Stockmann

Initiation of coverage

11/18/2022

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Inderes Corporate customer

This report is a summary translation of the report "Tavaratalot edelleen murheenkryyni" published on 11/18/2022 at 06:12 am.

Department stores still a source of grief

We expect Lindex's result to fall from the exceptionally high level in recent years and department stores to remain clearly cash flow negative in coming years, resulting in a cash-adjusted P/E of about 12x in 2023-24. We believe this is a neutral level and do not expect significant earnings growth even in the medium term. Lindex's large logistics investment in 2022-23 will reduce the company's net cash and we do not expect dividends for the next few years. This results in a low expected return. We initiate coverage with a Reduce recommendation and EUR 2.0 target price.

Stockmann department stores and Lindex clothing stores – over 80% of sales from fashion

Stockmann is a retail trade company with two chains: Stockmann department stores in Finland and Baltic countries and Lindex fashion chain, with main markets in Sweden and Norway but operations in 18 countries. As a whole, the Group is largely a fashion company, as fashion represents over 80% of revenue. Geographically, Lindex's strongest markets, Sweden and Norway, generate over half of Group sales and the other half is generated by the department stores' main market Finland, the Baltic countries and other countries (other countries only have Lindex operations).

Corporate restructuring mainly done, but disputed liabilities prolong it

Stockmann entered corporate restructuring in April 2020. The restructuring program was approved in February 2021, based on which, e.g., debts were restructured and the leases for department stores were renewed. Since then, the company has sold its properties in the Baltic countries and Helsinki and paid all confirmed restructuring debts with the proceeds. However, the company still has disputed liabilities related to terminated leases that must be resolved in one way or another before the restructuring program can be terminated. This is important for the company as it cannot, e.g., make larger structural arrangements or pay dividends during the program. However, the disputes can take years.

We expect Lindex's earnings to fall from the top level in recent years

In 2021-22 Lindex achieved its best earnings in its history, with a rolling 12m EBIT of up to EUR 100 million. However, this has been supported by an exceptionally good gross margin and ratio of fixed costs to sales. We believe that the result will weaken in the coming quarters, as already seen in Q3. This is driven, e.g., by the increase in purchasing costs with a stronger USD, weakening demand as consumers' purchasing power decreases and inflation pressure in fixed costs, especially in rents. We expect Lindex's normalized performance to be about EUR 70 million, or a margin of around 10%, which is a good level considering the history and peers. For the Stockmann division, we expect the small loss to continue in the next few years. It should be noted that a large part of the rental costs of department stores are not reflected in the EBIT, so even with a zero result the Stockmann division is clearly cash flow negative.

Earnings-based valuation neutral, we see no potential for the sum of the parts value to be released in the near term

Our estimate for Stockmann's 2023-24 P/E ratio adjusted for lease liabilities and cash is about 12x and EV/EBIT about 9x. We consider these levels neutral for Stockmann. Our sum of the parts value is over EUR 3, but we believe that its release would require a clear improvement in the performance of department stores, which we do not see happening in the coming years. On the other hand, if Lindex's result remained at the recent level, the earnings-based valuation would also be attractive (2022e P/E 6x). In the longer term, we do not expect significant earnings growth and the Group's return on capital is below our required return. The declining performance trend in the near future and the negative cash flow (due to the logistics investment) depress the expected return and thus support our negative view.

Recommendation

Reduce

EUR 2.00

Share price:
1.98

Key figures

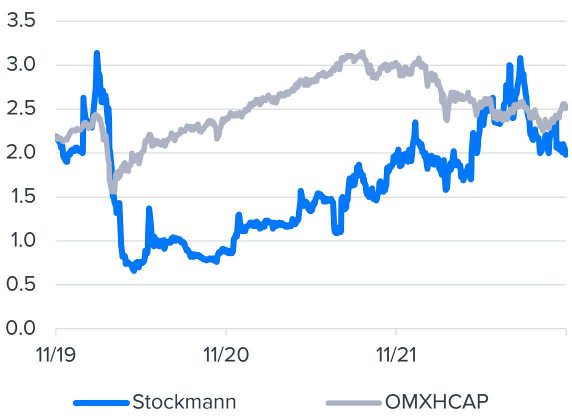
	2021	2022e	2023e	2024e
Revenue	899.0	989.1	970.0	990.0
growth-%	14%	10%	-2%	2%
EBIT adj.	68.3	81.2	64.0	60.0
EBIT-% adj.	7.6 %	8.2 %	6.6 %	6.1 %
Net Income	47.9	99.9	26.9	24.3
EPS (adj.)	0.32	0.30	0.17	0.15
P/E (adj.)	6.1	6.5	11.6	13.2
P/B	1.1	0.9	0.8	0.8
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	13.0	9.9	13.3	14.0
EV/EBITDA	4.8	3.1	5.0	4.8
EV/S	1.0	0.8	0.9	0.8

Source: Inderes

Guidance (Unchanged)

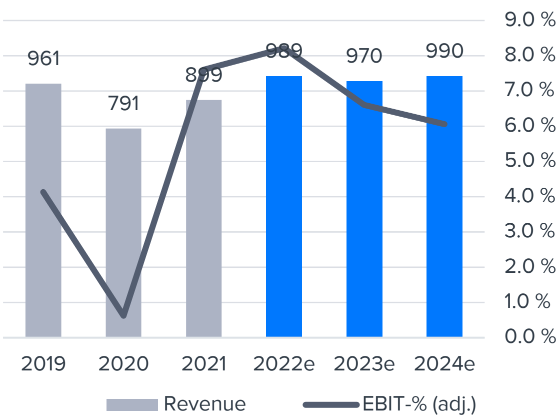
Stockmann's expects an increase in the Group's revenue and that the adjusted operating result improves compared to previous year

Share price



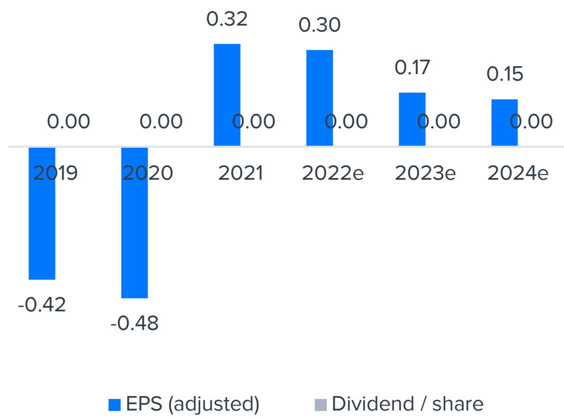
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Lindex's cash flow and value creation
- Gradual improvement in the profitability of department stores
- Corporate restructuring ending, which enables, e.g., dividend distribution and structural arrangements

Risk factors

- Department stores destroy value and we see no change to this in the next few years
- During and after the restructuring, Stockmann's access to funding may be limited
- Lindex's result, like the fashion industry in general, has been unpredictable

Valuation	2022e	2023e	2024e
Share price	1.97	1.97	1.97
Number of shares, millions	155.0	158.0	162.5
Market cap	307	307	307
EV	804	848	840
P/E (adj.)	6.5	11.6	13.2
P/E	3.1	11.6	13.2
P/FCF	1.3	neg.	9.7
P/B	0.9	0.8	0.8
P/S	0.3	0.3	0.3
EV/Sales	0.8	0.9	0.8
EV/EBITDA	3.1	5.0	4.8
EV/EBIT (adj.)	9.9	13.3	14.0
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Contents

Stockmann in brief

Stockmann is a retail trade company with two chains: Stockmann department stores in Finland and the Baltic countries and Lindex fashion chain, whose main markets are Sweden and Norway but the chain operates in 18 countries

1862
The year of Stockmann's establishment

2/2021

Corporate restructuring program is approved

989 MEUR
Revenue 2022e

81 MEUR **(8.2% of revenue)**
Comparable EBIT 2022e

68%
Share of Lindex in the Group's revenue in 2021

19%
Share of e-commerce in the Group's revenue in 2021

6,449
Personnel at the end of Q2’22

1862–1988

- Stockmann grows in Finland, expanding its department store network
- Stockmann expands its business by acquiring Academic Bookstore, grocery store chain Sesto, mail order company Hobby Hall, fashion chain Seppälä and by entering the car business.

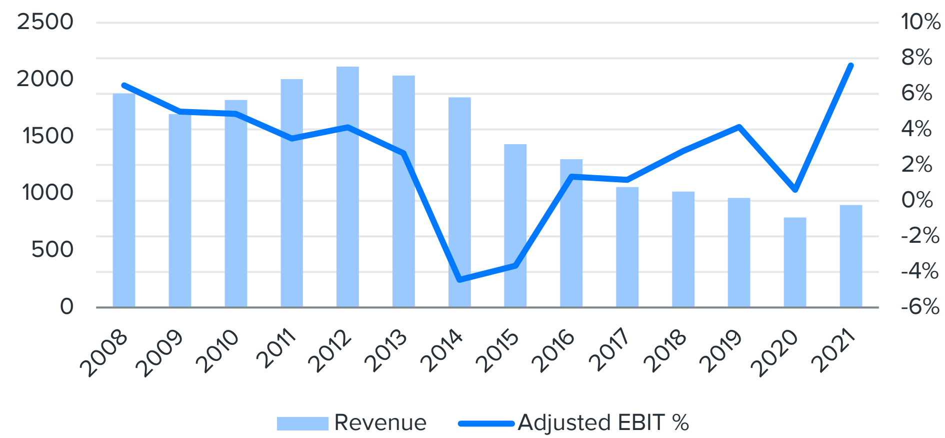
1989–2011

- International expansion: department stores are opened in the Baltic countries and Russia
- Purchase of the Lindex fashion chain in 2007
- Divesting the car business and Sesto

2012-

- Academic Bookstore, Seppälä, Hobby Hall, the food departments of the department stores in Finland (Delicatessen), Russian department stores and shopping mall property are sold
- The Oulu department store is closed
- In the early stages of the COVID pandemic Stockmann applied for corporate restructuring during which the remaining properties are sold in 2021-22

Stockmann's revenue (MEUR) and profitability development



Source: Stockmann

Company description and business model 1/11

Stockmann is clearly divided into two divisions

Stockmann Group's history lies in the Stockmann brand department stores. Over the years, the company has had many retail business activities and also significant real estate holdings, but today Stockmann as a company is divided into two different retail chains. These are the Stockmann department stores in Finland and the Baltic countries and the fashion chain Lindex, which operates internationally, although the Nordic countries are its clear main market. Stockmann reports the financial figures for the two chains as separate divisions. We will discuss the Group's history and ongoing corporate restructuring in more detail later in the report.

Given the clear differences between department stores and Lindex in terms of geographical coverage, profitability profile, number of stores, product portfolio and growth potential, we do not think that the Group's joint figures are very descriptive. Therefore, we handle the two businesses primarily separately in this report.

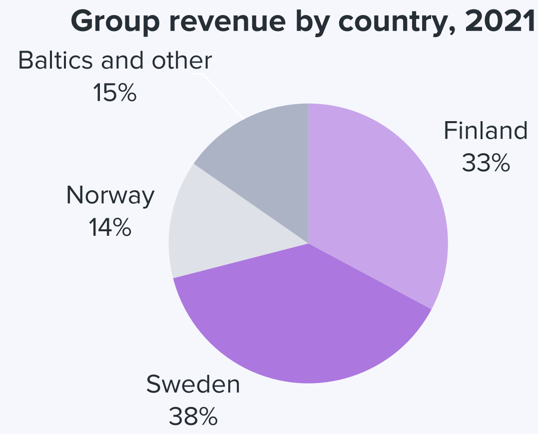
However, as a whole, the Group is largely a fashion company, as fashion represents over 80% of revenue. Geographically, Lindex's strongest markets, Sweden and Norway, generate over half of Group sales and the other half is generated by the department stores' main market Finland, the Baltic countries and other countries (other countries only have Lindex operations).

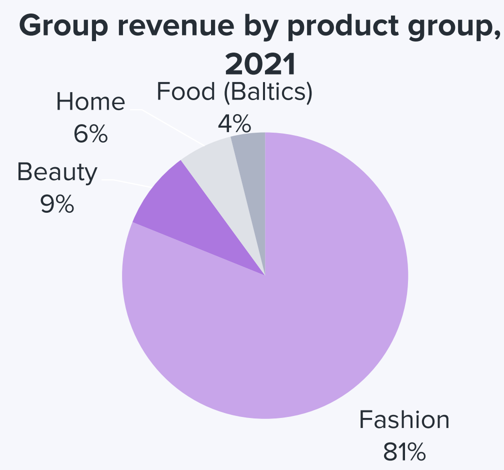
Group synergy mainly in procurement

Given the different nature of the chains, it is justified to ask what synergies the two chains have. Originally, when Stockmann bought Lindex in 2007, its aim was to promote the expansion of Lindex, especially to Russia and the rest of Eastern Europe, and to achieve cost synergy. We understand that this is no longer relevant.

We believe the main synergy between the chains is that the own brand clothing of Stockmann's department stores is acquired through Lindex's purchasing offices. In department stores, own brands, however, account for only 10-20% of revenue, and only a part of this is clothing, so we do not expect there is much synergy. Some synergies could also be achieved in administration, but we understand that Lindex is a rather independent company within Stockmann, so synergies are not significant here either.

Stockmann's plan was to sell Lindex in 2020, but the process came to a halt with COVID, which drove Stockmann to corporate restructuring. We believe that this indicates that the two existing chains could easily function as separate companies. However, this is not possible during the implementation of the restructuring program. Potential separation of Lindex would also require a clear and lasting improvement in the performance of department stores for them to survive as an independent company.





Source: Stockmann

Company description and business model 2/11

Lindex sells its own brands

Lindex is one of the major fashion chains in Europe, and especially in the Nordic countries, it has a strong position. However, due to extensive competition its market share is not very high even in the Nordic countries. We estimate that the market share in the Nordic region is 5-10%. It has more than 400 stores in 18 countries and 34 e-commerce markets. Lindex's goal is to empower and inspire women. In slightly more concrete terms, it offers fashion at a suitable price for fashion-conscious women. Its main target group is adult women.

Its product groups are womenswear and kidswear, lingerie and cosmetics. There are some differences in the characteristics of the product groups. Kidswear and lingerie are very stable product groups, the demand for which does not vary significantly, e.g., based on fashion trends or economic cycles. We, therefore, find it positive for Lindex that these product groups represent around 2/3 of its revenue. Lingerie also has the best profitability among Lindex's product groups. We believe that womenswear is clearly most cyclical, both in terms of fashion trends and the economy. However, Lindex has deliberately moved its range in a less cyclical direction in recent years. This was done in response to a very poor result in 2017, due to the failure of the collection.

Lindex's products are almost entirely, over 95%, its own brands. We feel this is important today when online shopping enables easy price comparison. As Lindex's products are entirely its own, there is no direct price pressure from other stores on its products, and it can extend its distribution to third-party online stores as Lindex has already done. Lindex is also supported by a large number of loyal customers, 5.4 million at the end of Q3, growth of around one million y-o-y.

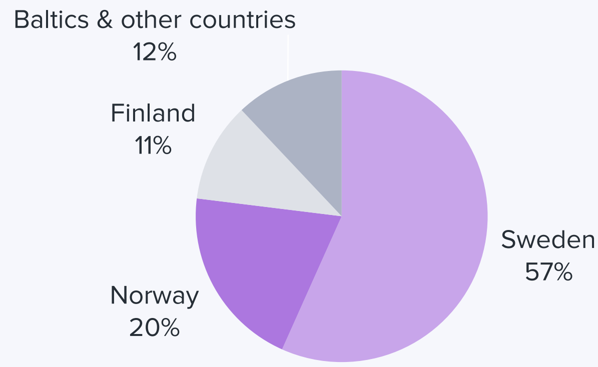
Neither Stockmann nor Lindex have their own production, the own brands come from contract manufacturers. Orders are placed either directly or through the Lindex purchasing offices. At Group level, good 70% of the purchase volumes are delivered through the purchasing offices. Lindex has five of them in Bangladesh, Hong Kong, India, China and Turkey. Lindex has an efficient supply chain and uses around 100 different suppliers with around 150 factories. The 30 largest suppliers accounted for 75% in 2021. For Lindex, Bangladesh is by far the largest manufacturing country, with almost half of the orders coming from there in 2021.

