an indication of the return potential of the stock if our forecasts are realized.

Looking at the bigger picture, we also believe that it is too early at this stage to rely heavily on the scenario of the company achieving its ambitious financial targets (2028 revenue 200 MEUR; adj. EBIT-% >10%). However, we think it is clear that if this scenario were to materialize, the expected return would be very attractive.



Source: Inderes

Valuation 4/4

Balance sheet and volume-based valuation

Exel's balance sheet-based P/B ratio (2024e: 1.1x) is quite clearly below historical levels (P/B 2019–2023 avg. 2.8x), which is also partly influenced by the rights issue completed and the resulting increase in equity. At the same time, it is worth noting that any write-downs related to the possible closure of the Belgian factory or the sale of a property in the United Kingdom could lead to changes in the balance sheet. Overall, we do not consider the level to be unreasonable given the relatively capital-light nature of the business and the reasonably good return on capital potential.

This is supported by the fact that from a static return perspective, the company would need to achieve a sustainable return on equity of around 12% in order for the current balance sheet valuation to reflect the cost of equity under normal circumstances. In our view, this should not be out of reach as the company's performance recovers, given its business profile and targeted leverage. However, based on our current estimates, we do not expect this level to be reached until 2027. On the other hand, the company's ability to generate capital is still somewhat questionable given its uneven history and new strategy (e.g. increasing volume production). We believe, nevertheless, that the company should be well positioned to generate a return exceeding the cost of capital in the future as the strategy progresses.

On the other hand, the EV/S multiples in our current projections for the next few years are around 0.5x, which cannot be considered as high in absolute terms. They are also well below historical levels. Rather, we find it difficult to rely solely on volume-based valuation without signs of a clearer turnaround in profitability.

As a whole, however, we believe that the balance sheet and volume-based valuation provide some support for the stock, with the stronger balance sheet being a key contributor.

Cash flow based valuation

We have also determined Exel's value using a cash flow based model (DCF). Due to the company's volatile history and the current strategic development phase (e.g. ramp-up of the Indian factory, earnings contribution, minority stake development), it is rather difficult to predict the company's longer-term progress, which increases the risks in both directions. The DCF is also sensitive to the parameters to which it is set, in particular the variables of the terminal period. However, we have used what we consider to be sufficiently conservative estimates of the terminal period parameters in our DCF model, which we see as providing sufficiently relevant support for the other methods we use, and in particular for the longer-term potential analysis.

Our model draws on the forecasts we have discussed earlier in the Estimates section. We have set the terminal growth rate, for its part, at 2% and the EBIT margin at 5.8% (cf. Exel adj. EBIT-% 2014–2023 5.8%). We estimate that our current cost of capital (WACC 9.6% and CoE 11.0%) is above the average required rate of return for the stock market, reflecting the risks associated with the company's business and its predictability, as well as investor confidence damaged by the problems of recent years. Correspondingly, we see a gradual downside in the required return as the turnaround gets stronger.

Our DCF model values the stock at EUR 0.45, which we think reflects the potential of the stock. Cash flows, on the other hand, are expected to be quite back-loaded, reflecting the low initial earnings level and the capital (especially working capital) required for the growth phase. As a result, the weight of the terminal period in the model is quite high (62%).

Valuation summary

In our view, the stock is relatively reasonably priced given the current rather subdued demand outlook. In the longer term, however, we see potential in the stock but believe that the company needs a stronger boost from the market to kick-start more buoyant earnings growth. Overall, we believe that the best approach at this stage is to switch to a wait-and-see stance on the stock in order to monitor market developments and the implementation of the company's internal strategic measures. Reflecting this, we reiterate our target price of EUR 0.38 but lower our recommendation to Reduce following the rise in the share price.

Similarly, we currently estimate the fair value of Exel's share to be around EUR 0.3-0.5 per share, based on our estimates for the coming years, the acceptable valuation multiples we apply and our cash flow model. We consider the key drivers of fair value to be the strengthening and stabilization of earnings growth and cash flow (incl. margin levels), which we would also see as downward drivers of the stock's required return.

