

Kreate

Extensive report

10/1/2024



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This report is a summary translation of the report “Pursuing goals on new tracks” published on 10/1/2024 at 7:00 am EEST

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Pursuing goals on new tracks

Infrastructure builder Kreate has been one of the strongest growing and most profitable companies in its sector. Kreate's above-market growth has been driven by its expertise in demanding infrastructure construction projects and the company's success in executing these projects has given it a good market position in its field. Unprecedented cost increases in the industry took their toll on profitability in 2022-2023, but the earnings trend is now showing clear signs of improvement from the bottom of the cycle. Valuation is moderate relative to earnings normalization, and the expected return is supported by a strong 6% dividend. We reiterate our Accumulate recommendation, revising our target price to EUR 9.00 (was EUR 8.50).

Leading Finnish infrastructure builder

Kreate is a company specializing in demanding infrastructure construction, with services divided between transport infrastructure construction and structural engineering. Transport infrastructure construction includes road, street and railway construction. Structural engineering consists of bridge construction and various types of foundation construction. Furthermore, Kreate offers services related to the circular economy. Kreate's revenue has grown strongly over the last five years. Annual growth has averaged 14% (2017-23 CAGR-%), a much stronger performance than the zero growth of the market and competitors. Kreate's profitability deteriorated in 2022-2023 due to an unprecedented increase in the cost of construction materials, but the earnings trend has been successfully reversed at the end of 2023 and during 2024. Moreover, the EBITA margin has nevertheless averaged 4.0% over the last five years, which is a good performance in the industry. The profitability of the business is also reflected in the return on capital employed, which has averaged 16% over the last five years (2019-23).

Strategy focused on improving profitability

Kreate grew above its targets during the previous strategy period but has only reached its profitability target of over 5% (EBITA-%) in 2019. The strategy now aims for more moderate growth (5-10% per year) and focuses on improving efficiency and production to reach profitability targets. Growth will be sought in the more profitable but smaller Swedish operations and in the active rail construction sector. The profitability improvement will come from better management of costs, an increase in the Swedish share (business mix) and project selectivity in a recovering market (less pressure from price competition). In 2025-26, we expect growth to reach the lower end of the target range (2025-26e avg. growth-%: 5.3%) thanks to a recovering Finnish market and strong growth orientation in Sweden. We expect Kreate's profitability to return to more normal levels in the coming years (EBITA-% 2025-26e avg.: 3.8%) simply through the completion of projects hit by cost increases, but we believe that progress towards the targets will require a revival in the private infrastructure market, improved project margins, lower cost levels and some operational leverage from growth.

Expected return supported by upside in valuation and dividend

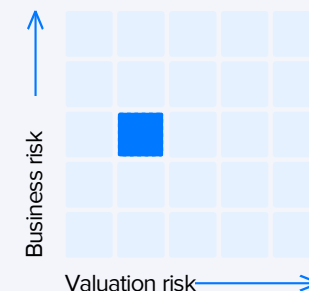
We forecast an increase in Kreate's earnings in 2024, but the stock is starting to be valued at a challenging level relative to that (2024e: EV/EBIT: 11x, P/E: 17x). In our forecasts, Kreate's result will return closer to normal in 2025, bringing the valuation down to a more attractive level (2025e: EV/EBIT: 10x, P/E: 12x). Compared to our acceptable valuation (EV/EBIT, P/E: 10- 12), the stock would have some upside potential. In addition, the dividend yield of around 6% generated by the strong cash flow increases the expected return. The neutral scenario of the DCF calculation is significantly higher (EUR 10.7), too, which supports our positive recommendation.

Recommendation

Accumulate
(was Accumulate)

EUR 9.00
(was EUR 8.50)

Share price:
8.36



Key figures

| | 2023 | 2024e | 2025e | 2026e |
|-----------------------|-------|-------|-------|-------|
| Revenue | 320.0 | 275.2 | 292.9 | 304.8 |
| growth-% | 17% | -14% | 6% | 4% |
| EBITA (adj.) | 7.8 | 9.2 | 11.1 | 12.1 |
| EBITA-% (adj.) | 2.4 % | 3.3 % | 3.8 % | 4.0 % |
| Net Income | 3.7 | 4.4 | 6.2 | 6.9 |
| EPS (adj.) | 0.44 | 0.50 | 0.70 | 0.78 |

| | | | | |
|-------------------------|-------|-------|-------|-------|
| P/E (adj.) | 16.5 | 16.8 | 12.0 | 10.8 |
| P/B | 1.5 | 1.7 | 1.7 | 1.6 |
| Dividend yield-% | 6.6 % | 5.9 % | 6.0 % | 6.1 % |
| EV/EBIT (adj.) | 10.7 | 11.0 | 9.7 | 8.8 |
| EV/EBITDA | 5.8 | 6.6 | 6.1 | 5.6 |
| EV/S | 0.3 | 0.4 | 0.4 | 0.3 |

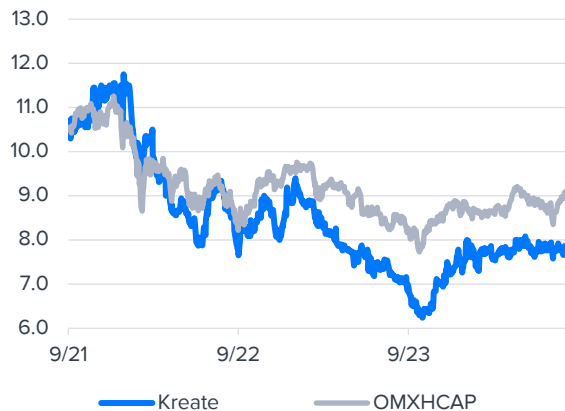
Source: Inderes

Guidance

(Unchanged)

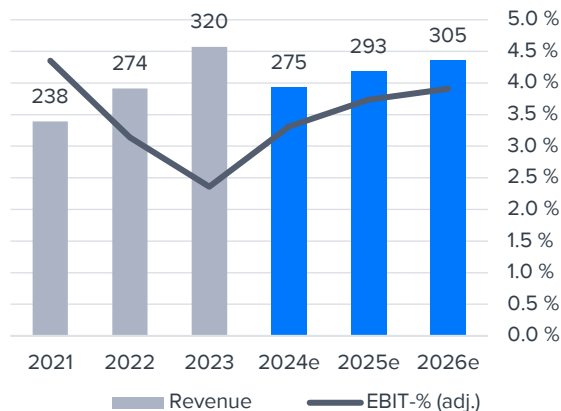
Kreate estimates that its revenue in 2024 will decline and be in the range of 270-300 MEUR (2023: 320 MEUR) and EBITA will increase and be in the range of 8-11 MEUR (2023: 7.8 MEUR).

Share price



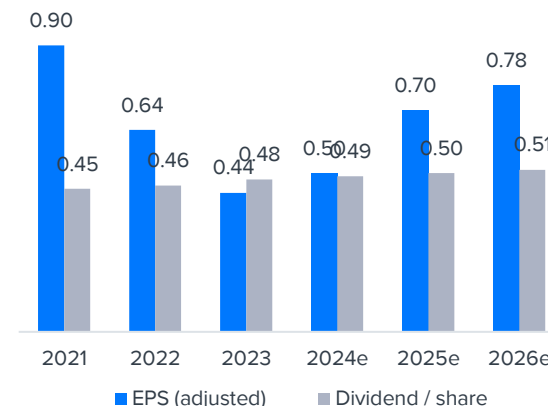
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Above-market growth in the medium term
- Significant scope to improve profitability
- Strong potential for return on capital
- Infrastructure construction is more cycle-resilient than rest of the sector
- Competitive advantage through specialized expertise in demanding projects
- Urbanization, dense construction, sustainable development, renovation debt, safety underpin market growth prospects
- M&A for expansion at home and abroad



Risk factors

- The sector is partly dependent on the business cycle, especially on the private side
- Stagnation of public investment
- The worsening financial situation of municipalities
- Managing growth
- Sharing and managing the risks of large projects
- Maintaining expertise and adequacy of staff incentives
- Price competition
- Cost pressures and material availability challenges

| Valuation | 2024e | 2025e | 2026e |
|------------------|--------|--------|--------|
| Share price | 8.36 | 8.36 | 8.36 |
| Market cap | 74 | 74 | 74 |
| EV | 100 | 106 | 105 |
| P/E (adj.) | 16.8 | 12.0 | 10.8 |
| P/B | 1.7 | 1.7 | 1.6 |
| EV/Sales | 0.4 | 0.4 | 0.3 |
| EV/EBITDA | 6.6 | 6.1 | 5.6 |
| EV/EBIT (adj.) | 11.0 | 9.7 | 8.8 |
| Payout ratio (%) | 98.2 % | 71.6 % | 65.8 % |
| Dividend yield-% | 5.9 % | 6.0 % | 6.1 % |

Source: Inderes

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Kreate in brief

Kreate is a Finnish infrastructure builder. Kreate specializes in demanding infrastructure, including solutions relating to bridges, roads, railway and tramway construction, and foundation construction.

2015

Kreate was founded: Fin-Seula Oy, Insinööritoimisto Seppo Rantala Oy and Kesälahden Maansiirto Oy merged

2021

IPO

320 MEUR (+17% y/y)

Revenue 2023

7.8 MEUR (2.4% of revenue)

EBITA 2023

11.2% (2022: 12.5%)

Return on capital employed 2023

200 MEUR (-24% y/y)

Order backlog 2024 H1

496

Personnel on average at the end of H1'24

2017-2018

- Positive economic developments supported growth
- Strong growth in both revenue and profit
- Processes and project activities were developed in line with Strategy 2020
- Specialist projects play an important role

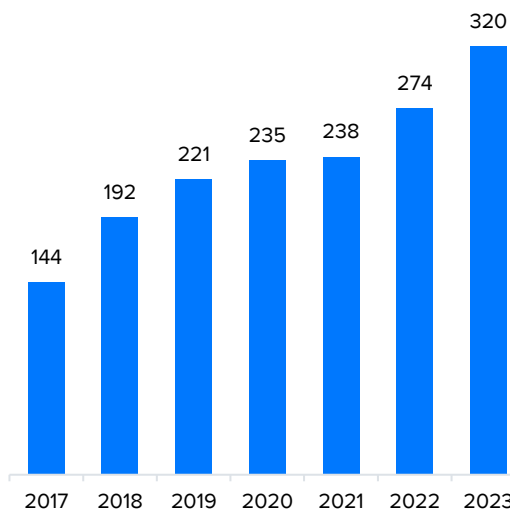
2019-2021

- COVID did not stop Kreate, but slowed things down
- Growth over the years, but at a slower pace than in previous years
- Profitability started to deteriorate due to the hot economic climate
- Order backlog strengthened significantly towards the end of 2021

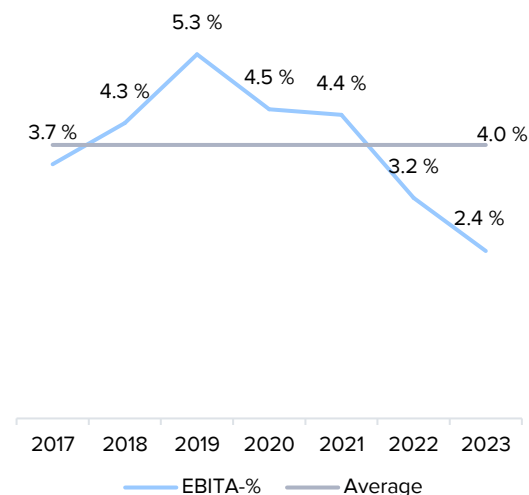
2022-2023

- Order backlog and large projects supported Kreate's growth
- High resource prices and inflation brought costs
- Projects were progressing well with stronger-than-expected growth
- Market challenges pushed profitability to weak levels and below normal levels

Revenue development (MEUR),
+14% CAGR-% 17-23



Development of profitability
(EBITA-%)



Company description and business model 1/6

Company description

Builder of demanding infrastructure

Kreate is a Finnish company specializing in infrastructure construction. The company's business activities include railway construction, road and street construction, bridge construction, foundation and engineering construction, and rock and concrete construction in Sweden.

Kreate is one of Finland's leading providers of demanding and specialized infrastructure projects, which we believe gives it a good market position in the infrastructure construction market. Urbanization, dense construction and renovation debt increase the need for more advanced infrastructure, but they also make projects more challenging. Kreate's track record of successful implementation of demanding projects gives it a small competitive edge here.