All of Lindex's products pass through its distribution centers located in the Gothenburg area. Lindex is investing EUR 110 million in a new omni-channel distribution center to be completed in 2024, which will increase its capacity and improve efficiency.

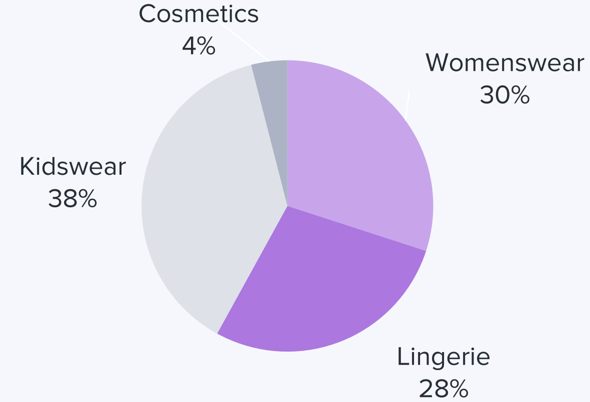
Mainly own stores, but some franchising countries and e-commerce

Lindex's products are mainly sold through its own stores and online stores. At the end of the Q3'22, it had its own stores in nine countries and a total of 404 stores. In addition, it has franchising business in nine countries with 32 stores in total. Altogether, there are 436 stores.

Lindex revenue by country, 2021



Lindex revenue by product group, 2021



Source: Stockmann

Company description and business model 3/11

The number of stores has decreased, both in terms of own and franchising stores, from 2017 when there were almost 450 own stores and nearly 500 stores in total. This is explained by the closure of unprofitable stores, the growth of online sales and the closure of the Saudi-Arabian franchise (with over 20 stores in 2015-17).

e-commerce grew during COVID years

Lindex has had its own online store for more than 10 years, but its importance was limited until 2017. In 2017, e-commerce accounted for only 3% of Lindex's sales. In 2018, the company signed its first partnerships with third-party online stores as sales of its products begun in ASOS and Nelly online stores. Since then, the online stores Zalando, Boozt and Next have also become partners/distribution channels. As COVID closed stores and reduced the mobility of people in 2020-21, the share of e-commerce in Lindex's sales rose to 20% in 2021.

We believe that the growth in online sales has partly been at the expense of sales in stores but has also partly brought completely new sales to Lindex. This increase in sales is particularly evident in markets outside the Nordic countries, where there are relatively few Lindex stores and online shopping is the easiest way for many to shop at Lindex.

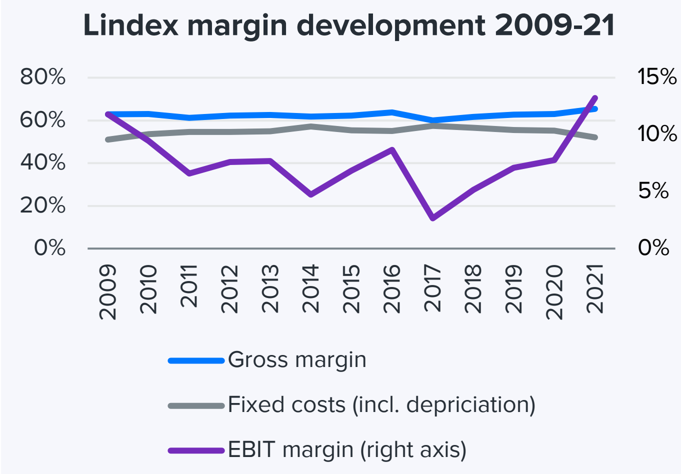
Cooperation with the above mentioned international online stores has also opened completely new markets for Lindex's products, where it may not have any stores at all. To our understanding sales via third-party platforms are still clearly smaller than in their own online stores. However, it was more than doubled in 2021 and compared to Lindex's operating countries, third party sales were the fourth largest 'country' measured in volume. In terms of revenue, the impact is reduced and comparison muddled by the fact that Lindex is a wholesaler to third parties, which means is does not receive a retail margin and thus the revenue recorded for the same product is clearly lower. This was only about 3% of the Group's revenue in 2021.

Gross margin is high

Lindex's gross margin has been over 60% on a regular basis and reached 62.5% on average in 2009-21. It was even better in 2021 and H1'22 at around 65%, which is the best in Lindex history. The gross margin level is very strong and, e.g., higher than for the biggest competitors H&M and Inditex. The high gross margin level is supported by focus on own brands and thus management of the entire value chain. The previously mentioned steady demand for lingerie and kidswear also reduces risks related to, e.g., seasons or collections and bargain sales.

Because Lindex has outsourced all manufacturing, its manufacturing costs are indirect. One of the main raw materials for its contract manufacturers is cotton and other significant cost items are labor and logistics. However, the individual cost items account for a small share of the final product price and Lindex's contract manufacturers face cost pressure and 'filter' part of it before Lindex.

Source: Stockmann



Source: Stockmann, Inderes

Company description and business model 4/11

This helps Lindex adapt to cost inflation and it aims to increase its prices as costs increase. However, the fashion industry is fiercely competitive and passing on higher costs to prices is not a given. Lindex also strives to keep the price level reasonable. Increasing costs are therefore always a type of risk to margins.

We believe that Lindex's purchases are mainly made in USD, which exposes the company to currency risk. A strong USD relative to its main selling currencies (SEK, NOK, EUR) raises Lindex's costs. The company has, however, hedged its USD position, so the currency effect has a delay of about 6-9 months. Thus, the strengthening of the USD that started last winter, was only reflected in the Q3'22result. The company must react to this with price increases if it wants to maintain its current margins.

Historical sales development is only slightly rising in local currencies

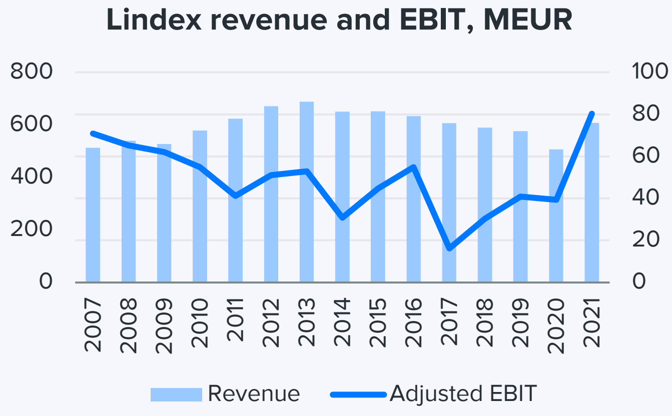
Based on Lindex's reported figures once could assume that sales were on a long downward trend until 2020. This is, however, the wrong interpretation in that most of the decrease has been caused by weakening currencies, in particular the Swedish and Norwegian krona against the euro. With comparable exchange rates, Lindex's revenue has grown on average by good 1% in 2011-19. This is still a modest figure, especially given that the number of Lindex stores increased by about 5% during that period. We estimate that this reflects the slow growth in the Nordic clothing market as a whole and is highlighted in affordable fashion represented by Lindex by the aim to keep prices low and thus inflation does not support revenue growth much.

EBIT has fluctuated in the past

Lindex's fixed costs consist mainly of store rents (all stores are in rental premises) and personnel costs. Marketing and IT costs, for example, are also included in this group. We also include depreciation in this group to obtain reasonable comparability with the current IFRS 16 reporting, where rents are mainly included in depreciation and reporting used until 2018 where they are included in costs.

Lindex's fixed costs relative to revenue has fluctuated between 51% and 57% in 2009-21 with an average of 55%. Tight cost control during COVID, closure of unprofitable stores and the recent increase in sales have pushed the figure down to 52% in 2021 and this year close to 50%.

Although Lindex's gross margin is high, its fixed costs relative to sales are also high. This has historically made EBIT and the EBIT margin volatile. Lindex's adjusted EBIT has varied between EUR 16-80 in 2009-21, and the margin correspondingly between 2.7% and 13% (the figures for the last 12 months are even better). The average of these over the same period is approximately EUR 45 million and 7.5%. 2017 shows the business risk well: The failed collection led to a drop in sales and, due to bargain sales, the gross margin also decreased. Due to the decrease in sales, fixed costs/sales also increased and resulted in a drop of 6 percentage points in the EBIT margin while absolute EBIT decreased by 70%.



Source: Stockmann

Source: Stockmann, Inderes

Company description and business model 5/11

An opposite trend was seen in 2021 and H1'22: improvement in sales and the gross margin has resulted in strong operating result growth.

Result in Central Europe has improved clearly

Stockmann's reporting also partially opens Lindex's revenue and result geographically. Here we can see that Sweden accounts for the overwhelming majority of Lindex's result, over 85% of the operating result last year. Sweden's large share is partly explained by the fact that Swedish figures also include sales to partners. The company also uses the transfer pricing model, with which we believe a majority of profits are transferred to Sweden. This pricing model was introduced in 2018 and at least since then geographic figures cannot be considered representative of the actual result.

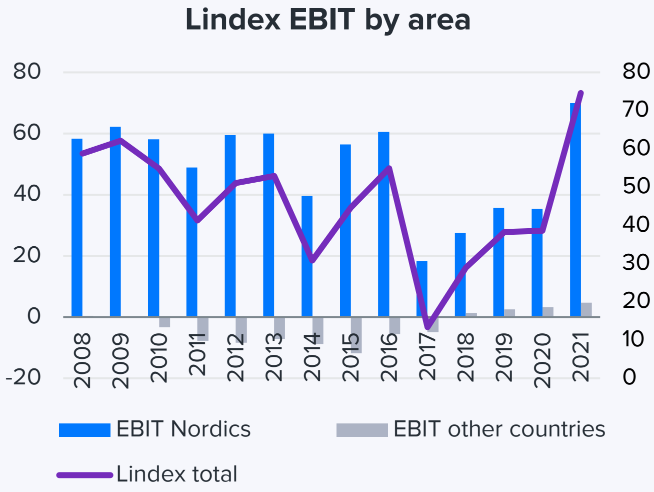
In 2009-2017, we estimate that Lindex generated losses outside the Nordic countries at EBIT level. When we also consider that Lindex's Baltic operations have been profitable, the operations in Central Europe have clearly been loss-making from time to time. We therefore find it interesting that Lindex has managed to turn the business that at worst generated a loss of over EUR 10 million (2016) outside the Nordic countries to some EUR 5 million (2021) in EBIT. We believe that this has been affected at least by the exit from Poland (where the company had its own stores), the increase in brand awareness (Central Europe is still a relatively new market for Lindex) and the growth in e-commerce, which has allowed sales to grow without attire-related expenses. Looking at the above historical figures, it should be noted that outside the Nordic countries, Lindex recorded a small operating loss on average in 2009-17, while we believe that the company will be able to generate a profit there in the future. We estimate that Lindex has generated an average EBIT level of some EUR 50 million in Sweden, Norway and Finland in 2009-17.

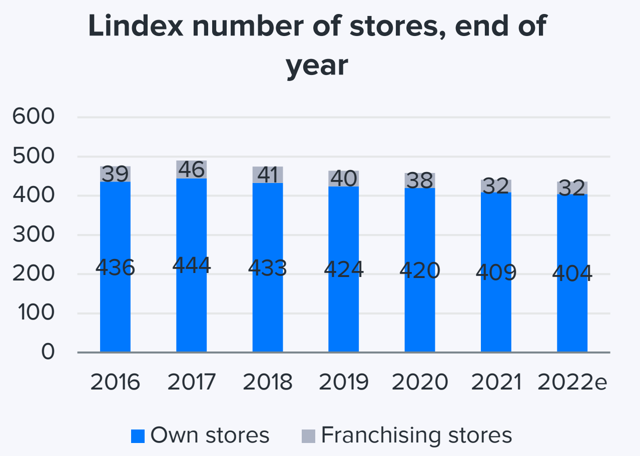
Strategy and management

Lindex aims at 1) developing strong global brand ranges, 2) moving to a sustainable business model, and 3) moving to a global, digital first multi-channel enterprise.

In our view, objectives 1 and 3 crystallize international growth with e-commerce in the forefront (either own or through a partner). Lindex has been expanding for years either through franchising partners and/or e-commerce. The new logistics center will also enable continued growth especially in e-commerce deliveries. It has not opened own stores in a completely new market since 2015. However, the company says this is not out of the question.

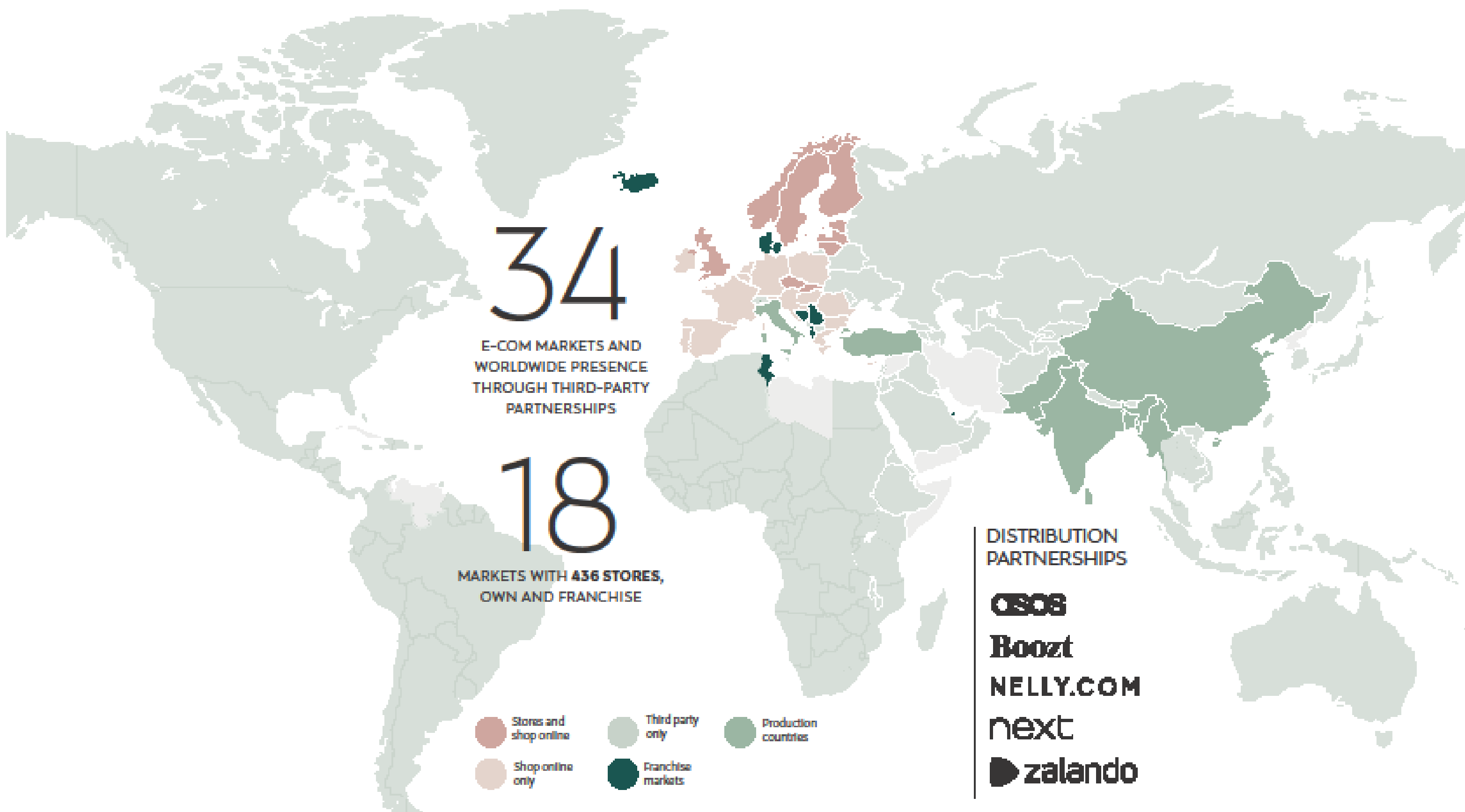
Lindex CEO is Susanne Ehnbåge, who started her position in August 2018. Shortly after she started, she hired Annelie Forsberg as Lindex's CFO, who since spring 2022 has also been Stockmann's CFO. In our view, the present management has done a good job at Lindex and, despite the challenges during COVID, the company has recently managed to improve its result considerably.





