Suominen

Company report

5/2020

Inderes Corporate research client

inderes.

A long and rocky downhill seems to be behind the back

We retain recommendation to accumulate for Suominen and adjust our target price to 3.40 EUR (prev. 3.25 EUR) reflecting small positive estimate revisions. We argue Suominen's valuation is still moderate on the short term but also on the medium term, while risk profile is reducing simultaneously due to recent positive progress and certain external factors. Therefore, Suominen's expected TSR is on good level of 10-13 % p.a both short and medium term, which is sufficient to purchase the stock.

Strategic direction was slightly adjusted even if big picture did not change drastically

Suominen had very difficult period in years of 2017-2019 when raw-material price inflation, intensifying competition and internal challenges burdened the margins. The new top management took charge of the company in 2019 and the strategy was updated in Q1'20. We argue the update did cause a massive change in strategic cornerstones. Suominen remains a global growth company that focuses on innovative and sustainable nonwovens. However, the strategy seem to give somewhat more focus on efficiency in production, which is a healthy step given the nature of the manufacturing industry. The growth part of the strategy is also supported by the markets as Suominen's current main markets grow 3 % p.a in volume in Americas and Europe. We consider the company's main risks are fierce competition (especially in Europe and in certain subsegments), raw-material price inflation and centralized customer base.

We expect profits to gradually improve and hefty free cash flow in the next few years

Suominen set an aim to grow above market growth, EBITDA-% of above 12 % by 2025 and 40-80 % gearing level as its financial targets for the strategy period of 2020-2025. Suominen improved its margins slightly in 2019 and 2020 has begun on a positive way as the management has managed to return volumes to growth and improve production efficiency while raw-material costs have declined. We expect these factors to contribute positively also full year 2020 and Suominen to reach satisfactory profit level. However, Suominen's gradually improving portfolio and spare capacity, the company should have still room to improve in 2021-2022 when we expect profits to trend upwards driven by growth (volume and value) and improving efficiency. Our estimates are below Suominen's target level (2020e-2022e: EBITDA-% 10-11%) even if we do not consider the target unreachable. However, free cash flow should be hefty in the next years as the company is in low to moderate CAPEX period after heavy investments in 2015-2017.

Valuation is not very challenging and expected TSR is double digit short and medium term

Suominen's P/E-ratios based on our estimates are 17x and 14x FY'20 and FY'21, while corresponding EV/EBITDA-ratios are 6x and 5x. Multiples are below Suominen's 5-year medians and we consider it attractive especially on EV/EBITDA, which reflects better Suominen's good cash flow. The recent positive progress, constantly good cash flow and lame raw-material price outlook have cut risks, while COVID-19 pandemics should be at least a neutral driver for Suominen's business. Therefore, we estimate gradual profit growth and some 3-5 % p.a dividend yield to give 10-13 % p.a expected TSR for the next twelve months but also medium term. This attracts to carry (decreasing) risks of the share in our opinion.

Analysts

Antti Viljakainen
+358 44 591 2216
antti.viljakainen@inderes.fi

Recommendation and target price

Accumulate
(prev. accumulate)

3.40 EUR
(aik. 3.25 EUR)

Share price: 3.17 EUR
Potential: 7.3 %

Outlook

(no changes)

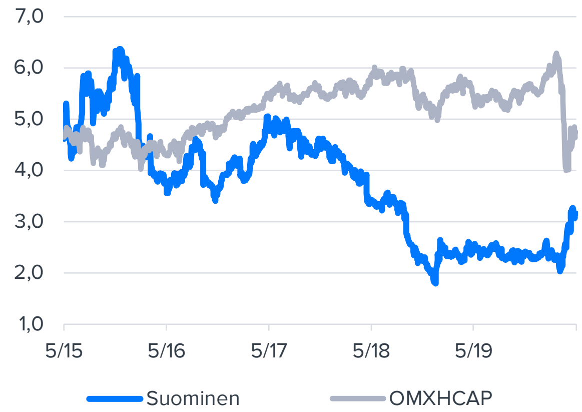
Suominen expects that in 2020, its comparable operating profit will improve clearly from 2019. In 2019, Suominen's operating profit amounted to EUR 8.1 million.

Key figures

	2019	2020e	2021e	2022e
Revenue	411,4	416,3	424,6	439,4
growth-%	-5 %	1 %	2 %	4 %
EBIT adj.	8,1	20,0	22,4	25,0
EBIT-% adj.	2,0 %	4,8 %	5,3 %	5,7 %
Net Income	0,2	11,0	12,9	15,1
EPS (adj.)	0,00	0,19	0,22	0,26
P/E (adj.)	>100	16,5	14,1	12,1
P/B	1,0	1,3	1,2	1,2
Dividend yield-%	2,2 %	3,2 %	4,1 %	4,7 %
EV/EBIT (adj.)	25,1	11,9	9,9	8,5
EV/EBITDA	6,1	5,6	4,9	4,5
EV/S	0,5	0,6	0,5	0,5

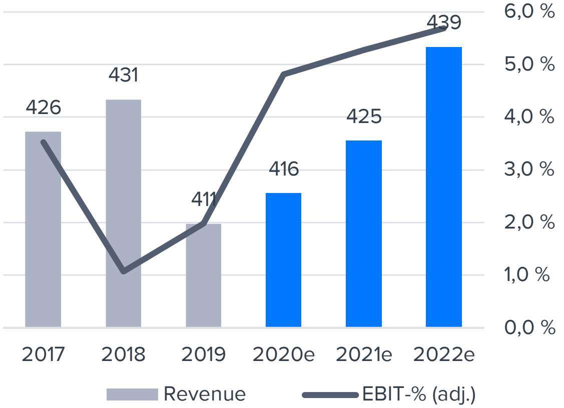
Source: Inderes

Share price development



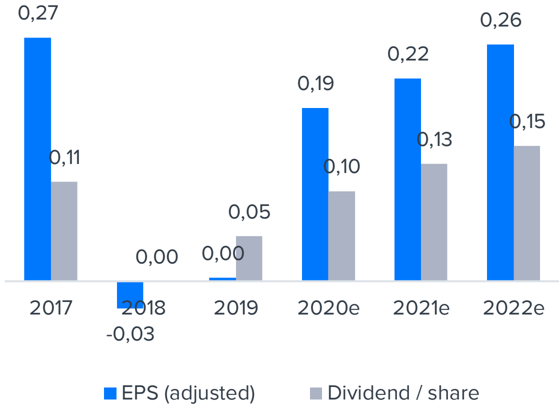
Lähde: Thomson Reuters

Revenue and EBIT-%



Lähde: Inderes

EPS and DPS



Lähde: Inderes

MCAP
182
MEUR

EV
237
MEUR

EV/EBIT
9,9
2021e

P/E (oik.)
14,1
2021e

Value drivers

- Profitability turnaround with volume and value growth
- Gradual growth in demanding higher margin products (for example sustainable products)
- Healthy nonwoven demand growth above GDP level

Risk factors

- Fierce competition
- Weak pricing power
- Losing a major customer
- Raw-materials price risks

Valuation

- Short term multiples are attractive especially on cash flow basis
- Balance sheet and volume based valuation give room for clear share price upside if the company can continuousyl improve its profitability
- Risk profile has decreased as company volumes and efficiencies on good track in Q1'20, which supports 12 month risk/reward-ratio
- Short and medium term expected TSR is good 10-13 % p.a driven by profit growth and 3-5 % dividend yield

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Suominen briefly

Suominen is a global market leader in wiping segment in the nonwoven industry.

1898
Founded

2011
M&A created "the new Suominen"

411 MEUR
Revenues 2019

8.1 MEUR (2.0 % of revenue)
EBIT 2019

#1 Market position
In global markets of nonwovens for wiping

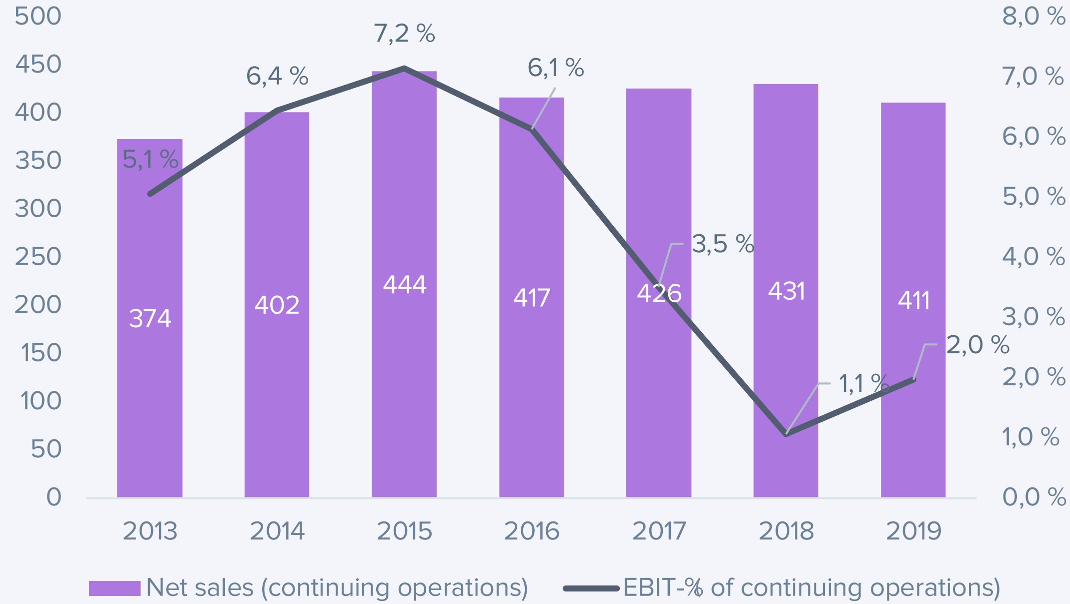
685
Personnel at the end of 2019

63 % / 35 % / 2 %
Revenue split between Americas / Europe / Other countries in 2019

65 % / 35 %
Share of sales to 10 biggest customers and other customers in 2019

Rebuilding 2011-2015	Investment phase 2016-2018	New start (2019-)
Suominen acquires Home&Personnel business from Ahlstrom at the end of 2011 Focus on cost savings, internal efficiency and mix improvement yields clear profit improvement 2011-2015 Divestment of noncore business in 2013/2014 makes Suominen pureplay nonwoven manufacturer	Product strategy remains but the company focuses on organic growth Significant organic CAPEX of 106 MEUR in 2015-2017 (mainly the new production line in Bethune) Profitability deteriorates due to raw-material inflation, competitive pressures and delays in the start-up of the new line in Bethune Mostly good cash flow keeps balance sheet related risks limited	Total overhaul of the top management team New organizational model from H2'19 and strategy update in Q1'20 Focus on restoring profitability through growth and improved efficiency Growth through sustainable and other new innovative products

Suominen's net sales (MEUR) and margins in 2013-2019



Source: Suominen / Inderes

Company description and business model 1/4

Global nonwoven leader in wiping

Suominen is a manufacturer of nonwovens and consists of two BA's, Americas and Europe. Both geographical areas manufacture mainly nonwovens for wiping products but also selected niches in hygiene and medical nonwovens. However, the company reports financial results only on group level. The company has almost 700 employees in 5 countries. In 2019 Suominen's net sales were 411 MEUR and comparable EBIT 8.1 MEUR.

Suominen is the leading global producer in wiping and supplies a range of nonwoven roll goods, which the company manufactures in US, Spain, Italy, Brazil and Finland. Due to its manufacturing footprint, Suominen achieves significant sales in the North and South America as Americas bring over 60 % of the group's net sales, US being clearly the biggest single market by over 50 % of the group's net sales. The second major market is Europe (mostly Western Europe) representing over 35 % of net sales. Net sales is low in other areas as overseas sales is typically difficult in nonwoven business due to logistical issues (low value/volume-ratio of the products).

Sales come from various mostly consumer driven segments

Suominen divides its sales to five revenue streams based on product type:

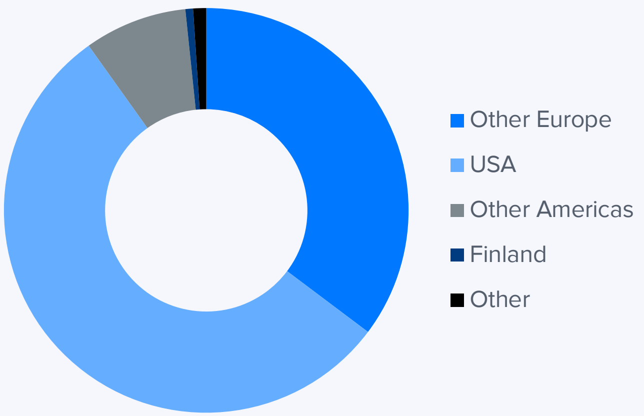
Baby care wiping is the biggest segment as it brought 40 % of the company's sales in 2019. Baby care wipes is an extremely competitive low growth and high-volume value for money segment in developed North America and Europe (demand in baby care wiping reflect birth rates). In emerging world (incl. South America) baby care is a well growing segment due to higher birth rates and lower penetration rates of nonwoven products.

Personal care wiping such as wipes for facial cleaning, makeup removal, refreshing and intimate care, travel & catering end-use and flushable WC products constituted 22 % of group sales in 2019. Personal care is mostly a value-added segment that exists currently primarily in developed countries. Growth in personal care has recently slowed down due to fast commoditization and corresponding price erosion in flushable toilet products.

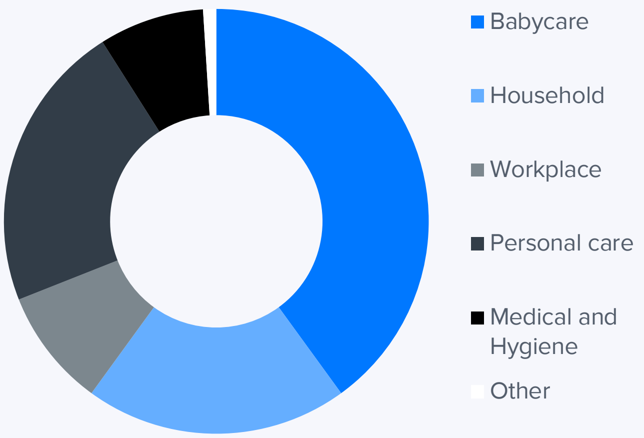
Home wiping is a value-added segment that brought some 20 % of sales in 2019. This segment includes cleaning related wiping products that are used in developed western world at homes. Thus, home wiping is mostly value-added business.

Workplace wiping consist of Suominen's wiping products to B2B end-customers, which generated 9 % of sales in 2019. These products are used from fast food restaurants to factories, thus the portfolio consists of a wide range of value-added products. The main markets are US and Europe. Suominen targets the new production line in Bethune plant to improve value and volume growth especially in Home and Workplace and to potentially smaller extent in flushables.

Geographical sales mix in 2019



Product based sales mix in 2019



Source: Suominen

Company description and business model 2/4

Medical&Hygiene brought some 8 % of sales in 2019. Unlike other segments Medical&Hygiene does not include any wiping products but solely nonwoven components to other products. In this segment, Suominen has focused on fluid management, thus the company does not (at least yet) try to be all over in the large hygiene and medical market but focuses on selected value-added niches. The main markets of Medical&Hygiene are in North America and Europe currently. In addition, Medical&Hygiene is no longer an independent BA in Suominen, which we consider a good move as it is clearly smaller than wiping business.

As illustrated, Suominen's products end up mostly to consumer related end uses and they can be characterized to either staples or discretionary. The relatively defensive nature of the wiping market is a positive factor from investors' point of view in our opinion.