Kreate's revenue has grown strongly over the last five years, reaching around 320 MEUR in 2023. Annual growth has averaged 14% (CAGR) over 2017-2023, which is a very strong performance for the sector. Profitability has also been at a good level for the industry, averaging around 4% (EBITA) over 2017-2023. Over the last two years, however, profitability has deteriorated below average due to old projects being burdened by cost inflation.

Kreate's business activities are concentrated in Finland, with around 93% of revenue coming from Finland and the remaining 7% from Sweden in 2023. Sweden's share is still small but has been growing steadily since the expansion in September 2022.

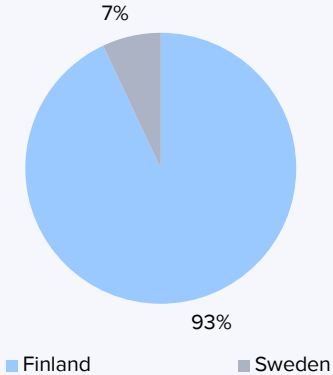
Sweden also plays an important strategic role as one of Kreate's growth areas, in addition to its railway and tramway business, for the period 2024-2027.

By customer group, the public sector accounts for the largest share of revenue, which creates stability in the company's business. In general, however, public projects are highly competitive and these types of projects can reduce the profit potential on the flip side of stability. Government projects accounted for about 40% of the company's revenue in 2023 and municipalities and cities for about 18%. The rest (42%) of the revenue in 2023 came from the private sector, which may include construction companies, industrial investment commissioners/developers, and other large companies. In general, private sector projects have a better return potential, but they also often carry higher risks.

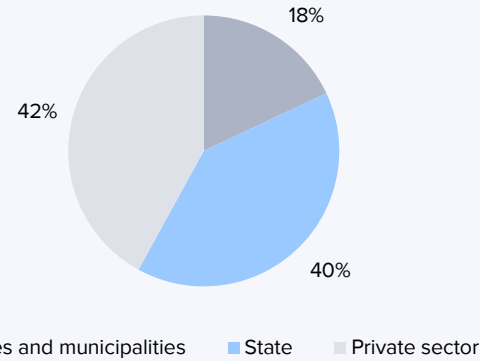
After a period of strong growth for Kreate, the company's strategy for 2024-2027 emphasizes sustainable profitability. The aim is to gradually increase profitability towards the target level of over 5% (EBIT-%) through annual revenue growth of 5-10% (from 2025) and better cost management. The targets, especially in terms of profitability, are still a long way off, but we believe they are operationally achievable on the back of improved performance and a reviving market.



Revenue by country (2023)



Revenue by customer group (2023)



Source: Inderes, Kreate

Company description and business model 2/6

Business model

Kreate has one reportable segment, but two business areas, for which it discloses revenue separately. Kreate's businesses are divided into Transport infrastructure construction and Structural engineering.

Structural engineering

Structural engineering accounted for 78% of Kreate's revenue in 2023. Structural engineering can be divided into bridge construction and foundation and engineering construction. Kreate's bridge construction consists of the construction and repair of bridges. Bridge projects are demanding and, in our view, better protected from competition. The complexity of bridges is increased by factors such as water crossings, congested urban environments, technical requirements (length, height, load-bearing capacity and type) and often tight deadlines. Kreate is a leader in bridge construction in Finland and the company has strong references (Crown Bridges, Isoisänsilta Bridge, Kirjalansalmi Bridge and Hessundinsalmi Bridge).

The foundation and engineering construction business performs construction-related foundation work and groundworks, but with a focus on demanding urban environments and industry. Examples include the Terminal 2 project at Helsinki-Vantaa airport, Kesko's Onnela logistics center and numerous challenging groundworks in central Helsinki, for example.

Structural engineering also includes Kreate's rock and concrete construction business in Sweden. In

Sweden, Kreate specializes in demanding underground projects as a subcontractor. The intention is to expand above ground with growth and strong references towards a main contractor role.

Specialized foundation construction, consisting of Kreate's 50% stake in KFS Finland, are also presented under structural engineering. However, KFS Finland's revenue is not included in Kreate's figures, but the company records it in the share of the profit or loss of associates. KFS Finland focuses on specialized foundation construction and is, according to the company, the market leader in its field. The specialized foundation business includes jet grouting, stabilization, bored piling, retaining wall construction and anchoring.

Transport infrastructure construction

Transport infrastructure construction accounted for 22% of the company's revenue in 2023. Transport infrastructure construction can be divided into road and railway construction. In the road and street construction business, Kreate focuses on the execution of demanding and large-scale projects with many technical dimensions, such as geotechnical structures, multiple interchanges and intersections. Example projects include various industrial infrastructure projects (bioproduct factory in Kemi), demanding regional development projects (preliminary construction of the Nihti district) and highway works (Finnish national road 19, length from Seinäjoki to Lapua).

The railway construction business includes the construction work for railways, railway yards, tramways and metro lines. According to the

company, the projects range from major track renewals to smaller bridge and track ballast replacement works. Based on the investment plans of the Finnish state and municipalities, the need for railway expertise will increase in the future, making it an important part of Kreate's strategy. Work in the railway environment is also a growing sector for Kreate, and examples of recent projects undertaken include the development stage of the Koskela depot, the more than 200 MEUR improvement works at the Tampere passenger railway yard and the alliance project with GRK for the eastern section of the Vantaa Tram (217 MEUR). Projects are often long-term, challenging and carried out by multiple parties, and risks are often shared through implementation in an alliance model. Projects in the railway environment often include not only railway construction, but also bridge, transport infrastructure and foundation construction.

Circular economy

Circular economy plays an important role in supporting the company's business. The circular economy adds value to Kreate's projects and also provides solutions externally on a small scale. Kreate's circular economy supports the efficient recovery, use and recycling of materials and, if necessary, the disposal of construction waste and industrial by-products. The aim is to replace virgin soil in both Kreate's own projects and those of its partners. However, the circular economy is a small part of Kreate's business (we estimate a few percent). Kreate reports the circular economy under Other and eliminations.

Kreate's business

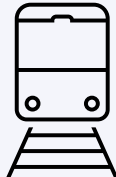
Structural engineering



78% of revenue 2023

- Operations in Finland and Sweden
- Bridge construction and repair play a major role
- Another important component is foundation and engineering construction, but especially in technically demanding urban sites and in the industrial field
- Projects include the renewal of the Kirjalansalmi and Hessundinsalmi bridges, the Crown Bridges project, the Tampere Deck, the Kesko logistics center

Transport infrastructure construction



22% of revenue 2023

- Operations in Finland
- Construction of railways, roads, and streets
- Focuses on road construction, especially on technically demanding projects (not basic road maintenance)
- Increasing share due to launch of railway projects
- Significant growth opportunities
- Recent projects received include the Koskela depot, the Tampere passenger railway yard and the eastern section of the Vantaa tramway

Project lifecycle



Role of Kreate



Clients and customers often develop the project



Kreate partly involved in project design and studies



The main focus of Kreate's business is on the implementation



Maintenance and repair play a smaller role for Kreate

Company description and business model 3/6

Kreate operates in project business

Kreate's revenue is generated almost entirely from infrastructure construction contracting. In practice, the company executes construction projects on its customers' accounts and balance sheets. The company's revenue and results are earned over time as projects progress, rather than on delivery, sale or completion, as in, e.g., self-financed construction.

The most common contract types for Kreate's projects are the complete project contract, the design and build contract, the project management contract and the increasingly common alliance and cooperation projects. According to Kreate, around ¾ of its revenue is generated from complete project contracts. Often, a price is agreed on the basis of which Kreate will carry out the work. If the actual cost of the contract is lower or higher than Kreate's budget, the profit or loss remains with Kreate. Contracts are nowadays often index-linked so that, for example, cost fluctuations do not have a significant impact on the final result. What's more, the industry is increasingly using cooperative agreements in which responsibilities (costs) and goals (profits) are shared between the participants (e.g. alliance models).

To the best of our knowledge, Kreate has no history of significant project problems. According to Kreate, more than 96% of their projects have been profitable in the past (source: CMD material). However, project problems are a definite and significant risk inherent in Kreate's business model. Project problems in the industry often occur on the largest and most challenging projects, but at Kreate these are primarily alliance projects with little risk of surprises.

About 15% of Kreate's revenue comes from small projects (0-3 MEUR) and about 50% from medium-sized projects (3-30 MEUR), which reduces the magnitude of project problems if they occur. However, even Kreate is not immune to substantial project risks due to its project scale, but we believe that these have been avoided so far.

Economic cycles have an impact

The construction and infrastructure sector is affected by the economic cycle. Thus, Kreate's business has a cyclical character, although it is generally steadier than other new construction. Kreate is also connected to other, more cyclical construction. In addition to its own projects, Kreate carries out construction work as part of larger projects, e.g., creating the optimum road, track or foundation conditions for an industrial project. This makes Kreate dependent on investment in construction in various sectors.

However, infrastructure also has counter-cyclical features. Often large infrastructure projects and investments are driven by the public sector and their demand is not very dependent on the economic situation (e.g. railway projects). When the economy weakens, recovery often kicks in for states and municipalities, and infrastructure has historically often been a productive target for stimulus money, with infrastructure construction often leading to other economic activity. Overall, public demand balances fluctuations in private demand, making infrastructure less dependent on the business cycle. This has also kept historical developments in the infrastructure sector reasonably stable.

Large projects

- Size: over 30 MEUR
- Duration: several years
- Provide continuity in the company's work, joint projects involving several businesses, demanding project management
- Alliance and cooperation models

35%

Medium-sized projects

- Size: 3-30 MEUR
- Duration: 1-2 years
- Ensure resource utilization, profitable core business
- All contract types

50%

Small projects

- Size: 0-3 MEUR
- Duration: less than one year
- Generally the most profitable and technically particularly challenging
- Mostly complete project contracts

15%

Company description and business model 4/6

There are seasonal variations in the business

The seasonal variations in Kreate's business largely follow the seasonalities of construction but differ slightly from traditional construction. While Q4 is generally the best quarter in the construction sector, Q2-Q3 are more important for Kreate.

Infrastructure is often a weather-sensitive business, with more work tending to be done in the warmer seasons. Q1 is generally the weakest quarter and also at the end of Q4 the weather starts to make it difficult to implement projects. However, projects are often completed in Q4 and large installments may become payable, reducing the seasonality of the quarter. Historically, Kreate has made its best profitability in the third quarter, but the profitability of the second quarter often reaches a good level as well.

Resources: labor, machinery and materials

Kreate's business projects require a lot of manual labor, machinery and materials. The industry as a whole has experienced a sharp increase in the price of materials, which has also affected Kreate. Kreate is particularly dependent on steel, machine fuels, bitumen, concrete, timber and other basic construction materials. Their price fluctuations can have a significant impact on the company's business.

Since 2020, civil engineering costs have been rising sharply, both in terms of labor and inputs, as shown in the chart to the right. Profitability also took a hit from rising costs between 2022 and 2023, as older, longer-term projects could not fully accommodate the unprecedented price increases.

However, the projects were completed in 2023, and a similar cost impact has not been seen in 2024.

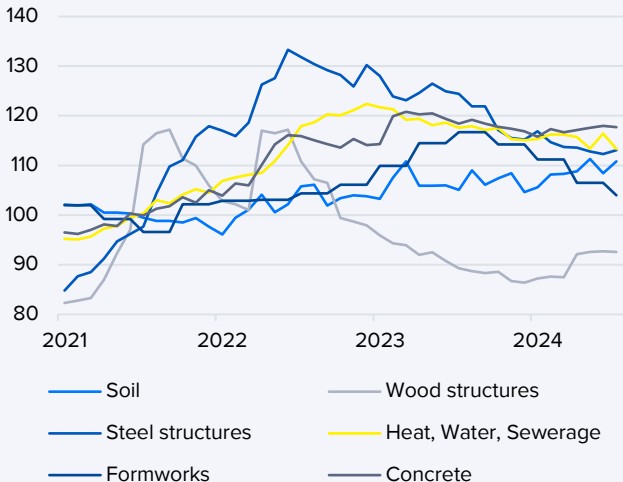
In industry projects, the price of some materials is generally agreed in advance, but many purchases are also made as projects progress. In this case, fixed contract prices can be challenging and can significantly reduce/improve the profitability of the project (depending on the type of contract) if prices change dramatically during the project. However, we consider it unlikely that the price increases of recent years will be repeated in the near future. We estimate that contracts today also often include an indexation for cost increases or decreases. In addition, different project models often involve the sharing of costs and benefits between different parties.