Source: Stockmann, Inderes

Company description and business model 6/11 – Lindex operating countries, Q322



Source: Stockmann

Company description and business model 7/11

Stockmann – department stores in Finland and the Baltic countries

The Stockmann division consists of six department stores in Finland and two in the Baltic countries and online stores in these countries. Stockmann is positioned as a premium level store. The largest product group by far of department stores is fashion. Stockmann primarily sells brand products from other manufacturers and, in line with its positioning, more expensive products. Stockmann has not opened the share of different product groups within fashion in more detail, but we expect it to focus more on, e.g., business and formal attire than the total market, which affected demand in the COVID years. Other important product groups are home and beauty (cosmetics), which we believe to be the most profitable product group. Stockmann now only has own grocery sales in the Baltic department stores, after it sold the Finnish Stockmann Delicatessen business to the S-Group at the end of 2017. Excluding groceries, we believe that department store demand is cyclical to some extent, i.e., dependent on the economic situation.

Only 10-20% of department store sales are own brands. Thus, most of the products offered at Stockmann are also sold in some other store, which exposes Stockmann to price competition. We believe that this is particularly evident in e-commerce. Stockmann's loyal customer program (MyStockmann) has about 1.4 million members.

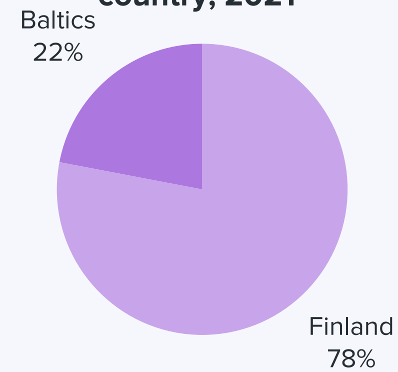
Stockmann has no own production, its own brands come from contract manufacturers and third-party brand products naturally from these companies, who typically have their own subcontractors. For own brands, orders are placed either directly or through the Group's purchasing offices. At Group level, good 70% of the purchase volumes are delivered through the purchasing offices. Lindex has five of them in Bangladesh, Hong Kong, India, China and Turkey. Stockmann department stores use a total of some 125 different suppliers, which have over 150 factories. For Stockmann's own fashion brands, China is by far the largest sourcing country (60%) and for own home products, purchases are mainly made in the EU (57%).

Altogether, the Stockmann division has about 1,500 product suppliers. Nearly all products of the department stores, including the Baltic countries (except groceries and cosmetics), pass through the distribution center in Tuusula that was completed in 2016.

The floor area of the department stores has decreased

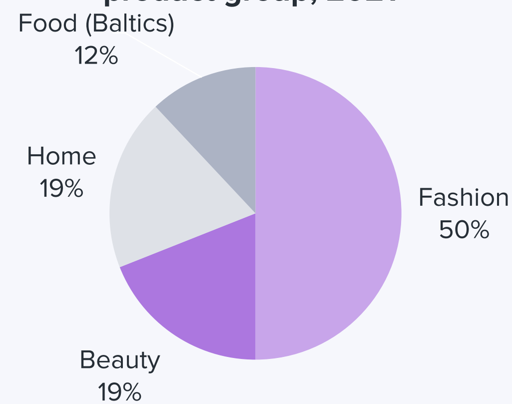
The newest of the current department stores is the one in Vantaa in the Jumbo shopping mall, opened in 2005, and in 2014 the company expanded its department store in Tampere. Since then, the sales area of department stores has been reduced by a number of measures, such as renting parts of the owned properties at the time to third parties, reducing the rental areas of department stores and closing the Oulu department store in 2017.

Stockmann division revenue by country, 2021



Source: Stockmann

Stockmann division revenue by product group, 2021



Source: Stockmann

Company description and business model 8/11

Although Stockmann sold its properties as part of the restructuring process, it leased back the properties in full and thus still subleases parts of the properties like before.

Of the total 50,000 square meters floor area of the department store property in the center of Helsinki, 34,000 square meters were used by Stockmann's own operations at the end of 2018, when data was last published. Correspondingly, Stockmann used about 18,000 square meters in Tallinn and some 12,000 square meters in Riga. The rest of the floor area of these own properties was, and is, subleased by Stockmann. Stockmann's remaining department stores have historically been around 10,000 square meters, but with abandoning the food departments and other changes, we estimate that the floor areas are now 5,000-10,000 square meters depending on the department store. Thus, a significant part of department stores' sales in Finland is generated from the department store in the center of Helsinki. Previously Stockmann aimed at a similar concept and product selection in all of its department stores of the same size. In recent years, however, the size of the premises and the profile of the department stores have been adjusted more to suit local demand, as the company says that the customer profile varies considerably even between department stores in Finland.

The floor area will continue shrinking in spring 2023, when the premises of the Itis department store are reduced to only 4,000 square and Stockmann will adopt a new concept in the smaller premises. With these changes, selling of the Finnish Stockmann Delicatessen (2018), Russian department stores (2016), Hobby Hall (2016) and Academic Bookstore (2015), and changes in reporting, historical figures are not fully comparable with the current structure.

e-commerce grew during COVID

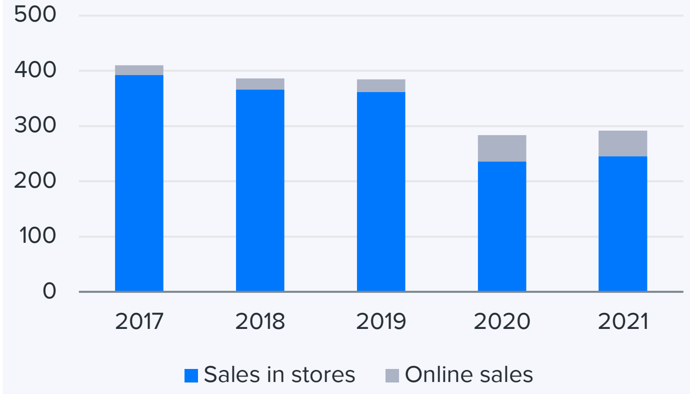
The share of e-commerce in department store sales was 6% in 2019 but increased to over 15% during the COVID era. However, overall sales decreased clearly despite this. We believe that it is difficult for the department stores to compete online when pricing is linked to the conventional brick-and-mortar business model with a heavy cost load and, on the other hand, many products are also available in other stores.

Department stores' gross margin is okay…

The name and content of the unit reported as Stockmann's department store operations has varied over the years, but it is nevertheless clear that the sales of department stores have been structurally declining for the past 10 years.

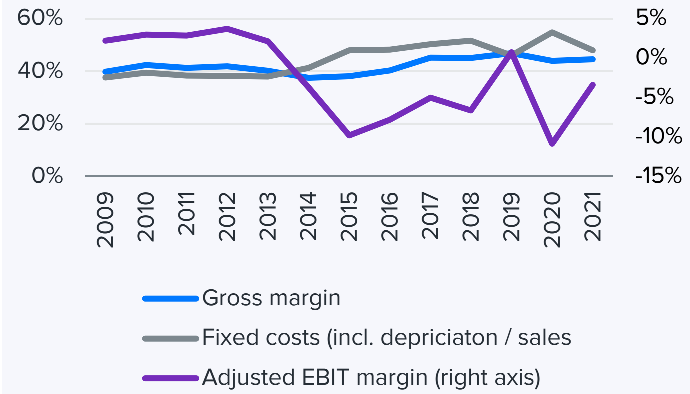
With the figures reported by the company, the gross margin varied between 37-42% in 2009-2016, which was negatively affected at least by lower margins in the Academic Bookstore, Hobby Hall and grocery trade compared to the current business. Thus, a better comparison period is from 2017 onwards, when the gross margin has been on both sides of 45%. We believe that this is a fairly normal and a reasonably good level for a retailer like Stockmann. We expect a more significant change in the gross margin would only come through a clear change in the product portfolio, e.g., by abandoning the grocery trade in the Baltic countries.

Department stores sales distribution



Source: Stockmann

Department stores margin development 2009-21



Source: Stockmann, Inderes *Stockmann / Stockmann Retail division figures

Company description and business model 9/11

As indicated, most of the products of the department stores are purchased from third parties and therefore the purchase prices of the sold products are not directly under pressure from any individual cost item. Due to the length of the supply chains, possible changes in, e.g., raw material prices may not be significantly reflected in Stockmann's purchase prices. In terms of currencies, Stockmann is in a better position than Lindex, as almost all purchases are carried out in euros. All in all, we believe that the gross margin level in department stores is well under control.

... but fixed costs must be cut

Until 2013, the fixed costs of department stores were under 40% of its revenue. The average for 2017-21 was 50%, with a range from 46% in 2019 to 55% in 2020. After Stockmann sold its Baltic properties at the end of 2021 and the Helsinki property in the spring of 2022, all its department stores now operate in rented premises. It should be noted that after the sale of the properties, Stockmann pays rent for its department stores, which has a significant negative earnings impact that is partly directed at financial expenses and not the EBIT level (more details about this in the estimate section) and is not fully reflected in the income statement.

Stockmann has signed long lease agreements for recently sold properties, but in the remaining five smaller department stores we believe that the lease agreements are only a few years (max. 5 years) and/or valid for the time being. In terms of the department store network, Stockmann is therefore committed to three larger department stores, but the smaller department stores in Finland can very well be further reduced and/or closed. In Itis, this will happen already next spring, when Stockmann's premises become smaller and department store operations in their current form are discontinued. Similarly, at least in Tampere, more premises are rented to external operators.

As a result of the company restructuring, the rents were clearly cut from the beginning of last year, which has supported the positive performance of department stores. At the same time, however, lease agreements became more sales-related, which means that when sales make and upturn rents partly follow suit and thus reduce the earnings leverage generated by sales growth.

Geographically, we estimate that Stockmann's department stores in the Baltic countries have been able to generate a profit until 2019. Although the Baltic department stores were owned by the company until the end of 2021, Baltic operations have paid internal rent for them. Thus, the sale and leaseback of properties made at the end of last year should not have a significant impact on the profitability of the Baltic department stores. We expect that the Baltics will be able to achieve slightly positive earnings/cash flow in the future and thus the Finnish department stores will play the key role in cutting losses. However, it is not easy to cut losses, e.g., by closing down weaker department stores, because scaling down fixed costs is not an easy task and cannot be done in advance. Stockmann has been grappling with this problem for years as department store sales fell, and we believe that this challenge will continue in the coming years.

Stockmann department stores	Lease length (years)
Helsinki City Center	20
Itis, Helsinki (concept will change in spring 2023)	3
Jumbo, Vantaa	0-5
Tapiola, Espoo	0-5
Tampere	0-5
Turku	0-5
Tallinn, Estonia	15-20
Riga, Latvia	15-20

Source: For Helsinki city center Stockmann, others Inderes' estimates

Company description and business model 10/11– department stores' product groups

Product group	Description	Examples of own brands	Examples of other brands	Share of department stores' revenue in 2021
Fashion	▪ Clothing, shoes, accessories, etc. for women, men and children ▪ Also sportswear ▪ Own brands 10-20% of sales	ESSENTIALS by Stockmann, CONSTRUE	BURBERRY, BOSS HUGO BOSS, POLO RALPH LAUREN	50%
Beauty	▪ Cosmetics like make-up, hair care and scents ▪ Mainly other brands		CHANEL, BYREDO PARFUMS	19%
Home	▪ E.g. interior decoration, tableware, lighting, kitchen and gardening products ▪ Own brands 10-20% of sales	villa STOCKMANN, CASA STOCKMANN	Villeroy & Boch	19%
Food	▪ Stockmann owns the food departments of two Baltic department stores			12%

Source: Stockmann

Company description and business model 11/11

Foundations still biggest owners, but special situation fund now has over 10% holding

Stockmann's ownership has historically been held by Finland-Swedish foundations. Previously, this was strengthened by the fact that they held Series A shares, which concentrated voting power in their hands. As part of the corporate restructuring, the share series were combined last year. Currently Stockmann's largest domestic owner is Konstsamfundet, a long-standing contributor to the company, with a share of good 10%. So they alone can prevent, e.g., a redemption of Stockmann's shares.

Even greater, or at least equal, ownership has emerged last year as the Denali European Opportunities fund, managed by North Wall Capital, acquired shares in Stockmann. North Wall focuses on special situations in Western Europe, albeit more on the debt side. North Wall/Denali became Stockmann's owner in part by purchasing Stockmann's bonds and converting them into shares in connection with the corporate restructuring. Denali European Opportunities has flagged a holding of over 10%, i.e., its holding is 10-15%.

Other major shareholders are Varma Mutual Pension Insurance Company with an 8% holding and Svenska Litteratursällskapet with a 7.5% holding. These four owners also nominated their candidates to Stockmann's Nomination Board, which elects the members of the Board of Directors. The participation of North Wall's representative in the Nomination Board indicates that they also want to have their candidate on the Board and influence the company's operations.

The Management Team's shareholdings are small

Stockmann Group's Management Team is very limited. It includes Jari Latvanen, CEO, Susanne Ehnbåge, CEO of Lindex, Annelie Forsberg, CFO of Lindex and Stockmann Group, Jukka Naulapää, Chief Legal Officer and Tove Westermarck, COO.

Latvanen has long experience, especially in the food industry, but no retail trade experience before arriving at Stockmann in 2019. To our understanding, Latvanen's main task at Stockmann is to turn the department stores around as we do not believe he interferes much in Lindex operations, even though he formally is the boss of Lindex's CEO. Ehnbåge and Forsberg both joined Lindex in 2018 prior to which both worked at the home electronics company NetOnNet. Naulapää and Westermarck are long-standing Stockmann employees, both have worked in the company for over 20 years.