Suominen is a traditional manufacturing company

Suominen operates in the manufacturing industry, which transforms fiber materials to nonwovens. In addition to manufacturing, the company takes care internally of product development, marketing and sales. Therefore, the business model is typical for a company in this type of manufacturing industry. Raw-materials (i.e. viscose, pulp, polyester, polypropene) the company purchases from the market. We believe that the company has various suppliers for its raw materials from different geographical locations.

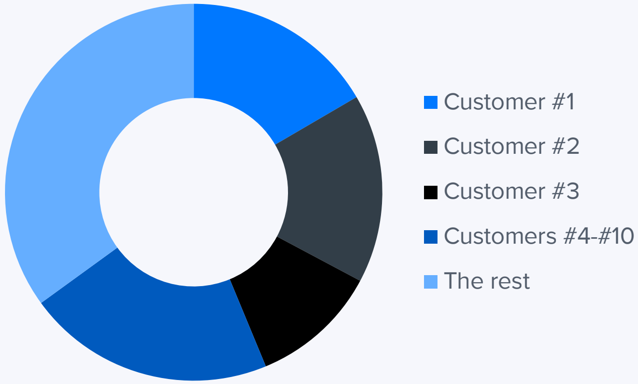
Nonwovens can be produced by several technologies but Suominen utilizes mostly spunlace technology in its production. In addition, the new line Bethune is based on wet-laid technology resembling somewhat the paper-making process. We consider these technological choices adequate as spunlace and wet-laid technologies enable production of soft, smooth, stretch, absorbent, resilient, plastic free and/or liquid repellent products. These are some key characteristics in value added and sustainable grades. Thus, we do not believe Suominen aims to expand into new technologies soon but is determined to develop its current technology portfolio.

Consumers drive the business, customer base is centralized

The company's key customers are global brand owners and private label trademarks, which sell converted nonwoven products to consumers with their brands or private label trademarks. Thus, Suominen sells only B2B even if consumers are the end-users of the products. As a consumer driven business, demand of nonwovens is also quite stable over the economic cycles. Traditionally consumers do not stop using nonwoven products during economic slowdown or recession but tend to switch their products to lower quality (i.e. cheaper price). Thus, economic cycles have some impact on Suominen from value and volume perspective but in general we consider the defensive and stable nature of demand as positive factors from an investors' perspective.

The biggest 10 key accounts brought 65 % of Suominen's sales in 2019 (65 % in 2018). Given the size of the key accounts (global sourcing) and the company's centralized customer base,

Customer structure in 2019



Customers*

Hundreds of brand houses or retailers

Unilever

P&G Procter&Gamble

MÖLNLYCKE HEALTH CARE

Johnson&Johnson

Walmart

Source: Inderes, Suominen
*Inderes' estimates of Suominen's potential customers, Suominen has not disclosed its customers

Company description and business model 3/4

we argue that Suominen and other nonwoven manufacturers have limited pricing power against their clients. Neither does the mostly homogeneous nature of the products (especially in value for money segments) aid in this sense as tangible differentiation is difficult excluding certain value-added segments. On the other hand, raw-material prices are determined by supply (controlled by few large players) and demand in global markets, thus there is neither pricing power to the opposite side of the value chain.

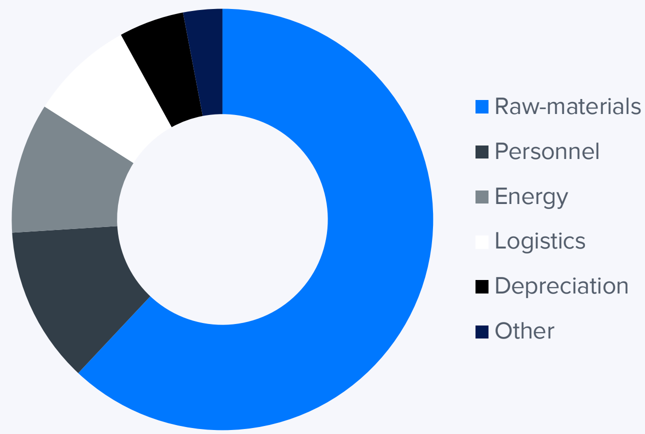
Despite imbalanced distribution of pricing power in the value chain, typical supplier-client relationships between nonwoven manufacturers and brand houses or retailers are relatively long (up to 10-15 years). This indicates that brand owners and retailers are not very keen to change their suppliers despite their pricing power, which could be due to the indirect costs (i.e. product auditions) and/or uncertainty (delivery reliability and product qualificantions) that changes in well-established relationships with suppliers can cause. Also, the delivery contracts are long, typically 2-3 years. Therefore, customers are not continuously bidding their contracts despite the pricing power advantage.

Nonwovens are not very capital intensive in the scale of manufacturing industry

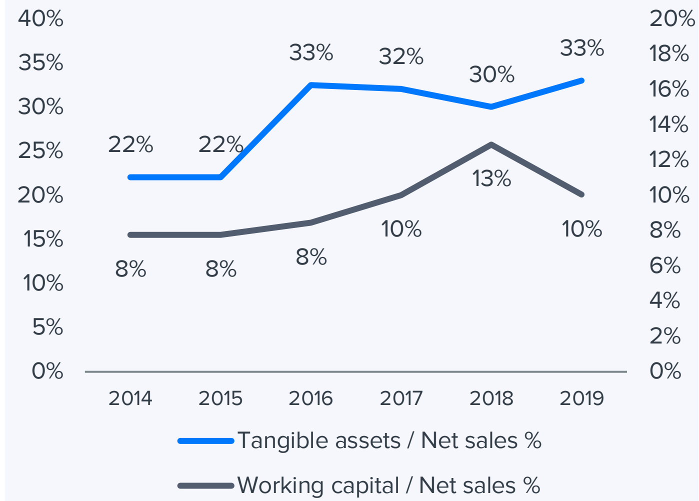
Due to characteristics of the industry, Suominen's GM-% is low. However, the company is efficient as the rebuilding phase (in 2011-2015) pushed SGA-costs down and the management has kept SGA well in control. We argue that some 20 % of costs are fixed and 80 % variable. We estimate that raw-materials (variable) consists of some 65 % of total costs. The other main variable items are energy and logistics equalling some 10 % of each. The main fixed items (on the short term) are personnel (some 10 %), depreciation (some 5 %) and other costs such as administration (below 5 %). Thus, there is reasonable flexibility in the cost structure but also some operational leverage against net sales growth. In general, effective capacity utilization (including sufficient load and reasonably large production lots but also decent product mix) is one of the key factors in nonwoven industry as in every manufacturing business. Therefore, the company must reach a good combination of volume and value to reach reasonable margins from group but also production line perspective. Usually large lines require more volume while smaller lines are more flexible to grade changes in this type of business while Suominen's production portfolio includes both kind of lines.

Suominen's tangible assets to net sales -ratio was 33 % at the end of 2019. The ratio was driven slightly up by new IFRS 16 standard but on the other hand Bethune's new line was fully on the balance sheet at the end of the year while sales remained clearly below potential during the year. Therefore the ratio might be slightly elevated, and we argue the nonwoven business is not very capital intensive compared to certain other manufacturing industries (i.e. steel, pulp). This enables quite high (double digit) ROCE-% or ROI-% with high single digit EBIT-% and decent payout potential to shareholders. In addition, Suominen's net sales to NWC -ratio has been 8-12 % recently (10 % in 2019). Thus, neither NWC (consisting mostly of inventory) ties significant amount of capital in the business but naturally the growth is never completely working capital free in the manufacturing industry.

Estimated cost structure

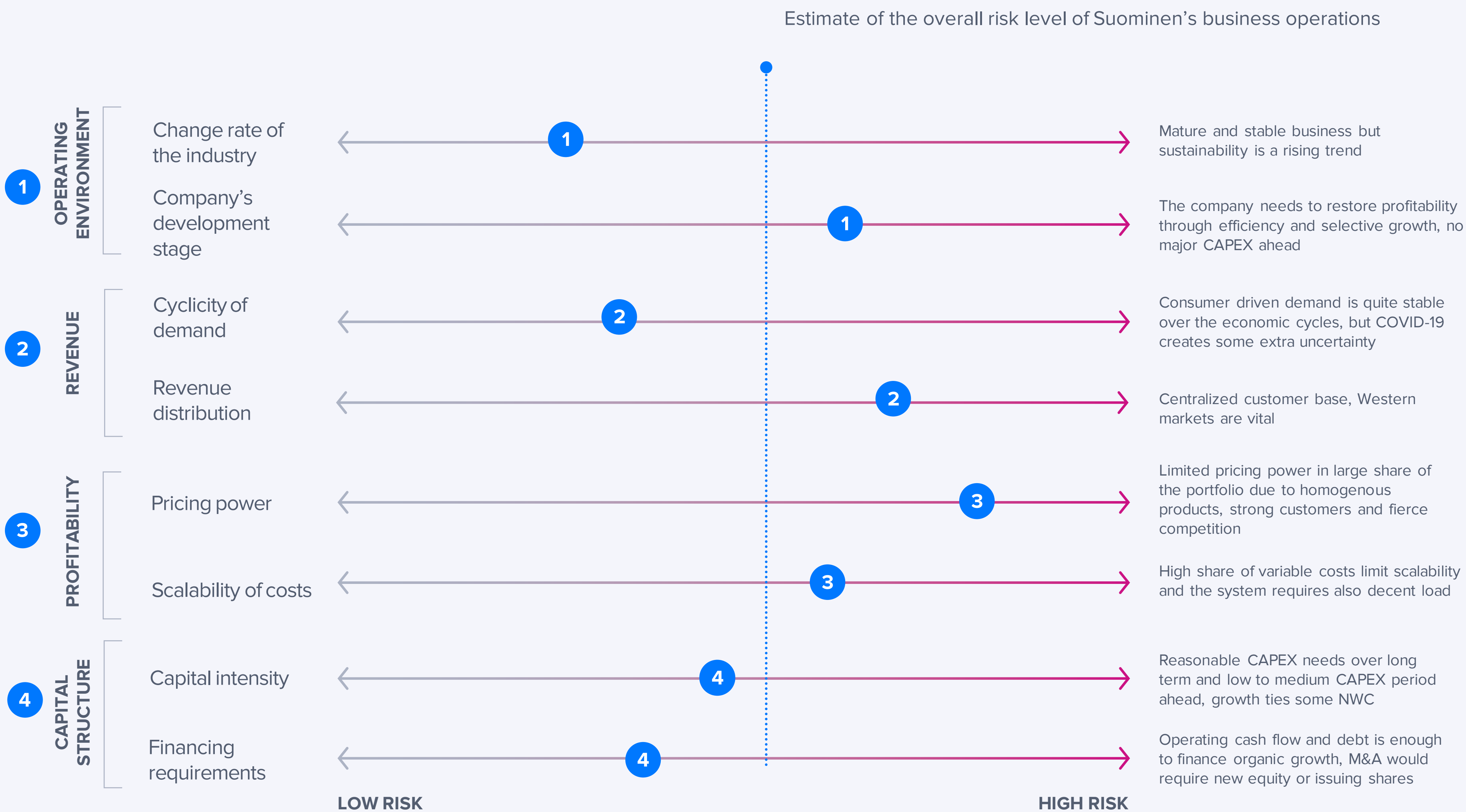


Capital intensity to net sales



Source: Suominen, Inderes

Risk profile of Suominen’s business model 4/4



Source: Inderes

Investment profile, potential and risks 1/2

Suominen is a turnaround case

As Suominen's profitability has deteriorated, the company appears as a turnaround company for investors. However, successful turnaround in 2019 and the next few years, would transform Suominen into a growth company from investors' point of view. Also, the company's current strategy and nonwoven market's long-term growth above GDP growth support the growth profile over the longer time frame. The company's tools to drive growth may, however, change over time.

Typically growth requires certain CAPEX and ties some NWC in the manufacturing industry, which reduces dividend payout capacity at least in the short term. Suominen's capital needs seem limited for the next years (CAPEX below or in line with depreciation). In addition, the company's gearing is within the target range after recent investments and weak profitability development. Thus, the company is not and should not be considered as a dividend stock in the foreseeable future.

Potential

Volume growth. Nonwoven demand has traditionally somewhat exceeded GDP growth in terms of volume in developed Western countries. In emerging markets the gap is even wider as wiping products can be considered as discretionary. Therefore, the market gives a solid foundation to grow revenue through volume growth. The company should have also free capacity to sell more from Bethune but also from some other plants as we believe volume development has been adverse in 2018-2019. Higher volumes would leverage the company's fixed cost structure. We believe Suominen must increase its efficiency (for example more efficient asset utilization that result from higher load and longer production lots) to gain new volumes in value for money grades so that the company can earn sufficient margins also with low market prices. In addition to efficiency, innovation especially on more sustainable products should help Suominen gain some volumes as sustainability is a fast-rising trend in all consumer related business.

Value growth. Certain value-added grades, which are in Suominen's focus, grow even faster than the market on average. The company should have a competitive and constantly developing product portfolio as Suominen's R&D has demonstrated its ability to create new products for the market (share of new products at 20 % of sales in 2019). In addition to new products, share of baby care versus other products is the main KPI when following progress in value growth. Suominen has managed to increase share of value-added products from 50 % to over 60 % (of net sales) in its product portfolio during 2012-2017 but the progress has levelled out in 2018-2019. From profitability perspective, value growth should improve GM-% as value-added products and new products usually carry clearly higher GM-% than value for money grades. We believe Suominen must keep share of new products above 20 % of sales and increase share of value-added grades to 65-70 % of all sales in order to reach its target of higher than 12 % EBITDA-% in 2025.

Low to moderate CAPEX needs. Even if Suominen aims to grow and restore profitability in the coming years, we believe there is no major short-term need for CAPEX. This is due to heavy CAPEX in 2015-2017, which is partly uncapitalized (the new line Bethune has still upside potential) and the product or innovation related strategy. In addition, competitiveness and capabilities of the old asset base can be improved by moderate modifications in machinery and more effective use of assets (production planning). Therefore, we expect Suominen's CAPEX to remain below or in line with fast depreciation rate during 2020-2023. This should lead to solid free cash flow (exceeding net earnings in P&L). We expect the company to allocate FCF to deleveraging, which would reduce risk profile of the share and increase financial flexibility. In addition, we expect a cautious dividend payout in the short-term.

Value creation by M&A. The fast-growing Asian market is the hot prospect to penetrate. Asian expansion would give also a truly global footprint. Being truly global would make sense as the company's customers are in most cases global. We believe M&A is the most likely tool to be used as it would allow faster positive cash flows than greenfield investments. Therefore, we see a fair chance that the company can make value creating M&A at the end of current strategy period. However, short-term focus remains in profitability and deleveraging. Also, every transaction must be evaluated separately in relation to quality and price of the target.

Investment profile, potential and risks 2/2

Risks

Raw material price risk. As raw materials form a vast majority of Suominen's cost of goods sold, the company is always carrying raw material price risks. This risk realized at the end of 2017 and during 2018. Suominen is not hedging its raw material purchases but it is tackling this issue through raw material price clauses, which impact on half of net sales (likely consisting mostly of large key accounts and/or baby care clients). The lag between price increases varies from 2 to 5 months depending on the customer (around a quarter is an average). Overall the lag between the raw material price development and the actual price increases is quite long. This can cause some fluctuation on quarterly level but should shield the company reasonably well over the longer time period as there has been no disrespect to the clauses. However, the company must formulate this into clauses right way to get the shield.

The other half of the contracts do not include raw-material clauses. We believe Suominen has not included raw material clauses in deliveries where cost of its product represents only a small part of total costs of the customer's product. In this type of deliveries, the customer's awareness of Suominen's raw-material price development may not be the best and the customers' resistance against price increases are not the most severe, which should give Suominen some pricing power.