Labor is another important resource. We estimate that a large part of Kreate's workforce is on the company's payroll. According to Kreate, in-house labor is used for the most demanding parts of projects and subcontractors for the more repetitive and easier parts. The use of in-house labor contributes to improving visibility and also the manageability of projects. We believe this is one of the reasons why Kreate has not historically had significant project problems.

Cost index for civil engineering no longer rising (2015=100)



Material prices continued to fall (2021=100)



Company description and business model 5/6

Cash flow concentrated towards the end of the year

Kreate's operational free cash flow is typically strong, especially in the second half of the year, when projects are often completed. Fluctuations in cash flow are due to the start-up of projects and the tie-up of capital as equipment and materials are purchased. However, the company has normally had negative or zero working capital on an annual basis.

Negative working capital is understandable as Kreate is in the contracting business and does not prepare anything for sale on its own balance sheet (inventory). We believe that Kreate also has a good negotiating position with material suppliers and smaller subcontractors. This is enough to cover the payment deadlines to customers and the commitment of working capital.

Negative net working capital is positive for investors, as the business can grow without the need for additional financing. During a period of declining revenue, negative net working capital can certainly put negative pressure on cash flow, but given Kreate's operational performance and financial situation, we do not believe this should be a problem for the company to manage.

No significant investments

In line with the company's business model and the industry, the company does not spend much on investments in relation to the size of the business. However, the company must constantly renew or upgrade its equipment in order to maintain the same level of efficiency as it has had to date. This requires maintenance and new investments.

Investments may also involve larger one-off items, e.g., the purchase of specialized machinery or equipment. For example, in recent years, Kreate has invested heavily in equipment and support for the railway construction business, among other things.

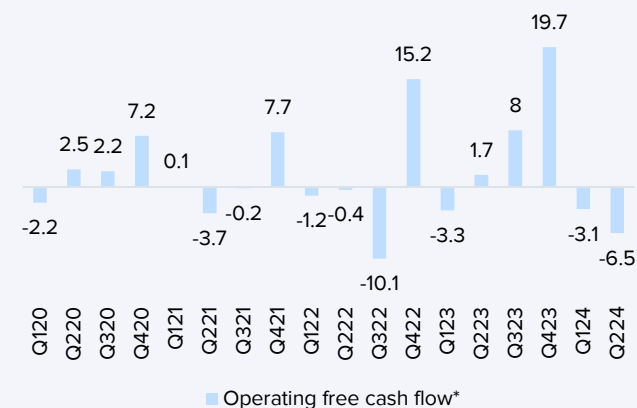
In 2023, net operating investments totaled 5.9 MEUR (2022: 4.1 MEUR). Investments in 2023 were exceptionally high, boosted by major projects that started at the end of 2022. However, investments in 2023 were only around 2% of the revenue level. Going forward, we expect the investment level to be around 1-2% of revenue, including also the need to replace machinery or equipment.

Costs are mostly variable

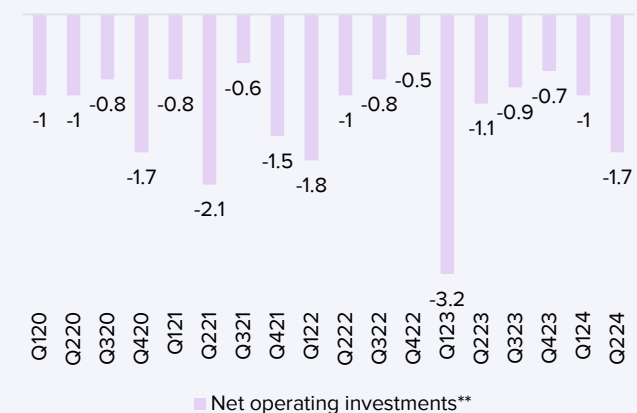
There is a reasonable degree of flexibility in Kreate's cost base. Most of the costs are variable and the only costs that are fixed are the ones related to group functions. Other costs are incurred by the projects.

Materials and services account for a large share of costs, with a ratio of around 80% of total costs in 2023. This component also moves very much with revenue but varies from year to year through the price of resources and the success of their management, as shown earlier. The share of this item has risen slightly in recent years due to an estimated increase in costs, but the increase in subcontracting may also have had an impact.

Cash flow often improves towards the end of the year (MEUR)



Investments moderate relative to Kreate's size (MEUR)



Source: Inderes, Kreate

*Operating free cash flow = Cash flow from operating activities before financial items and taxes + net operating investments

**Net operating investments = Investments in tangible and intangible assets - disposals of tangible and intangible assets

Company description and business model 6/6

In addition to material and service costs, the company has personnel costs, which remain reasonably fixed, although there are some variable elements. We estimate that the company's own staff is mainly well utilized and that subcontractors are the part of the resources that are more flexible when needed. However, own staff can be laid off, for example, if necessary. Personnel costs accounted for around 14% of total costs in 2023, and this cost item has also seen a slight relative increase (in relation to revenue), as salary costs have risen. Other operating expenses (4% share) are mainly fixed costs, and their share of the total is very small.

In our view, the scalability of the business is limited, as the same project cannot be sold again, but will always require new resources. However, we estimate that optimizing (employee resource) utilization rates will improve profitability up to a point.

Expertise in demanding projects creates a small competitive advantage

Kreate has many references from demanding infrastructure projects, as well as expertise in highly demanding projects, which can help give the company a small competitive advantage over others. Successful project references are likely to strengthen the brand and continue to give the company a competitive advantage, as in the industry, previous references are important in winning new projects. Employee satisfaction (CMD 2024: willingness to recommend employer 4.23/5.00) and commitment (approximately 16.5% of the company is owned by employees) are also elements that contribute to Kreate's competitiveness.

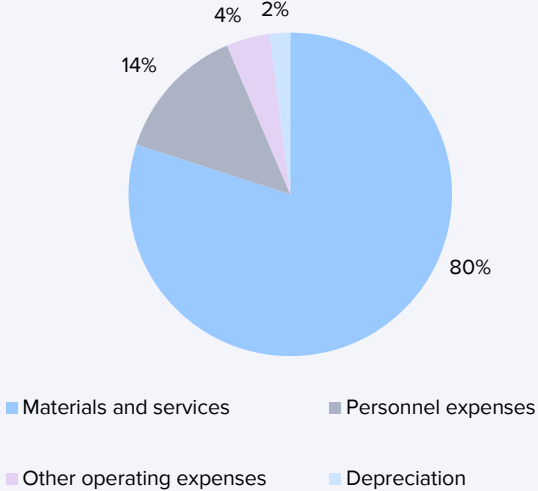
We believe that the industry is protected from rapid changes in the competitive landscape, as demand for machinery and equipment, as well as resources, is high for the largest projects. At the smaller and simpler end of the scale, though, there is plenty of competition. However, it is a very long way from smaller projects to becoming the main contractor for Finland's largest bridge repair projects, for example.

While it can be difficult to break into the sector without significant references, we believe that it is difficult to achieve sustainable competitive advantages in the sector. We do not believe that there is a superior production process or other way of working in the industry that cannot be copied by others. This is particularly important when the majority of added value is created on site, where processes and practices are often similar.

The risk profile of the business model is more moderate than in the rest of the construction sector

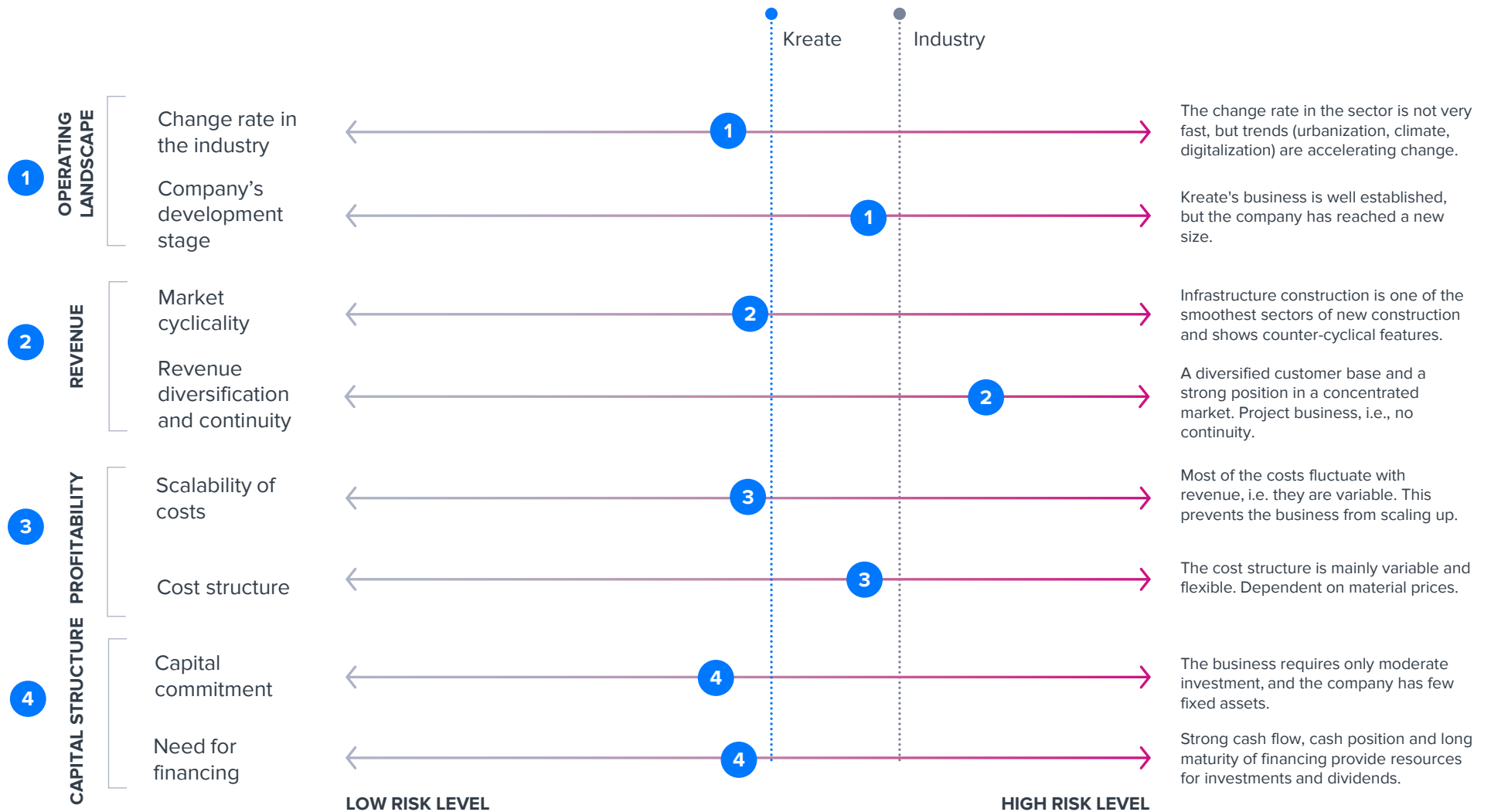
In our view, the risk profile of Kreate's business model as a whole is reasonably moderate compared to the rest of the construction sector. The risk level of the business model is partly lowered by counter-cyclical business, a high share of public sector revenue, specialized business, a large customer base and a well-known brand. The risk level of the business model is increased by the dependence of the business also on private investment, the risk factors of the project business, the volatile nature of the business, the constant need for maintenance investment, the dependence on a single industry and the high dependence on a single market.

Most of Kreate's costs are project-related variable costs (% of total expenditure, 2023)



Source: Inderes, Kreate

Risk profile of the business model



Strategy 1/3

Sustainable profitability 2024-2027

Kreate's strategy, updated at the beginning of 2024, aims to build on the opportunities created by the previous strategy. During its stock market history, the company has positioned itself in growing market segments (rail, bridge, industrial, Sweden) and strengthened its offering to customers. However, with the global crises, efficiency and profitability have not fully kept pace with business development.

Therefore, during the new strategy period, the company will focus on improving profitability and is now aiming for more moderate growth to support the development of profitability. Regarding growth, the company's focus is on the railway business and the Swedish business.

The operational objective of the renewed strategy is to become a leading player in each of the company's business areas, to be the most sought-after partner and the best employer in the field of infrastructure construction, and to continue to invest in the company's agility and efficiency.