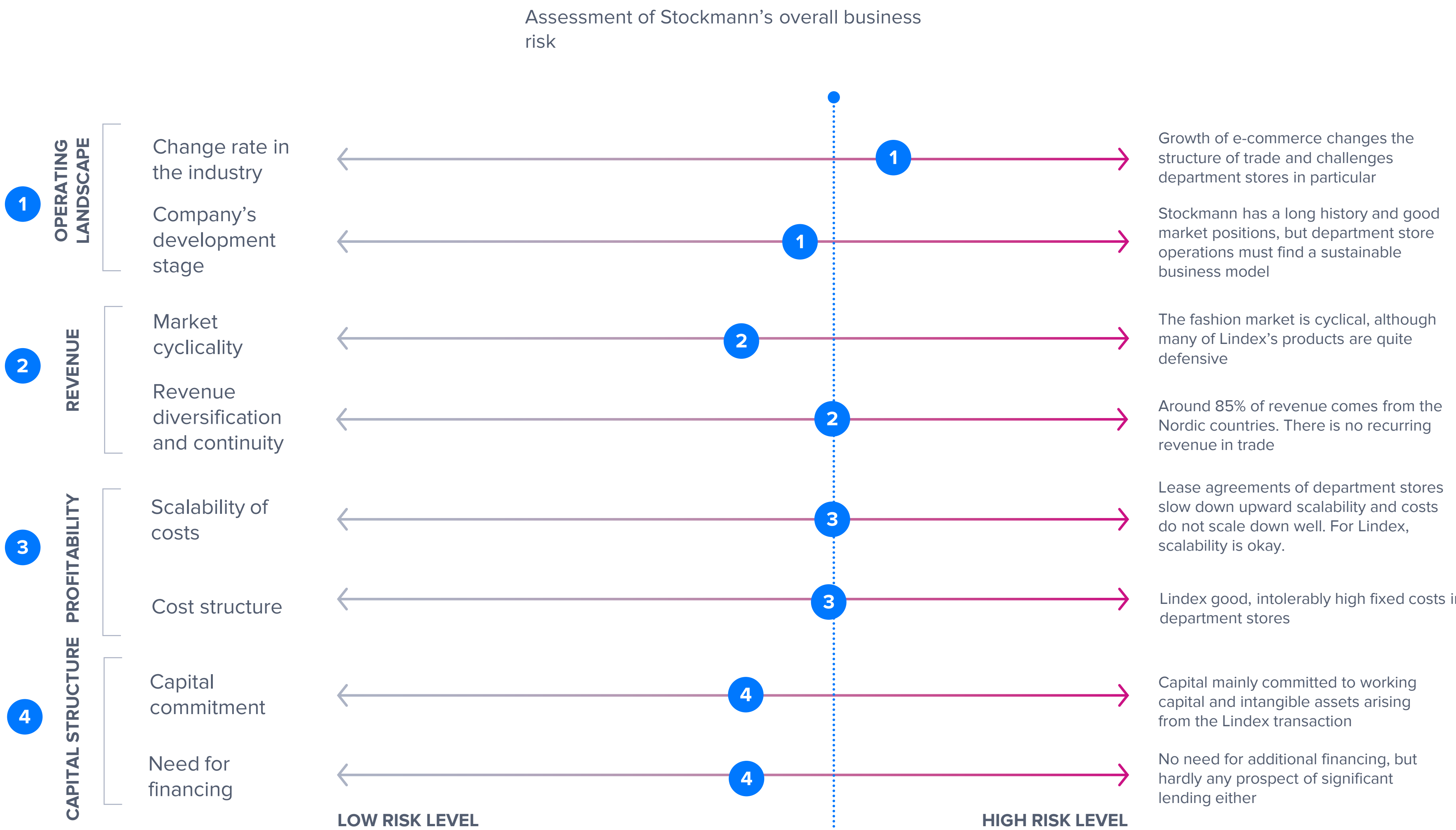
The shareholding of the Management Team is very small, Ehnbåge and Forsberg bought 4,000 shares each earlier this year, and apart from this only Westermarck has a 1,000 share holding in the company. We would like to see clearly larger management holdings and thus relevant to, e.g., their annual income, which is currently not the case for anyone.

In August, Stockmann announced a share-based incentive scheme for 2022-24, which will allow a maximum of 2 million shares to be distributed to 40 persons. The performance targets are total shareholder return, revenue, EBIT and climate neutrality.

Largest shareholders*	10/31/2022
Föreningen Konstsamfundet group	10.4%
Varma	8.1%
Svenska Litteratursällskapet	7.5%
Hc Holding Oy	4.1%
Etola-yhtiöt	3.9%
Kari Niemistö	3.3%
Folkhälsan Samfundet	1.8%
eQ Pohjoismaat Pienyhtiö	1.7%
Ilmarinen	1.3%
OP Life Assurance Company Ltd	1.0%

Source: Inderes *does not include nominee-registered owners

Risk profile of the business model



Source: Inderes

Investment profile 1/2

1. Lindex performance is good
2. Lindex can generate low risk and value-creating growth
3. Balance sheet net cash positive, excluding lease liabilities
4. Turning department stores cash flow positive seems difficult
5. Department stores destroy value
6. Selling / listing of Lindex could create value, but it is not possible in the next few years

Potential

- **Turnaround in department stores:** If Stockmann can turn the sales/square meter of department stores clearly up, department stores can generate a positive result, which we believe would be of great importance to the company's value and image
- **Lindex geographical expansion/better profitability than expected:** Lindex aims to grow internationally, however, mainly through third-party online stores and the franchising model. This still has significant potential for Lindex that is highly Nordic. Lindex's earnings remaining at the current level would also be clearly positive for the share
- **Selling/separation of Lindex from the company:** During the restructuring program, the company cannot sell Lindex. However, if the department stores can be turned to sustainably generate positive earnings and cash flow, we believe that this is possible in the medium term. We believe, however, that its importance for Stockmann's value decreases if the department stores are also able to achieve positive performance.
- **Dividend distribution:** During the restructuring program, the company cannot distribute dividends. However, the company is net debt-free, so it should be able to distribute dividends when the restructuring is over.

Risks

- **The decline in consumer purchasing power and cost inflation are clear risks for short-term earnings and create cyclicality in general**
- **New crisis in department stores:** If the sales of department stores fall further, the loss spiral can deepen. There are limited ways of remedy this quickly.
- **Product range/collection failure:** Lindex failed with its collection in 2017, which resulted in a staggering earnings drop. A similar event would put the company in a tight spot, especially if the department stores are loss-making.
- **Financing risk:** Since Stockmann has sold its real estate, we believe it is more difficult to obtain financing. Thus, offsetting potential negative cash flow with debt financing is not possible at least for very long.

Source: Inderes

Industry and market overview 1/4

Stockmann's main market is the fashion/clothing market in the Nordic countries, especially in Finland for department stores and in Sweden and Norway for Lindex. Stockmann's customers are consumers and therefore the most important market drivers are consumer purchasing power and consumer confidence, which affects their willingness to consume.

Competitor field in fashion is vast

For Lindex, the competitor field is quite wide, but many competitors are present, especially in all Nordic countries, some also internationally. For example, the Swedish giant **H&M**, which is a major player in almost all of Lindex's markets and the market leader in many countries can be seen as Lindex's main competitor. The company is listed and has more than 4,500 stores in over 75 countries. Another main competitor also from Sweden is **KappAhl**, whose size-class and concept are very close to Lindex. KappAhl has a total of about 400 stores in Sweden, Norway, Finland and Poland. KappAhl was bought off the stock exchange in 2019 and is owned by the investment company Mellby Gård. KappAhl's CEO is Elisabeth Peregi, who previously worked at Lindex, e.g., as CFO and the country manager for Sweden and Norway.

Sweden also has **MQ Marqet**, which mainly operates domestically and has over 100 stores. The company previously operated under the name MQ and was listed until bankruptcy in spring 2020. Investor Mats Qviberg acquired the company from the bankruptcy estate. MQ's CEO is Ingvar Larsson that used to lead Lindex. Another Swedish chain is **Gina Tricot** that has 150 stores in the Nordic countries (Sweden, Norway, Denmark and Finland). The company is owned by the Swedish investment company Frankenius Equity.

The Norwegian Varner-Gruppen owns several fashion chains, of which **Cubus** that has some 300 stores in Norway, Sweden and Finland could be mentioned as a main competitor to Lindex. Varner also owns, e.g., Dressmann.

The Danish industry giant **Bestseller** also owns several fashion chains/brands and its portfolio includes, e.g., Vero Moda, Only, Jack & Jones and Name it kid's clothing brand. Bestseller's brands are represented in Stockmann's department stores, so it is also a supplier to the Group.

Next to H&M, major international competitors include at least the fast fashion giants **Zara**, owned by the Spanish listed Inditex with over 2,000 stores worldwide, and **Uniqlo**, owned by the Japanese listed company Fast Retailing with over 1,000 stores but only a few stores in Europe so far.

To a certain extent, international online shops such as Zalando can be seen as competitors, even though they also serve as a distribution channel for Lindex's products. In a broader sense competitors include stores that sell clothing but focus more on daily-goods and consumables (e.g. Prisma, Citymarket and Tokmanni in Finland), sporting goods stores, department stores and small specialized clothing shops.

Main Nordic competitors

Industry and market overview 2/4

As far as private companies are concerned, we do not have a very good idea of their financial figures. However, while KappAhl and MQ were listed their profitability levels were typically lower than those of Lindex at that time, i.e. relatively low. H&M's EBIT margin halved from 15% in 2015 to 7-8% in 2018-19 where it remained in the latest 12-month period as well. H&M's profitability has been depressed by the company's strong focus on low prices and rising costs related to, e.g., digitalization. Compared to Lindex, we believe H&M's product range is more sensitive to price and fashion trends. Inditex's profitability has remained at around 15% EBIT margin level. Lindex's current profitability level (14% over the last 12 months) is therefore excellent compared to competitors and even historical levels are good.

Sokos is the main competitor in department stores

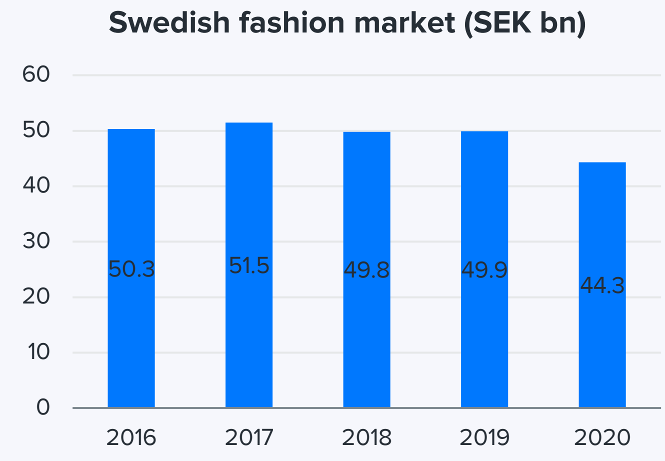
The main competitor for Stockmann's department stores in Finland is Sokos, which has 20 department stores and whose 2021 sales amounted to good EUR 300 million, so slightly higher than Stockmann's EUR 225 million. However, Stockmann only has six department stores in Finland. We think it is worth mentioning that there is only direct competition between Stockmann and Sokos for half of Stockmann's department stores (Helsinki City Center, Turku, Tampere), because there are no Sokos department stores in Espoo or Vantaa. Among previous locations with direct competition, Stockmann withdrew from Oulu and Sokos from Tapiola in Espoo. Like Stockmann, Sokos has also reduced the floor area of department stores in recent years.

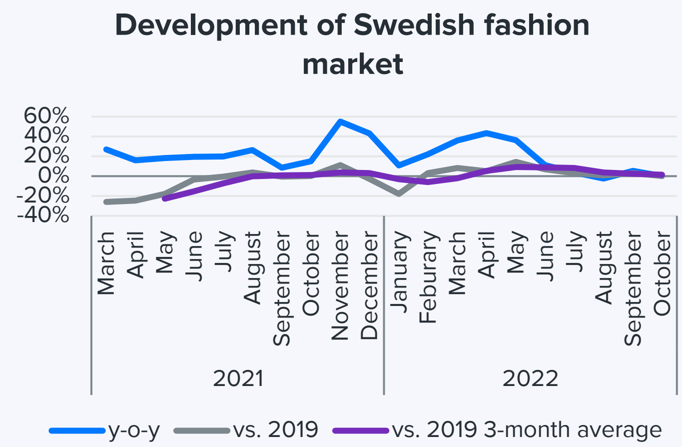
Other competitors for the department stores include Prisma, K-Citymarket and Tokmanni, but their product portfolios differ significantly from Stockmann's department stores, e.g., in terms of a large daily-goods trade. All the above-mentioned stores that sell clothes are also competitors to the department stores in a certain sense.

Swedish and Norwegian fashion markets

Lindex's main market is Sweden, where clothing sales in the years before COVID was around SEK 50 billion and remained relatively stable. Sales dropped by 11% in 2020, but this year sales have exceeded 2019 levels. Lindex's sales in Sweden have been SEK 3.5 billion, and we estimate the market share to be around 7%. The main competitors are H&M, who we believe is the market leader (H&M's sales in Sweden in 2019 were about SEK 9 billion), KappAhl, whose size-class is similar to Lindex and smaller chains (in Sweden) like Cubus, Gina Tricot, MQ Marqet, Zara, etc., as well as numerous other players.

According to data collected by Svensk Handel, the average EBIT margins for clothing stores in Sweden has been only about 3% in 2011-20. This reflects the very tight competition in the sector and relatively low capital requirements. We believe Lindex can exceed this level supported by its known brand, relatively large size, and support from its own brands (as is has done in history). As we mentioned earlier, Lindex's average profitability over the same period has been 7.5% and clearly better than this in Sweden.





Source: Svensk Handel

Industry and market overview 3/4

The situation in Lindex's second largest market Norway is very similar. Lindex is slightly smaller in relative terms than in Sweden and has a market share of 4-5%. The same level is reached, e.g., by KappAhl and Dressmann, while H&M is the market leader with a share of over 10% and Cubus is also larger than Lindex in Norway.

Finnish market

The Finnish market is relevant both to Lindex and, above all, to the department stores. According to Statistics Finland, clothing sales in Finland, both before COVID and in 2021, were about EUR 4 billion per year (excluding VAT). The market grew strongly in the late 1990s and early 2000s but has been around EUR 4 billion for the last 10 years. According to our estimates, this figure is not comparable to the Swedish figure presented above in methodology terms and therefore our market share estimates are only indicative. The revenue and sales volume shown on the right shows that revenue has grown a bit more slowly than sales volume, i.e., inflation in the clothing market in Finland in 1995-2021 has actually been negative. Lindex is clearly smaller in Finland than in its main markets in Sweden and Norway, and we estimate that its market share in Finland is below 2%. The main competitors in Finland are also familiar names such as H&M, KappAhl and Cubus.

We estimate that fashion sales of Stockmann's department stores in Finland is about EUR 100 million with a 2% market share. Stockmann's main competitor in Finland is the second major department store chain, Sokos owned by S-Group. As mentioned above, the competitive field is wide and there are a significant number of different types of clothing sellers.

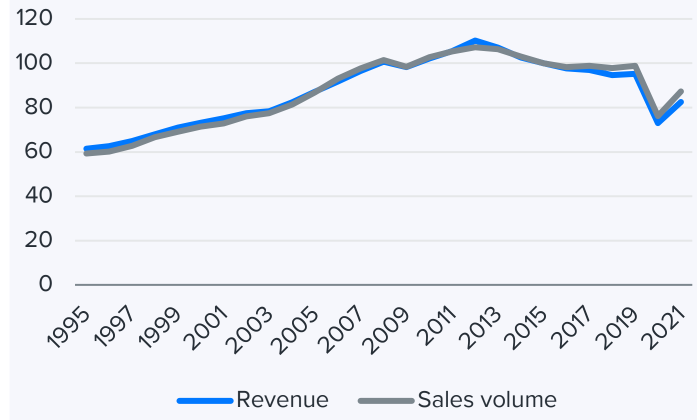
According to the cosmetics and hygiene industry the Finnish cosmetics market is about EUR 1 billion. We estimate that Stockmann's market share here is about 5%. For home products that are relevant to Stockmann, we have not found market data and we estimate that Stockmann's market share in home products/consumables is relatively small as a whole.

Finland, Sweden and Norway generate more than 80% of Stockmann's revenue. Outside these countries, the company's market shares are small, and we have, therefore, not assessed them or the competitor field in more detail.

Consumer confidence and purchasing power declining sharply

This year, the rapid acceleration of inflation and the rise in interest rates have put exceptional pressure on consumer purchasing power. This is already seen as a drop in consumer confidence to record-low levels. The impact on the purchasing power itself comes gradually as costs that are important to the consumer increase. Many products already shown this, but, .e.g., loan interest rates are updated every year for most people, and many have fixed-price electricity contracts that are updated at a certain delay. Inflation is probably reflected in rents and other housing costs more clearly only next year when the index increases in rents and increases in housing companies' maintenance charges are implemented. The picture on the right shows that the real salary trend has been clearly negative already this year.