In general, we consider the company's hedging from changes in raw-material prices appropriate but raw-material price increases require fast reaction and strong commercial capabilities. Thus, we see raw-material risks tolerable in the longer time frame.

Losing a major customer. Suominen's three largest clients brought 17 %, 16 % and 11 % of net sales in 2019 while 10 key customers accounted for 65 % of total net sales. Therefore, losing any one of these key customers would cause a significant short-term drop in sales, which would have also an impact on profitability. However, the average customer relationship of Suominen is around 15 years, which implies very low customer turnover. Thereby, we see the overall risk of losing a major customer quite small. However, large global brand houses and retailers barely give all their orders to one supplier but use 2-3 manufacturers. Customers' order allocation to suppliers may also vary, which may also create pressure on Suominen's sales even if the customer is not totally lost. We believe Suominen has also struggled with customer allocation issues in the last years and lost share in some cases.

Overcapacity. Growing and local nature of the business and step-like capacity increases result always to a risk of local oversupply. Magnitude of the overcapacity would naturally depend on the amount of new capacity and demand growth rate of the product segment. Usually overcapacity leads to price erosion and/or higher unit costs in production. Overcapacity is especially poisonous in value for money products, where margins are thin. Overcapacity has perceived in baby care and flushables in 2017-2019 and the situation is still challenging in these grades. There are no major capacity increases coming online in the short term, but this risk remains actual for Suominen.

Sensitivity to EUR/USD. FX is a risk for Suominen as the company generates over 50 % of its sales and probably an even greater share of EBIT from US. However, the company purchases most likely some raw-materials to Europe and Brazil in USD, which makes group level sensitivity analysis challenging. For example in 2019, weakening EUR/USD increased sales but burdened EBIT. We believe EUR/USD has a minor impact on US' operations from operational perspective but translation impact from US' operations hurt group level P&L. This is difficult to hedge. On the other hand, sensitivity of European and Brazilian operations is directly linked to the company's purchasing strategy and tactics and these deviations are difficult to estimate. Therefore, EUR/USD can have a material impact on reported sales and results. FX sensitivity is a two folded coin, but we consider in general FX driven earnings volatility somewhat negative from an investors' perspective.

Regulation. Authorities may become a risk in the long term as Suominen manufactures products from synthetic raw-materials and nonwoven products are difficult to recycle. The company could use solely renewable raw-materials if end users were willing to pay higher prices. This would help to tackle changes with potentially regulation related to use of Suominen's raw-materials and/or products. In general, we believe Suominen is very well positioned to rising sustainability demand with its technology and production portfolio. Therefore, we see raising sustainability more like an opportunity than threat for the company.

Investment profile

1. Restore profitability

2. Organic volume and value growth

3. New increasingly sustainable products

4. Low to moderate CAPEX cycle ahead

5. M&A (+/-)

Potential

- Profit improvement through efficiency improvement as well as volume and value growth
- Profit potential of the new production line in Bethune is still mostly uncapitalized
- Growing and developing nonwoven markets support growth efforts
- The company's technology and product portfolio adapt well to raising sustainability standards and Suominen has focused on its R&D well in time to improve sustainability
- Potential medium to long term expansion to Asia through M&A

Risks

- Raw-material price risk
- Overcapacity / Increasing competition
- Losing a major customer and/or step backs in customer order allocation
- FX driven earnings volatility
- Changes in regulation

Lähde: Inderes

Strategy and financial targets 1/4

Strategy adjusted recently

Suominen had been executing its strategy that leaned on global footprint, organic growth and increasing share of value-added products from 2012 to 2019. The rationale of the strategy was straightforward as value-added products are carrying clearly higher GM-% and they are less vulnerable to competition compared to value for money products. However, the new management that took charge during 2019 updated the strategy at the beginning of 2020. The current strategy is for the strategy period of 2020-2025. The update did not cause a total turn around in direction as the company still focuses on organic growth through innovation and sustainable products. However, the new strategy gives also a bit more weight on efficiency and competitiveness in all grades. Also geographical expansion remains on Suominen's radar during this strategy period. However, we believe that the company's recent challenges have pushed geographical expansion to the sidelines and focus is in getting the current portfolio back on track.

Suominen is the market leader in wiping, has a strong market position in Western markets and is serving global customers. We argue the company's recent organization reshaping from product line organization to regional organization aims to realign focus on core competences, which are in wiping. The change in organization should also support efficiency as regional organization improves accountability especially in commercial front in our opinion. Therefore, the new organizational structure supports execution of the new strategy.

Strategy cornerstones consist of five factors

- Efficiency
- Sustainability
- Innovation and commercial excellence
- Personnel and workplace
- Dual operating model

These cornerstones describe capabilities, which are required to drive growth and profitability improvement. Basically, the cornerstones underline focus on understanding consumers' (the customers' customer) needs but also how to manufacture these products in an economically feasible way given the industry and its competitive dynamics. However, we believe innovation is core of the strategy as Suominen has resources and capabilities to be a leader in this front and does not have sustainable cost advantages that would support leaning strongly on efficiency and cost leadership. In addition, we believe Suominen has kept SGA costs well in control and therefore focus on efficiency side is set on COGS and production efficiency in plants. Thus, we do not expect a cost cutting program from Suominen even if cost control seems to remain on management's agenda. However, we believe SGA's are likely to grow on absolute terms in the next years in line with sales growth.

Value for money business has its important role

Different characteristics of value added and value for money business require a different approach to the businesses. That is why we believe Suominen tries to operate at least internally with a dual operating model. We believe that value for money side puts more focus on production efficiency including effective asset utilization (sufficient volume, large enough production lots, minimaxing waste, reducing manufacturing costs by product design). On the other hand, Suominen puts emphasis on innovation and commercial excellence and production flexibility in value added business.

We would like to remind that baby care and some other value for money businesses still have a vital role in Suominen's portfolio despite weak margins as their high volumes give critical load for the production system. This is important from efficiency perspective and these volumes cover also fixed costs. We believe the aim is to grow in line with markets in baby care and other value for money business, but most of the growth expectations lay on workplace, household and personal hygiene in wiping. In non-wiping business Suominen focuses on personal hygiene while growth outlook and the company's market position (incl. technologies) is weaker in medical.

The company develops new products and improves existing products in co-operation with the customers in order to share value of innovations or improvements. This requires also commercial excellence so that Suominen gets their fair share of created value through higher price. Close co-operation with customers should also make it harder to replace Suominen as a supplier. Product development and customer co-operations but also efficiency require skilled and committed personnel, which is why we believe staff has become a strategic cornerstone.

Strategy and financial targets 2/4

R&D focuses mostly on new products

Suominen's R&D-team consists of some 20 members in the US and in Finland. R&D spending has remained below 1 % of net sales, which in our opinion is slightly below a good level in this type of industry. However, we argue the company has adequate human and financial capacity to drive product development and correspondingly keep product portfolio increasingly competitive. We believe Suominen still focuses on key areas like sustainability, texture & patterning, disinfecting & sanitation, dispersibility & flushability, performance superiority and cost innovation in order to improve current products and create new products.

The strategy does not require large CAPEX

The company has disclosed that execution of current strategy requires some investments for which Suominen should have excess capacity available. Thus, we do not believe the company aims to build new production lines but make investments that enable production of new products, improve product quality and remove bottlenecks from current lines. These investments should not be very expensive (usually single digit million of euros per case) and annual maintenance CAPEX is somewhere around 4-8 MEUR (1-2 % of sales). Therefore, we believe Suominen can keep its investments below or at maximum in line with depreciation during the strategy period of 2020-2025. Low to moderate CAPEX outlook means also that Suominen is not looking to expand into new manufacturing technologies but rather focuses on developing its current technologies and add adjacent technologies to the portfolio.

Asian expansion is an option

Suominen disclosed in the strategy update, that they still examine opportunities to expand business to Asia (probably China or South-East Asia). Asia is the fastest growing nonwoven market (some 7 % p.a.) and expansion would support Suominen's global position. In addition, if sustainability requirements begin to rise fast also in Asia, Suominen could get even a faster lane to scale its modern and competitive product portfolio of sustainable products to the new and emerging market. Thus, it was very unsurprising that the company kept the radar on in this sense.

Suominen could basically execute the expansion through greenfield investment or M&A. We believe that the latter has become a primary option as M&A enables positive cash flows faster. In addition, M&A brings also new customers in the portfolio to which the company could add potentially some new volumes from the current globally operating key accounts. This could give a decent load and mix for the M&A-target fast while the greenfield on a new market would require much more patience. On the other hand, a greenfield investment would give the company more degree of freedom with technology and geographical location, but these factors do most likely not offset advantages of M&A. The potential M&A-target should be a reasonable technological fit to take advantage of Suominen's product portfolio and be financially healthy, which are some of the key elements in the Asian expansion.

We expect Asian M&A is on hold

We believe the potential Asian expansion will most likely happen at the latter half of the strategy period. First, we expect profit recovery is at the top on management's to-do list. Second, the company remains busy with Bethune for the next years in order to capitalize the investment fully. Third, there is still non-capitalized growth potential in Paulinia. Thus, we argue it is smart to let Asia wait until the current engine is running smoothly.

After heavy CAPEX and deteriorating profitability in 2016-2018 Suominen also needs some time to create more financial flexibility on their balance sheet as management seems to be conservative with leverage. Raising equity or other equity instruments would enable deals faster if a "now or never" opportunity arises. We, however, do not believe that raising new equity or using own shares for M&A belongs to the company's plan A yet. We argue also that Suominen's current valuation is relatively low for this type of exercise from shareholder value perspective.

The strategy seems adequate

We believe Suominen's recent strategy update gave efficiency a slightly larger role. We see this as a back to basics step for a manufacturing company and this is vital given Suominen's still weak profitability. We consider Suominen's updated strategy adequate and we believe the company's competitive edge should be in product portfolio and supply chain management efficiency as the company has no sustainable cost advantages. Suominen should also have resources and capabilities to execute the strategy but neither the best strategy is fully immune to competitive environment.

Strategy and financial targets 3/4

Financial targets and dividend policy

Suominen revised its financial targets for the on-going strategy period of 2020-2025 in the strategy update in January 2020. They are:

Growth: Above relevant market growth

Profitability: EBITDA-% above 12% by 2025

Leverage: Net gearing between 40-80 %

They also have a dividend policy to pay out at least 30 % of profits for the period.

Growth target has been distant recently but beating market growth is not utopia

Suominen's relevant markets (Europe and Americas) are expected to grow some 3 % p.a. in volume in the coming years. Historically the company has beaten organic market growth in 2013 but was left clearly behind the target in 2014-2019 (in 2015 Suominen's strong growth was FX driven). This describes that the target sets the bar high. We believe weak progress of topline has derived from increasing competitive pressure, cost competitive issues in value for money business, delay in start-up in Bethune and some quality and delivery issues in other plants. Currently Suominen should be somewhat better positioned for growth as the company has improved delivery reliability (incl. progress in ramp-up in Bethune) and product offering during 2019.

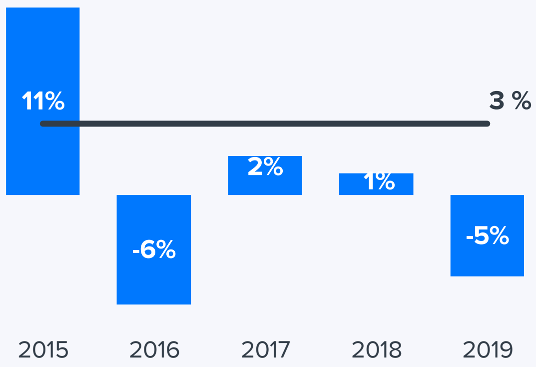
We argue that Suominen should aim for volume growth that is at least in line with the market in order to reach the target level. The rest must come from value side as increasing share of value-added products increases average prices and boost reported growth. However, part of mix improvement will probably offset price pressure, which the bulkiest products has faced and will face over the long term. We believe the growth target is achievable for Suominen, but organic growth potential of the current business structure is limited to 3-4 % p.a. over the long term.

12 % EBITDA-% is a good target in the industry

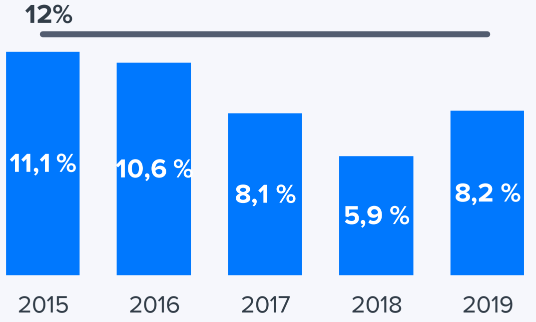
EBITDA-% target of over 12 % is not easy to reach in in this type of industry in our opinion. To illustrate the height of the bar, Suominen reached 8 % EBITDA-% in 2019, slightly over 11 % EBITDA-% in 2015 and averaged 8.8 % in 2015-2019. Neither has many of its competitors reached the targeted margin level in near history. Over 12 % EBITDA-% would lead to 7-8 % EBIT-% and correspondingly double-digit ROI-% and ROE-% in normal circumstances. These returns would beat clearly Suominen's WACC-% and cost of equity. Therefore, we consider the target to be challenging but on the other hand realistic at least in a normal to good trading environment.

Suominen's gap to the target is wide but we, consider the target reachable at the end of the strategy period when volume and value growth have increased topline and GM-% has improved through net sales growth and efficiency improvements. We do not expect major positive contribution from SGA leverage as Suominen has already reached pretty good 6-7 % SGA-% of sales. Therefore, the improvement must come mostly from upper part of P&L.

Net sales growth and long term growth of relevant market



EBITDA-% ja lower boundary of the target range



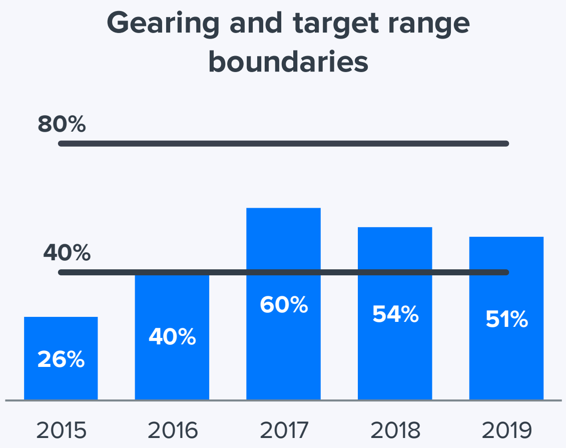
Source: Suominen, Inderes

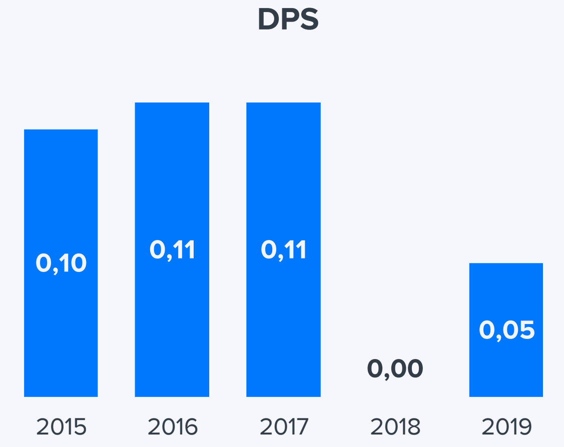
Strategy and financial targets 4/4

Balance sheet remains in decent condition

Due to Suominen's position in the value chain, we believe that it is businesswise necessary to maintain a strong balance sheet. However, the company operates in a somewhat capital-intensive manufacturing industry, where certain leverage is required to ensure minimal cost of capital and optimal return on equity. Therefore, we consider Suominen's current target range for leverage adequate and we argue the company's sweet spot is somewhere at the lower end of the target range. However, we would not be surprised if Suominen went to the upper end of the range or slightly above the range temporarily if the reason is good and return to the range is in the company's sight.