Specialized expertise in demanding projects

Kreate is strategically focused on the construction of demanding infrastructure. With the megatrends of urbanization and the green transition, we estimate that in the future we will need taller buildings, denser city environments, smoother traffic, growth in public transport and expansion on water, for example. These all mean that specialized expertise is needed in infrastructure construction for the most demanding projects. We believe that with its expertise and references in demanding infrastructure and business operations, Kreate

already stands out as a partially unique player on the Finnish scale. We estimate that this will also be a positive factor for Kreate's market position.

We also estimate that the profitability of more demanding and specialized projects is better than general infrastructure construction, which creates good opportunities for Kreate. With its competence and equipment, the company is able to successfully complete even the most challenging projects. At the same time, however, demanding projects are also riskier, as we believe they are more likely than repetitive projects to fail in costing or otherwise be more expensive to execute than expected, for example due to construction errors. However, contractual models (alliances, cooperation models) often protect the parties from these risks, especially in the largest projects.

Becoming a leader of the industry

Having positioned itself in growing market segments during the previous strategy period, Kreate now aims to become a leading player in its businesses. The company already states itself to be the market leader in Finland in bridge construction and repair, foundation and engineering construction and specialized foundation construction (KFS Finland associated company). We find it difficult to fully assess the market shares of these areas, since, for example, a lot of foundation construction is done in connection with other construction, but in each of its specialized areas, Kreate is probably among the market leaders.

Operational objectives of the strategy

Best place for the best infrastructure talent

- Focus on the essentials
- Continuous staff development
- Occupational safety

Be the most sought-after infrastructure partner

- Knowing the needs and wishes of customers
- The best solutions for projects
- Quality and reliability

Be among the leading players in all our businesses

- Strengthening existing expertise
- More investment in railway construction
- Growth in Sweden in selected businesses

Keep our processes agile

- Continued focus on risk management
- Selectivity and careful tender calculation
- Continuous development of site processes

Strategy 2/3

Kreate aims to maintain its strong market position in its existing businesses and to grow, especially in Sweden and in railway construction, where the company is not yet among the top three players. In railway construction, the company has made significant investments in recent years (special equipment, expansion into the electric railway and signaling equipment businesses), which are now starting to pay off in the projects that the company has won.

The company sees opportunities for growth in areas such as the Finnish government's transport investment program and the green transition. Finland's membership of NATO and the prevailing geopolitical situation may also increase the need for rail, road, port and, for example, airport infrastructure. We believe that infrastructure development is important for Finland's security of supply and accessibility and it can increase market opportunities, especially on the railway side.

In September 2022, the company expanded into Sweden with the acquisition of Bror Bergentreprenad AB (BBEAB), a Swedish company specializing in demanding rock and concrete construction, giving Kreate a good start in its expansion strategy in Sweden. The acquired company had a history of strong growth but was also able to achieve EBITDA margins of up to 10% in 2022, while Kreate, for example, had an EBITDA margin of 5% in 2022.

A growing and profitable business in a new market has provided a good starting point for expansion in Sweden. The year 2023 was also strong, with revenue of 258 MSEK, or around 23 MEUR, almost

doubling the starting level from when Kreate acquired the business. The profitability of the Swedish subsidiary (Kreate Sverige AB) has remained very good as well, with an EBIT margin of around 6.6% in 2023, according to our data.

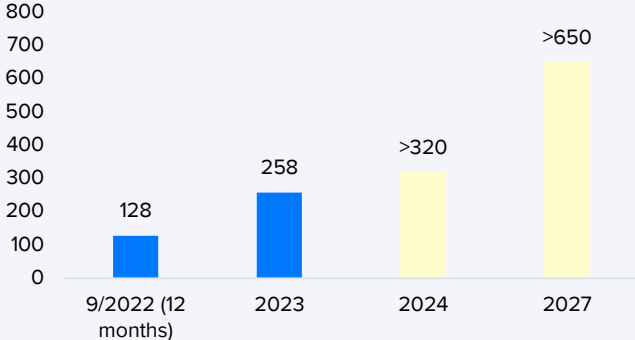
However, Kreate's growth targets in Sweden are also ambitious. This year, the goal is to increase revenue by around 25% to more than 320 MSEK in 2024. The growth rate is not expected to slow down and by 2027 revenue is planned to increase to more than 650 MSEK. This means that the Swedish unit is expected to double its revenue from 2024 levels during the strategy period.

The company has been a smaller subcontractor for rock and concrete construction projects in Sweden, but now intends to expand more strongly into above-ground work and slowly move into the role of main contractor as it grows. An example of this was already seen in August, when the Swedish unit was awarded the first earthworks project for the Stockholm metro. The company certainly has room for growth, as Kreate's current market in Sweden is, according to the company, worth 15 BNSEK, and expansion in some areas will increase the market size by 120-150 BNSEK. We consider the targets in Sweden to be achievable, but we do not base our forecasts on this. We also believe that the risks of Swedish expansion into new business areas and into the role of the main contractor pose clear profitability risks. We therefore expect profitability in Sweden to moderate slightly from the current level of over 6%, partly as a result of growth investments.

Kreate's market position* by business

| | |
|---|----|
| Bridge construction and repair | #1 |
| Foundation and engineering construction | #1 |
| Rock and concrete construction (Sweden) | - |
| Specialized foundation construction | #1 |
| Road and street construction | - |
| Railway construction | - |

Kreate targets strong revenue growth in Sweden (MSEK)**



Source: Inderes, Kreate
 *Kreate's assessment of the current situation
 **Revenue of Kreate's Swedish unit, 2022 not yet part of Kreate

Strategy 3/3

The best place to work for infrastructure talent and the most sought-after partner

To achieve its strategic goals, Kreate must also succeed in the talent market. Kreate therefore strives to be the best place for infrastructure professionals. Employees have been thriving at Kreate so far and we expect the same pace to continue. According to Kreate's surveys, their employee level of recommendation is high (4.23/5.00) and many employees also see the value of owning Kreate, as we mentioned earlier. However, as a growth company, growing pains can still occur, and we believe that dissatisfaction will inevitably increase slightly the bigger the company grows. On the other hand, the attractiveness as an employer increases, as there are better opportunities for advancement and more interesting projects in a large company.

Attracting skills from the labor market or through M&A will, however, be one of the cornerstones of a successful expansion strategy. We believe that the company is seen as an attractive employer in the industry because of its ambition, agility, challenging and interesting projects and fair remuneration system. Employees have the opportunity to contribute to their own earnings, which increases motivation and incentives.

In addition to attracting talent, the company must ensure that its partners and other stakeholders are satisfied. In the construction industry, successful customer and partner relationships are very important because construction projects require many different parties to work together to achieve

the goal. Often, good partnership experiences can also lead to new projects and collaborations more easily. However, disputes and negotiations on contractual issues are also part of the construction industry and we do not see that Kreate can avoid them completely.

Maintaining agility and efficiency a question mark

Kreate has historically been reasonably profitable despite strong revenue growth. We believe that this has been made possible by strong expertise, agile operations, selective bidding, the profitability advantage of demanding projects, lean management, efficient processes and modern systems. In recent years, however, profitability has slipped to very low levels for the company due to cost pressures and project delays caused by market challenges.

Kreate has grown from a revenue of around 144 MEUR in 2017 to over 300 MEUR, thus doubling in size. Often in the construction industry, the profitability of the contracting business declines the bigger the player gets. At some point, an organizational structure that used to work well becomes too small to handle the increased number or size of projects. It can be difficult to replicate efficiencies or skills that existed in the company before to new businesses, new markets or new employees. This may also be possible for Kreate, but so far the cost structure suggests that market challenges are the main reason for the decline in profitability.

However, in this sense, the EBITA margins of over 5% achieved in 2019 seem challenging to achieve

in the short term. Nevertheless, this level reflects the proven potential of Kreate, and steps are also constantly being taken to manage the new size of the company. A clearer improvement in profitability from the current low level does not require major upheavals (completion of projects sensitive to cost changes), but getting closer to the target level requires a reduction in cost levels, better margin development on projects, changes in the project mix, a better market and increased efficiency in the organization.

We expect that a better market will reduce competition for projects and also provide projects other than those in the alliance/cooperation model, where profitability is not at the same level as traditional contracting. In addition, there is an increase in private market projects with better returns. At some point, the cost trend will also turn to support contracting or project management companies, which is also something to take into account after several years of cost increases. However, the index-linked contracts or cooperative models that are becoming more common today eat into profits at the point where the impact of cost changes is shared between the parties.

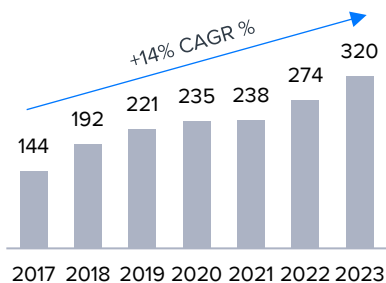
Financial objectives of the strategy



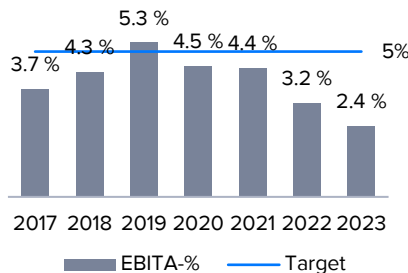
Financial targets (2024-2027)

| Growth 5-10% per year from 2024 onwards | Profitability EBITA margin above 5% | Indebtedness Net debt/adjusted EBITDA <2.5x | Dividend policy Payout ratio at least 50% of net income |
|---|---|---|--|
| <ul style="list-style-type: none"> Growth will be sought organically, but possibly also through carefully selected acquisitions Revenue growth target seems realistic and relatively moderate by historical standards 2017-2023 14% annual growth (CAGR-%) After a period of strong growth, we expect growth to remain below historical levels Focus on operational efficiency instead of growth | <ul style="list-style-type: none"> Profitability target seems realistic, as the company already reached it in 2019 (5.3%) Maintaining this level sustainably requires work and efficiency improvements, as well as easing market challenges Kreate has grown to a new size, which we believe will challenge the achieving historic profitability levels We do not think it likely that the company would raise or exceed the target in the short term | <ul style="list-style-type: none"> Kreate's cash flow has strengthened and investment needs are moderate Debt at the end of 2023 was 1.2x, well below the target We estimate that indebtedness could be driven above targets mainly by acquisitions or other large one-off investments (or an unexpected fall in profitability) In our view, the debt target is at a good level and allows for reasonable debt leverage | <ul style="list-style-type: none"> Dividends are distributed according to Kreate's financial position, cash flows and growth potential The business model's moderate capital intensity and good cash flow allow for good dividend payout capacity Dividends have been generously distributed relative to the result over the last few years (2022: 72%, 2023: 110%). We expect the dividend to continue to grow moderately if earnings forecasts are met |

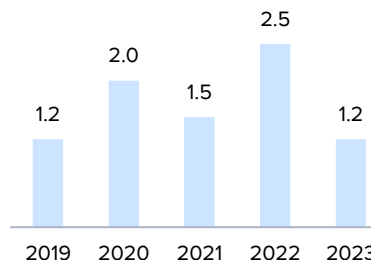
Revenue on target historically



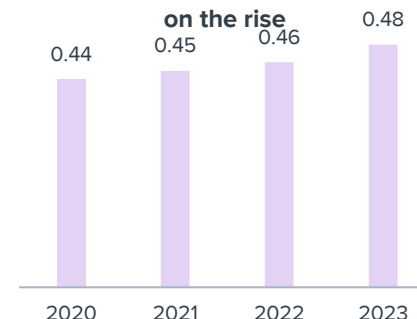
Profitability has already been close to targets



Net debt/EBITDA remained at a good level



Dividend/share been on the rise



Source: Inderes, Kreate

Investment profile

Profitability improvement to drive earnings growth in the coming years

In terms of its investment profile, Kreate can still be considered a growth company, although the strong growth of recent years will now slow down. We estimate that, also in the future, Kreate will be able to grow faster than the market because of its specialized expertise and growing business areas.

Kreate has historically had good profitability (EBITA-% 2017-2023 avg.: 4.0%) for the industry, but there have been clear challenges to profitability in recent years. The aim for Kreate is to bring profitability back above the 5% level, but as mentioned above, increasing profitability may be more challenging after the current growth in the size of the organization and the growth phase.