Finnish clothing and shoe sales, indexed (2015 = 100)



Source: Statistics Finland

Nominal and real earnings development, 2005 = 100

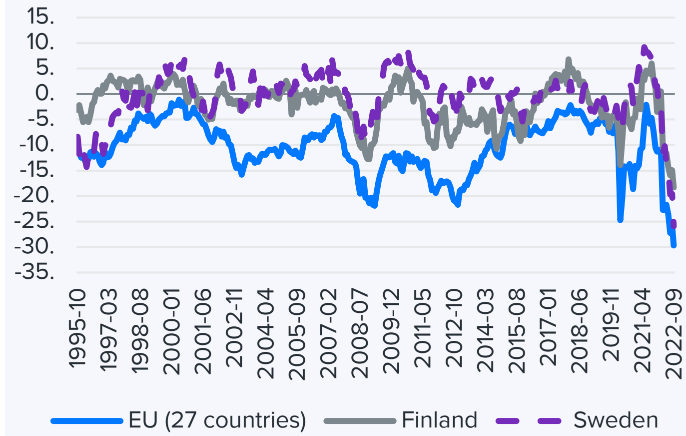
Source: Statistics Finland

Industry and market overview 4/4

So, the market environment will be difficult for Stockmann in the near future. Especially, demand for more expensive price category products in department stores can decrease. Although Lindex's sales developed well in the financial crisis in 2009 (up by 5% on a comparable basis), we believe that this time the situation is more difficult for consumers. We also believe that the end of COVID supported clothing sales in the spring/summer 2022, at least in terms of business and formal attire that belong to the product selection of department stores, which also makes the comparison figures quite challenging next year.

In the longer term, we do not believe that market growth will be more than 0-2 % in Stockmann's product groups, because the industry is under strong price pressure and competition, and volume development has not driven the Nordic market up significantly in the last 10 years. In order to achieve clear growth, we therefore believe that the company must expand and/or gain market shares.

Consumer confidence at rock bottom



Source: Eurostat

Annual change in Finland's consumer price index

Source: Statistics Finland

Strategy and financial objectives

The Group's strategy is quite general

Stockmann has published the five strategic priorities of the Group presented below. Due to the differences between Lindex and department stores, we do not believe that the Group strategy can be very specific and these priorities are quite general and seem rather obvious.

On the other hand, the divisional strategies do not offer much more concreteness. Lindex's goal is clearly multi-channel international growth, but its direction or, e.g., numeric targets are not described in more detail. Similarly for department stores, the company speaks quite abstractly about customer loyalty, customer experience and profitable business.

No financial objectives

Stockmann has had no relevant financial objectives for years. We would especially regard a profitability target presented separately for the divisions as very useful. The clear goal for department stores in the coming years is to turn EBIT and cash flow positive. Lindex, however, is currently generating record results and setting a target can therefore be challenging, as we believe it should be below the current margin level. For example, we believe that sales growth faster than the market and an EBIT margin of more than 10% would be a good longer-term target for Lindex. We do not expect Stockmann to take on debt in the coming years, so a target would hardly bring any significant new information regarding the balance sheet.

1	• Developing an omni-channel business model
2	• Strong selection and strong brands
3	• Sustainable business models
4	• Utilizing partnerships
5	• Profitable business

Stockmann plans to release financial targets in 2023

Past development and corporate restructuring 1/2

Department stores have been at the heart of Stockmann throughout history, otherwise the business has changed

Stockmann was founded in 1862 and since then the company has carried out department store like business, at the present location in the center of Helsinki since 1922. The department stores also expanded abroad, to Russia in 1989 and thereafter to Estonia and Latvia. The Russian operations were sold as loss-making in 2016 and the real estate owned there in 2019. However, the company has also had many other business activities over the years, such as Academic Bookstore (1930-2015), car business (1955-2006), grocery store Sesto (1955-1999), mail order company Hobby Hall (1985-2016), and fashion chain Seppälä (1988-2015). All of these, perhaps excluding the car business, are characterized by poor profitability at the time of sale, i.e., the purchased companies have not been successful as part of Stockmann at least in the long run. Lindex that is now part of the Group next to department stores was acquired in 2007.

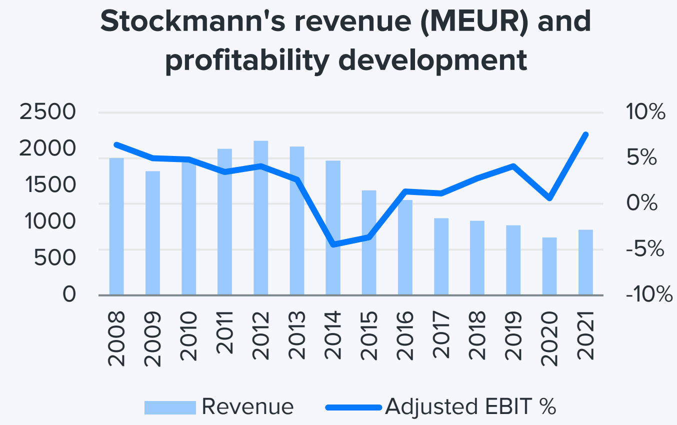
Stockmann turned into a loss in 2014 due to weakened results of both department stores and Seppälä. Through cost savings and selling weaker parts, Stockmann managed to turn the EBIT positive in 2018-19, but net profit remained negative. When COVID hit demand, the company (more specifically Stockmann Plc, the parent company of the group that runs the Finnish department stores) applied for corporate restructuring in early April 2020 to secure its financing. In hindsight, after the first wave of COVID alleviated in May-June 2020, Stockmann's cash flow remained reasonably good even during the most difficult COVID period.

Effects of the restructuring

In February 2021, the Helsinki district court approved Stockmann's corporate restructuring program that lasts eight years. The restructuring program defines how Stockmann's business can be carried out during this period and implementation of the restructuring program is monitored. Thus, during the restructuring period, the company's hands are largely tied to implementing the strategy according to the restructuring program. Because of this, and Stockmann's current good cash situation, we believe that the company will try to stop restructuring as soon as possible. In practice, this moment comes when all currently disputed debts have been decided/settled in some way and all the restructuring debts have been paid. More details on these later.

The main points of the restructuring program are:

- The restructuring program is based on the company continuing its department store business in all current department stores. Lindex's operations continue as a fixed part of the Group, and its cash flows contribute to cover payment obligations under the restructuring program.
- The company sells the real estate assets it owns in Helsinki city center, Tallinn and Riga Income will be used to pay secured debts. This was carried out during H1'22 and all secured debts have been repaid.
- The lease agreements for department stores were renegotiated
- In the case of unsecured liabilities, 20% are converted into shares at the exchange rate of EUR 0.9106 or cut and the remaining 80% has a



Source: Stockmann

Past development and corporate restructuring 2/2

- payment schedule of eight years. If the creditor wishes, it can convert this 80% stake into a non-interest-bearing bond maturing in 2026 secured by Lindex shares. A majority of creditors have already exercised this opportunity. As the new bond is not a restructuring debt, its repayment is not a condition for ending the restructuring
- 50% of hybrid loans were cut and the remaining 50% were converted into shares or cut. This was done in summer 2021
- The company's A and B share series were combined so that one A share received 1.1 B shares

Disputed liabilities and restructuring debts situation

At the end of Q3'22 Stockmann had repaid all secured restructuring debts and undisputed unsecured restructuring debts. Other measures under the restructuring program have also been carried out. There are disputed receivables associated with lease terminations that must be resolved before the restructuring can be terminated. At the end of Q3'22 disputed claims amounted to EUR 45 million. The liquidator of the restructuring program has contested the claims and considers it justified to pay the rent for 18 months, not for all the remaining years of the lease. Related processes are under way at various courts.

In August 2022, the court of arbitration ordered Stockmann to pay EUR 19.3 million to LähiTapiola which was clearly more than the EUR 3.5 million confirmed in the restructuring program, although also well below the EUR 43 million claim by LähiTapiola. However, several new litigation processes are ongoing related to this, which means that the debt in question is not yet a court-confirmed restructuring debt, and therefore not a liability in Stockmann's balance sheet. The difference between the already paid EUR 3.5 million and the EUR 19.3 million ordered by the court of arbitration, i.e., about EUR 16 million, is a provision in Stockmann's balance sheet and not included in the EUR 45 million disputed liabilities (included as a provision in the balance sheet).

Based on the LähiTapiola decision, we estimate that disputed receivables could generate a debt of about EUR 25 million for Stockmann. When we add the compensation awarded by the court of arbitration to LähiTapiola, we estimate that Stockmann will accumulate a total of EUR 40 million in payable liabilities. The maximum amount, including the LähiTapiola liability, is approximately EUR 60 million.

The creditors of the restructuring program are allowed to convert 20 % of their claims into shares after their claims have been confirmed. This can therefore result in a maximum issue of approximately 13 million new shares, or an 8% dilution of Stockmann's share capital. Our estimate is that the dilution will be 9 million shares or 6%. The remaining 80% of the liabilities can be converted into bonds, which means that they are no longer restructuring debt. However, in the current situation, Stockmann is likely to pay off all future restructuring debts as soon as possible, so we do not think that conversion into bonds would be sensible for the debtor in this situation. Thus, we estimate that the cash flow effect is EUR 32 million or at most EUR 48 million. In our estimates, we assume that these payments and the issue of shares will happen in 2023-24.

Disputed liabilities	Disputed claim, MEUR
Nordika II SHQ Oy	13
Fennia	12
Tampereen seudun OP	20
Total	45

Source: Stockmann

Liabilities in Stockmann's balance sheet, Q3'22	MEUR
Lease liabilities	560
Interest-bearing debt (bond)	68
Reported gross debt	627
Cash	140
Reported net debt	487
Net debt, excluding lease liabilities	-73

Source: Stockmann

Financial position

Balance sheet mainly includes intangible assets and leases

After Stockmann sold its properties, its balance sheet contains relatively little fixed assets, under EUR 50 million. However, this will increase significantly by 2024 due to Lindex's logistics center investment of over EUR 100 million The balance sheet total is still some EUR 1,300 million. The goodwill related mostly to Lindex (260 MEUR) and other intangible items correspond to approximately 30% and the right-of-use assets arising from lease liabilities to over 30% The remainder is mainly inventories (some 200 MEUR at the end of Q3'22) and cash (140 MEUR at the end of Q3). Thanks to Lindex's excellent performance and the goodwill write-down (250 MEUR) at the end of 2020, we do not currently see any risk for goodwill write-downs.

Stockmann's working capital is relatively low as a whole, as consumer business typically has low receivables. Accounts payable are slightly higher than inventories, but net working capital is slightly positive.

On the liabilities side of the balance sheet Stockmann has about 25% of equity in the balance sheet total. This is a relatively low equity ratio but considering the large amount of lease liabilities and the net cash position of the balance sheet excluding lease liabilities, we believe that a level of over 20 % is sufficient. Adjusted for lease liabilities equity would be around 45%, which is a good level. Stockmann's only financial liability at the moment is a EUR 68 million bond, which expires in 2026 and on which an annual interest rate of 0.1% is paid.

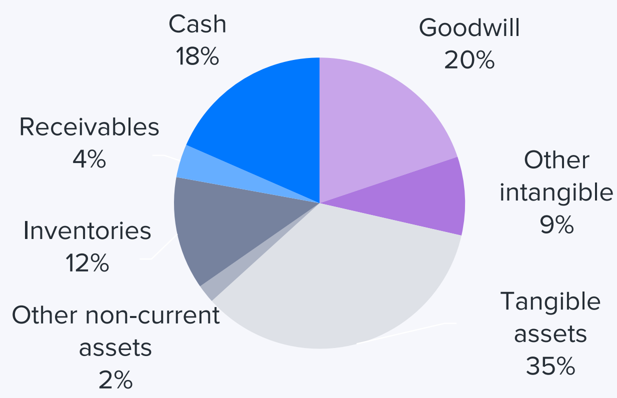
Overall, the balance sheet is in good condition, excluding lease agreements on the net cash side. On the other hand, Lindex's over EUR 100 million investment is expected to eat away the company's cash assets in the next few years. Dividends cannot be distributed until the restructuring program is completed, which can take several years. We also believe that Stockmann wants to keep its balance sheet strong in the future, even measured with net cash, so we would not expect all cash assets to be distributed as dividends. Based on our estimates, net cash will no longer be significant after the mentioned investment.

Hard to improve balance sheet efficiency, changes in return on capital more dependent on result

The return on capital is determined by profitability and capital turnover. Improving capital turnover in turn requires higher revenue with the same balance sheet or reducing the balance sheet. Considering the composition of Stockmann's balance sheet, we do not see any significant room for efficiency improvement in the balance sheet, except when the department store lease agreements gradually shorten. On the other hand, the new logistics center will increase the balance sheet and thus reduce the return on capital. Thus, we believe improving the return on capital depends mainly on revenue growth and profitability development.

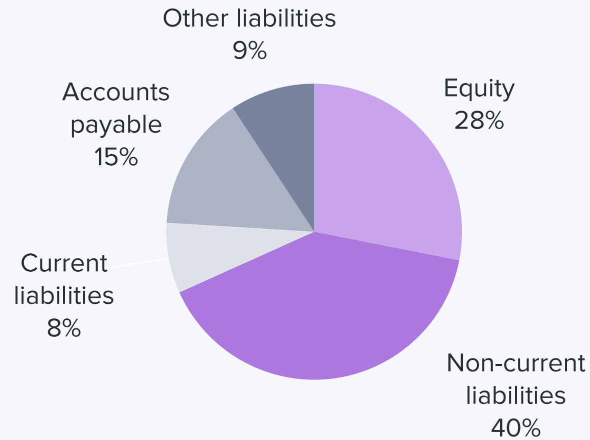
On the other hand, Stockmann's (moderate) growth does not require much more capital (after Lindex's investment), so achieving growth would be very positive in terms of capital use and return.

Balance sheet assets, 2022e



Source: Inderes

Balance sheet liabilities, 2022e



Source: Inderes

Estimates 1/5

We estimate based on two divisions

We model Stockmann based on its two divisions, Lindex and Stockmann department stores. The company reports revenue, gross margin and EBIT quarterly by division based on which you can also calculate fixed costs. This provides a reasonable basis for modeling the result.

As shown in the industry section, Stockmann's main markets are fairly stable based on historical development. We therefore believe that the main role in terms of revenue is played by the company's own actions and competitiveness. In terms of earnings development, historical development is quite volatile for both divisions, although Lindex has remained profitable throughout time and the department stores have mainly been in negative EBIT territory for the past 10 years.

Generally speaking, we believe that Lindex performance in 2021 and 2022 is exceptionally good and the company will not achieve the same level in the future. In department stores, we believe that the next 12-15 months will be difficult when rental costs hit the result (although this is reflected mainly in financial costs in accounting, rather than in division figures) and consumers' purchasing power is weak. We believe that department stores will achieve zero-level EBIT by 2025, which, however, means clearly negative cash flow.

Lindex's performance at record level this year

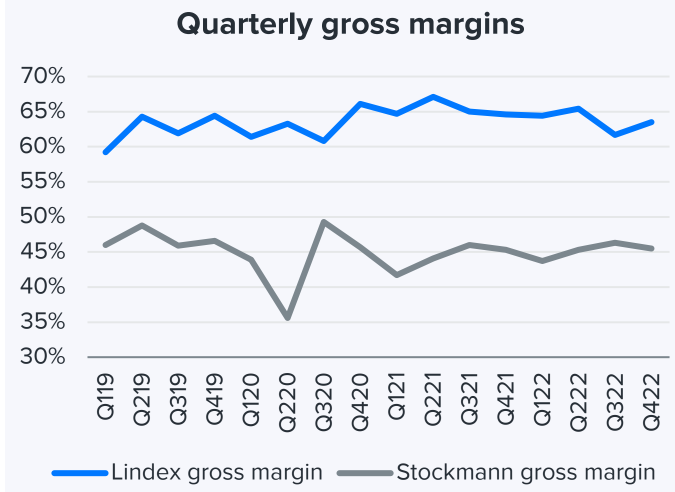
Stockmann's guidance for this year expects an increase in the Group's revenue and that the adjusted operating result improves compared to previous year. After 9 months, the company was clearly ahead in both, with a 14% increase in revenue and an adjusted EBIT of EUR 54 million compared to EUR 39 million last year. So the guidance is easily achieved, even if Q4 would be weaker than last year, as we expect.