Climate target and taxonomic analysis

Taxonomy eligibility

Exel's main economic activity, the manufacture of composites or fiber reinforced plastics, is as such not included in the current EU Taxonomy. This is because Exel's products are usually components or parts of its customers' or its customers' customers' end-product. However, according to Exel's interpretation, it is the composite component produced by the company that contributes to improving the environmental impact of the end-product.

According to the company's interpretation, its taxonomy-eligible activities were related to the manufacture of renewable energy technologies (wind power applications), energy efficiency equipment (composite profiles for windows and doors), aircrafts (structural profiles for aerospace applications), rolling stock constituents (profiles for electric trains and trams), automotive and mobility components (structural profiles for electric buses) and other low-carbon technologies (composite applications for electric trolling motors). Correspondingly, among the above, all but other low-carbon technologies were taxonomy-aligned.

In this overall picture, only a small part of the company's operational costs and capital expenditure (CAPEX) were taxonomy-eligible. Last year, the latter were in practice directed at activities corresponding to taxonomy-eligible revenue, as well as at improving energy efficiency and own generation of electricity (installation of solar panels at the Austrian factory).

We consider taxonomy-related regulatory risks to be moderate

In our view, the regulatory risks to Exel's business from a taxonomy perspective are moderate, as its direct emissions are limited. In addition, the advantage of composite products can be seen in the longer lifetimes that they typically allow for in the end products and, consequently, the lower carbon footprint of the products over their entire life cycle. Today, the main problem for composite products is at the end of their life cycle, because although processes for recycling and reuse already exist, there are still many limiting factors. But Exel is also constantly exploring different recycling options in cooperation with its partners.

Given this overall picture, we do not expect the taxonomy to have a significant impact on Exel, at least in the short to medium term, for example in terms of price or availability of financing. However, at this stage, we will continue to monitor the development of the taxonomy legislation and its potential impact on the classification of Exel's business.

Climate targets

In 2023, Exel set sustainability targets where, in terms of climate, it aims to achieve greenhouse gas emission reductions for Scope 1 and 2 emissions according to UN established targets. We consider the company's targets for its own operations to be realistic. For Scope 3 emissions, in contrast, the company does not yet have targets, and it has not yet calculated its Scope 3 emissions (to be included in the CSRD reporting). However, according to the company's preliminary report, the share of raw materials in its carbon footprint is significant, but we will have to wait for more information to assess this point.

Taxonomy eligibility	2022	2023
Revenue	17%	4%
OPEX	0%	0%
CAPEX	11%	1%

Taxonomy alignment	2023	2023
Revenue	21%	24%
OPEX	4%	3%
CAPEX	3%	12%

Climate	
Climate target	Yes
Target according to the Paris Agreement (1.5 °C warming scenario)	No

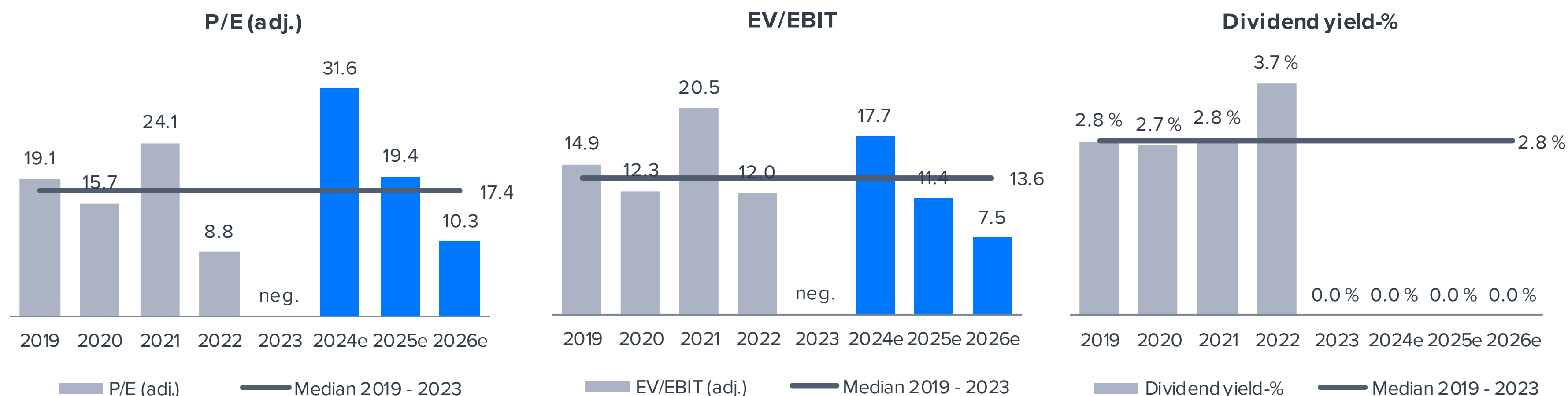
We will begin to increase the visibility of sustainability metrics by looking at the company's climate target and taxonomy impacts, as we believe these are currently the clearest contributors on average to the company's value creation. We aim to gradually increase the visibility of other factors. The analyst will consider the impact of all sustainability issues on the company's growth and profitability potential and risk (i.e. required return) as part of forming an investment view.