Despite low profitability, the business generates a good return on capital. Kreate's average ROCE over the last five years has been over 16%. This is an excellent figure for the construction industry and also compares well with Nasdaq Helsinki. The efficient business model and low capital intensity create opportunities for good returns even at low profitability, and we believe the company's potential level is closer to 20% in the medium term.

Strengths and potential

Strong expertise in infrastructure construction, especially in demanding projects. Kreate has strong references on challenging sites, which can serve as a small competitive advantage in the market.

Good project management and efficient operations. Kreate's profitability has historically been at a good level for the industry and there have been no significant project problems or challenges. Now, market challenges and rising costs are burdening profitability.

A stable and strong position in the market gives the company good resources to expand its expertise and market position.

Clear trends support market growth. The infrastructure sector is supported by several trends (urbanization, dense construction, green transition, growth in public and rail transport, safety, security of supply) and will grow steadily over the long term.

Strong operating cash flow provides room for growth investments and dividends.

Strong return on capital potential for investments due to the company's capital-light balance sheet.

Risks

Changes in industry demand. Kreate's business is dependent on the business cycle. This is counterbalanced by public stimulus.

Project risks. In the project business, costs can rise quickly and project management problems can arise. Rising costs have been eroding the profitability of the group for several years.

Growth management. Growth management can fail, and inefficiencies can start to occur. This can be the result of poor investment, recruitment or acquisitions.

Dependence on the Finnish market. The company still operates mainly in Finland and is highly dependent on public sector investment and the Finnish economy. Sweden's contribution is still small.

Failure in integration of acquisitions. Acquisitions always involve a high risk that the integration will fail. Cultures between companies may not match or the target may have been overpaid for. In addition, the commitment of key personnel in the acquired company is also important.

International expansion. In addition to the risks mentioned above, expanding into Sweden through an acquisition involves the effects of country-specific differences and often a different competitive landscape. Furthermore, expanding the Swedish organization into different business areas and into a larger size category requires careful risk management.

Commitment of key personnel. The success of staff incentives, potential challenges of growth and cultural changes can pose risks of loss of key resources.

Investment profile

- 1. Strong growth orientation and above-market growth**
- 2. Expertise in demanding infrastructure supports market competitiveness**
- 3. Business model enables good returns on capital**
- 4. Big projects, larger organization and digestion of growth phase can reduce profitability potential**
- 5. Good cash flow enables growth investments and rising dividend stream**

Source: Inderes

Potential



- Strong above-market growth
- A comprehensive offering for the entire infrastructure construction needs
- Urbanization and sustainable development underpin the market's stable growth outlook
- Good cash flow enables investments for growth
- Capital-light balance sheet and profitability potential create good conditions to increase returns on capital to a higher level than today

Risks



- The sector is dependent on the economic cycle and has cyclical characteristics
- After a good market period, a weaker market has increased competition for projects
- Big projects also pose big risks
- The risks of acquisitions or expansion
- Dependence on the Finnish market

Industry and market 1/4

Market sizes allow room for growth

According to the Confederation of Finnish Construction Industries (RT), the total construction market in Finland was around 38 BNEUR in 2023. According to Kreate's broad interpretation, infrastructure accounted for just over 9 BNEUR of this. The broad interpretation includes not only civil engineering, but also the maintenance of outdoor areas and groundworks in building construction. Kreate estimates the relevant market for the company in Finland to be around 5 BNEUR. The size of the market therefore leaves plenty of room for Kreate to grow in Finland.

In Sweden, the market is considerably larger than in Finland. According to Kreate's CMD material, the Swedish infrastructure market is more than twice the size of Finland's, at around 18 BNEUR. Of this, around 1.3 BNEUR is accounted for by Kreate's current business in Sweden (traditional rock engineering), but the expansion will increase the relevant market for Kreate also in Sweden to roughly 12-15 BNEUR. In Sweden, Kreate is still a small player (2024 revenue target: 28 MEUR), so the market size is of little relevance for the company's growth prospects. Consequently, the main focus in this section is on the Finnish market.

Trends support continued steady growth in the market

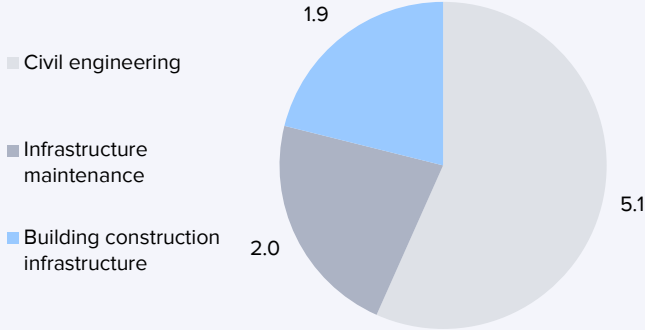
In the future, demand in both markets will be driven primarily by urbanization, the green transition, investment in rail and public transportation, and industrial investment. In Finland, construction renovation debt and the need for military mobility created by NATO membership are supporting market demand. Among the major trends,

urbanization is expected to continue and the population of Finland's five largest cities is projected to grow by a total of 14% between 2021 and 2040, according to Statistics Finland's population projections. Urbanization is increasing the need to improve connections between urban areas with, e.g., roads and bridges. In addition, urbanization is making infrastructure projects more demanding, as cities are built more densely and higher up. Rising repair debt also supports demand for infrastructure. Finland's infrastructure repair debt is estimated to be around 6 BNEUR, according to the ROTI 2023 report that assesses the state of built assets. This will lead to a huge need to repair bridges, roads, streets, railways and sewage systems in the future.

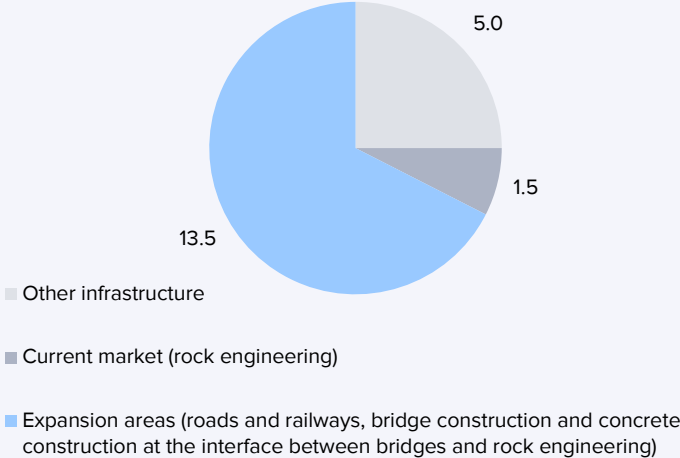
Green transition needs infrastructure

Public investment is important for infrastructure. In Finland, the government has emphasized that it will increasingly promote green or clean transition projects during its term, which in the long run will support the development of the infrastructure sector in particular. This has already been reflected in the market, as Finland has started to promote planned and talked about infrastructure projects to improve the road and rail network (Faster Turku-Helsinki train, Airport Line, Savo Railway, etc.). Several rail projects have already entered the development stage, and we see this continuing to generate strong demand for Kreate. The green transition can also bring private industrial investment in Finland, where we believe infrastructure would play an important role. Finland's good climate and energy infrastructure are supportive elements here.

Finnish infrastructure market about 9 BNEUR



Swedish infrastructure construction market 20 BNEUR*



Source: Inderes, Kreate, the Confederation of Finnish Construction Industries (RT)
*Kreate estimates

Industry and market 2/4

Weaker times expected for infrastructure

Based on our calculations, the market for infrastructure construction has grown by about 3% on average between 2000 and 2023. After a good year of growth in 2020, the market has been facing downward pressure for a few years now, especially for building construction infrastructure. However, the decline is expected to be reversed next year.

According to the Confederation of Finnish Construction Industries (RT) fall forecast, volumes are expected to decrease by around 2% this year, following a 7% decline in 2023. But for many infrastructure specialists, revenue trends seem to be very different. For example, 2023 was still a year of strong growth for Kreate, while 2024 looks set to be a year of declining revenue. A weaker trend has been evident for several years in the order books of companies involved especially in basic infrastructure and foundation works for building construction. For these companies, which are more focused on business premises or residential construction, the recovery from a weaker market period may also be faster when the market for new construction starts to pick up again.

RT forecasts that 2025 will be a better year after years of decline, with volumes rising by 2%. While the growth will not be dramatic, after three years of estimated volume declines, even a slight turnaround would be desirable. The economic outlook for infrastructure is currently underpinned by investment from the state, manufacturing and municipalities. We estimate that investments in rail transport, in particular, will start to show up in volume next year. However, especially the decline

in private construction (offices, housing) and the outlook for basic infrastructure linked to other new construction is still weaker at the moment. Kreate focuses in particular on demanding infrastructure sectors and projects that have been more stable in terms of development. These (bridge, railway) projects are also often not significantly related to other new construction, and this shields them from cyclicity.

Market is very good according to Kreate

In the summer of 2024, Kreate estimated that the market outlook for both Finland and Sweden was very good. Bidding activity started to pick up towards the end of 2023, and during this year, Kreate has received significant long-term orders from both Finland and Sweden. However, the weakness in other construction areas has intensified competition for less demanding infrastructure projects, where competition is expected to remain tight until residential and related infrastructure construction starts to pick up. No new players have entered the market for demanding infrastructure projects according to Kreate, and competition is normal.

Based on the current and future market situation for the different businesses shown on the right, the market outlook for railway construction has improved. In other business areas, the development remains unchanged compared to the previous quarter. A strong market is expected over the next 12 months in railway construction, Sweden, and specialized foundation construction. In other markets, Kreate says the situation looks stable for the next 12 months.



Structural engineering

Outlook (12 months) and current market situation Q2'24

| | |
|---|---|
| Bridge construction | → |
| Foundation and engineering construction | → |
| Specialized foundation construction | ↗ |
| Circular economy | → |
| Specialized infrastructure construction in Sweden | ↗ |



Transport infrastructure construction

| | |
|------------------------------|---|
| Railway construction | ↗ |
| Road and street construction | → |

Outlook (arrow)

- ↗ Very strong market in the following 12 months
- ↖ Strengthening market in the following 12 months
- Stable market in the following 12 months
- ↘ Weakening market in the following 12 months
- ↙ Very weak market in the following 12 months

Situation (color)

- Improved
- Unchanged
- Weaker

Source: Inderes, Kreate

Industry and market 3/4

Big players stand out

There are many different types of players in the market, but it is the larger players with a wide service ranges and expertise that stand out as competitors to Kreate. There are also medium-sized players in the market who specialize in a particular part of the sector or have expertise in only a narrow part of the infrastructure market.

Growth rate faster than competitors

We compared Kreate's performance against its peers. Some of the companies are subsidiaries, some are groups and some also have business activities abroad, which slightly reduces comparability. Between 2019 and 2023, Kreate has grown at an annual rate of around 10%, while competitors* have seen their revenues grow by only 1% per year. Among the competitors, GRK has shown strong growth (CAGR-%: 16%) and Destia is also growing at around 3% per year (CAGR%). Among the smaller companies, Louhintahiekkka has grown up to 24% per year and has become one of the largest infrastructure operators in Finland.

YIT's revenue has almost halved over the period and Terrawise's revenue has also declined at an annual rate of more than 10%. The clearest growth in the market has been achieved by operators with a stronger and broader offering in infrastructure construction and a clearer specialization in infrastructure construction. In recent years, there have been more demanding projects (bridges) and less basic infrastructure. We also see Kreate and GRK as clearly more growth-oriented in the last few

years. Interestingly, several of the larger Nordic players (Peab, NCC) seem to have seen a decline in infrastructure construction or similar activities in Finland. Indeed, we feel that the last few years have been a mixed bag for the sector, with some companies gaining market share, but others clearly looking to reduce their operations.

Better profitability than among competitors

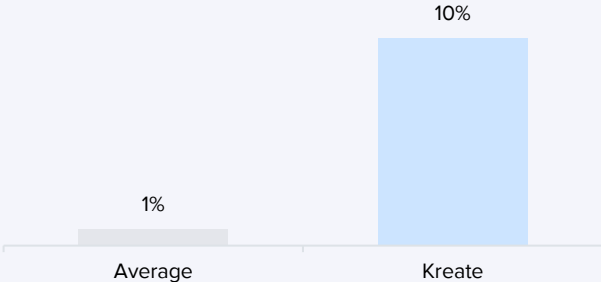
The sector is generally characterized by low profitability due to the nature of the contracting business and the level of risk (low capital commitment). In addition, there are often large year-to-year fluctuations in profitability, and few seem to be able to achieve sustained, steady profitability.