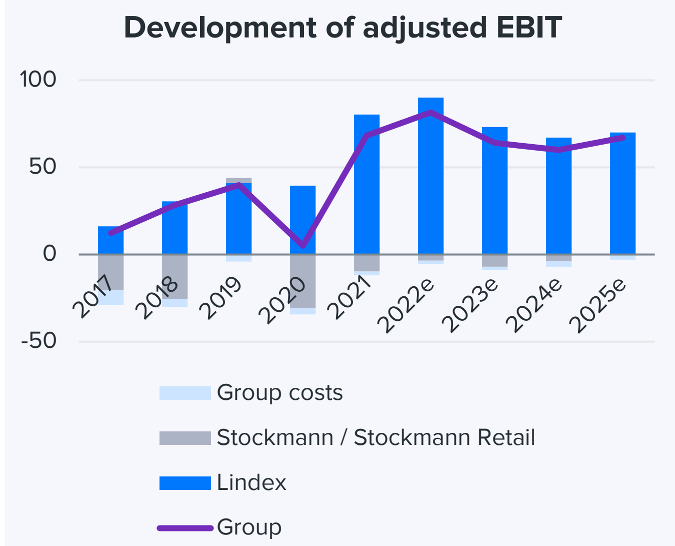
We estimate that Lindex's adjusted operating result will reach almost EUR 90 million in 2022 and department stores will improve but remain slightly in red (-4 MEUR). However, for Q4, which is all that is left of this year, we see the results of both divisions deteriorating slightly from last year. This is particularly affected by the reduced purchasing power of consumers, which weighs on demand and the drop in Lindex's gross margin from the strong comparison level.

2023 result falls clearly in our estimates

For Lindex, we expect a clear decline in the result in 2023. This is partly due to the very high performance in 2021-22, which we believe was driven by (1) a good recovery of demand after COVID, (2) savings in fixed costs negotiated during COVID (rents and personnel)/COVID support, and (3) the weakening USD, which lowered sourcing costs in 2021 and H1'22. The currency effect was emphasized by the fact that Lindex was completely unable to hedge its USD position between April 2020 and fall 2021 due to the corporate restructuring.

We expect Lindex's revenue to decline slightly by 2% in 2023, as demand after COVID stabilizes, and, on the other hand, consumers' weak purchasing power and confidence reduces consumption.





Estimates 2/5

Lindex's gross margin has historically been 62-63%, compared to over 65% in 2021, and in 2022 we expect it to still be close to 64% due to the strong start of the year. Due to cost inflation and the headwind from the strengthening USD, we believe that the gross margin will return to the historical level of around 63%. This was already visible in Q3 figures, when the gross margin dropped to below 62%.

Lindex has also been successful in recent years in fixed cost management. In 2023, however, we believe that the combination of rising rental costs with inflation and falling revenue will clearly increase the ratio of fixed costs to sales. In addition, Lindex will continue to invest which increases the cost load. However, even with our 2023 estimates the ratio is around 52% while the historical average for Lindex is about 55%.

As a result, Lindex's adjusted EBIT will fall to EUR 73 million in 2023, which translates to an EBIT margin of good 11%. This is still very good compared to the company's history and most competitors.

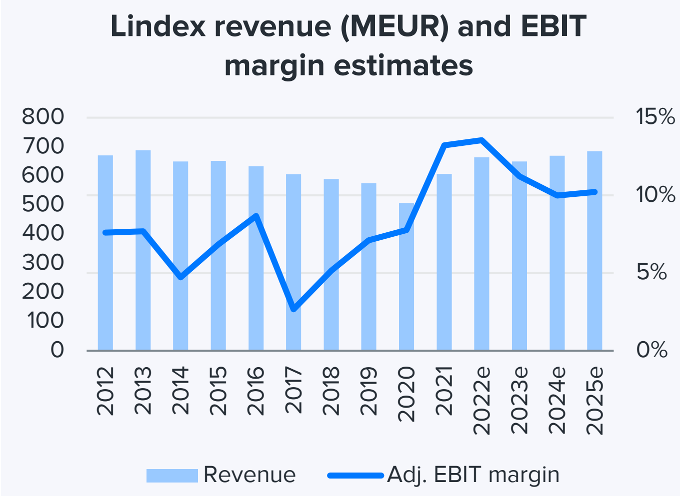
For Stockmann department stores, we also expect the weakened consumer situation to depress both revenue and the gross margin. Department stores' revenue will decrease slightly also due to the reduction of Itis' premises in spring 2023, which of course also reduces costs. On the other hand, we believe that the department stores still suffered from lower-than-normal visitor numbers in the stores as a result of COVID in Q1'22.

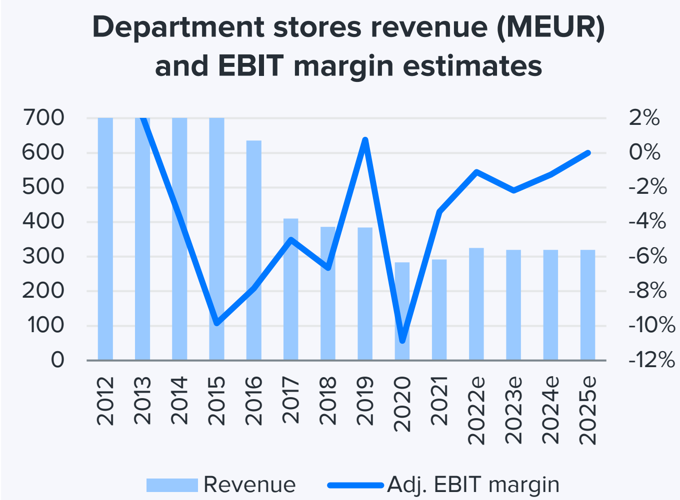
Costs will continue to increase during early 2023 from the increase in the cost level after selling and leasing back the property as the Helsinki department store was sold in April 2022. However, due to IFRS 16 rules, this is not reflected much at EBIT level, as depreciation from this lease agreement is low. However, the cash flow impact is larger (negative) than the costs shown in the income statement.

We expect that 2023 adjusted EBIT will decline to around EUR -7 million in 2023. For the whole Group, this means that the adjusted EBIT will decrease to about EUR 65 million.

Clear changes also below the operating result

There are also clear changes below the operating result in 2023 vs. 2022. Financial expenses increase due to the sale of real estate, when part of lease expenses are divided to financial expenses under IFRS 16. However, the rental costs in the income statement are lower than their cash flow impact. In practice, Stockmann has no actual interest expenses as the interest of the bond is 0.1% per year. In taxes, we expect to see a more normal level of about 21% in line with the tax rate. All in all, this leads to a net profit of EUR 27 million or a EUR 0.17 EPS. If the estimated diluting effect of all the share conversions of the disputed restructuring debts is considered EPS would be EUR 0.16.





Estimates 3/5

In our estimates, this dilution will occur in 2023-24 (5 million new shares/year) and thus be fully visible in the average number of shares at the end of 2024 and in 2025. The tables in our report show, in principle, the average number of shares for the year.

Result still slightly down in 2024, up in 2025

In 2024-25, we believe Lindex will be able to grow slightly by about 2% a year, while in department stores, we expect the sales area will continue to decline and revenue will remain unchanged.

In terms of the gross margin, we expect that Lindex will remain at 63% in the coming years and department stores will rise slightly from 2023 levels and generate 45% gross margin in 2024-25.

We estimate that Lindex moving to the new logistics center during 2024 will result in some extra costs (although a provision has already been made for overlapping costs), which will depress the result somewhat. The EBIT margin will remain at about 10% in 2024-25, which we think is a good level for Lindex. In absolute terms, this means slightly under EUR 70 million in 2024 and exactly EUR 70 million in 2025.

We believe, Lindex's performance can also be roughly defined in historical context as follows:

- The historical average of the Nordic EBIT (2009-17) 50 MEUR
- IFRS 16 impact (as of 2019) 5 MEUR
- Franchise operations and third-party online stores 5 MEUR above historical average (included in Swedish result but was small in the 2009-17 period)
- EBIT from outside the Nordic region 5 MEUR (current level)
- Revenue growth 5 MEUR

This results in the same level of around EUR 70 million which we expect from Lindex in the next few years.

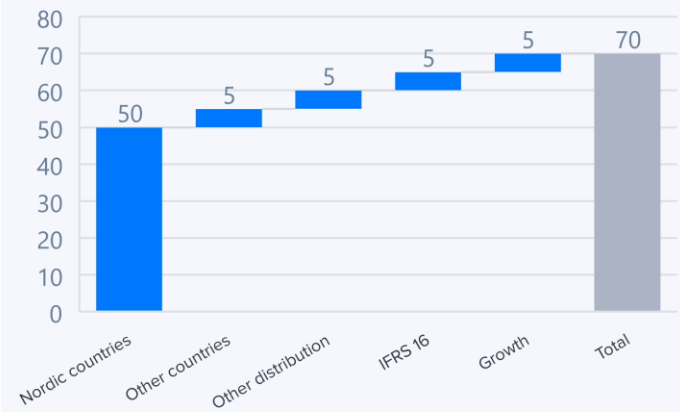
In the case of department stores, we believe that the adjusted EBIT will rise slightly in 2024-25 and reach zero level in 2025. As a whole, the Group's 2024 Group EBIT will decrease slightly and make an upturn in 2025.

Financial expenses under IFRS 16 are likely to decline slightly when Stockmann's lease agreements are shortened (for department stores). We expect the tax rate to be 21% in the coming years as well. Thus, our EPS estimate is EUR 0.15 in 2024 and EUR 0.17 in 2025 (corresponding net profit 24 MEUR and 30 MEUR).

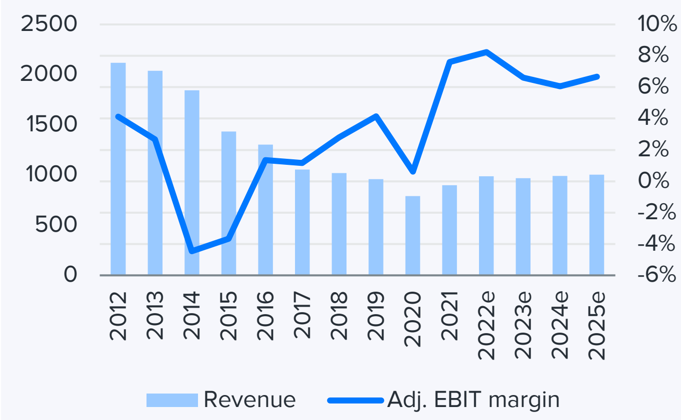
Cash flow is negative in 2022-23 due to Lindex's logistics investment

Stockmann is investing EUR 110 million in Lindex's new logistics center in the next two years. This was already reflected in Q3'22 figures as a strong increase in investments. We estimate that Stockmann's normal investment level is about EUR 25-30 million per year, so this will spike investments considerably in the coming years.

Lindex result outline



Stockmann's revenue (MEUR) and profitability development



Estimates 4/5

Our investment estimate also shows the cash flow effect of leases and considering these the investment level of 2022-23 is good EUR 150 million p.a. We expect this will result in negative cash flow (if the amount from the sale of real estate is not included which was used to pay debts in 2022) in 2022-23, which reduces the company's cash position to around EUR 100 million. This also includes the repayment of the disputed/unpaid restructuring debts, which we estimate to be EUR 32 million in 2023-24.

The restructuring program suggests that the company could conclude a sale and leaseback agreement for the logistics center, which would significantly reduce the investment required by the company or release capital after the investment. On the other hand, this would, naturally increase the future cost level. Stockmann's current balance sheet situation allows for the investment with own money. Thus, the company can take time to consider whether the sale and leaseback option is reasonable at some point. As revenue changes are small, we believe Stockmann’s working capital will remain roughly at the same level in the longer term.

Income statement does not tell the truth about cash flow

We expect Stockmann's net result to be EUR 25-30 million in the next few years. After the large investment phase, we expect investments to be about EUR 5 million lower than depreciation in 2025-29. This is because logistics center depreciation will start, but the company has no need to make a similar investment in the coming years.

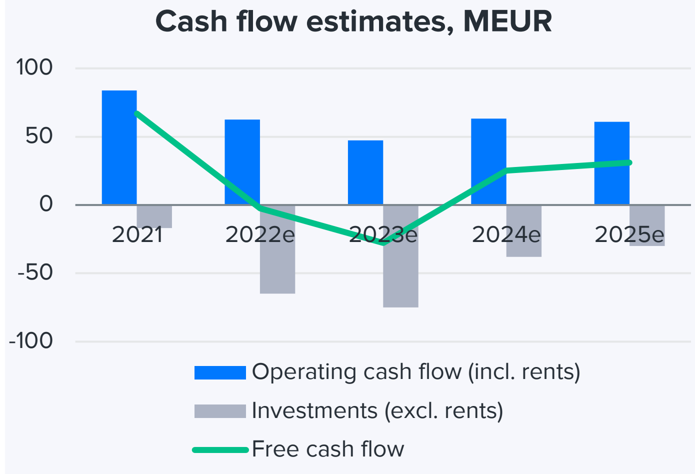
IFRS 16 accordant calculation of rents for sold and leased back department stores results in rental costs in the income statement (divided into depreciation and interest) being lower than the actual cash flow and as the interest component decreases over time, the difference only increases. We believe that this difference will exceed EUR 5 million in 2023.

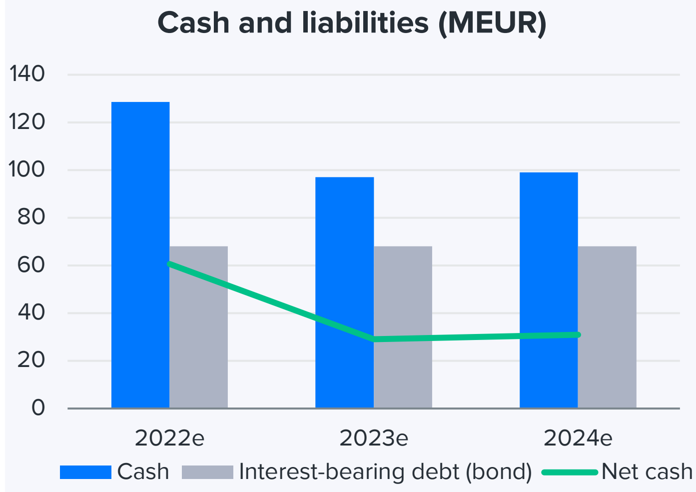
Cash flow derived from the income statement in 2023-24 thus gives a too positive picture, but in 2025-30 depreciation that is lower than investments offset the difference. We estimate that the sustainable level for free cash flow is around EUR 25-30 million in a 3-8-year horizon.

Dividend distribution not likely in the next few years

As said before, Stockmann cannot distribute dividends while the company restructuring is ongoing. Processing of disputed debts in various courts can take several years, so our estimates do not expect a dividend for 2022-25. We also believe that the company wants to secure financing for Lindex’s logistics center investment and to repay or refinance the bond maturing in 2026 before it pays at least a significant amount of dividends.

We also note that with our 2023-24 estimates net cash is only EUR 30-40 million and thus the company has no additional cash to be distributed in the short term.





Estimates 5/5

This is due to cash outflow from the logistics center and disputed debts over the next two years. We will add dividends to our estimates when the end of the restructuring process and the timing of possible dividends can be better assessed.

