

Virala Acquisition Company

(VAC)

Company report

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This report is a summary translation of the report “VACista kuoriutuu Purmo” published on 8/9/2021at 8:00 pm

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VAC hatches into Purmo

Today, Virala Acquisition Company (VAC), the first company listed in the SPAC segment on the Helsinki Stock Exchange, and Purmo Group signed a merger agreement. Purmo is one of the leading international suppliers of sustainable indoor air solutions and a subsidiary of the family-run Rettig Group. After the merger, the new merged company will apply to be listed on the Helsinki Stock Exchange. This is expected to be completed by the end of December 2021. In the merger, the debt-free value of the Purmo Group will be EUR 685 million (EV). We will start coverage of Purmo after the transaction has been completed.

Purmo will merge into VAC

VAC is Finland's first special purpose acquisition company (SPAC), which was listed in June and collected gross assets of EUR 107.5 million in the IPO. VAC's strategy was to acquire one or more companies that VAC estimated to have good long-term growth potential and profitability potential through organic growth and/or M&A transactions. Today, VAC announced that it will merge with Purmo, which is in line with the company's strategy. In practice, it is clear to us that with irreversible commitments, the general meetings of both companies will accept the merger as proposed. As a result of the merger, the current shareholders of VAC will own a total of 26.7% of the shares. VAC will publish a prospectus containing detailed information on the merger 11/19/2021. Furthermore, VAC expects to convene an extraordinary general meeting for December 13, 2021. The merger is expected to be completed by the end of 2021.

Purmo is a supplier of air solutions

The target company Purmo Group, which is owned by the Finnish family-owned investment company Rettig Group, as well as the company's management and certain board members, is one of the largest providers of indoor air solutions worldwide. The cornerstones of the Purmo strategy are 1) scaling up of solution sales to increase market share, 2) launching new smart products, 3) increasing the company's market share in Russia and China, 4) improving profitability through operational efficiency and 5) implementing an M&A transaction growth strategy. The listing will diversify the company's ability to finance future acquisitions with equity and/or debt and to maintain an optimal capital structure. In 2020, the Purmo Group's turnover was EUR 671 million and adjusted EBITDA was EUR 85 million. The Purmo Group's adjusted EBITDA for 2021 is expected to be slightly above EUR 90 million. In 2018-2020, the company grew by an average of 1% annually and the company's EBITDA-% rose from 10% to 13%.

In our initial estimate, the valuation of Purmo doesn't appear significantly demanding in the merger

In the merger, the Purmo Group's debt-free enterprise value will be EUR 685 million, corresponding to an adjusted EV/EBITDA multiple of 8.1x for 2020 and a 7.6x multiple for 2021. In our view, before the merger is completed, the valuation of VAC will be determined from the value of Purmo and the size of VAC's holding. In our estimate, Purmo's valuation, in turn, is affected by the company's growth and profitability profile, peer group valuation, and any discount/premium in comparison to the peer group. The peer group that we have outlined initially for Purmo could consist mainly of construction and building services engineering companies in the Nordic countries and of competing material manufacturers. The median of the preliminary peer group EV/EBITDA is 10.5x for 2021. Therefore, the valuation of Purmo's merger is 28 % below the preliminary peer group valuation, and, in our view, the valuation of the arrangement doesn't seem particularly demanding. However, we will make more detailed comments about the valuation in our Purmo initiation of coverage report when we are more familiar with the company and its business growth and profitability profile.



[Watch VAC's CEO's interview on the merger:](#)



[Watch the interview with the CEO of the target company, Purmo, about the business:](#)



[Watch a recording of the merger event:](#)



VAC and merging with Purmo

Virala Acquisition Company (VAC)

VAC is Finland's first special purpose acquisition company (SPAC). VAC was listed in June and collected gross assets of EUR 107.5 million. The operating model of the internationally familiar SPAC is to raise capital through an IPO. Subsequently, the company will invest this capital in the object of its choice. This way, the target company will be able to list and avoid the normal listing process. For retail investors, SPACs enable making capital fund like investments. Of course, a SPAC focuses on one or a few companies, while capital funds are clearly more decentralized.

VAC's strategy

VAC's strategy was to acquire one or more companies that VAC estimated to have good long-term growth potential and profitability potential through organic growth and/or M&A transactions. The investment criteria were 1) enterprise value EUR 50-500 million, 2) no sector focus, 3) the target company must be located in Finland or have strong ties with Finland, 4) no political risk and 5) no seasonality. In our preliminary assessment, the transaction published yesterday is in line with VAC's strategy and criteria for the target company, even though it exceeds the enterprise value range.