Currently Suominen is around the midpoint of the targeted leverage range after heavy CAPEX in 2015-2017 and weak profitability in 2016-2019. The company has also stayed within the range despite profitability issues and complying IFRS 16 standard, which increased reported net debt. This is due to the healthy cash flow it has been able to deliver. Therefore, Suominen has managed to keep balance sheet risks away despite weak profitability. Suominen left shareholders without dividend only in the spring of 2019 but otherwise the company has met its dividend target. Given Suominen's balance sheet structure and CAPEX needs, we believe that Suominen should be able to meet its cautious payout target in the near future. However, amount of dividends will depend strongly on profit level as we believe the management and the board intend to prioritize company development (deleveraging and investments) over payout in their capital allocation decisions.





Source: Suominen, Inderes

Nonwoven industry and competition 1/3

Suominen's main market consists of wiping

Suominen operates in a global nonwoven market and the overall market size is estimated to be 26 billion USD. This is of course divided between various segments. Suominen operates in wiping and on selected niches in medical and hygiene segment. Suominen is not present at all in other segments of the market.

According to Suominen, wiping (incl. sub-segments of baby care, workplace, household, personal hygiene) is globally a market worth of some 2.1 billion USD. Suominen is present all over the wiping market. Medical is a small market worth of some 800 million USD but hygiene is the largest single segment in the nonwoven market worth of some 6.5 billion USD. In medical & hygiene Suominen is focusing only in selected products and does not even try to compete all over the segments as Suominen's focused technology portfolio supports sharp focus areas.

Nonwovens is a local business

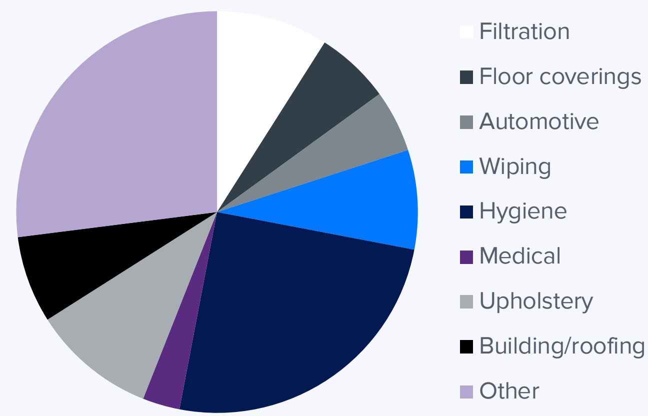
As the nonwovens are fairly low unit cost and high volume products, they are unable to carry significant logistics costs. Thus, nonwoven business is mostly local by nature and production must be continental or in certain cases even more local. More expensive value-added products can carry higher logistics costs than the cheapest value for money products, which slightly expands the potential market area at the high end. However, overseas sales is still mostly challenging in the business. This is proved also by Suominen's geographical sales split as only 2 % of net sales came from the regions in which the company did not have production in 2019. However, at least Chinese players have exported nonwovens to US and Europe to some extent and tried to break the pattern.

Locality reduces somewhat Suominen's global operational synergies and ability to utilize its key accounts consisting of large brand companies without expanding its plant portfolio geographically. However, unsustainably high transportation costs shield European and North American markets from Asian low-cost exports. This limits competitive pressure in Suominen's main markets. Therefore the local nature of the industry is a two-folded sword for Suominen.

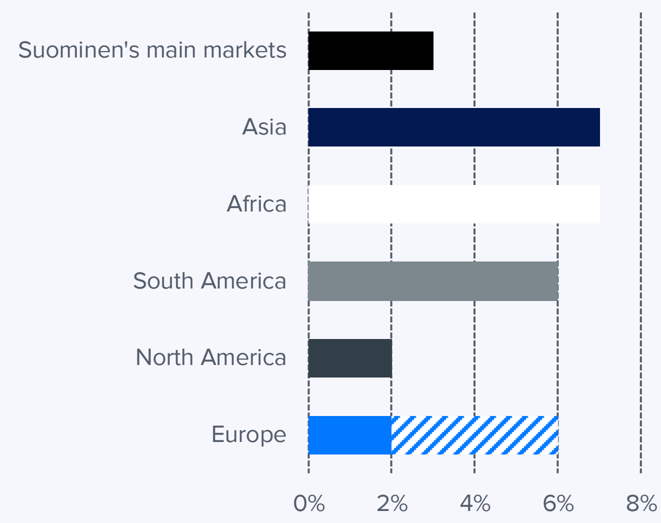
Historical market growth exceeds GDP growth

Demand for nonwoven products has grown historically 2-4 %-points faster than GDP in developed US and European markets. This has been driven by several sustainable trends such as population growth and aging, increasing consumption on personal health and urbanization. In the future, these trends will be increasingly present in developing markets, which have a clear impact on market growth expectations in the future. According to Suominen's latest market outlook, demand for nonwovens in wiping is expected to grow with CAGR off around 2 % in North America, 2-6 % in Europe, 6 % in South America and 7 % in Asia and Africa. These are expected growth rates for volume, but we argue that value of the market should grow slightly faster than volume (or at least in line with volume) as value added grades grow the fastest, which could offset long term price pressure of value for money grades. The figures equal approximately 3 % expected CAGR for Suominen's main markets (Europe and Americas) and some 5 % globally in the near future.

Segments in nonwoven industry



Expected CAGR for wiping products



Source: Suominen, Inderes

Nonwoven industry and competition 2/3

These figures represent the overall growth for nonwoven demand while growth varies greatly between end-use segments. This gives Suominen the opportunity to focus on the most interesting and fastest growing segments. Generally, value added categories have a better growth outlook than value for money products. In other words, some 60 % of the company's current offering are expected to exceed the average market growth. Thus, the company should have room to exceed overall market growth in its most profitable product categories, which support Suominen's aim to exceed market growth and to improve profitability. The results will depend on the company's success in strategy execution, but the demand outlook is supportive in the long term.

Fragmented markets in global scale

Given Suominen's sales and market size, Suominen has a 20 % market share in wiping, which makes the company a global market leader in the segment. Overall, the wiping market is very fragmented globally. The four biggest tier 1 wiping competitors (Berry Plastics, Kimberly-Clark, Jacob Holm, Sandler) have together some 30 % market share, thus the five biggest hold only slightly above half of the market. The other half is controlled by small local players. In medical and hygiene Suominen is a minor player and does not have any material market share.

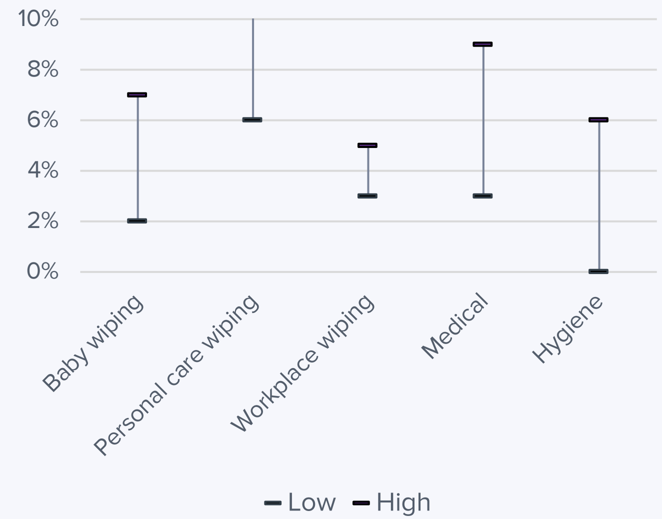
Supply/demand varies between segments

The whole wiping business has been suffering overcapacity in Europe, which was built during the boom years of 2003-2008. Clear overcapacity was decreased through growth, but recent investments have made the matter again clearly worse especially in baby care in Europe. Magnitude of the problem is difficult to estimate but there may be overcapacity up to 10 % in European baby care. This would represent a severe problem for manufacturers as it will take 5-7 years to reach the balance through demand growth. Therefore, capacity closures seem to be the only way to make the European baby care market healthier fast but so far, no one has committed to cease capacity. North American baby care market is somewhat better balanced even if the competition is fierce also on the other side of the Atlantic Ocean.

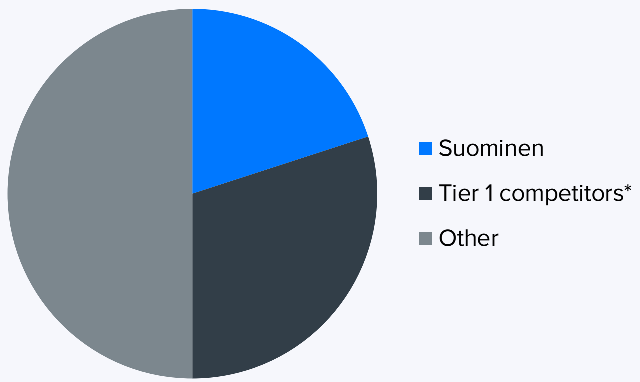
Flushables (used to be excellent business for Suominen in 2014/2015) have become another problem grade as fast growth rate of the demand has attracted manufacturers to build several new lines to the segment in Europe, China and US during last years. This has commoditized the product very quickly and lead to price erosion. We believe there is significant overcapacity in flushables globally currently even if the market grows fast and even if some lines designed for flushables can produce also other grades. In general, North American markets are somewhat tighter compared to Europe also in value-added business.

The South American market is growing fast, but the market cannot always absorb all the volumes that come to the markets unevenly due to start-up of a greenfield plant or major brownfield investment.

Wiping segments' expected CAGR



Suominen's market share



*Tier1 competitors (global players): Berry, Kimberly-Clark, Jacob Holm, Sandler

Source: Suominen, Inderes

Nonwoven industry and competition 3/3

This is due to absolute market size in tons, which is clearly smaller in South America compared to North America and Europe. Thus, supply/demand-balance may be temporarily unfavorable, but the fast growth should even out imbalances relatively quickly. In addition, South America is a developing market and Suominen is basically launching value-added grades to the market after rebuilding was completed in Paulinia plant in 2015. Therefore, it will take time to reach significant value-added sales in Brazil on group level. Recently, Brazilian nonwoven markets remained relatively robust despite the challenges in the economy resulting from declining commodity prices in 2015-2016 and again in 2019-2020. This confirms the defensive nature of the business. We believe Suominen should be operating in decent environment in South America right now.

Capacity increases are inevitable

Capacity increases are natural and inevitable as the markets keeps on growing but they always impact the market balance at least in the short term. For example, the capacity additions in 2015-2017 in US and Europe have been one factor that has kept Suominen's volumes stable or declining in 2014-2019 and pushed sales prices clearly down in 2016-2018. This describes the fierce competitive environment in the sector, which will remain as such also in the future.

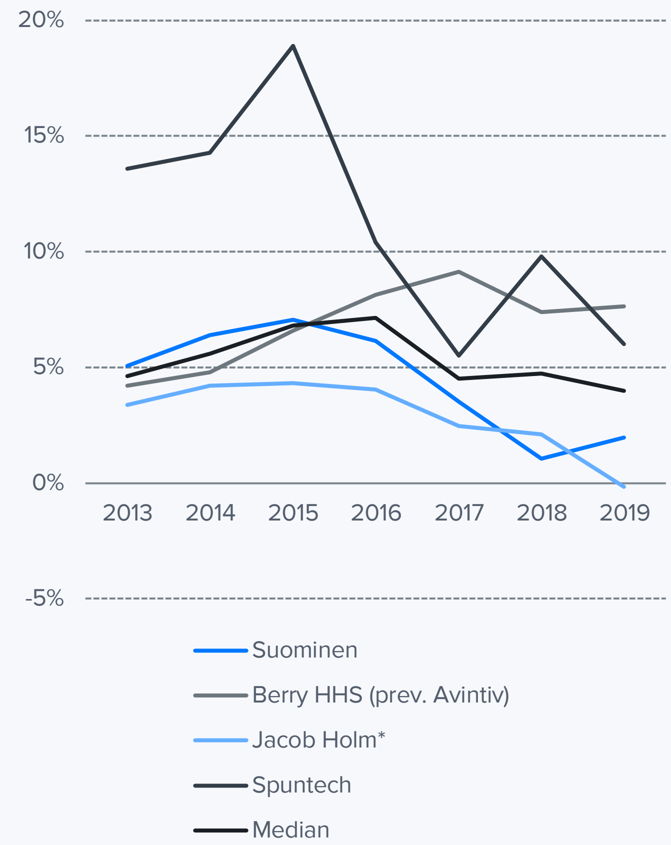
We argue that one typical new production line in Europe or North America will raise up local production capacity some 2-3 % on wiping level. Given the size of the market, one line per continent annually is required to meet demand growth but several lines would create market pressure if old capacity was not simultaneously ceased. This is the big picture on overall market conditions. Therefore, investments of the industry and supply/demand-balances are a factor to follow.

Performance versus sector peers'

It is difficult to compare Suominen's financial performance to other players directly due to fact that competitors are private entities or parts of big corporations, which have different businesses that reduce comparability. In addition, different product segments can reduce comparability. However, we have benchmarked Suominen's financial performance against certain peers, which compete with Suominen at least to some extent.

Suominen has underperformed recently the peers in terms of profit margins. The company's performance has been in line (or slightly better) with Jacob Holm, which is a direct competitor. Thus, recent relative progress is slightly worrying in our opinion. However, despite adverse trend (but evening out) earnings of the sector seem to be still positive. This may keep the players reluctant to cut capacity in problematic grades in the future that would speed up margin recovery. 7-year average of peer groups' EBIT-% is 5.8 % (4.3 % excl. Spuntech), which gives some impression on the long-term margin potential in the business (4-6 % EBIT-% corresponds usually to some 8-10 % EBITDA-% in nonwoven industry). In addition, still exceptional long-term performance of Spuntech illustrates profit potential of value-added niches as the company used to be a very focused niche player at least it the beginning of the past decade.

Suominen EBIT-% vs. peers 2013-2019



* Jacob Holm 2019 figures 9/2019 YTD

Source: Inderes, CapitalIQ, Berry, Jacob Holm

Financial position 1/2

Major non-current asset lines seem currant

The majority of Suominen's non-current assets consist of tangible assets, which are mostly plants (land and properties) and machinery. At the end of Q1'20 tangible assets were 116 MEUR consisting mostly of machinery. At the end of Q1'20 the balance sheet contained some 16 MEUR of goodwill representing 12 % of equity attributable to shareholders. Other intangible rights were 19 MEUR. Assets available for use (mostly rents) resulting from new IFRS 16 standard were 14 MEUR. Assets available for use are included in tangible assets in our model.

We consider asset values to be relevant as the company depreciates its assets relatively fast and units carrying goodwill have been generating positive cash flow in the last years. However, if the company had to rationalize its manufacturing network (in Europe) and shut a plant, some write-downs to tangible assets or impairments on goodwill would be inevitable. Magnitude of potential write-downs would most likely be moderate compared to equity as most of plants are quite old and well depreciated in the balance sheet.

Vendor loan is an interest-bearing receivable

On the non-current asset side, the fourth meaningful non-current item is a loan receivable of 4 MEUR (Q1'20). This is related to Flexibles' divestment as Suominen gave a vendor loan for the buyers (Bright Maze Oy) to finance the transaction. In addition, the balance sheet included also 4 MEUR in current assets related to the same vendor loan. This item is treated as an interest-bearing receivable in accounting. The interest of the loans is capitalized, thus Suominen does not get positive cash flow from the receivables.