Return on capital is weak, but Lindex can generate value

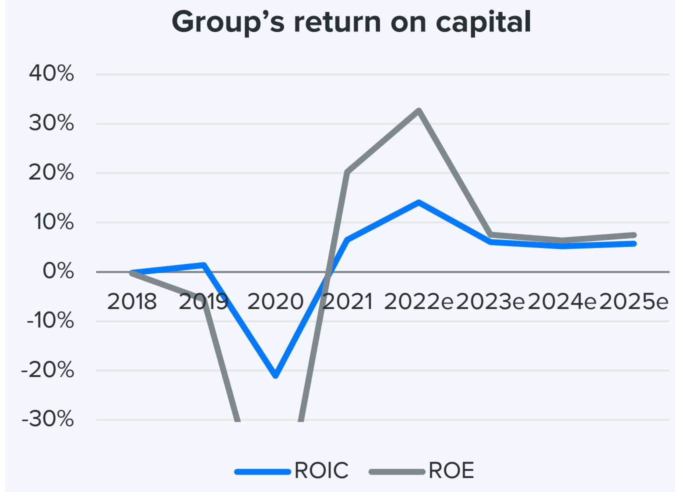
Stockmann's historical return on capital is weak. With our estimates return on capital is around 5-7% from 2024 onwards (when the new logistics investment is visible in the balance sheet), which is very low relative to our required return of about 10%. Thus the company cannot create value, which is, of course, due to the negative or approximately zero level result of department stores. It is worth noting that with zero EBIT the cash flow of department stores is still negative, as all rental expenses are not visible at EBIT level. On the other hand, as we have already explained, the balance sheet consists mainly of intangible assets and leases. Excluding lease liabilities, ROCE rises close to 15%, but a large amount of cash depresses ROE. In addition, the company's growth does not require additional capital as such, perhaps with the exception of a small increase in working capital. As a result, the return on new capital employed can be very good, even if the return for the whole Group is low.

When you look at Lindex's return on capital without intangible assets and lease liabilities, i.e. assessing only the capital actually needed for operations, we see that Lindex has been historically able to exceed 15% return on capital. The current performance level increases the return on capital, but, on the other hand, the logistics investment will decrease it in the coming years. However, we believe that the return on capital calculated in this way will remain above 15% in the future. So Lindex's business and especially its growth clearly has potential to create value. The Group's value creation therefore now rests primarily on Lindex's shoulders.

Longer term outlook

We believe that the outlook for the department stores will remain difficult also after the next few years. We do not believe that the current department store network will achieve meaningfully profitable and cash-flow-positive results. This means that we believe that the sales area of department stores will continue to decline and at some point, it is likely that entire department stores must be closed. The smaller scale will, however, cause profitability pressure. Therefore, we believe that profitability will remain weak throughout this decade, as network and cost adjustments continue.

For Lindex, we see good preconditions to continue international growth driven by e-commerce. However, the overwhelming majority of Lindex's net sales comes from mature markets in the Nordic and Baltic countries, where it already has a good market position. Therefore, we do not believe that the entire company's growth rate can reach more than low single-digit growth levels. For Lindex, we expect profitability to remain roughly at the level estimated for 2023-25, i.e. EBIT margin around 10%, also in the longer term.



Valuation and recommendation 1/4

Some challenges in valuation

We feel there are a few factors that make the valuation of Stockmann difficult. Firstly, a loss-making department store business affects the company's earnings multiples, which make it difficult to use Group figures as a whole. Secondly, the performance of both divisions has been very volatile over the last decade, so finding some kind of normal level is not self-evident. This is also muddled by the effects of COVID and the structural changes in the Stockmann division. Thirdly, the company's large lease liabilities distort balance sheet and EV-based figures and, on the other hand, without lease liabilities, the company has net cash. Based on these facts, we feel a need to look at figures that have been adjusted in various ways. We also feel that a sum of the parts approach is relevant for Stockmann but in its use one should note the timing of when the possible hidden value can realistically be released. We have also evaluated different scenarios in the sum of the parts calculations.

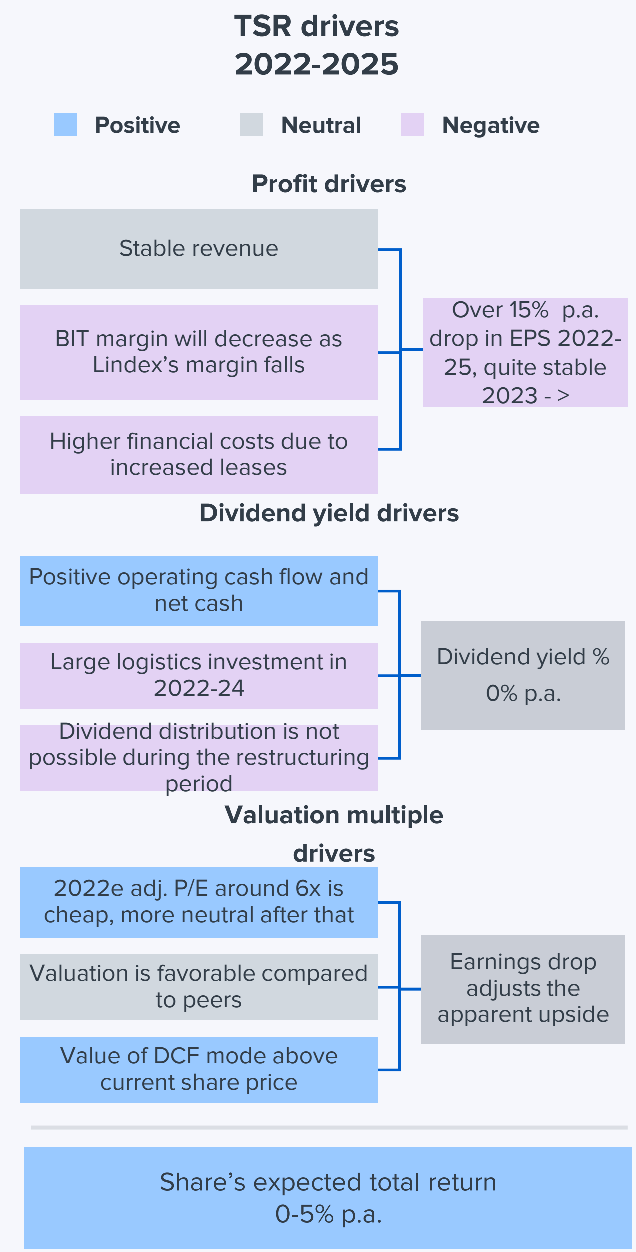
Valuation summary - Reduce

At the current earnings level, Stockmann's valuation is favorable, but with our estimate of Stockmann's normal, lower-than-current earnings level, valuation is neutral. Stockmann will not pay dividends in the next few years and its cash flows will be clearly negative over the next two years. Thus, we estimate that the expected return for the next few years will remain at 0-5%. In the medium term, we expect Stockmann to reach 5-7% return on capital and 8-10% return on free cash flow. The company could also distribute this as dividends in the longer term. Thus, the return potential both in the coming years and in the medium term is below our 10% required return. Therefore, our recommendation for share is Reduce. The values indicated by the sum of the parts and the DCF model are well above the current share price. They, however, assume that the department stores will at some point turn cash-flow positive, which we still consider very uncertain and, in any case, years away.

Earnings and cash flow multiples

Stockmann's earnings-based valuation looks very favorable for this year when P/E is 7x and EV/EBIT (earnings adjusted for non-recurring items but including EV lease liabilities) is 10x. However, we believe a better way is to adjust the market cap for net cash in the P/E ratio and to remove lease liabilities from EV. If we remove lease liabilities from EV their earnings impact included in financial items should, in our opinion, be considered, which gives a comparable figure without IFRS 16 effects. We also include the estimated impact of the disputed debt. Thus, P/E for this year would be about 6x and EV/EBIT (or in practice EV/PTP) 5x which is very low. If we look at 2023-24, when we believe that the result has normalized and Lindex's large investment has eaten away at cash assets, the figures are P/E 12x and EV/EBIT 9x (for both years). We believe that these figures are relatively neutral multiples for Stockmann.

As we said in the estimate section, our estimate of Stockmann's sustainable free cash flow is EUR 25-30 million and we do not expect the company to achieve substantial earnings growth in the longer term. This means a cash flow rate of 8-10% at current



Source: Inderes

Valuation 2/4

market cap. If Stockmann is net cash positive, the company could at least in principle distribute the entire cash flow as dividends, as long as it is technically possible after the restructuring. In any case, the longer-term cash-flow rate is slightly under our 10% required return.

We do not consider selling or listing Lindex likely in the next few years

As Stockmann consists of two clearly separate business operations and department stores generate a loss, we see sum of the parts as a useful way to determine the value of the company. Stockmann was selling Lindex in 2019-20, but the deal could not be completed before the COVID crisis. Investors should, however, note that since then Stockmann has sold its properties and during the restructuring program no significant structural arrangements can be made. When the value of real estate and cash flow supported the department stores, separating Lindex would have been easier, while in the current situation we believe it is only possible when department stores generate sufficiently good and sustainable positive earnings/cash flow. With our estimates, this situation is not on the horizon at least in the next few years. We therefore see that any (partial) sale of Lindex is only realistic on a longer horizon.

Sum of the parts EUR 3.3 per share

Nevertheless, we believe that the sum of the parts is an interesting and useful perspective to the share. In our neutral scenario, we value Lindex at around EUR 600 million, which, with next year's earnings estimates, means an EV/EBIT of around 8x (excluding lease liabilities). Lindex's closest peers, KappAhl and MQ were typically priced below 10x EV/EBIT when listed and considering increased interest rates, the valuation is assumed to be slightly lower in the current market. With an EBIT of EUR 70 million, which we estimate to be the normalized earnings level, Lindex generates about EUR 50 million in free cash flow/net profit. By discounting this with a 1.5% growth assumption and a 10% required return, Lindex's current value is about EUR 600 million. Translated into a P/E ratio this means around 12x. This is close to the level of Nordic retail sector peers (10-14x for this year), but well below the level of the larger global competitors H&M and Inditex of about 20x. We believe that the strong global market position and brand of these companies offer them clearly better growth prospects than Lindex, which makes the higher valuation justified. Furthermore, H&M's profitability is currently low compared to its historical levels whereas the situation is reversed for Lindex.

We value department stores and Group expenses, which we expect to have a negative impact on earnings and cash flow in the coming years, at a negative EUR 100 million. Most of this is the negative value of the department stores, while Group expenses are only EUR 2-3 million per year.

However, this estimate also requires that the cash flow of department stores be at least zero in one way or another in 3-5 years, in order to stop negative cash flow. Then the company's EV would be EUR 500 million. We subtract the bond from this

Sum of the parts calculation	Value, MEUR
Lindex	600
Department stores and other costs	-100
Total	500
Debt excluding lease liabilities	-68
Cash at the end of 2024	99
Value of the share capital	531
Value per share	3.3

Valuation 3/4

and consider the cash position at the end of 2024. We do this because the cash position at the end of 2024 considers the amount of disputed claims we assume to fall due and Lindex's large logistics investments in the next few years. As a result, the value of the share capital is EUR 535 million, or EUR 3.3 per share.

The potential relative to the current share price is considerable. If we look at this through the required return and assume that the investor would receive this EUR 3.3 in five years' time, the annual return would be about 10%. In addition, from 2024-25 onwards, some dividend yield could be added to this. If we compare this with a 10% required return and consider the uncertainty associated with value realization (and, of course, the value itself), the return potential that seems high on paper no longer seems particularly high.

So we do not rely on this value, mainly because we do not see the separation of Lindex as realistic with the development we estimate for the department stores. We believe Stockmann without Lindex would generate clearly negative cash flow and would therefore not be viable. We believe that the (partial) sale/listing of Lindex and using the received funds to cover the losses of the department stores would be a very risky move from the company's management, which we do not believe in either.

Scenarios of the sum of the parts valuation

In a positive scenario, using Lindex's current EBIT of over EUR 90 million, the value would rise to EUR 750 million and the rest of the Group is estimated to be zero. This would result in a share price of EUR 4.8. In the negative scenario, Lindex's result would drop to EUR 40 million and earnings from department stores would also drop, in which case their values would be EUR 350 million and EUR -250 million respectively. This would give a share a value of EUR 0.8.

There is a couple of problems in the DCF model

Creating a DCF model for Stockmann requires a few more assumptions than normal. In terms of revenue development, the challenge is the future of department stores and a drop in revenue resulting from possible department store closings. For Lindex , the modeling is clearer. Assessing the normalized margin level is, however, challenging for both divisions. In addition, IFRS 16 accordant accounting practices for rents and lease liabilities pose problems for DCF. We do, however, consider DCF to be a valid valuation method for the company.

After our key estimate years (2022-25, discussed above), we expect zero revenue growth for the company from 2026 onwards. This consists of a small growth in Lindex, but an expected decline in department store operations over the coming years as we mentioned in the estimate section.

In the terminal period, the growth assumption is 1% , due to the possible contraction of department stores and low growth profile of the clothing market in general. We assume the EBIT margin to be 6.5%, i.e. about EUR 65 million in 2026-29.

Valuation	2022e	2023e	2024e
Share price	1.97	1.97	1.97
Number of shares, millions	155.0	158.0	162.5
Market cap	307	307	307
EV	804	848	840
P/E (adj.)	6.5	11.6	13.2
P/E	3.1	11.6	13.2
P/FCF	1.3	neg.	9.7
P/B	0.9	0.8	0.8
P/S	0.3	0.3	0.3
EV/Sales	0.8	0.9	0.8
EV/EBITDA	3.1	5.0	4.8
EV/EBIT (adj.)	9.9	13.3	14.0
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Valuation 4/4

Investments are slightly lower than depreciation after the major logistics investment, as there should be no larger investment needs in this period. Since we estimate that department stores will not be allowed to generate a negative cash flow indefinitely (so if profitability does not improve operations are terminated), our margin estimate jumps to 8.5% in 2030 and remains there to the terminal. This represents a similar performance for Lindex as in previous years, but a performance that reaches neutral/slightly positive cash flow for the department stores. It should be noted that achieving this improvement and its timing is very uncertain.

If we would assume cash flow to be at the level of estimate years 2025-29 also in the terminal period, the value of the DCF model would be slightly under EUR 2. So one could assume that the market is pricing continued negative cash flow for the department stores to the distant future. This may sound too pessimistic, but on the other hand, we do not see a significant turn for the better in the coming years either.

Our WACC is a relatively high 10%, because the company's historical performance is varied, demand for the fashion business may fluctuate and there are risks associated with the viability of department stores.

We have tried to adjust lease liabilities from the DCF calculation and consider the actual cash flow of rents instead of their impact on the income statement. This calculation contains some uncertainties concerning our assumptions. However, this calculation results in a share capital value of around EUR 400 million, i.e. EUR 2.5 per share. Due to the negative cash flow in the early years, the value is strongly focused on the terminal period, which represents around 70% of the value.

Valuation compared to the peer group

Since Stockmann's value basically comprises Lindex, we believe that the relevant peers would be Lindex's peers. Unfortunately, KappAhl and MQ, previously listed in Sweden, are not listed anymore. Listed peers are mainly found among larger international chains, of which we have included H&M, the Japanese Fast Retailing (Uniqlo chain) and the Spanish Inditex (Zara chain) in our peers. Although the operations of these companies are similar to Lindex, their size and geographical coverage/scope are significantly larger than Lindex.

We have included domestic retail operators Puuilo, Tokmanni and Kesko, as well as the Swedish Clas Ohlson and Norwegian Europris in the peer group. These operations are not similar to Lindex or Stockmann, but they provide some reference to the general valuation of Nordic retailers.

All retail chains have significant lease liabilities that muddle up the EV-based valuation. Thus, we look mainly at the P/E ratios of the peer group. For H&M and Inditex they are around 20x, and for Fast Retailing over 30x. For other Nordic players, the ratios are 10-15x. As the company's growth outlook and situations are quite different, we do not see the ratios of either individual peers or the average/median for the group as particularly useful when valuing Stockmann's share. As we said earlier, we believe that the larger size of H&M and Inditex, stronger brand and wider geographical coverage justify their higher valuation compared to Lindex.