Note: Taxonomy eligibility-% is shown in the table without taxonomy-aligned activities

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	6.48	7.38	7.10	5.42	2.54	**0.39**	**0.39**	**0.39**	**0.39**
Number of shares, millions	11.9	11.9	11.9	11.9	11.9	**106.7**	**106.7**	**106.7**	**106.7**
Market cap	77	88	84	64	30	**41**	**41**	**41**	**41**
EV	107	119	124	97	63	**55**	**55**	**57**	**54**
P/E (adj.)	19.1	15.7	24.1	8.8	neg.	**31.6**	**19.4**	**10.3**	**7.5**
P/E	32.0	16.4	50.9	28.1	neg.	**37.8**	**19.4**	**10.3**	**7.5**
P/B	2.9	3.0	2.8	2.2	1.7	**1.1**	**1.0**	**0.9**	**0.8**
P/S	0.7	0.8	0.6	0.5	0.3	**0.4**	**0.4**	**0.3**	**0.3**
EV/Sales	1.0	1.1	0.9	0.7	0.7	**0.5**	**0.5**	**0.4**	**0.4**
EV/EBITDA	10.0	7.8	10.3	6.7	15.6	**6.3**	**5.2**	**4.3**	**3.5**
EV/EBIT (adj.)	14.9	12.3	20.5	12.0	neg.	**17.7**	**11.4**	**7.5**	**5.7**
Payout ratio (%)	88.8 %	44.3 %	143.3 %	103.8 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**19.4 %**
Dividend yield-%	2.8 %	2.7 %	2.8 %	3.7 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**2.6 %**