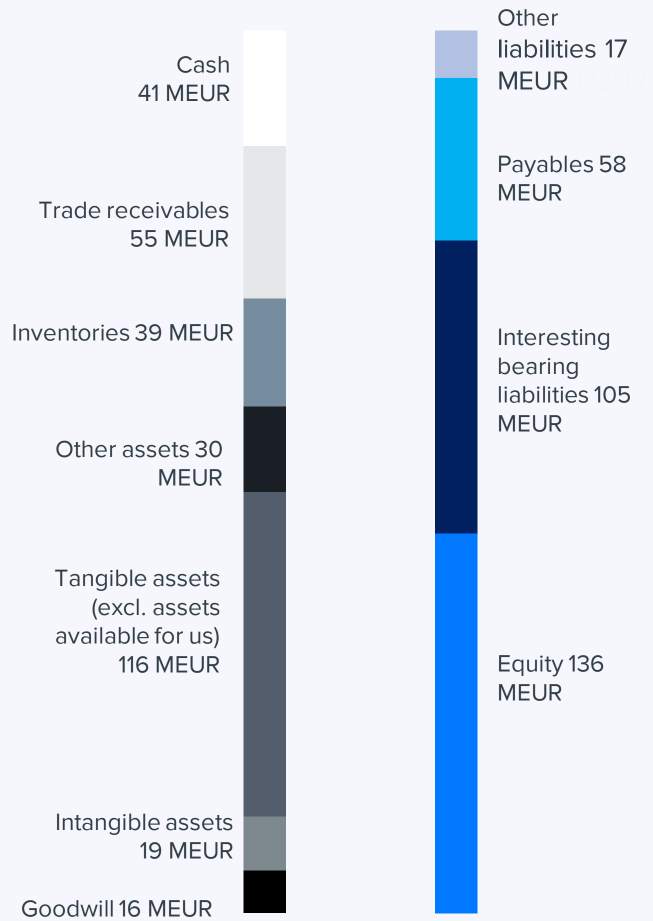
The receivable is divided to a loan note maturing at the end of 2018 and which had an interest of 6 % p.a. and a subordinated loan note maturing at the end of 2024 with an interest rate of 9 % p.a. The lender, however, failed to pay back the loan note at the end of 2018 and the interest rate of the loan has increased. Given delays in payments (i.e. short-term trading challenges) and weak long-term business fundamentals (declining and highly competitive low margin plastic related business) of Bright Maze, we see a clear write-down risk in the loan note.

Suominen has some guarantees for the loan note and right to convert the subordinated loan note to equity. However, we believe Suominen is very unwilling to convert any loans to equity as a conversion would increase Suominen's shareholding above 20 % and correspondingly force the company to report its share of Bight Maze's results in P&L. Therefore, we would not be surprised if Suominen had to write the receivables down fully of partially. They represent some 6 % of the company's equity at the end of Q1'20, thus even total write-down would not materially change Suominen's financial position.

Capital has been released from NWC recently

On the current asset side, the three biggest items were inventories (39 MEUR), trade receivables (55 MEUR) and cash (41 MEUR) at the end of Q1'20. Suominen was able to trim down its NWC (including payables in liabilities) clearly during the rebuilding phase to 8 % of net sales. Suominen utilizes also factoring to speed up turnover of receivables

Suominen's balance sheet at Q1'20



Source: Suominen, Inderes

Financial position 2/2

and this should be cheap for them as most of Suominen's key accounts have low credit risk profile. NWC began to increase in 2016-2017 but the company managed to stabilize NWC to sales ratio to 10 % in 2018-2019. Also Q1'20 was positive from NWC perspective. We believe that the current level is still decent for Suominen given current commodity and end-product prices. Therefore, we argue that company's NWC level is currently tolerable if further increases do not occur. Other items in current assets have quite limited significance on group level.

Financed through equity and long-term debt

Suominen has 136 MEUR of equity attributable to owners of the parent company in liabilities. During the last two years the company's equity has remained stable despite zero to negative net profit and moderate payout. This is FX driven asset revaluation (depreciating EUR/USD). Thus, FX (EUR/USD) has also an impact on their balance sheet.

Suominen's non-current liabilities included an 82 MEUR bond finance (carrying amount). This consists of a five-year 85 MEUR bond (nominal) issued in October 2017 (the difference between the carrying amount and sum of nominal values is valuation difference). The 85 MEUR senior bond has a coupon rate of 2.5 %. In addition, the company has raised 10 MEUR short term debt from its 100 MEUR RCF (RCF expires 9/2021). This should be cheap money for the company. In addition, the company had 13 MEUR liabilities related to long term rents (IFRS 16). Altogether, we consider the cost of the company's debt finance reasonable and Suominen has enough liquidity to execute its strategy in the next years and survive uncertainties that coronavirus pandemic has created in the short-term.

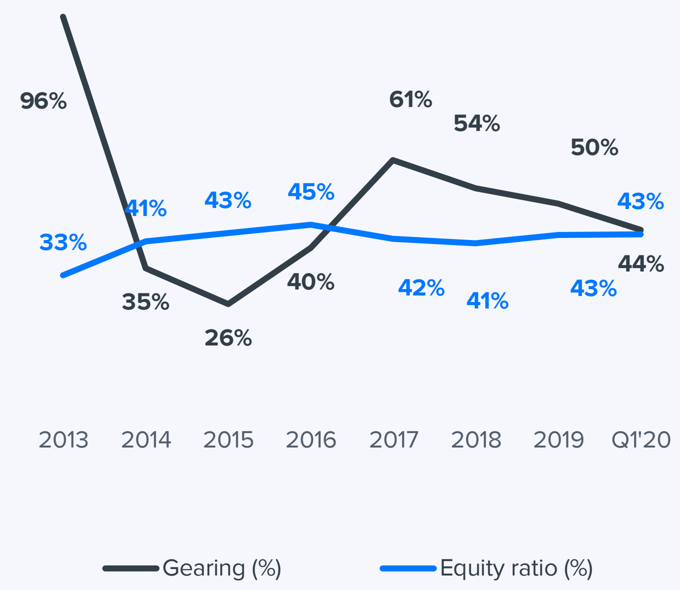
Current liabilities are dominated by payables of 58 MEUR (positively slightly above receivables). Total assets were at 316 MEUR at the end of Q1'20, thus Suominen operates with reasonably light balance sheet given the scale of the business in our opinion.

Leverage is around the long-term sweet spot

Suominen's gearing was 44 % and equity ratio 43 % at the end of Q1'20. IFRS 16 standard increased the company's gearing some 10 %-points. Gearing is in the lower range of the company's target of 40-80 %. We believe the company is quite close to its long-term sweet spot in terms of leverage currently. In addition, net debt/EBITDA -ratio was on a good level of 1,7x at the end of Q1'20 and improving EBITDA should drive the ratio down further in 2020. Altogether, we do not see any major worries on Suominen's balance sheet should cash flow from operations remain healthy and profitability improves.

As mentioned, we argue that Suominen needs certain leverage to keep WACC-% reasonable and to boost return on equity. We argue the company's sweet spot should be the lower end of the current target range. In addition, the long-term growth strategy may include M&A, for which Suominen needs certain financial headroom. Therefore, we expect that Suominen aims to slightly deleverage the company in the coming years to maintain flexibility to execute long term growth strategy as planned.

Historical development of the balance sheet



Source: Suominen, Inderes

Estimates 1/4

Model and cornerstones of our estimates

We model Suominen's net sales short and medium term based on estimated volume growth, price/mix-development and FX-impacts. Long term growth estimates are based on market growth and expected progress of the company's market share. We model the company's GM-% and SGA-% structure quarterly and on an annual basis in order to estimate short and medium-term profitability. Our long-term profitability estimates are based on historical performance and our estimate of margin potential. We do not take M&A into account in our estimate even if we believe Suominen will seek inorganic growth in the long term.

Suominen got a good start for the year...

Suominen started FY'20 well. The company's Q1 revenue was flat in 110 MEUR. Revenue was driven up by improved volumes as well as increased demand in wiping products that took place especially in late February and in March and was reflecting the coronavirus pandemic. In addition, FX rates had a positive impact on sales whereas selling price went down with raw-material prices.

In Q1'20 Suominen's adjusted EBIT almost doubled y-on-y and increased to 5.6 MEUR. Profit improvement was driven by GM-% (almost 4 %-point increase to 12 %) development when higher volumes, improved production efficiency and decreased raw material prices had positive impact on profitability. However, FX burdened EBIT by some 0.6 MEUR (most likely in Europe and Brazil). Suominen kept SGA-costs strictly under control as usual. However, some changes in reporting increased gross profit and SGAs but they did not change the big picture. At the bottom lines of P&L financing costs climbed above our estimates due to FX related reasons whereas taxes were below our estimates due to some 0.5 MEUR one-off tax relief in US. Thus Suominen's EPS of 0.06 EUR exceeded our estimates clearly on Q1.

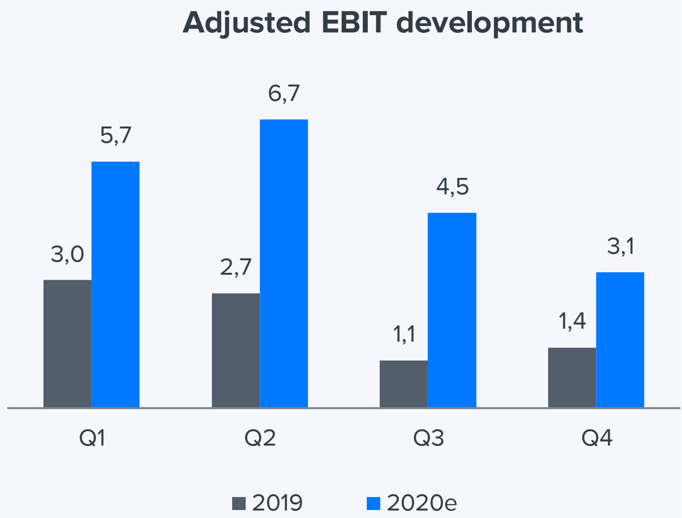
Operating cash flow was on a strong level of 9.4 MEUR or 0.16 EUR per share as only limited NWC was tied on Q1. This is quite untypical as NWC usually increases at the beginning of year and decreases during H2, but the development shows that the NWC program Suominen completed in 2019 was done in a sustainable way.

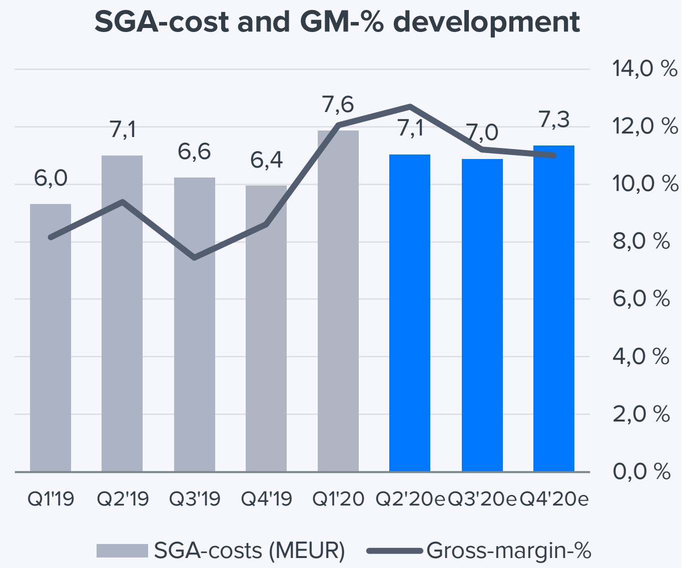
...and upgraded the guidance already now

Suominen revised FY20 guidance and now expects operating profit to increase clearly compared to last year. Suominen's operating profit in FY19 was 8.1 MEUR. In addition, Suominen stated that the corona pandemic will increase demand in short-term but due to the pandemic, outlook regarding H2 is still quite uncertain.

Coronavirus outbreak complicates the outlook

The general economic conditions have changed drastically during Q1 as coronavirus has expanded from local Chinese issue to a global pandemic. The outbreak has pushed Suominen's main markets in North America and Europe to recession, but magnitude and length of GDP drop is still basically impossible to estimate. The outbreak has had an impact on supply chains, but Suominen has managed to continue production in all plants (including plants in Spain and Italy), purchase raw-materials and organize logistics reasonably. These factors may have helped the company to win some volumes from its competitors.





Source: Suominen, Inderes

Estimates 2/4

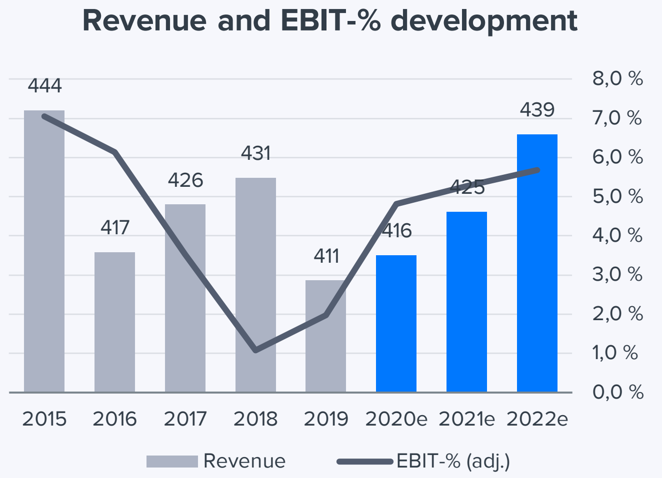
However, special arrangements might raise costs to some extent in the short term but in the medium-term crises should limit raw-material inflation. However, Suominen's raw material prices are determined mostly by supply/demand, thus supply issues and potential restocking can cause price fluctuation even if end-demand was weak or moderate.

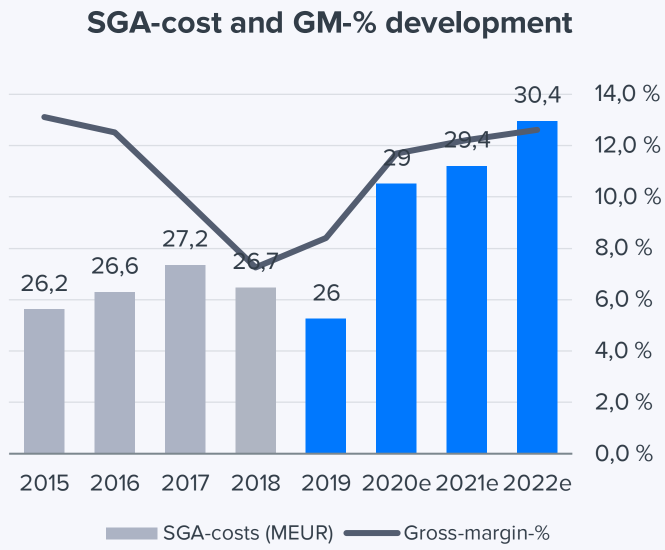
We believe that demand of Suominen's products has remained healthy during the outbreak as certain categories (personal hygiene and home wiping) get a good boosts from sharply increasing attention on hygiene and cleaning. This was visible at the end of Q1 and tailwind should continue in Q2. However, there is a risk that demand may calm down on H2 if consumers have stocked wiping products. In addition, away from home consumption of nonwovens has most likely declined as people stay at their homes and industrial use may also get a hit. The crisis will very likely lead to plummeting consumer confidence, which might cause at least some negative mix effects (i.e. demand shifts to cheaper and more competitive value for money grades) for Suominen at the latter part of the year 2020. Therefore, we argue the crisis will not have a major positive net gain or harm on Suominen's trading environment in the long run but outlook for Q2 remains good. Therefore, the company should have a decent operating environment FY'20 despite the outbreak and stall of global economy. However, progress of the pandemic, macroeconomics and trading environment are changing fast and major short-term changes in outlook are possible.