During its short history, Kreate's profitability has remained relatively stable at around 4-5%, but has also experienced a decline in recent years. However, compared to its competitors, the company's EBIT margin over the past four years has been clearly better, averaging around 3.6% compared to around 2.0% for its competitors. We believe that Kreate's expertise in demanding areas, selective bidding, efficient processes, agility and modern systems have helped the company to outperform its competitors.

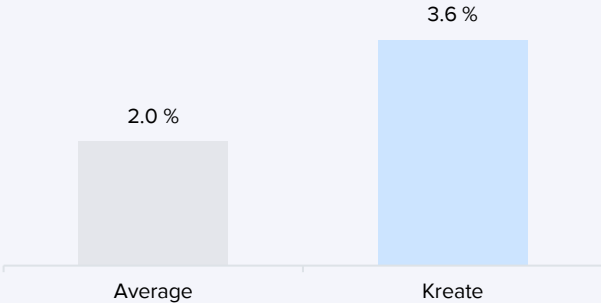
Among the competitors, NRC and GRK have achieved better profitability than Kreate over the last 4 years. NRC Finland's EBIT margin has averaged around 4.7% and GRK's around 4.5%.

Kreate's performance vs. competitors*

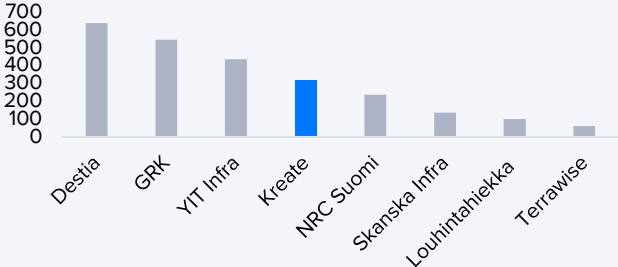
Average income growth (2019-2023 CAGR-%)



EBIT-% 4-y avg.



A diverse set of operators in Finland's competitive landscape (revenue 2023, MEUR)



* When comparing revenue growth and profitability, the figures for the largest competitors' infrastructure segments have been used. The comparison includes YIT Infrastructure segment, GRK, Destia, Terrawise, NRC Finland, Skanska Infra and Louhintahiekkka.

Industry and market 4/4

The companies have been better able than Kreate to control rising material costs or otherwise achieve better profitability than Kreate. However, the figures very close to 5% profitability also show that Kreate's own profitability target (above 5%) is not unrealistic. But we believe that this will require a pick-up in the market and a moderation in cost levels.

Returns on capital at a good level

It is possible to achieve high rates of return on capital in the infrastructure sector despite low profitability. The balance sheets of the companies in the sector are mainly light (at least for infrastructure construction) and require mainly maintenance investments in machinery and equipment.

In the figures shown on the right, we have compared group figures instead of those of infrastructure business, which may slightly reduce comparability when operators have other construction activities. Returns on capital for infrastructure companies or Finnish country organizations alone are not easily available, but the figures give an indication of where Kreate's own business stands on a Nordic scale. We have also chosen to use ROE rather than what we believe to be a better ROI, as it is also more reliably available from competitors. In our view, profitability and to some extent returns on capital in, for example, residential and business premises construction can be higher than for infrastructure builders under normal circumstances, but in recent years the market weakness has hit those operating in these sectors and their returns on capital.

We have selected YIT, GRK, Destia, Skanska and Peab for comparison. In terms of growth and profitability, Kreate stood out clearly from the pack, but the returns on capital are closer to each other. The average ROE over the last four years has been around 17%, compared to an average of 15% for its competitors.

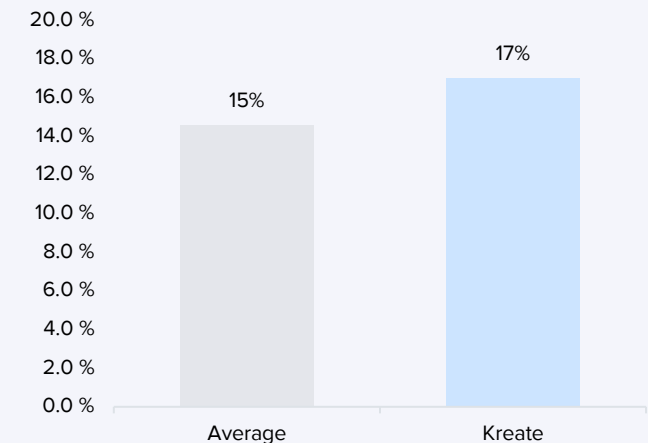
In recent years, Kreate has lagged behind its best competitors in the infrastructure sector. Destia has averaged a return on equity of 25% over the last 4 years, while GRK's ROE-% has been around 22%. The companies' profitability has increased or remained at a good level in recent years, which has also been reflected in their returns on capital. Debt and leverage are not the reason for the strong ROEs in our review (high debt leverage can lead to high ROE-%). The averages are weakened by YIT, whose 4-year return on equity is clearly negative.

From Kreate's perspective, the company's average return on capital is good, but the company could do better. With better profitability in 2019-2020, the company achieved a return on equity of more than 25%. This shows that there is a clear room for improvement in Kreate's figures and achieving a return on equity of more than 20% seems realistic.

Infrastructure builders operating in the Swedish market



ROE-% 4-y avg.



Financial position

Good financial position

Kreate is in a good financial position. Balance sheet ratios are at a good level, cash flow is good, and debt and indebtedness are at a healthy level.

In our view, the company's balance sheet ratios have been at a reasonably good level for the business model throughout the company's history. The equity ratio has averaged slightly above 30% since 2019 and was now also at around 32% at the end of Q2'24. The indebtedness indicator monitored by the company is the ratio of net debt to EBITDA. Since 2019, the ratio has averaged 1.7x, which is below the company's target level (<2,5x). At the end of Q2, the figure was at 2.2x. The level of the ratio in H1 2024 is also influenced by fluctuations in net debt (cash/cash flow) during the year. At the end of 2023, the figure was only 1.2x.

The company's business model generates good cash flow, which makes it possible to combine dividends and investments with income financing. However, the cash flow shows seasonal variation. In the early quarters of the year, cash flow is typically weaker than in the latter part of the year as projects are completed and large installments are paid, as shown in the graph on the next page.

Thanks to its business model, the company has a relatively low level of maintenance investment, as we noted earlier. With low levels of maintenance investment (gross investment of around 2% of revenue), more of the cash flow from operating activities is available for growth and dividends. Thanks to the light balance sheet, the potential

return on capital is also high, as we have shown on previous pages.

Simple balance sheet

We look at the balance sheet at the end of the second quarter of 2024. The balance sheet total at the end of Q2 was around 131 MEUR, of which 40 MEUR was goodwill on the asset side. Goodwill thus represents around 31% of the balance sheet total. Goodwill is accumulated in the balance sheet from acquisitions and is not amortized in accordance with IFRS. Other intangible assets generated by acquisitions is depreciated, so EBITA is therefore used to measure profitability in order to improve comparability. However, there is no significant intangible amortization from acquisitions by Kreate at this stage. The EBIT figures is thus close to the EBITA figures.

We believe that the write-down risk of goodwill is low, but larger changes in the market situation or parameters may generate write-down risks. However, we believe the parameters used by the company are currently at a sustainable level.

The largest item on the assets side at the end of Q2 was receivables with a share of around 47 MEUR. The third most important item is tangible assets (21 MEUR), most of which is the equipment used by the company. IFRS 16 right-of-use assets amounted to roughly 3 MEUR in the balance sheet. In addition, investments in joint ventures (KFS Finland) amount to around 10 MEUR. At the end of Q2, the company had around 7.5 MEUR in cash, which is quite sufficient to run the company's business in a healthy

manner considering the improving cash flow at the end of the year.

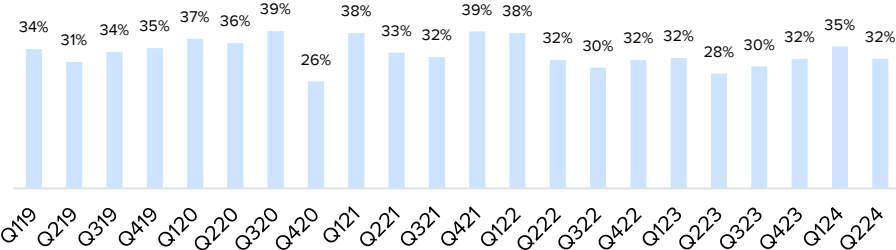
On the liabilities side, equity stood at some 42 MEUR. Of non-current liabilities around 1 MEUR were non-interest-bearing and around 29 MEUR interest-bearing at the end of Q2. Most of the liabilities were business-related (e.g. MFI loans) and the amount of IFRS 16 lease liabilities was small.

The total amount of interest-bearing short-term debt on the balance sheet was around 10 MEUR, most of which was MFI loans. Total interest-bearing net debt at the end of Q2 amounted to 31.7 MEUR (2023: 16.8 MEUR) and its average interest rate excluding rental liabilities was 6.2%. Short-term non-interest-bearing debt consists mainly of trade payables (47 MEUR).

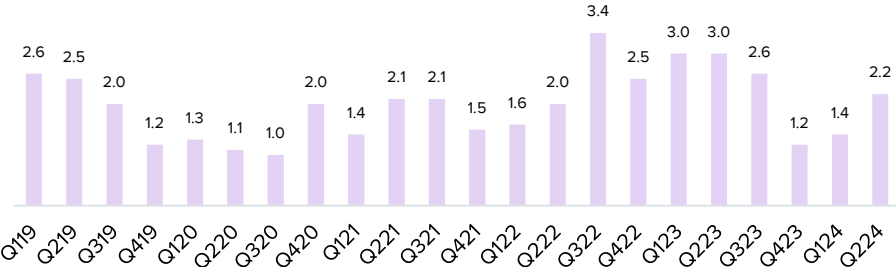
The balance sheet position in terms of net debt seems to have deteriorated, but this is due to the capital commitment for projects in H1 2024. During the first half of the year, the H1 operating cash flow was negative at 9.6 MEUR, compared to -1.6 MEUR in the comparison period. Last year's cash flow was extremely strong, which makes the comparison figures a bit too good.

Financial position

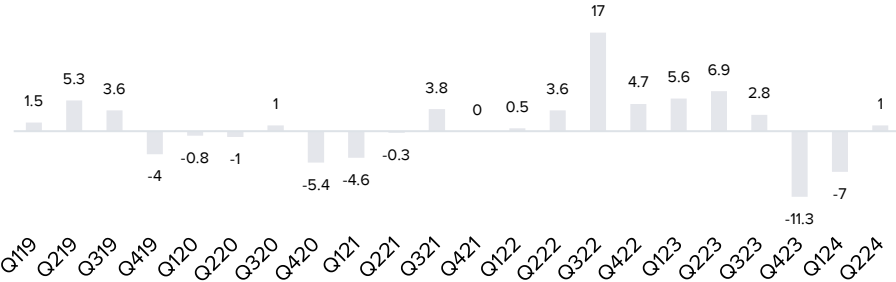
Equity ratio



Net debt / EBITDA



Net working capital (MEUR)



Balance sheet position 2023



Source: Inderes, Kreate

Estimates 1/4

Basis for the estimates

We forecast the development of Kreate's revenue in the medium term on the basis of the order backlog, market development and possible acquisitions. In the longer term, we rely on the market's development expectations. We base profitability on the company's historical performance and assess the realism of the company's targets.

There have been no major changes to our estimates. However, we have presented our revenue forecasts for both Finland and Sweden. As part of our more accurate forecasts for Sweden, we have increased our forecasts for minority interests, which has slightly lowered our bottom-line result forecasts.

Focus on profitability in 2024

2024 has gone very much as expected for Kreate. After several years of growth, revenue has been in decline (H1'24: -19%), but profitability has shown clear signs of improvement (EBITA-%: 2.4% in H1'24 vs. 1.4% in H1'23). According to Kreate's guidance, revenue will decrease and amount to 270-300 MEUR in 2024 (2023: 320 MEUR). The company expects EBITA to grow to 8-11 MEUR (2023: 7.8 MEUR). The mid-point of the revenue range is expected to decrease by about 11% and EBITA is expected to increase by up to 22%.