According to VAC, the Purmo Group suits VAC's investment criteria and experience excellently. VAC estimates that the Purmo Group has good conditions for long-term growth and profitability, both through organic growth and M&A. VAC management is convinced that the attractive market that lies under the Purmo Group, strong evidence of growth and cash flow generation and the company's strategy will

create a strong basis for future growth and dividends. The owner families of Virala and Rettig Group are committed to long-term value creation and to active and practical development of the Purmo Group in cooperation. We also believe that the owners have a shared interest to develop the Purmo Group. However, we will assess Purmo's plans in more detail in our initiation of coverage report that will be published later.

Merging

In practice, it is clear to us that VAC's general meeting will approve the merger, as ca. 79.5% of the votes from VAC's shares are irrevocably committed to supporting the merger. In addition, we believe it is certain that the Purmo Group's general meeting will also approve the merger, as the company has received irrevocable commitments to cover the requirement of 2/3 of the votes. If a shareholder of VAC doesn't support the merger, s/he can sell his/her shares in the market or request a redemption. However, the total number of shares to be redeemed cannot exceed 10% of the total number of C shares (details can be found on pp. 84-85 of the [Listing brochure](#) [in Finnish]).

After the merger, the current shareholders of the Purmo Group will own a total of 73.3% and the current shareholders of VAC will hold a total of 26.7% of the C-series shares of the merged company. The largest shareholder of VAC, Virala Corporation, will own 8.8% of the C-series shares of the merged company. The total number of new C-series shares issued by VAC in the merger is expected to be 29,594,531, resulting in a total of 40,374,531 shares.

In order to increase the influence of VAC

shareholders and to actively develop the Purmo Group as a long-term and significant owner, Virala will have an option to acquire 689,576 additional C-series shares from the Rettig Group (EUR 10,19 per share) during the implementation of the merger, after which Virala would own more than 10.5% of the C-series shares. We estimate that Virala will use that option. Additionally, Virala will own F-series shares which represent approximately 3.7% of the issued shares of the merged company. F-series shares may be converted into C-series shares not earlier than 3 years and not later than 7 years after VAC's IPO, assuming that certain share price limits have been met. The highest price limit requires a total return of 140% on the share, which corresponds to a share price of EUR 24.00 for VAC's share. The F-series shares correspond to a maximum of 8% of the number of VAC's voting shares.

VAC's board has decided to terminate the 3-year share transfer restriction commitment for the C-series shares that Virala acquired in VAC's IPO in order to comply with the provisions of Nasdaq Helsinki Stock Exchange List on the number of freely convertible shares, which must be 25%.

Schedule

VAC will publish a prospectus containing details of the merger 11/19/2021. On the same day, Purmo will publish its Q3 report. Furthermore, VAC expects to convene an extraordinary general meeting for 12/13/2021. If all the conditions for implementation are met, the merger is expected to be completed by the end of December 2021.

Target company Purmo

Purmo is a supplier of indoor air solutions

Target company Purmo Group (prev. Rettig ICC Oy Ab) is one of the largest providers of indoor air solutions worldwide. The company's product range includes hydronic radiators, towel dryers, floor heating solutions, convectors, valves, controls, air heat pumps and ventilation products.

According to Purmo, it has a strong market position as a provider of integrated indoor air solutions such as hydronic radiators and other heating and cooling products. In Europe, the Purmo Group is a clear market leader in the radiator business and one of the leading challengers in integrated radiator systems.

The CEO of the merged company will be John Peter Leesi and the CFO Erik Hedin, who currently hold similar positions in the Purmo Group. Alexander Ehrnrooth, chairman of VAC's board, will become a board member. In addition, Tomas von Rettig (chairman of the board of the Rettig Group and Purmo Group) becomes the chairman and Matts Rosenberg (CEO of the Rettig Group and board member of the Purmo Group) becomes vice chairman of the board. Video interview with the CEO of the target company Purmo is available [here](#) (in English).

Purmo's figures

In 2020, the Purmo Group's turnover was EUR 671 million and adjusted EBITDA was EUR 85 million. The Purmo Group's adjusted EBITDA for 2021 is expected to be slightly above EUR 90 million. Purmo's Q3 report will be published 11/19/2021, giving us more control points on the company's development to support the valuation. In addition, the company will organize a capital market day (CMD) at the beginning of December. Then, we expect the

company to reveal its financial objectives as well. In 2018-2020, the company grew by an average of 1% annually and the EBITDA-% rose from 10% to 13%.

In our estimate, Purmo's business is dependent on the economic cycle and, especially, on the economic situation of the construction market. In our initial assessment, the growth of the market is quite similar to the growth of the construction market, which is expected to be around 3% in Europe over the next few years, according to Euroconstruct. New products and sustainable development products can grow faster, but the core business is expected to at about the same rate as construction. Based on our initial estimate, profitability appears to improve rapidly in the near future, but should normalize downwards as material costs increase. The normalized profitability level over the cycle is, in our initial estimate, slightly lower than the high levels of last year.