2020 estimates

Currently we estimate Suominen will grow 1.2 % and report 416 MEUR net sales in 2020. We expect volumes to increase despite the coronavirus outbreak and resulting recession as demand should remain good, the company's portfolio is competitive, slightly more aggressive commercial strategy wins back some lost market share and Bethune's new line is gradually able to increase speed. We expect prices to decline in line with raw-material prices but price versus production cost differential should be a positive factor profitability wise. In addition, more slightly aggressive appetite to volumes might cause a minor negative impact on pricing along with a slightly unfavorable demand shift to lower margin grades but on the other hand increasing volumes and continuing productivity efforts should improve production efficiency. At this point we expect slightly positive impact from FX to reported sales in 2020.

We estimate Suominen's GM-% to increase 3.4 %-points to 11.7 % as previously named price, mix and production cost related factors and increasing efficiency support GM-%. We estimate SGA-% to remain on good level at 7.0 of sales % in 2020 due to strict cost control (minor changes in accounting drove SGA and correspondingly GM-% slightly up in 2020 compared to 2019). We expect FX to have also a slightly negative impact on EBIT. Therefore, we forecast comparable EBIT of 20.0 MEUR for 2020, which we believe is also in line with the company's existing guidance. We have made only minor positive estimate revisions to our estimates recently.





Source: Suominen, Inderes

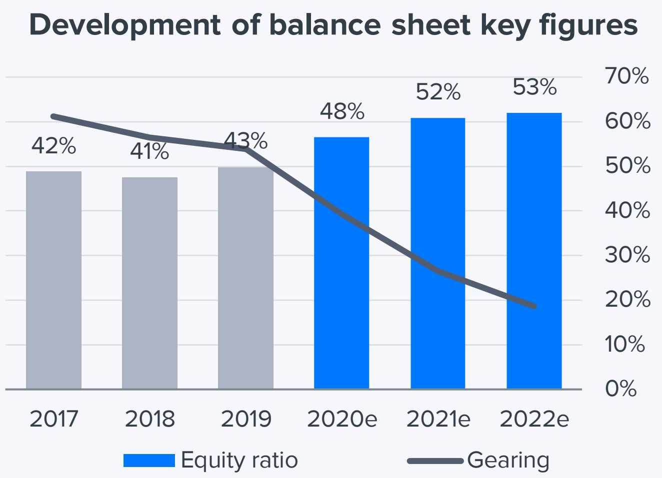
Estimates 3/4

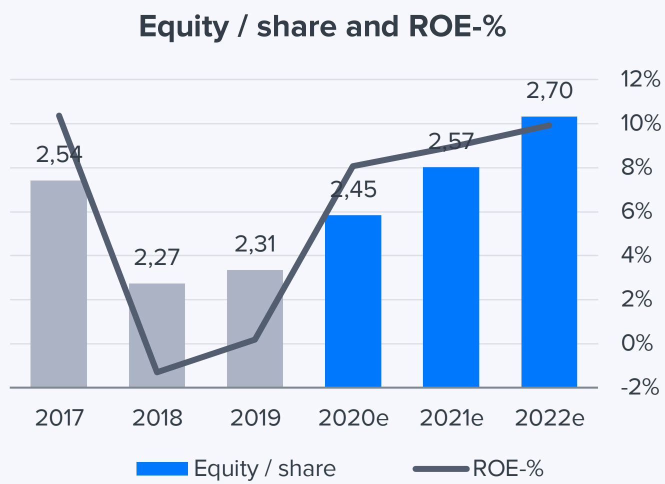
Below EBIT we forecast net financing costs to be at -5.5 MEUR in 2020, which means basically 1.3-1.4 MEUR/Q net financing costs for Q2-Q4 (Q1 net financing costs were elevated due to FX). This is a normalized level considering the debt structure and other annual financing costs. We expect tax-rate to be 22 %, which should be slightly below the company's normalized level. This is due to one-off tax gain in US on Q1 but on the other quarters we expect slightly elevated tax burden. The uplift derives from continuing but decreasing losses from some European country (the company's tax rate has been elevated since 2015). Altogether, we estimate EPS to increase to 0.19 euro. We estimate Suominen will pay a dividend of 0.10 EUR per share (2020e: payout-% 52 %), which is broadly in line with their dividend policy. FCF should increase in 2020 as CAPEX remains below depreciation and profitability improves. Net profit and well positive FCF push gearing slightly down and we estimate the company reaches the lower end of its target boundary. Thus, Suominen's financial position should remain solid.

2021-2022 estimates

We expect positive progress that began in 2019 to speed up in 2020 and to continue in 2021-2022 as the coronavirus outbreak has no major direct negative impact on the business (unless tendency to clean permanently grows). However, recovery speed of US and European GDP remains very unclear and risks are mostly negative but defensive nature of nonwoven demand should give the company some shield. Also, developing product offering, gradually improving efficiency and Bethune's new line should still give clear support to volumes and mix in early 2020s. In addition, slow global GDP growth could keep also raw-material price outlook at least moderate. However, part of raw material benefits will go to customers in the form of lower sales prices. Overcapacity remains also a pricing risk in baby care and flushables.

We estimate Suominen's net sales to increase 3.5 % to 439 MEUR in 2021 and 3.0 % to 453 MEUR in 2022. The main drivers are product mix (sustainable value-added grades) and gradually increasing contribution from the new line in Bethune as well as from other plants. Our GM-% estimate for 2021 and 2022 are 12.2 % and 12.6 %, which reflect product mix transformation, efficiency improvement and flattish raw-material/pricing-element compared to 2020. These estimates are below Suominen's peak GM-% of 13 % in 2015 as positive factors are not enough to fully offset structural price decline in baby care and flushable nor fierce competition. We see that SGA will continue to face slight pressure upwards on absolute terms in 2020's but operating leverage should keep relative figure fairly flat at 6.9-7.0 %. Therefore, topline growth and GM-% expansion should boost Suominen's EBIT to 22.4 MEUR in 2021 and to 25.0 MEUR in 2022. These figures begin to correspond a satisfactory EBIT-% of 5.3-5-7 % which is close to long term industry average. In addition, we expect Suominen's ROCE-% of 10-11 % to beat WACC-% in 2021-2022. However, we do not expect Suominen to reach its over 12 % EBITDA-target by 2022 (2021e-2022e: EBITDA-% 10.6 %)





Source: Suominen, Inderes

Estimates 4/4

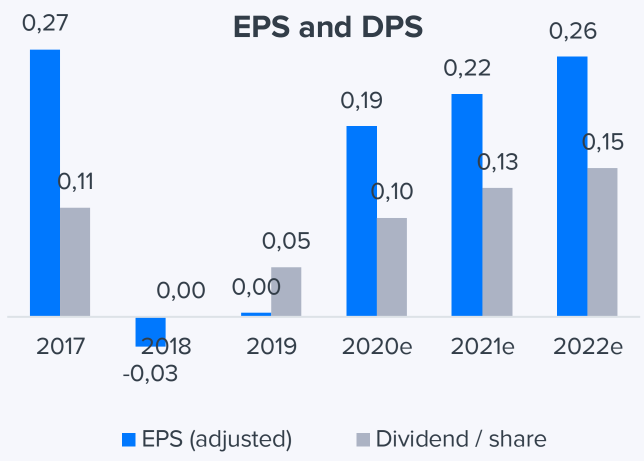
Financing costs should decrease slightly in 2021-2022 as gross debt level decreases with profit improvement and correspondingly good cash flow. We estimate Suominen's tax-rate to reach normalized level of 25 % in 2021-2022. Altogether, we expect Suominen to make EPS of 0.22 euro in 2021 and 0.26 euro in 2022. Positive progress of EPS should keep dividend on an uphill track, and we estimate Suominen to pay out 0.13 cents DPS in 2021 and 0.15 cents in 2022 in line with their dividend policy (2021e-2022e: 50-60 % payout).

In addition, CAPEX remain moderate in 2020-2021, which correspondingly should pull FCF higher. Therefore, net profit and good FCF should push gearing below the target range (2021e-2022e: gearing 27 % and 19 %). At this point Suominen would have current operations in decent shape and have some financial flexibility to advance with Asian M&A or speed up slightly organic investments.

Long term estimates

From 2023 onwards we are expecting growth to be within 2.0-3.0 %, which represents the average growth rate of the industry and GDP growth in the main markets over the long-term. We estimate EBIT margin to peak at 6.0 % (EBITDA-% correspondingly 10.6 %) in 2023 and to decrease to 4.5-5.5 % over long term when competition intensifies. Thus, our long-term estimates stay clearly below the company's long-term targets. Therefore, there could be clear upside in medium-term estimates if the company can demonstrate its ability to pull its profitability back to its latest peak in 2015. However, the company's mostly (excluding Q1'20) adverse or slow recent progress advocates being cautious with the estimates over longer time frame.

These estimates are based on organic growth even if we believe that Suominen will make M&As over the long term. Thus, potential transactions could have significant impact on estimates, but their timing is naturally impossible to estimate. In addition, long term estimates are non-cyclical averages as timing of cycles is impossible to forecast.



Source: Suominen, Inderes

Quarterly estimates and estimate revisions

Income statement	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20e	Q3'20e	Q4'20e	2020e	2021e	2022e	2023e
Revenue	**431**	**110**	**104**	**103**	**94,5**	**411**	**110**	**108**	**103**	**94,9**	**416**	**425**	**439**	**453**
Nonwovens	431	110	104	103	94,5	411	110	108	103	94,9	416	425	439	453
EBITDA	**25,6**	**9,3**	**9,1**	**7,8**	**7,4**	**33,7**	**11,3**	**12,3**	**10,1**	**8,7**	**42,4**	**45,0**	**46,8**	**48,1**
Depreciation	-21,0	-6,3	-6,4	-6,7	-6,0	-25,5	-5,6	-5,6	-5,6	-5,6	-22,4	-22,6	-21,8	-21,1
EBIT (excl. NRI)	**4,6**	**3,0**	**2,7**	**1,1**	**1,4**	**8,1**	**5,7**	**6,7**	**4,5**	**3,1**	**20,0**	**22,4**	**25,0**	**27,0**
EBIT	**4,6**	**3,0**	**2,7**	**1,1**	**1,4**	**8,1**	**5,7**	**6,7**	**4,5**	**3,1**	**20,0**	**22,4**	**25,0**	**27,0**
Nonwovens	4,6	3,0	2,7	1,1	1,4	8,1	5,7	6,7	4,5	3,1	20,0	22,4	25,0	27,0
Net financial items	-5,6	-1,3	-1,7	-1,1	-1,9	-6,0	-1,9	-1,3	-1,3	-1,3	-5,8	-5,2	-4,9	-3,1
PTP	**-1,0**	**1,7**	**1,0**	**0,0**	**-0,5**	**2,1**	**3,8**	**5,4**	**3,2**	**1,8**	**14,2**	**17,2**	**20,1**	**23,9**
Taxes	-0,8	-0,5	-0,6	-0,1	-0,7	-1,9	-0,2	-1,6	-0,9	-0,5	-3,1	-4,3	-5,0	-6,0
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	**-1,7**	**1,1**	**0,4**	**-0,1**	**-1,2**	**0,2**	**3,6**	**3,8**	**2,3**	**1,4**	**11,0**	**12,9**	**15,1**	**17,9**
EPS (adj.)	**-0,03**	**0,02**	**0,01**	**0,00**	**-0,02**	**0,00**	**0,06**	**0,07**	**0,04**	**0,02**	**0,19**	**0,22**	**0,26**	**0,31**
EPS (rep.)	**-0,03**	**0,02**	**0,01**	**0,00**	**-0,02**	**0,00**	**0,06**	**0,07**	**0,04**	**0,02**	**0,19**	**0,22**	**0,26**	**0,31**

Key figures	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20e	Q3'20e	Q4'20e	2020e	2021e	2022e	2023e
Revenue growth-%	1,2 %	3,0 %	-5,6 %	-1,4 %	-13,9 %	-4,6 %	0,4 %	4,4 %	-0,6 %	0,4 %	1,2 %	2,0 %	3,5 %	3,0 %
Adjusted EBIT growth-%	-69,4 %	91,3 %	-9,0 %	126,6 %	-489,2 %	76,9 %	92,5 %	151,3 %	307,0 %	123,2 %	146,2 %	11,9 %	11,5 %	8,1 %
EBITDA-%	5,9 %	8,5 %	8,8 %	7,6 %	7,9 %	8,2 %	10,3 %	11,3 %	9,8 %	9,2 %	10,2 %	10,6 %	10,6 %	10,6 %
Adjusted EBIT-%	1,1 %	2,7 %	2,6 %	1,1 %	1,5 %	2,0 %	5,2 %	6,2 %	4,4 %	3,3 %	4,8 %	5,3 %	5,7 %	6,0 %
Net earnings-%	-0,4 %	1,0 %	0,4 %	-0,1 %	-1,3 %	0,1 %	3,2 %	3,5 %	2,2 %	1,5 %	2,6 %	3,0 %	3,4 %	4,0 %

Source: Inderes

Estimate revisions	2020e	2020e	Change	2021e	2021e	Change	2022e	2022e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	419	416	-1 %	428	425	-1 %	443	439	-1 %
EBIT (exc. NRIs)	19,5	20,0	3 %	21,9	22,4	2 %	24,7	25,0	1 %
EBIT	19,5	20,0	3 %	21,9	22,4	2 %	24,7	25,0	1 %
PTP	13,6	14,2	4 %	16,8	17,2	3 %	19,9	20,1	1 %
EPS (excl. NRIs)	0,18	0,19	4 %	0,22	0,22	3 %	0,26	0,26	1 %
DPS	0,10	0,10	0 %	0,13	0,13	0 %	0,15	0,15	0 %

Source: Inderes

Valuation 1/3

Valuation cornerstones

After the recent profitability challenges, investors categorize Suominen as a turnaround company. Should the turn around proceed and reach reasonable margin level, Suominen will become a growing manufacturing company in the eyes of the investors. Thus, Suominen will be valued by income statement based valuation multiples like P/E, EV/EBITDA and EV/EBIT in the markets. Correspondingly, cash flow based valuation by P/FCF is also a feasible metric. In addition, P/B is always a good multiple in the manufacturing industry even if in our opinion Suominen should not be directly valued by the balance sheet as the company operates in somewhat less capital intensive segment of manufacturing industry. Dividend yield is also secondary metrics for a turnaround/growth company like Suominen.

The following factors have positive or neutral impact on Suominen's valuation in our opinion:

Trends supporting nonwoven business and sustainable nonwovens give the company good organic growth outlook (above GDP growth) and correspondinly value creation potential

Defensive nature of the consumer related business keep cyclicality of the company limited, which we consider positive from valuation perspective

Position as a global leader supports the valuation even if the industry is fragmented

Balance sheet of the company is still in decent shape and we see no major additional balance sheet related risks at the moment.

The following factors have negative impact on Suominen's valuation in our opinion:

Revenue streams are quite centralized in customer and geographical sense, which elevates slightly risk premiums

Difficult value chain position and challenging competitive dynamics from pricing power perspective increases risk level to some extent

Free float and liquidity of the share have been recently limited, thus we argue extra liquidity premium is required for the stock

Given that background, we argue Suominen should be valued with a P/E-ratio of some 13x-15x in organic growth and/or turnaround phase. Correspondingly, acceptable EV/EBITDA-ratio is somewhere between 6x-7x in our opinion, which is in line with Suominen's historical valuation. However, slight premium to historical EV/EBITDA level might acceptable going forward as normalized tax burden has decreased due to the recent tax reform in US. However, IFRS 16 has some slight decreasing effect on EV/EBITDA, which offsets the tax factor to some extent.