H2 of this year is expected to be better than H1, as both the outlook and order intake have taken a turn for the better. As discussed earlier, the market situation in infrastructure is currently very good, in

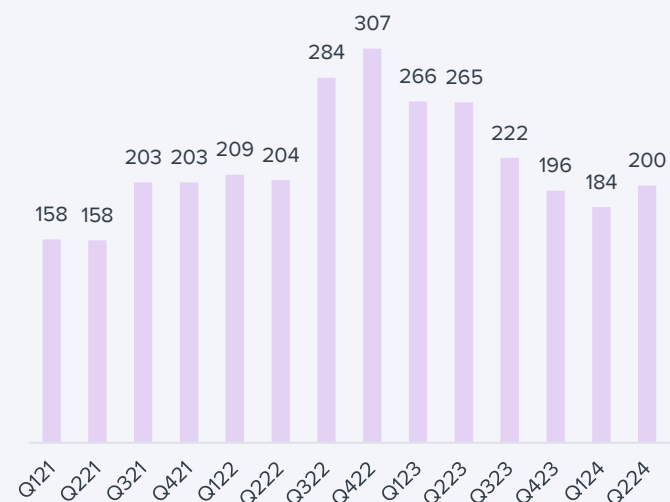
particular for Kreate, and new projects are expected as bidding activity picks up.

Profitability has suffered from adverse market conditions (increased competition and high resource prices). However, cost predictability has now improved, and profitability is no longer impacted by old low-margin projects. The projects were contracted before a substantial increase in costs, which had a clear negative impact on Kreate's profitability due to the fixed nature of the contracts.

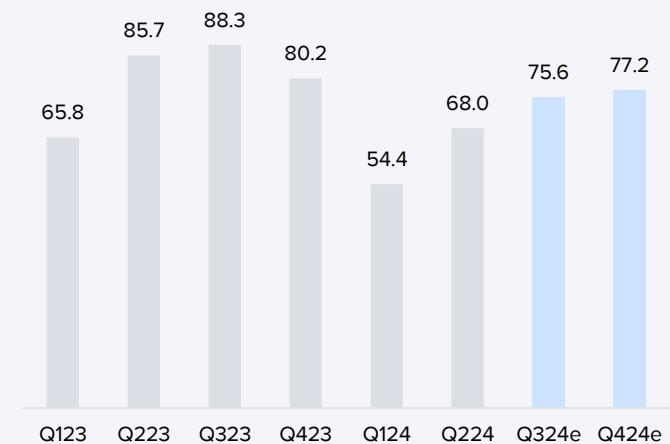
We forecast a 19% decline in revenue this year (2024e: 275 MEUR), below the mid-range of the guidance. However, we expect the revenue decline to slow down significantly towards the end of the year (H2: -9%). The fall in revenue reflects the decline in the order book from peak levels. At the end of Q2, the order backlog was down by about 24.5% to 200 MEUR, compared to 265 MEUR at the end Q2'2023.

However, as shown in the chart on the right, the order book has already started to show an increase compared to the previous quarter. The company has recently won major rail projects and their addition to the order book will further boost the situation. However, the projects are large and start with a development phase, which is usually only a few percent of the total project value. We therefore expect that the projects won will not yet have a significant impact on Kreate's revenue in 2024. This is also why our projections are closer to the lower end of the guidance range.

Order book on the way up (MEUR)



Revenue by quarter (MEUR)



Source: Inderes

Estimates 2/4

However, we would not be concerned if revenue recognition for the projects were to be slightly delayed until 2025. A more important focus this year will be profitability and its systematic improvement over the coming years.

In general, the length of Kreate's order book varies from short projects (3 months) to longer projects (2-6 years), making it difficult to identify a clear order book for a particular year. According to our calculations and Kreate's previous estimates, over the last few years, Kreate has generated an average revenue of around 60-80 MEUR per financial year on top of the order backlog at the beginning of the financial year (2018-2023). We expect the ratio to change, as the company's projects have increased in duration (bridge & railway projects) and are spread over several years. The ratio has been low in recent years, but this year we forecast revenue to be around 80 MEUR higher than the order book at the beginning of the year.

Geographically, we expect revenue in Finland to decline considerably this year (2024e: -17 %) to 247 MEUR. In Sweden, we expect strong growth (2024e: +28%) on the basis of order intake and revenue amounting to 29 MEUR. The company is targeting revenue of more than 320 MSEK (approximately 28 MEUR) in Sweden this year, and we expect Kreate to reach this target this year.

Clear improvement in profitability

Despite the decline in revenue, we expect a clear improvement in the result and profitability. In our estimates, EBITA will rise to 9.2 MEUR this year (2023: 7.8 MEUR) and margin to 3.3% (2023: 2.4%). The removal of the cost burden of old projects,

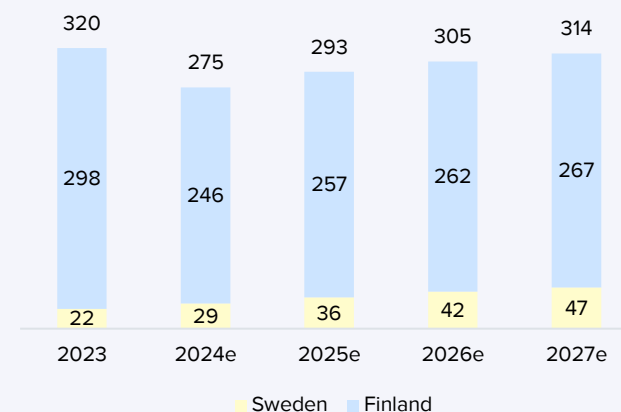
moderating cost trend and well-performing projects will support the profitability improvement. In H1, the company has already managed to increase its result by 28%, while the mid-point of the guidance calls for an increase of around 22%. In that sense, the company's performance has already been strong at the beginning of the year, and we expect the company to be well within its earnings guidance this year.

On the cost side, we expect the decline in revenue to be reflected in lower costs for materials and services (less material for projects and subcontracting), as the relative share of personnel costs rises due to wage pressure and the more fixed nature of the internal workforce. On the bottom line, we forecast financial expenses to be at the same level as in the comparison period, even though the market has seen a general decline in interest rates. In our forecasts, adjusted EPS will rise to EUR 0.50 (2023: EUR 0.44). We forecast the dividend to increase to EUR 0.49 per share (2023: EUR 0.48). The dividend payout ratio is over 50%, but we expect the company to want to maintain a growing dividend when it can fundamentally afford to do so.

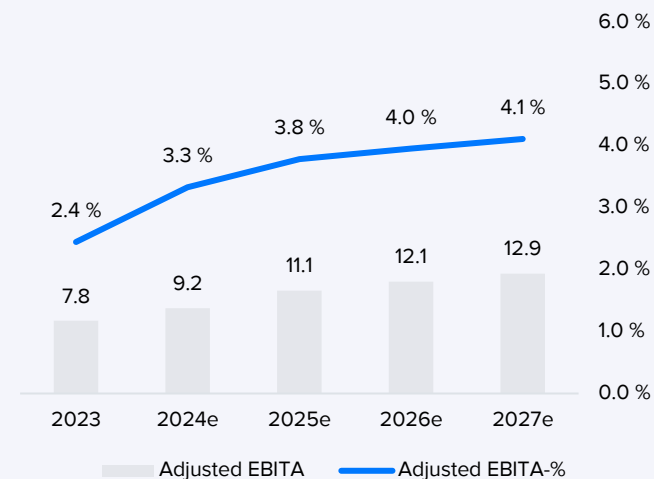
2025 looks better in terms of growth

Based on an upturn in the order book, signed railway projects and a recovering market, we expect the growth outlook for the next few years to be better than in 2024. We expect revenue to grow by around 6% to 293 MEUR in 2025.

Revenue estimates (MEUR)



Profitability estimates (MEUR, %)



Estimates 3/4

We anticipate that major project launches and market recovery will provide more support to revenue in H2. We expect the Finnish market to return to growth after a three-year lull and revenue in Finland to increase by 4.4% to 257 MEUR. In Sweden, we see continued strong growth (+24%), with revenue reaching 36 MEUR. In Sweden, the unit's actions following its growth and expansion into the role of main contractor have generated a strong project pipeline, and we expect the order flow to remain strong in 2025.

With the revenue growth, we expect a slightly larger improvement in the result in 2025. Investments have been made in new businesses (Sweden, railway business, recruitments) and frontloaded costs are starting to pay off. We also see a further easing of cost pressures in the market and less competitive pressure from the market, as new construction in other areas attracts general builders away from infrastructure.

Overall, in 2025, we expect EBITA to increase by around 21% to 11.1 MEUR and the margin to rise to 3.8%. Between 2017 and 2023, the company has achieved an average profitability of around 4.0%, so the improvement does not require the company to perform miracles. Thanks to the anticipated reduction in financing costs and the earnings growth in the top line, we forecast earnings per share to rise by up to 40% to EUR 0.70. As a result, we expect the dividend to increase to EUR 0.50 per share.

Growth to continue in 2026

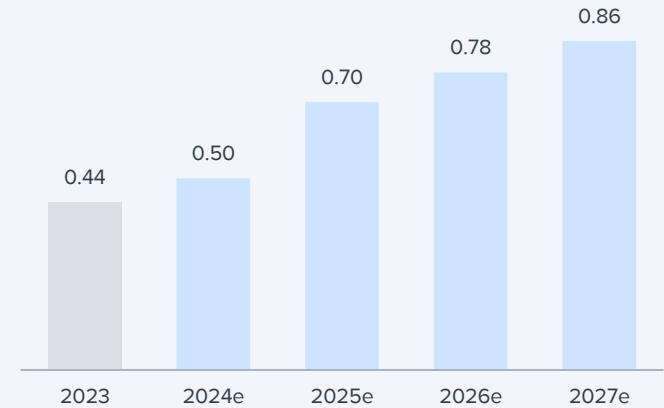
Going into 2026, we expect order book accumulation to set the stage for another year of growth. We expect revenue to continue to grow at around 4%, moderating to around 3% growth in 2027.

Our growth forecasts are more moderate than the company has achieved in recent years. In the future, we expect the company to focus more and more on profitability, which will lower the growth rate. However, we think that the market situation creates the conditions to maintain good growth despite the selective approach.

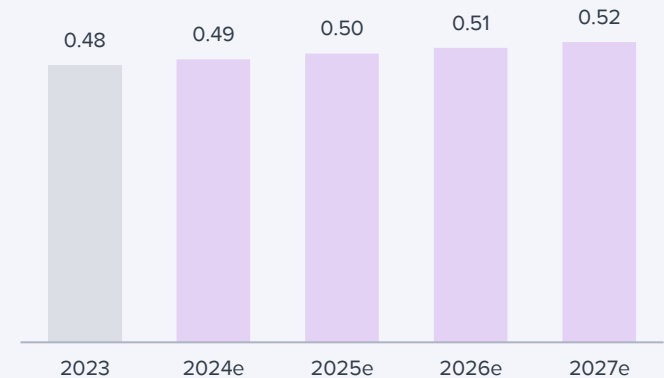
In Finland, our forecast is for much more moderate growth than in Sweden. We expect Sweden to progress towards the 2027 target of 650 MSEK (around 57 MEUR), but to remain below it (2027e: 47 MEUR). The company's business in Sweden is young and we want to see concrete evidence of successful execution of larger (main contractor) projects. Without this, we believe it will be difficult to achieve the growth target.

We expect profitability to improve further between 2026 and 2027. The moderation of cost pressures, more optimal contract structures for new projects and an increase in the more profitable Swedish share (2023 EBIT-%: 6.6%) will allow growth to be accompanied by a slight margin improvement (2026e: 4.0%, 2027e: 4.1%).

Adjusted EPS (EUR/share)



We expect dividend to grow moderately (EUR/share)



Estimates 4/4

Long-term estimates

In the longer term, we see the company's growth slowing gradually. Based on our estimates, the company's organic growth rate moves to around 3% during 2028-2030 and will slow down to about 1.5% in the long term. We see the company's infrastructure market growing at a good level also in the long term with favorable megatrends.

In the long term, we expect Kreate's profitability to improve from its baseline levels. Our long-term forecast for Kreate's EBIT margin is around 4%, which is in line with the company's longer historical level (17-23: 4.0%). We believe the company has the potential to improve further, but our expectations are still modest given the weakening profitability in recent years. At the same time, if the company does not manage to significantly improve its profitability towards historical levels in the coming years, the company's long-term profitability target and potential may also come into question. So far, our assessment is that market challenges have been the cause of poor profitability rather than the company itself having operational challenges with project execution. In this sense, we think it is likely that Kreate will get back closer to its peak profitability in the medium term.