Purmo's strategy

The planned merger and listing support the Purmo Group's strategy to grow both organically and through M&A transactions. The company's vision is to become the global market leader in sustainable indoor air solutions. The cornerstones of the Purmo strategy are 1) scaling up solution sales to increase market share in underrepresented areas; 2) launching new smart products, where the company has a significant launch-ready product development portfolio; 3) increasing the company's market share in Russia and China through new local production capacity; 4) improving profitability through operational efficiency; and 5) implementing a well-defined M&A transaction growth strategy. The listing will diversify the company's ability to finance future acquisitions with equity and/or debt, and to maintain an optimal capital structure.

We will comment on the Purmo Group's strategy in more detail in our initiation of coverage report, which will be published later.

Combined balance sheet

The combined net debt of the Purmo Group and VAC would've been EUR 238 million 6/30/2021, including the Rettig Group's possible additional distribution of profits. The estimated net debt of the merged company 12/31/2021 divided by the adjusted EBITDA is expected to be less than 2.5x, when VAC's cash assets and the surplus dividend of the Rettig Group (EUR 251 million) are taken into account, and assuming that the current shareholders of VAC don't demand the redemption of their C-series shares in the merger.

The debt ratio is well in line with peer companies in the construction sector. However, the cash flow profiles and business continuity of these companies may differ from Purmo, especially for companies that focus on service business. Cash conversion numbers (2020: 111%), however, suggest that Purmo's cash flow is developing rapidly, which supports the use of leverage in business operations. We also believe that a higher target level isn't out of question at the beginning of the growth phase.

Valuation

Valuation of the merger

In the merger, the Purmo Group's debt-free enterprise value will be EUR 685 million, corresponding to an adjusted EV/EBITDA multiple of 8.1x for 2020 and a 7.6x multiple for 2021 MEUR with the estimated EBITDA of EUR 90 million.

Value of VAC shareholding in the merged company using the trade parameters

In the table on the right, we have outlined the value of VAC's holding using the parameters provided at the time of the transaction. Using the EUR 685 million enterprise value of the transaction and the net debt of EUR 238 million at the end of June, the market value equals to EUR 447 million. Therefore, the market value of VAC's shareholders position (27.3% holding) is EUR 119 million at the transaction price, which corresponds to the value of EUR 11.07 per VAC's share. Last night, the share price closed at EUR 13.75, which corresponds to an 8.8x EV/EBITDA ratio for 2021 and indicates that the market considered the merger to be successful.

Valuation of the preliminary peer group

The peer group that we have outlined initially for Purmo mainly consist of Nordic construction and building services engineering companies and competing material manufacturers. The peer group that we used for Purmo differs slightly from the one that the company uses. We will examine the peer group in more detail in our initiation of coverage report, when we have more information on Purmo's strategy and its growth and profitability profile.

Historically, we have applied a discount of about 15% to the peer group for companies that are listing on the

stock exchange, which has been based on the typically small size class and a short track record. However, in Purmo's case, the business is already very large and a this big of a discount may not be justified.

The peer group's median EV/EBITDA multiple is 10.5x and EV/turnover multiple is 1.3x. Thus, the valuation of the Purmo merger will be 28% below the valuation of the peer group with the EBITDA estimates for the current year and 24% below the peer group's level using last year's turnover. Therefore, in our view, the valuation of the merger doesn't initially seem particularly demanding. We will also comment on the valuation in more detail in our initiation of coverage report, when we have been able to study the growth and profitability profile of Purmo's business and apply more valuation methods.

Valuation of VAC

In our view, before the merger is completed, the valuation of VAC will be determined from the value that the market gives to Purmo and the size of VAC's holding. In turn, Purmo's valuation consists of the company's growth and profitability profile, peer group valuation and possible discount/premium in comparison to the peer group.

Valuation of the preliminary peer group that consists of Nordic construction and building service engineering companies and competing material manufacturers

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBITDA 2021e	EV/S* 2021e
Yit Oyj	1051	1462	8.6	0.5
Skanska AB	9769	8715	8.6	0.7
Boneva AB (publ)	933	1338	11.2	0.9
Peab AB	2617	3972	9.4	0.7
Bravida Holding AB	2593	2559	14.8	1.3
Caverion Oyj	1094	1239	8.0	0.5
Uponor Oyj	2031	2086	9.4	1.6
Bosch Ltd	4896	4401	43.3	4.5
Arbonia AG	1283	1433	9.2	1.1
Aalberts NV	6050	6727	10.4	2.1
Systemair AB	1904	2049	17.3	2.1
Volution Group PLC	1284	1397	15.7	3.7
Lindab International AB	1895	2043	12.0	1.9
Zehnder Group AG	939	847	10.6	1.4
Purmo (Merger valuation)	447	685	7.6	1.0
Average			13.5	1.6
Median			10.5	1.3
Diff-% to median			-28%	-24%

Source: Thomson Reuters / [Inderes](#). NB: The market cap [Inderes](#) uses does not consider own shares held by the company. *[Purmo's](#) 2020 turnover (EUR 671 million).

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