Acceptable EV-based valuation range is supported also by some M&A-activities in the sector since Blackstone sold Avintiv to Berry for LTM EV/EBITDA 8x in the summer of 2015 while few months earlier Mondi acquired Ascania for LTM EV/EBITDA 6x. These deals give a good indication for valuation levels in the business even if several factors have impacted on transaction prices in M&A-cases.

Valuation	2020e	2021e	2022e
Share price	3,17	3,17	3,17
Number of shares, millions	57,5	57,5	57,5
Market cap	182	182	182
EV	237	221	211
P/E (adj.)	16,5	14,1	12,1
P/E	16,5	14,1	12,1
P/FCF	7,8	7,1	8,6
P/B	1,3	1,2	1,2
P/S	0,4	0,4	0,4
EV/Sales	0,6	0,5	0,5
EV/EBITDA	5,6	4,9	4,5
EV/EBIT (adj.)	11,9	9,9	8,5
Payout ratio (%)	52,1 %	57,8 %	57,2 %
Dividend yield-%	3,2 %	4,1 %	4,7 %

Source: Inderes

Source: Suominen, Inderes

Valuation 2/3

Valuation multiples

Suominen's P/E-ratios FY'20 and FY'21 based on our estimates are 17x and 14x while corresponding EV/EBITDA-ratios are 6x and 5x. We give a bit more weight on EV/EBITDA as it reflects better Suominen's good cash flow (CAPEX below depreciation in the next few years). In addition, Suominen's P/FCFE ratios based on our estimates are some 9x-10x FY'20 and FY'21. Given our valuation range for Suominen, we see FY'20 multiples slightly attractive while FY'21 figures are relatively cheap. Therefore, we see certain upside in the share looking 12 months forward if the company can remain on uphill track as we expect. Dividend yields are on decent level at 3-4 % but the dividend outlook depends heavily on the profit trend.

P/B-ratio is 1.4x while EV/S-multiple is 0.6x (2020e). These figures are below the company's medium-term averages and moderate on absolute terms. Thus, we argue that reasonable expectations are priced in the share even if the share price has appreciated over 35 % YTD. Therefore, balance sheet and volume-based valuation do no limit the upside potential of the share if profit improvement materializes in the next years. However, these figures can not give the share strong support anymore should negative surprises appear. However, we argue that P/B and EV/S support Suominen's risk/reward profile at this stage.

Relative valuation is only an indication

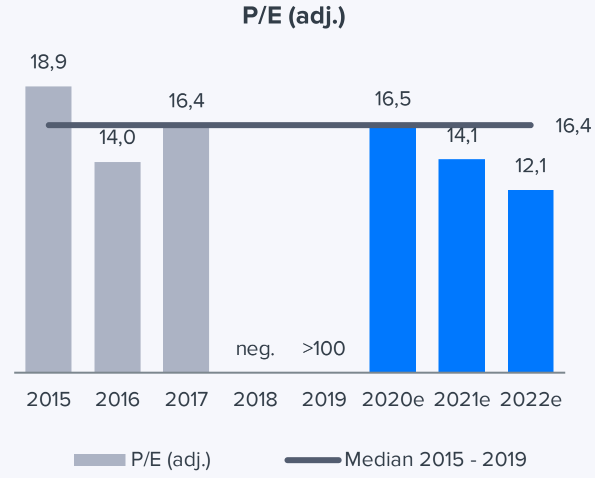
As Suominen's direct competitors in wiping segment are private equity owned companies or parts of large corporations consisting of several business segments, valuing the share in relation to the peer group is challenging. However, we have collected a peer group, which includes a few listed companies from the other segments of nonwoven industry. On the other hand, we have included in the peer group companies from other sectors, which have similar business model (manufacturing), type of products (not branded consumer related goods) and value chain position to Suominen. However, the group is far from complete in terms of size and type of peers, thus we keep its weigh limited in our valuation.

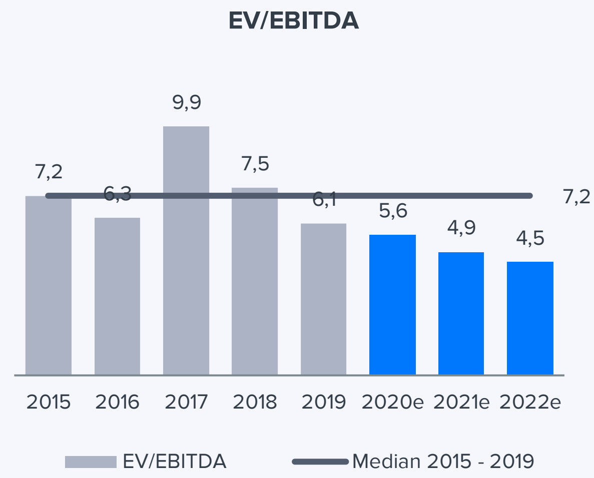
Suominen is valued by a clear discount compared to peer group by FY'20 and FY'21 income statement multiples especially on EV-metrics. Therefore, relative valuation seems to be low in our opinion. However, we argue some discount is justified as Suominen's business portfolio is smaller and less widely spread than the peer group on average, which makes its risks profile somewhat higher. In addition, the peer group in general has better track-record, which also justify certain discount for Suominen at this point.

The capital market seems to accept a relatively high valuation for this type of defensive consumer related companies on absolute terms currently. This supports also Suominen's valuation in our opinion but given fairly gross valuation (2020e: median P/E 18x, median EV/EBITDA 9x) of loosely related peer group, we do not believe relative valuation will drive Suominen's share clearly higher on the short term.

DCF-valuation

We give a limited weight also on DCF-value in our valuation as the model is very sensitive to changes in parameters (especially at the terminal). DCF-model, based on our long-term estimates, gives a value of some 3.70 euro per share for Suominen.





Source: Suominen, Inderes

Valuation 3/3

This reflects reasonably current fair value of the share in our opinion. We would like to remind that the current parameters are not necessarily demanding compared to 2010s average and potential of the company's current business structure.

Weight of terminal value is reasonable at 51 % in the model. WACC-% of the model is at 7.8 % and cost of equity at 9.2 %. The discounting parameters are still slightly elevated given the risks related to Suominen's profit growth magnitude. Therefore, we could see WACC-% and especially cost of equity to trend slightly downwards in the next years if Suominen can stay on the positive path. This would naturally support DCF-value and fair value of the share.

Clear medium-term potential if the targets will be reached by 2025

Despite neutral valuation in the short term, there could be clear medium-term potential in a positive scenario in Suominen. We estimate Suominen should make some 0.40 EUR EPS in 2025 if the company reaches above market organic growth in 2020-2025 and EBITDA-margin of 12 % in 2025 (net financing costs some 1.0 % of sales and normalized tax-rate of 25 %). With this impressive upward trending track-record in 2025, Suominen could be easily valued by P/E 15x This would give share price of some 6 euro per share at the end of 2025.

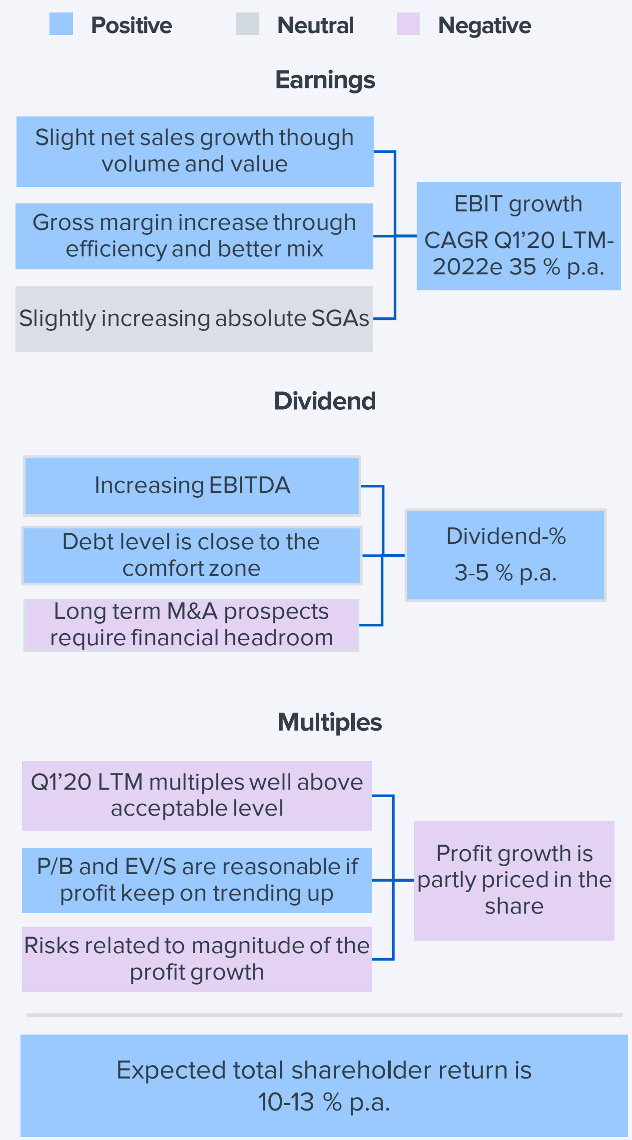
As the share trades currently slightly above 3 euros, investors would get almost 90 % share price appreciation and dividends of four years if the positive scenario realizes. Thus, TSR for four and half year investment would correspond to a very impressive IRR of roughly 20 % per annum. However, this scenario seems still distant now and our estimates FY'25 are still clearly lower.

Correspondingly, should the negative scenario, which is also distant realize, and the company clearly diverge from profit growth path, we do not see Suominen to report losses. Also cash flow should remain positive in all scenarios. Thus we can see downside in the share to P/B 1x, which corresponds some 30 % compared to current share price. Thus, risk/reward looks positive also from this sense.

Target price and recommendation

We retain Suominen's recommendation to accumulate and adjust our target price to 3.40 EUR (prev. 3.25 EUR). We argue 12 month forward looking valuation is attractive in our opinion and correspondingly 12 month expected TSR of 10-13 % beats our cost of equity for Suominen. However, one very successful quartile and some (potentially short-term) tailwind from COVID-19 pandemics have not removed all risks related to the magnitude of company's profit growth. As discussed, our neutral scenario would give clear upside for the share medium term (and positive scenario clear upside) but we are not yet willing to stretch short term valuation too much before the company can provide constant evidence that growth will exceed clearly market growth and margins will recover at least to levels of 2015-2016. However, recent positive progress and tolerable risks related to COVID-19 and macroeconomics keep Suominen's medium term expected TSR at good double digit level, which also gives courage to purchase the stock.

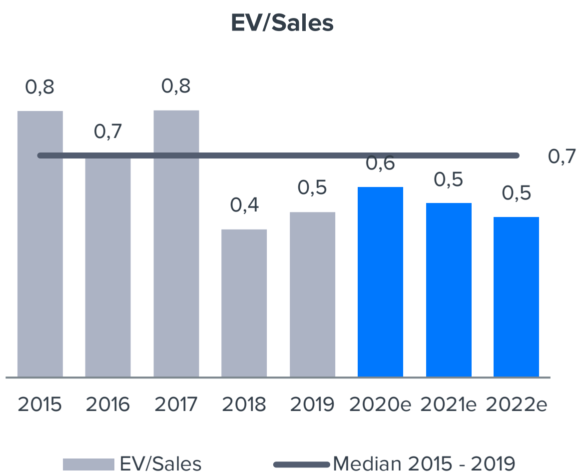
Share price drivers Q1'2020 LTM-2022e

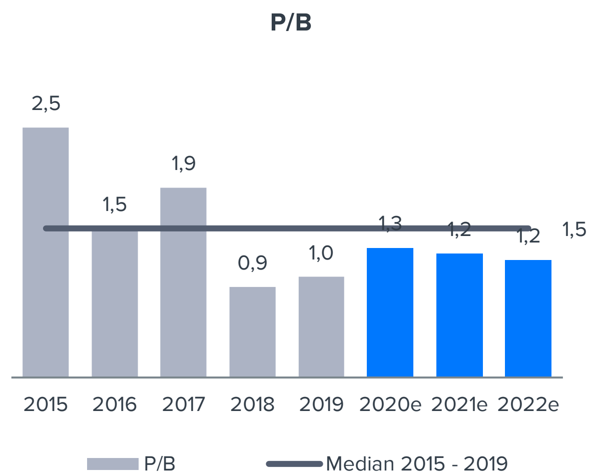


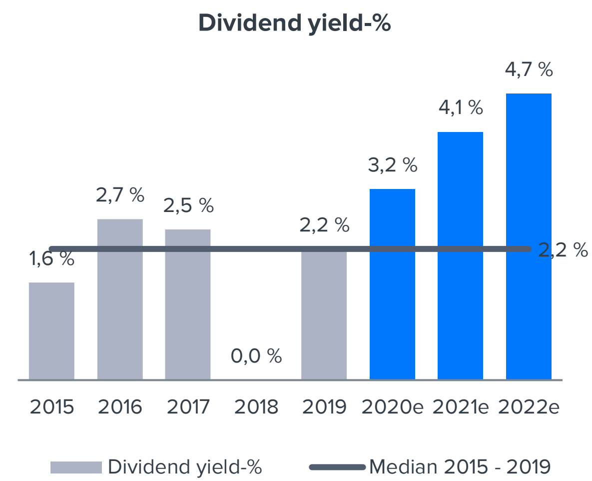
Multiples

Valuation	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Share price	6,20	4,14	4,42	2,05	2,31	**3,17**	**3,17**	**3,17**	**3,17**
Number of shares, millions	50,5	51,2	53,6	57,5	57,5	**57,5**	**57,5**	**57,5**	**57,5**
Market cap	313	212	258	118	133	**182**	**182**	**182**	**182**
EV	354	277	341	192	204	**237**	**221**	**211**	**201**
P/E (adj.)	18,9	14,0	16,4	neg.	>100	**16,5**	**14,1**	**12,1**	**10,2**
P/E	18,4	14,0	16,4	neg.	>100	**16,5**	**14,1**	**12,1**	**10,2**
P/FCF	36,9	neg.	43,5	5,5	6,3	**7,8**	**7,1**	**8,6**	**8,6**
P/B	2,5	1,5	1,9	0,9	1,0	**1,3**	**1,2**	**1,2**	**1,1**
P/S	0,7	0,5	0,6	0,3	0,3	**0,4**	**0,4**	**0,4**	**0,4**
EV/Sales	0,8	0,7	0,8	0,4	0,5	**0,6**	**0,5**	**0,5**	**0,4**
EV/EBITDA	7,2	6,3	9,9	7,5	6,1	**5,6**	**4,9**	**4,5**	**4,2**
EV/EBIT (adj.)	11,3	10,8	22,7	41,7	25,1	**11,9**	**9,9**	**8,5**	**7,4**
Payout ratio (%)	29,7 %	37,1 %	44,3 %	0,0 %	1282,8 %	**52,1 %**	**57,8 %**	**57,2 %**	**50,0 %**
Dividend yield-%	1,6 %	2,7 %	2,5 %	0,0 %	2,2 %	**3,2 %**	**4,1 %**	**4,7 %**	**4,9 %**