Source: Inderes

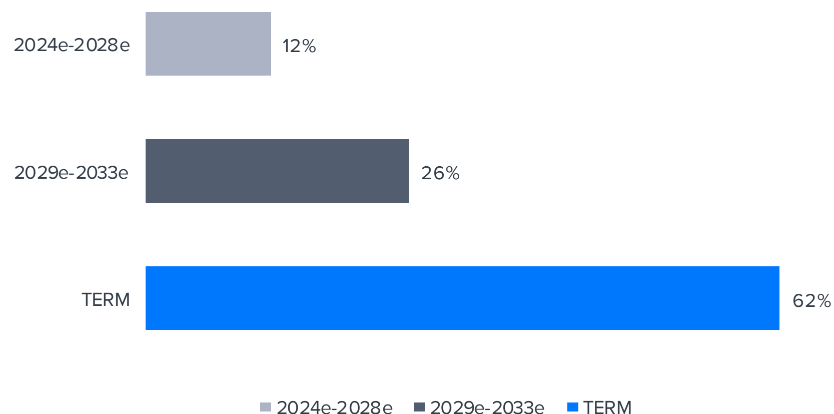


DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-29.3 %	7.0 %	7.1 %	17.0 %	9.0 %	7.0 %	5.0 %	4.0 %	3.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	-5.0 %	2.8 %	4.4 %	5.8 %	6.8 %	6.6 %	6.4 %	6.2 %	6.0 %	5.8 %	5.8 %	5.8 %
EBIT (operating profit)	**-4.9**	**2.9**	**4.8**	**7.5**	**9.6**	**10.0**	**10.2**	**10.3**	**10.2**	**10.1**	**10.3**	
+ Depreciation	8.7	5.8	5.8	5.8	5.9	6.0	6.2	6.4	6.5	6.7	6.8	
- Paid taxes	-0.2	-0.5	-0.9	-1.6	-2.1	-2.2	-2.3	-2.3	-2.3	-2.3	-2.4	
- Tax, financial expenses	0.4	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	2.9	-2.0	-2.7	-4.8	-2.6	-1.7	-1.3	-1.1	-0.8	-0.6	-0.6	
Operating cash flow	**7.0**	**5.7**	**6.7**	**6.5**	**10.4**	**11.8**	**12.5**	**12.9**	**13.2**	**13.5**	**13.8**	
+ Change in other long-term liabilities	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.6	-5.1	-6.1	-6.4	-6.6	-6.9	-6.9	-7.1	-7.2	-7.2	-7.2	
Free operating cash flow	**5.5**	**0.6**	**0.7**	**0.1**	**3.8**	**4.9**	**5.6**	**5.8**	**6.1**	**6.4**	**6.6**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	5.5	0.6	0.7	0.1	3.8	4.9	5.6	5.8	6.1	6.4	6.6	88.6
Discounted FCFF		**0.6**	**0.6**	**0.1**	**2.8**	**3.3**	**3.5**	**3.3**	**3.1**	**3.0**	**2.8**	**38.1**
Sum of FCFF present value		61.3	60.7	60.1	60.0	57.1	53.8	50.3	47.0	43.9	40.9	38.1
Enterprise value DCF		**61.3**										
- Interest bearing debt		-43.8										
+ Cash and cash equivalents		31.1										
-Minorities		-0.3										
-Dividend/capital return		0.0										
Equity value DCF		**48.3**										
Equity value DCF per share		**0.45**										

WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E)	25.0 %
Cost of debt	7.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	1.40%
Risk free interest rate	2.5 %
Cost of equity	**11.0 %**
Weighted average cost of capital (WACC)	**9.6 %**

Source: Inderes



Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**47.9**	**39.6**	**38.9**	**39.1**	**39.7**
Goodwill	13.0	12.6	12.6	12.6	12.6
Intangible assets	2.2	1.7	1.7	1.8	1.8
Tangible assets	30.9	24.7	23.9	24.0	24.6
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	1.8	0.6	0.6	0.6	0.6
Current assets	**65.2**	**45.4**	**50.8**	**54.9**	**62.9**
Inventories	23.4	16.9	18.1	19.4	22.7
Other current assets	1.1	0.5	0.5	0.5	0.5
Receivables	23.3	17.0	19.7	21.6	26.6
Cash and equivalents	17.4	11.0	12.4	13.3	13.0
Balance sheet total	**113**	**85.0**	**89.7**	**94.0**	**103**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**30.4**	**17.7**	**38.9**	**41.0**	**45.0**
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	21.0	9.5	10.6	12.8	16.8
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	6.8	5.8	25.9	25.9	25.9
Minorities	0.4	0.2	0.2	0.2	0.2
Non-current liabilities	**15.4**	**6.0**	**11.7**	**13.3**	**14.8**
Deferred tax liabilities	0.6	0.3	0.3	0.3	0.3
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	13.5	4.4	10.1	11.7	13.2
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.2	1.3	1.3	1.3	1.3
Current liabilities	**67.3**	**61.3**	**39.1**	**39.7**	**42.7**
Interest bearing debt	35.0	39.4	15.2	15.3	14.8
Payables	26.2	21.9	23.8	24.4	27.9
Other current liabilities	6.1	0.0	0.0	0.0	0.0
Balance sheet total	**113**	**85.0**	**89.7**	**94.0**	**103**

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	134.4	137.0	96.8	**103.6**	**111.0**
EBITDA	11.9	10.1	3.8	**8.7**	**10.7**
EBIT	3.7	3.0	-4.9	**2.9**	**4.8**
PTP	4.2	3.6	-8.3	**1.5**	**3.3**
Net Income	1.7	2.3	-9.1	**1.1**	**2.1**
Extraordinary items	-2.3	-5.0	-2.4	**-0.2**	**0.0**