Balance sheet based valuation

As pointed out previously, Stockmann's balance sheet mainly contains intangible assets and lease liabilities. Thus, we do not believe that balance sheet valuation is a particularly good tool for Stockmann. We note, however, that the P/B ratio is about 0.8x in the coming years. When our ROE estimate is 6-7%, clearly less than our required return, a P/B ratio of below 1x is absolutely justified.

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	4.60	2.00	2.26	1.14	1.96	**1.97**	**1.97**	**1.97**	**1.97**
Number of shares, millions	72.0	72.0	72.0	72.0	114.0	**155.0**	**158.0**	**162.5**	**165.0**
Market cap	321	141	155	80	303	**307**	**307**	**307**	**307**
EV	1085	685	542		889	**804**	**848**	**840**	**809**
P/E (adj.)		neg.	neg.	neg.	6.1	**6.5**	**11.6**	**13.2**	**10.7**
P/E		neg.	neg.	neg.	4.7	**3.1**	**11.6**	**13.2**	**10.7**
P/FCF	neg.	0.3	0.8	0.8	2.3	**1.3**	**neg.**	**9.7**	**5.8**
P/B	0.3	0.2	0.2	0.4	1.1	**0.9**	**0.8**	**0.8**	**0.7**
P/S		0.1	0.2	0.1	0.3	**0.3**	**0.3**	**0.3**	**0.3**
EV/Sales		0.7	0.6		1.0	**0.8**	**0.9**	**0.8**	**0.8**
EV/EBITDA		neg.	22.5		4.8	**3.1**	**5.0**	**4.8**	**4.4**
EV/EBIT (adj.)		neg.	13.7		13.0	**9.9**	**13.3**	**14.0**	**12.1**
Payout ratio (%)		0.0 %	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**

Source: Inderes

Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**
H & M	17936	21418	18.9	17.7	7.0	7.2	1.1	1.0	21.5	20.2	5.4	5.5	3.6
Fast Retailing	60974	56703	24027	22681	16677	15081	3668	3168	34.8	36.6	0.7	0.8	6.7
Inditex	74363	70745	14.9	13.6	9.7	8.7	2.6	2.3	20.9	18.9	3.8	4.8	4.8
Tokmanni	770	1674	18.7	17.6	10.3	9.9	1.4	1.4	12.2	11.5	5.9	6.3	3.0
Puuilo	455	540	11.6	12.1	9.3	9.5	2.0	1.8	12.8	13.8	6.3	5.9	6.8
Kesko	8444	10559	12.9	14.3	8.1	8.5	0.9	0.9	13.9	15.6	5.1	5.1	3.1
Clas Ohlson	458	591	9.3	13.1	4.4	5.2	0.7	0.7	9.6	13.8	12.8	8.1	2.3
Europris	932	1340	10.4	11.3	7.2	7.5	1.6	1.5	9.9	11.2	5.4	5.6	3.2
Stockmann (Inderes)	**307**	**804**	**9.9**	**13.3**	**3.1**	**5.0**	**0.8**	**0.9**	**6.5**	**11.6**	**0.0**	**0.0**	**0.9**
Average			**3015**	**2848**	**2092**	**1892**	**460**	**397**	**16.9**	**17.7**	**5.7**	**5.2**	**4.2**
Median			**13.9**	**13.9**	**8.7**	**8.6**	**1.5**	**1.4**	**13.4**	**14.7**	**5.4**	**5.5**	**3.4**
Diff-% to median			***-29%***	***-5%***	***-65%***	***-41%***	***-46%***	***-39%***	***-52%***	***-21%***	***-100%***	***-100%***	***-73%***

Source: Refinitiv / Inderes

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	**791**	**156**	**228**	**238**	**278**	**899**	**196**	**269**	**244**	**280**	**989**	**970**	**990**	**1005**
Lindex	507	98.7	162	169	178	607	134	188	167	175	664	650	670	685
Stockmann	284	56.9	66.0	68.9	99.8	292	62.2	80.9	77.1	105	325	320	320	320
Unallocated	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
EBITDA	**128**	**-2.5**	**50.3**	**109**	**185**	**342**	**35.5**	**141**	**31.9**	**53.5**	**262**	**168**	**174**	**182**
Depreciation	-379.9	-25.1	-51.5	-77.2	-102.9	-256.7	-25.7	-26.9	-25.9	-26.0	-104.5	-104.0	-114.0	-115.2
EBIT (excl. NRI)	**4.9**	**-21.1**	**26.8**	**32.9**	**29.7**	**68.3**	**-3.7**	**35.4**	**22.0**	**27.5**	**81.2**	**64.0**	**60.0**	**67.0**
EBIT	**-252.4**	**-27.6**	**26.4**	**32.7**	**50.6**	**82.1**	**9.8**	**115**	**6.0**	**27.5**	**158**	**64.0**	**60.0**	**67.0**
Lindex	38.6	-13.0	32.3	31.2	24.1	74.6	5.5	39.0	22.8	23.0	90.3	73.0	67.0	70.0
Stockmann	-30.8	-12.2	-4.0	0.0	27.8	11.6	6.3	78.3	-15.8	5.0	73.8	-7.0	-4.0	0.0
Unallocated	-10.2	-2.4	-1.9	1.5	-1.3	-4.1	-2.0	-2.8	-1.0	-0.5	-6.3	-2.0	-3.0	-3.0
Share of profits in assoc. compan.	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 financial items	-41.6	-5.7	-8.5	-12.7	-16.9	-43.8	-5.4	-6.5	-7.3	-7.5	-26.7	-30.0	-29.3	-28.5
PTP	**-294.0**	**-33.3**	**-9.7**	**18.8**	**65.2**	**41.0**	**4.4**	**108**	**-1.3**	**20.0**	**131**	**34.0**	**30.8**	**38.5**
Taxes	2.4	3.8	-0.6	-6.2	-17.3	-20.3	-1.6	-27.4	2.0	-4.2	-31.2	-7.1	-6.5	-8.1
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	**-291.6**	**-29.5**	**-10.3**	**12.6**	**47.9**	**20.7**	**2.8**	**80.6**	**0.7**	**15.8**	**99.9**	**26.9**	**24.3**	**30.4**
EPS (adj.)	**2.27**	**-0.20**	**-0.09**	**0.11**	**0.26**	**0.08**	**-0.05**	**0.12**	**0.13**	**0.10**	**0.30**	**0.17**	**0.15**	**0.18**
EPS (rep.)	**-4.05**	**-0.26**	**-0.09**	**0.11**	**0.42**	**0.18**	**0.02**	**0.52**	**0.00**	**0.10**	**0.64**	**0.17**	**0.15**	**0.18**

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	-17.7 %	0.0 %	0.0 %	0.0 %	0.0 %	13.7 %	26.0 %	17.9 %	2.6 %	0.9 %	10.0 %	-1.9 %	2.1 %	1.5 %
Adjusted EBIT growth-%	-87.7 %				-88.5 %	1293.9 %	-82.5 %	32.1 %	-33.1 %	-7.4 %	18.9 %	-21.2 %	-6.3 %	11.7 %
EBITDA-%	16.1 %	-1.6 %	13.1 %	17.5 %	20.6 %	16.6 %	18.1 %	52.6 %	13.1 %	19.1 %	26.5 %	17.3 %	17.6 %	18.1 %
Adjusted EBIT-%	0.6 %	-13.6 %	11.8 %	13.8 %	10.7 %	7.6 %	-1.9 %	13.2 %	9.0 %	9.8 %	8.2 %	6.6 %	6.1 %	6.7 %
Net earnings-%	-36.9 %	-19.0 %	-4.5 %	5.3 %	17.3 %	2.3 %	1.4 %	30.0 %	0.3 %	5.6 %	10.1 %	2.8 %	2.5 %	3.0 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**1092**	**1002**	**927**	**983**	**992**
Goodwill	278	272	272	272	272
Intangible assets	121	120	120	120	120
Tangible assets	659	583	508	564	573
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.5	0.5	0.5	0.5	0.5
Other non-current assets	5.6	3.8	3.8	3.8	3.8
Deferred tax assets	27.8	23.8	23.8	23.8	23.8
Current assets	**333**	**414**	**356**	**320**	**317**
Inventories	135	155	178	175	168
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	45.0	45.7	49.5	48.5	49.5
Cash and equivalents	152	214	129	97.0	99.0
Balance sheet total	**1424**	**1416**	**1283**	**1304**	**1309**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**206**	**268**	**343**	**370**	**394**
Share capital	144	77.6	77.6	77.6	77.6
Retained earnings	-544.4	103	203	230	254
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	20.3	14.4	-10.6	-10.6	-10.6
Other equity	586	73.2	73.2	73.2	73.2
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**327**	**409**	**623**	**607**	**591**
Deferred tax liabilities	35.9	40.6	40.6	40.6	40.6
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	291	330	550	550	550
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.2	37.8	32.0	16.0	0.0
Current liabilities	**892**	**740**	**318**	**327**	**324**
Short term debt	586	470	75.0	87.9	81.4
Payables	250	223	193	189	193
Other current liabilities	56.6	46.4	50.0	50.0	50.0
Balance sheet total	**1425**	**1416**	**1283**	**1304**	**1309**

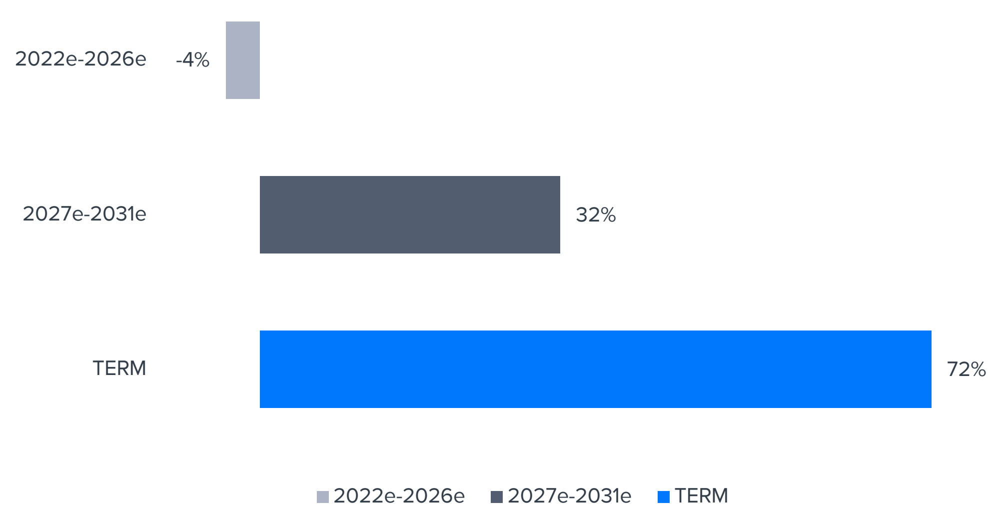
DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	13.7 %	10.0 %	-1.9 %	2.1 %	1.5 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	1.0 %	1.0 %
EBIT-%	9.1 %	16.0 %	6.6 %	6.1 %	6.7 %	6.5 %	6.5 %	6.5 %	6.5 %	8.5 %	8.5 %	8.5 %
EBIT (operating profit)	**82**	**82**	**64**	**60**	**67**	**65**	**65**	**65**	**65**	**85**	**86**	
+ Depreciation	28	25	24	34	35	35	34	34	33	33	33	
- Paid taxes	-9	-31	-7	-6	-8	-8	-8	-8	-8	-13	-13	
- Tax, financial expenses	-4	-6	-6	-6	-6	-6	-6	-6	-5	-5	-5	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	-57	-54	1	9	0	0	0	0	0	0	0	
Operating cash flow	**40**	**15**	**75**	**91**	**88**	**86**	**86**	**85**	**85**	**101**	**101**	
+ Change in other long-term liabilities	-49	-382	-16	-16	0	0	0	0	0	0	0	
- Gross CAPEX	-17	363	-75	-38	-30	-30	-30	-30	-30	-30	-34	
Free operating cash flow	**-26**	**-4**	**-16**	**37**	**58**	**56**	**56**	**55**	**55**	**71**	**67**	
+/- Other	-3	-21	-26	-26	-26	-26	-27	-27	-27	-27	-27	
FCFF	-29	-25	-42	11	32	30	29	29	28	44	40	453
Discounted FCFF		**-25**	**-37**	**9**	**24**	**20**	**18**	**16**	**14**	**20**	**17**	**191**
Sum of FCFF present value		267	292	329	321	297	277	259	243	229	208	191
Enterprise value DCF		**267**										
- Interesting bearing debt		-66										
+ Cash and cash equivalents		214										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**415**										
Equity value DCF per share		**2.5**										

Wacc	
Tax-% (WACC)	21.0 %
Target debt ratio (D/(D+E)	0.0 %
Cost of debt	5.0 %
Equity Beta	1.35
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	**9.9 %**
Weighted average cost of capital (WACC)	**9.9 %**

Source: Inderes

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	960.5	790.7	899.0	**989.1**	**970.0**
EBITDA	24.1	-252.4	185.0	**262.3**	**168.0**
EBIT	24.1	-252.4	82.1	**157.8**	**64.0**
PTP	-28.6	-294.0	65.2	**131.1**	**34.0**
Net Income	-45.7	-291.6	45.1	**99.9**	**26.9**
Extraordinary items	-15.6	-257.3	13.8	**76.6**	**0.0**

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	-0.63	-4.05	0.42	**0.64**	**0.17**
EPS (adj.)	-0.42	-0.48	0.32	**0.30**	**0.17**
OCF / share	0.98	-3.65	1.01	**1.10**	**0.98**
FCF / share	2.72	1.48	1.16	**1.52**	**-0.13**
Book value / share	11.11	2.86	2.35	**2.21**	**2.34**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	2103.2	1424.3	1416.1	**1283.5**	**1303.5**
Equity capital	800.8	206.1	268.1	**343.0**	**369.9**
Goodwill	506.6	277.5	271.5	**271.5**	**271.5**
Net debt	387.4	724.5	586.7	**496.4**	**540.9**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	-2%	-18%	14%	**10%**	**-2%**
EBITDA growth-%	-877%	-1147%	-173%	**42%**	**-36%**
EBIT (adj.) growth-%	31%	-88%	1294%	**19%**	**-21%**
EPS (adj.) growth-%	871%	14%	-168%	**-6%**	**-44%**
EBITDA-%	2.5 %	-31.9 %	20.6 %	**26.5 %**	**17.3 %**
EBIT (adj.)-%	4.1 %	0.6 %	7.6 %	**8.2 %**	**6.6 %**
EBIT-%	2.5 %	-31.9 %	9.1 %	**16.0 %**	**6.6 %**
ROE-%	-5.6 %	-57.9 %	20.2 %	**32.7 %**	**7.5 %**
ROI-%	1.8 %	-22.0 %	7.6 %	**15.5 %**	**6.5 %**
Equity ratio	38.1 %	14.5 %	18.9 %	**26.7 %**	**28.4 %**
Gearing	48.4 %	351.5 %	218.8 %	**144.7 %**	**146.2 %**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	24.1	-252.4	185.0	**262.3**	**168.0**
Change in working capital	79.0	-9.8	-56.9	**-53.6**	**0.7**
Operating cash flow	70.4	-262.5	115.0	**171.1**	**155.2**
CAPEX	-297.4	809.3	-17.1	**-30.0**	**-160.0**
Free cash flow	195.7	106.8	132.7	**235.3**	**-20.8**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	0.6		1.0	**0.8**	**0.9**
EV/EBITDA (adj.)	22.5		4.8	**3.1**	**5.0**
EV/EBIT (adj.)	13.7		13.0	**9.9**	**13.3**
P/E (adj.)	neg.	neg.	6.1	**6.5**	**11.6**
P/B	0.2	0.4	1.1	**0.9**	**0.8**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

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

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11/18/2022	Reduce	2.00 €	1.97 €

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