Source: Inderes







Peer group

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		**MEUR**	**MEUR**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**
Huhtamäki	33,94	3632	4700	23,4	14,1	10,7	9,1	1,4	1,3	20,8	16,2	2,4	2,8	2,4
Duni	80,30	361	499	12,7	11,0	7,2	6,7	0,9	0,9	13,0	11,2	6,2	6,6	1,3
Sealed Air	29,35	4228	7559	11,0	10,6	8,6	8,3	1,8	1,7	11,0	10,2	2,2	2,5	
Riverstone	1,62	786	761	19,3	17,8	14,9	13,7	3,1	2,7	23,6	22,1	1,8	1,9	4,2
Halyard		1248	1304	32,2	16,5	20,2	11,8	2,2	2,0	59,5	25,0			1,0
Glatfelter	14,33	588	815							18,7	15,5			
Ahlstrom-Munksjo	12,18	1413	2274	15,3	10,4	7,1	5,7	0,8	0,7	17,6	11,0	4,2	4,4	1,1
Berry	42,32	5189	14592	13,3	12,1	7,7	7,2	1,3	1,3	10,6	9,0			2,8
Suominen (Inderes)	**3,17**	**182**	**237**	**11,9**	**9,9**	**5,6**	**4,9**	**0,6**	**0,5**	**16,5**	**14,1**	**3,2**	**4,1**	**1,3**
Average				**18,2**	**13,2**	**10,9**	**8,9**	**1,7**	**1,5**	**21,8**	**15,0**	**3,3**	**3,6**	**2,2**
Median				**15,3**	**12,1**	**8,6**	**8,3**	**1,4**	**1,3**	**18,1**	**13,4**	**2,4**	**2,8**	**1,9**
Diff-% to median				***-22 %***	***-19 %***	***-35 %***	***-41 %***	***-58 %***	***-60 %***	***-9 %***	***6 %***	***30 %***	***48 %***	***-31 %***

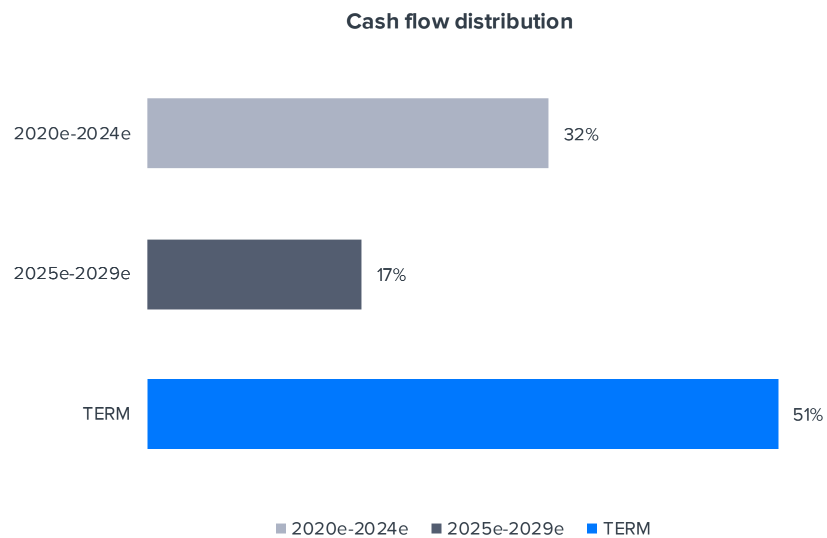
Source: Thomson Reuters / Inderes

DCF-model

DCF model	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	TERM
EBIT (operating profit)	**8,1**	**20,0**	**22,4**	**25,0**	**27,0**	**25,6**	**25,5**	**25,2**	**24,5**	**23,6**	**24,1**	
+ Depreciation	25,5	22,4	22,6	21,8	21,1	20,7	20,6	19,9	19,9	19,9	20,0	
- Paid taxes	-1,0	-3,6	-4,3	-5,0	-6,0	-5,6	-5,6	-5,5	-5,3	-5,1	-5,3	
- Tax, financial expenses	-1,5	-1,3	-1,3	-1,2	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8	
+ 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	2,3	-2,1	1,4	-1,2	-1,0	-1,1	-1,1	-1,1	-1,2	-1,2	-0,8	
Operating cash flow	**33,5**	**35,5**	**40,8**	**39,4**	**40,3**	**38,9**	**38,6**	**37,7**	**37,1**	**36,5**	**37,2**	
+ Change in other long-term liabilities	1,5	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-29,8	-12,1	-15,1	-18,1	-19,1	-20,1	-20,1	-20,1	-20,1	-20,1	-20,1	
Free operating cash flow	**5,2**	**23,4**	**25,7**	**21,3**	**21,2**	**18,8**	**18,5**	**17,6**	**17,0**	**16,4**	**17,0**	
+/- Other	16,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	21,2	23,4	25,7	21,3	21,2	18,8	18,5	17,6	17,0	16,4	17,0	299
Discounted FCFF		**22,3**	**22,7**	**17,4**	**16,1**	**13,2**	**12,1**	**10,7**	**9,5**	**8,5**	**8,2**	**144**
Sum of FCFF present value		285	263	240	223	206	193	181	171	161	152	144
Enterprise value DCF		**285**										
- Interesting bearing debt		-109,2										
+ Cash and cash equivalents		37,7										
-Minorities		0,0										
-Dividend/capital return		-2,9										
Equity value DCF		**211**										
Equity value DCF per share		**3,67**										

Wacc	
Tax-% (WACC)	25,0 %
Target debt ratio (D/(D+E)	25,0 %
Cost of debt	5,0 %
Equity Beta	1,10
Market risk premium	4,75 %
Liquidity premium	1,00 %
Risk free interest rate	3,0 %
Cost of equity	**9,2 %**
Weighted average cost of capital (WACC)	**7,9 %**

Source: Inderes



Short income statement and key figures

Short income statement	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Revenue	444,0	417	426	431	411	416	425	439	453
EBITDA	49,5	44,1	34,3	25,6	33,7	42,4	45,0	46,8	48,1
EBIT (adj.)	31,3	25,6	15,0	4,6	8,1	20,0	22,4	25,0	27,0
EBIT	31,8	25,6	15,0	4,6	8,1	20,0	22,4	25,0	27,0
PTP	26,5	22,4	12,4	-1,0	2,1	14,2	17,2	20,1	23,9
Net Income	17,0	15,2	14,5	-1,7	0,2	11,0	12,9	15,1	17,9
EPS	0,3	0,3	0,27	-0,03	0,00	0,19	0,22	0,26	0,31
FCF	8,5	-23,4	5,9	21,5	21,2	23,4	25,7	21,3	21,2

Key figures	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Revenue growth-%	10,5 %	-6,1 %	2,2 %	1,2 %	-4,6 %	1,2 %	2,0 %	3,5 %	3,0 %
EBITDA-%	11,1 %	10,6 %	8,1 %	5,9 %	8,2 %	10,2 %	10,6 %	10,6 %	10,6 %
EBIT-% (adj.)	7,0 %	6,1 %	3,5 %	1,1 %	2,0 %	4,8 %	5,3 %	5,7 %	6,0 %
EBIT-%	7,2 %	6,1 %	3,5 %	1,1 %	2,0 %	4,8 %	5,3 %	5,7 %	6,0 %
ROE-%	14,5 %	11,3 %	10,4 %	-1,3 %	0,2 %	8,1 %	9,0 %	9,9 %	11,2 %
ROI-%	15,3 %	11,2 %	6,2 %	1,9 %	3,4 %	8,7 %	10,3 %	11,5 %	12,0 %
Equity ratio	43,1 %	45,3 %	41,8 %	40,7 %	42,7 %	48,4 %	52,2 %	53,1 %	54,2 %
Gearing	32,8 %	45,5 %	61,1 %	56,5 %	53,9 %	39,3 %	26,5 %	18,7 %	11,4 %

Per share figures	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
EPS (adjusted)	0,33	0,30	0,27	-0,03	0,00	0,19	0,22	0,26	0,31
Cash flow / share	0,17	-0,46	0,11	0,37	0,37	0,41	0,45	0,37	0,37
Dividend / share	0,10	0,11	0,11	0,00	0,05	0,10	0,13	0,15	0,16
Equity / share	2,49	2,79	2,54	2,27	2,31	2,45	2,57	2,70	2,87

Source: Inderes

Balance sheet

Assets	2018	2019	2020e	2021e	2022e
Non-current assets	**174**	**178**	**168**	**161**	**157**
Goodwill	15,5	15,5	15,5	15,5	15,5
Intangible assets	21,2	20,0	20,1	20,2	20,3
Tangible assets	129	136	125	118	114
Associated companies	0,0	0,0	0,0	0,0	0,0
Other investments	0,8	0,8	0,8	0,8	0,8
Other non-current assets	4,7	3,7	3,7	3,7	3,7
Deferred tax assets	2,5	2,1	2,5	2,5	2,5
Current assets	**147**	**132**	**122**	**123**	**136**
Inventories	51,6	39,3	41,6	40,3	41,7
Other current assets	9,1	8,4	8,4	8,4	8,4
Receivables	58,1	46,7	47,3	48,2	49,9
Cash and equivalents	27,8	37,7	25,0	25,8	36,0
Balance sheet total	**321**	**310**	**290**	**283**	**293**

Source: Inderes

Liabilities & equity	2018	2019	2020e	2021e	2022e
Equity	**131**	**132**	**141**	**148**	**155**
Share capital	11,9	11,9	11,9	11,9	11,9
Retained earnings	13,2	13,7	21,9	29,0	36,6
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	105	107	107	107	107
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	**93,9**	**107**	**89,0**	**75,3**	**75,3**
Deferred tax liabilities	12,4	12,8	12,8	12,8	12,8
Provisions	0,0	1,6	1,6	1,6	1,6
Long term debt	80,7	92,2	73,7	60,0	60,0
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	0,9	0,8	0,9	0,9	0,9
Current liabilities	**96,3**	**70,4**	**60,8**	**60,3**	**62,2**
Short term debt	20,8	17,0	6,5	5,0	5,0
Payables	75,4	53,3	54,1	55,2	57,1
Other current liabilities	0,1	0,1	0,1	0,1	0,1
Balance sheet total	**321**	**310**	**290**	**283**	**293**

Overview

Income statement	2017	2018	2019	2020e	2021e
Revenue	426,0	431,1	411,4	**416,3**	**424,6**
EBITDA	34,3	25,6	33,7	**42,4**	**45,0**
EBIT	15,0	4,6	8,1	**20,0**	**22,4**
PTP	12,4	-1,0	2,1	**14,2**	**17,2**
Net Income	14,5	-1,7	0,2	**11,0**	**12,9**
Extraordinary items	0,0	0,0	0,0	**0,0**	**0,0**

Per share data	2017	2018	2019	2020e	2021e
EPS (reported)	0,27	-0,03	0,00	**0,19**	**0,22**
EPS (adj.)	0,27	-0,03	0,00	**0,19**	**0,22**
OCF / share	0,47	0,63	0,58	**0,62**	**0,71**
FCF / share	0,11	0,37	0,37	**0,41**	**0,45**
Book value / share	2,54	2,27	2,31	**2,45**	**2,57**
Dividend / share	0,11	0,00	0,05	**0,10**	**0,13**

Balance sheet	2017	2018	2019	2020e	2021e
Balance sheet total	325,7	320,7	310,1	**290,4**	**283,4**
Equity capital	136,1	130,5	132,5	**140,7**	**147,8**
Goodwill	15,5	15,5	15,5	**15,5**	**15,5**
Net debt	83,2	73,7	71,4	**55,3**	**39,2**

Growth and profitability	2017	2018	2019	2020e	2021e
Revenue growth-%	2 %	1 %	-5 %	**1 %**	**2 %**
EBITDA growth-%	-22 %	-25 %	31 %	**26 %**	**6 %**
EBIT (adj.) growth-%	-41 %	-69 %	77 %	**146 %**	**12 %**
EPS (adj.) growth-%	-9 %	-111 %	-113 %	**4824 %**	**17 %**
EBITDA-%	8,1 %	5,9 %	8,2 %	**10,2 %**	**10,6 %**
EBIT (adj.)-%	3,5 %	1,1 %	2,0 %	**4,8 %**	**5,3 %**
EBIT-%	3,5 %	1,1 %	2,0 %	**4,8 %**	**5,3 %**
ROE-%	10,4 %	-1,3 %	0,2 %	**8,1 %**	**9,0 %**
ROI-%	6,2 %	1,9 %	3,4 %	**8,7 %**	**10,3 %**
Equity ratio	41,8 %	40,7 %	42,7 %	**48,4 %**	**52,2 %**
Gearing	61,1 %	56,5 %	53,9 %	**39,3 %**	**26,5 %**

Cash flow	2017	2018	2019	2020e	2021e
EBITDA	34,3	25,6	33,7	**42,4**	**45,0**
Change in working capital	-13,2	5,6	2,3	**-2,1**	**1,4**
Operating cash flow	25,3	36,3	33,5	**35,5**	**40,8**
CAPEX	-19,3	-15,0	-29,8	**-12,1**	**-15,1**
Free cash flow	5,9	21,5	21,2	**23,4**	**25,7**

Largest shareholders	% of shares
AC Invest two B.V	24,0 %
Oy Etra Invest Ab	13,3 %
Varma Mutual Pension Insurance Company	7,7 %
Euroclear Bank Sa/Nv	5,8 %
Ilmarinen Mutual Pension Insurance Company	5,2 %

Valuation multiples	2017	2018	2019	2020e	2021e
EV/S	0,8	0,4	0,5	**0,6**	**0,5**
EV/EBITDA (adj.)	9,9	7,5	6,1	**5,6**	**4,9**
EV/EBIT (adj.)	22,7	41,7	25,1	**11,9**	**9,9**
P/E (adj.)	16,4	neg.	>100	**16,5**	**14,1**
P/B	1,9	0,9	1,0	**1,3**	**1,2**
Dividend-%	2,5 %	0,0 %	2,2 %	**3,2 %**	**4,1 %**

Source: Inderes

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Recommendation	Upside potential*
Buy	> 15 %
Accumulate	5 - 15 %
Reduce	-5 - 5 %
Sell	< -5 %

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
29.4.2016	Accumulate	4,50 €	4,03 €
29.6.2016	Accumulate	4,50 €	3,93 €
9.8.2016	Reduce	4,80 €	4,58 €
21.9.2016	Accumulate	4,20 €	3,80 €
27.10.2016	Accumulate	4,60 €	4,34 €
1.2.2017	Accumulate	4,35 €	4,00 €
27.4.2017	Accumulate	5,10 €	4,77 €
11.5.2017	Reduce	5,10 €	5,00 €
22.6.2017	Reduce	5,10 €	4,87 €
24.7.2017	Reduce	4,70 €	4,81 €
9.8.2017	Reduce	4,70 €	4,90 €
30.10.2017	Reduce	4,50 €	4,42 €
14.12.2017	Reduce	4,25 €	4,43 €
31.1.2018	Reduce	4,25 €	4,40 €
6.4.2018	Reduce	4,00 €	3,88 €
27.4..2018	Reduce	3,50 €	3,55 €
4.7.2018	Reduce	3,50 €	3,40 €
6.8.2018	Reduce	3,30 €	3,40 €
14.9.2018	Sell	2,85 €	3,10 €
26.10.2018	Reduce	2,20 €	2,30 €
1.2.2018	Reduce	2,40 €	2,50 €
25.4.2019	Reduce	2,50 €	2,60 €
8.8.2019	Reduce	2,40 €	2,48 €
23.10.2019	Reduce	2,25 €	2,33 €
30.1.2020	Reduce	2,35 €	2,48 €
24.4.2020	Accumulate	3,25 €	3,02 €
13.5.2020	Accumulate	3,40 €	3,17 €

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Itämerentori 2
00180 Helsinki
+358 10 219 4690

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