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	0.14	0.19	-0.77	**0.01**	**0.02**
EPS (adj.)	0.29	0.61	-0.56	**0.01**	**0.02**
OCF / share	0.41	0.99	0.59	**0.05**	**0.06**
FCF / share	-0.61	0.74	0.46	**0.01**	**0.01**
Book value / share	2.57	2.52	1.47	**0.36**	**0.38**
Dividend / share	0.20	0.20	0.00	**0.00**	**0.00**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	117.7	113.1	85.0	**89.7**	**94.0**
Equity capital	31.2	30.4	17.7	**38.9**	**41.0**
Goodwill	12.8	13.0	12.6	**12.6**	**12.6**
Net debt	37.4	31.1	32.8	**12.9**	**13.6**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	24%	2%	-29%	**7%**	**7%**
EBITDA growth-%	-22%	-15%	-62%	**127%**	**23%**
EBIT (adj.) growth-%	-38%	33%	-130%	**-226%**	**56%**
EPS (adj.) growth-%	-38%	109%	-192%	**-102%**	**63%**
EBITDA-%	8.9 %	7.4 %	4.0 %	**8.4 %**	**9.6 %**
EBIT (adj.)-%	4.5 %	5.9 %	-2.5 %	**3.0 %**	**4.4 %**
EBIT-%	2.8 %	2.2 %	-5.0 %	**2.8 %**	**4.4 %**
ROE-%	5.6 %	7.6 %	-38.5 %	**3.9 %**	**5.4 %**
ROI-%	4.8 %	3.7 %	-6.9 %	**4.6 %**	**7.3 %**
Equity ratio	26.5 %	26.9 %	20.9 %	**43.4 %**	**43.6 %**
Gearing	119.9 %	102.4 %	185.7 %	**33.2 %**	**33.3 %**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	11.9	10.1	3.8	**8.7**	**10.7**
Change in working capital	-4.8	2.8	2.9	**-2.0**	**-2.7**
Operating cash flow	4.8	11.8	7.0	**5.7**	**6.7**
CAPEX	-12.2	-3.2	-1.6	**-5.1**	**-6.1**
Free cash flow	-7.2	8.8	5.5	**0.6**	**0.7**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	0.9	0.7	0.7	**0.5**	**0.5**
EV/EBITDA	10.3	6.7	15.6	**6.3**	**5.2**
EV/EBIT (adj.)	20.5	12.0	neg.	**17.7**	**11.4**
P/E (adj.)	24.1	8.8	neg.	**31.6**	**19.4**
P/B	2.8	2.2	1.7	**1.1**	**1.0**
Dividend-%	2.8 %	3.7 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
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
2/19/2021	Accumulate	9.20 €	8.76 €
5/2/2021	Accumulate	11.50 €	10.88 €
7/21/2021	Accumulate	11.50 €	10.32 €
9/2/2021	Accumulate	11.50 €	9.95 €
9/17/2021	Accumulate	9.50 €	8.59 €
11/5/2021	Accumulate	8.40 €	7.52 €
2/16/2022	Reduce	7.50 €	7.15 €
5/2/2022	Accumulate	7.00 €	6.30 €
Analyst changed			
7/21/2022	Accumulate	7.00 €	6.58 €
9/28/2022	Accumulate	6.00 €	5.30 €
11/4/2022	Accumulate	6.00 €	5.20 €
2/15/2023	Accumulate	6.00 €	5.32 €
2/20/2023	Accumulate	6.00 €	5.10 €
5/3/2023	Accumulate	4.50 €	4.05 €
8/21/2023	Reduce	3.50 €	3.38 €
10/19/2023	Sell	2.50 €	3.04 €
11/6/2023	Reduce	2.50 €	2.67 €
2/19/2024	Reduce	2.20 €	2.29 €
4/26/2024	Reduce	1.60 €	1.74 €
5/20/2024	Reduce	0.38 €	1.62 €
6/12/2024	Accumulate	0.38 €	0.33 €
8/16/2024	Accumulate	0.38 €	0.32 €
10/8/2024	Reduce	0.38 €	0.39 €

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Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020

Mikael Rautanen
2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020

Olli Koponen
2020

Joni Grönqvist
2019, 2020

Erkki Vesola
2018, 2020

Petri Gostowski
2020

Atte Riikola
2020

Connecting investors and listed companies.