Quarterly estimates

| Income statement | 2021 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24 | Q2'24 | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
|-------------------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Revenue | 237.6 | 273.9 | 65.8 | 85.7 | 88.3 | 80.2 | 320.0 | 54.4 | 68.0 | 75.6 | 77.2 | 275.2 | 292.9 | 304.8 | 313.9 |
| Finland | 0.0 | 0.0 | 62.3 | 80.0 | 81.8 | 73.5 | 297.5 | 47.9 | 61.6 | 67.9 | 69.1 | 246.5 | 257.3 | 262.4 | 266.9 |
| Sweden | 0.0 | 0.0 | 3.5 | 5.7 | 6.5 | 6.7 | 22.5 | 6.5 | 6.4 | 7.7 | 8.1 | 28.7 | 35.6 | 42.3 | 47.0 |
| EBITDA | 14.2 | 13.6 | 1.0 | 4.1 | 4.0 | 4.8 | 14.0 | 1.6 | 4.1 | 4.4 | 5.1 | 15.2 | 17.4 | 18.8 | 20.0 |
| Depreciation | -3.9 | -5.0 | -1.4 | -1.6 | -1.2 | -2.2 | -6.4 | -1.4 | -1.5 | -1.4 | -1.8 | -6.1 | -6.5 | -6.9 | -7.2 |
| EBITA (adj.) | 10.5 | 8.8 | -0.4 | 2.6 | 2.9 | 2.7 | 7.8 | 0.3 | 2.6 | 3.1 | 3.4 | 9.2 | 11.1 | 12.1 | 12.9 |
| EBIT (excl. NRI) | 10.3 | 8.6 | -0.4 | 2.5 | 2.8 | 2.6 | 7.6 | 0.2 | 2.6 | 3.0 | 3.3 | 9.1 | 10.9 | 11.9 | 12.8 |
| EBIT | 10.3 | 8.6 | -0.4 | 2.5 | 2.8 | 2.6 | 7.6 | 0.2 | 2.6 | 3.0 | 3.3 | 9.1 | 10.9 | 11.9 | 12.8 |
| Net financial items | -2.1 | -1.9 | -0.4 | -0.6 | -1.1 | -0.8 | -2.9 | -0.8 | -0.5 | -0.9 | -0.6 | -2.8 | -2.5 | -2.6 | -2.5 |
| PTP | 8.2 | 6.7 | -0.9 | 1.9 | 1.7 | 1.9 | 4.7 | -0.6 | 2.1 | 2.1 | 2.7 | 6.3 | 8.4 | 9.3 | 10.2 |
| Taxes | -1.3 | -1.1 | 0.2 | -0.4 | -0.3 | -0.2 | -0.7 | 0.1 | -0.5 | -0.4 | -0.5 | -1.4 | -1.8 | -2.0 | -2.2 |
| Minority interest | 0.0 | 0.2 | 0.0 | 0.0 | -0.1 | 0.0 | -0.2 | -0.1 | -0.2 | -0.1 | -0.1 | -0.5 | -0.4 | -0.4 | -0.4 |
| Net earnings | 6.9 | 5.8 | -0.7 | 1.5 | 1.3 | 1.6 | 3.7 | -0.7 | 1.4 | 1.6 | 2.1 | 4.4 | 6.2 | 6.9 | 7.6 |
| EPS (adj.) | 0.90 | 0.64 | -0.08 | 0.17 | 0.16 | 0.18 | 0.44 | -0.08 | 0.16 | 0.18 | 0.23 | 0.50 | 0.70 | 0.78 | 0.86 |
| EPS (rep.) | 0.80 | 0.64 | -0.08 | 0.17 | 0.16 | 0.18 | 0.44 | -0.08 | 0.16 | 0.18 | 0.23 | 0.50 | 0.70 | 0.78 | 0.86 |

| Key figures | 2021 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24 | Q2'24 | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
|--------------------------------|-------|---------|----------|--------|--------|--------|---------|----------|---------|---------|--------|---------|--------|-------|-------|
| Revenue growth-% | 1.0 % | 15.3 % | 30.6 % | 27.8 % | 20.4 % | -3.5 % | 16.8 % | -17.3 % | -20.7 % | -14.4 % | -3.8 % | -14.0 % | 6.4 % | 4.1 % | 3.0 % |
| Adjusted EBITA growth-% | 0.1 % | -17.0 % | -134.5 % | 9.2 % | -2.4 % | 17.8 % | -10.5 % | -165.8 % | 0.0 % | 7.1 % | 23.9 % | 17.0 % | 20.9 % | 8.7 % | 7.1 % |
| Adjusted EBITA-% | 4.4 % | 3.2 % | -0.6 % | 3.0 % | 3.3 % | 3.4 % | 2.4 % | 0.5 % | 3.8 % | 4.1 % | 4.4 % | 3.3 % | 3.8 % | 4.0 % | 4.1 % |
| Adjusted EBIT-% | 4.4 % | 3.1 % | -0.7 % | 3.0 % | 3.2 % | 3.3 % | 2.4 % | 0.4 % | 3.8 % | 4.0 % | 4.3 % | 3.3 % | 3.7 % | 3.9 % | 4.1 % |
| Net earnings-% | 2.9 % | 2.1 % | -1.1 % | 1.8 % | 1.6 % | 2.0 % | 1.2 % | -1.2 % | 2.1 % | 2.1 % | 2.7 % | 1.6 % | 2.1 % | 2.3 % | 2.4 % |

Source: Inderes

| Estimate revisions | 2024e | 2024e | Change | 2025e | 2025e | Change | 2026e | 2026e | Change |
|---------------------------|-------|-------|--------|-------|-------|--------|-------|-------|--------|
| MEUR / EUR | Old | New | % | Old | New | % | Old | New | % |
| Revenue | 275 | 275 | 0% | 293 | 293 | 0% | 305 | 305 | 0% |
| EBITA (excl. NRIs) | 9.2 | 9.2 | 0% | 11.1 | 11.1 | 0% | 12.1 | 12.1 | 0% |
| EBIT | 9.1 | 9.1 | 0% | 10.9 | 10.9 | 0% | 11.9 | 11.9 | 0% |
| PTP | 6.3 | 6.3 | 0% | 8.5 | 8.4 | 0% | 9.4 | 9.3 | -1% |
| EPS (excl. NRIs) | 0.56 | 0.50 | -10% | 0.74 | 0.70 | -5% | 0.82 | 0.78 | -5% |
| DPS | 0.49 | 0.49 | 0% | 0.50 | 0.50 | 0% | 0.51 | 0.51 | 0% |

Source: Inderes

Balance sheet

| Assets | 2022 | 2023 | 2024e | 2025e | 2026e |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Non-current assets | 74.9 | 75.6 | 77.7 | 79.4 | 80.7 |
| Goodwill | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| Intangible assets | 0.7 | 0.5 | 0.5 | 0.6 | 0.6 |
| Tangible assets | 22.8 | 23.3 | 25.4 | 27.1 | 28.3 |
| Associated companies | 10.0 | 10.5 | 10.5 | 10.5 | 10.5 |
| Other investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other non-current assets | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Deferred tax assets | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 |
| Current assets | 59.6 | 59.0 | 50.3 | 56.3 | 58.6 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current assets | 0.4 | 0.7 | 0.7 | 0.7 | 0.7 |
| Receivables | 49.8 | 34.6 | 35.8 | 43.9 | 45.7 |
| Cash and equivalents | 9.4 | 23.6 | 13.8 | 11.7 | 12.2 |
| Balance sheet total | 135 | 135 | 128 | 136 | 139 |

Source: Inderes

| Liabilities & equity | 2022 | 2023 | 2024e | 2025e | 2026e |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Equity | 42.6 | 42.7 | 42.9 | 44.7 | 47.2 |
| Share capital | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Retained earnings | 23.4 | 24.0 | 24.2 | 26.0 | 28.5 |
| Hybrid bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | 19.2 | 18.7 | 18.7 | 18.7 | 18.7 |
| Minorities | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Non-current liabilities | 35.4 | 34.0 | 33.8 | 38.4 | 36.6 |
| Deferred tax liabilities | 1.5 | 1.5 | 0.7 | 0.5 | 0.5 |
| Provisions | 1.9 | 3.1 | 3.1 | 3.1 | 3.1 |
| Interest bearing debt | 32.1 | 29.4 | 30.0 | 34.8 | 33.0 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current liabilities | 56.6 | 57.9 | 51.3 | 52.6 | 55.6 |
| Interest bearing debt | 10.7 | 11.0 | 10.0 | 8.7 | 9.9 |
| Payables | 45.5 | 46.8 | 41.3 | 43.9 | 45.7 |
| Other current liabilities | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Balance sheet total | 135 | 135 | 128 | 136 | 139 |

Valuation 1/4

Valuation summary

We reiterate our Accumulate recommendation for Kreate, raising our target price to EUR 9.00 (was EUR 8.50). We revised our target price slightly upwards based on a higher peer valuation and a change in the weighting of the valuation multiples. We price Kreate primarily through earnings-based valuation multiples, which we are also able to benchmark against a good and broad peer group. We get a good basis for an acceptable valuation of the company from Finnish construction company peers. In the valuation, we favor especially the EV/EBIT ratio and the P/E ratio. P/B valuation is not very relevant in our view due to the light balance sheet structure, but for earnings neutral multiples, sales-based (EV/S) valuation can serve as a good level of valuation support in our view.

In our view, the expected return on Kreate's share justifies share purchases. With strong earnings growth, the valuation has some upside, supported by a strong dividend of 6%. The timing and strength of the recovery in the construction market remains uncertain, but at the same time we do not believe that the current price gives significant weight to the company's long-term potential, which is reflected, among other things, in the higher value of our DCF calculation (EUR 10.7) compared to the current price. We estimate the fair value of the stock at EUR 7-12 at this stage. The fair value is based on the valuation methods we use. The current price and our target price are slightly below the mid-point of the fair value range.

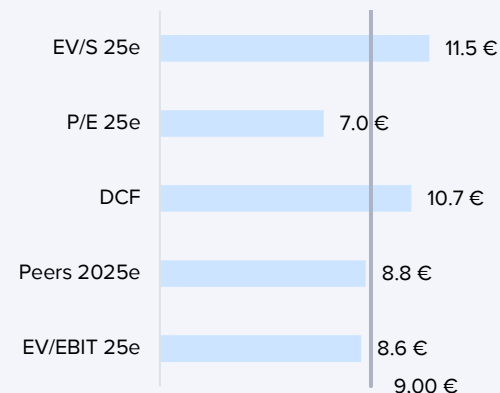
Acceptable valuation

Kreate has a light balance sheet structure, a reasonably low capital-intensive business and the company generates good cash flow. In line with trends, the sector has good growth prospects in the medium term and Kreate's profitability is at a good level in the context of the industry. We therefore see that, despite the company's small size and young age, at least the historical multiples of its Finnish peers can be accepted for Kreate.

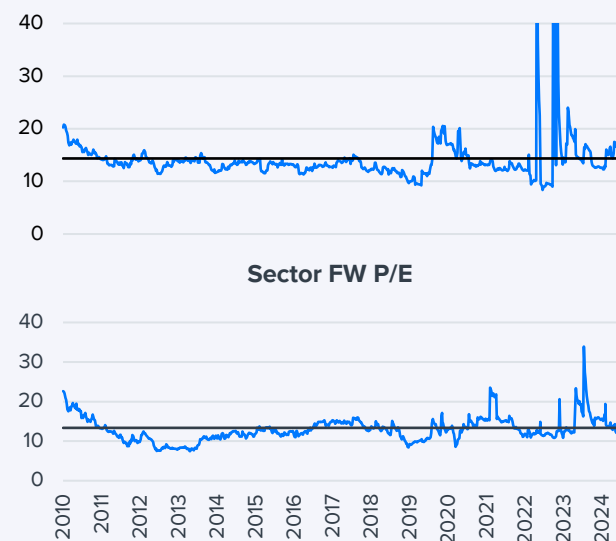
On the right, we have compiled the long-term forward-looking valuation patterns for the Finnish construction sector, which we use as the basis for determining an acceptable valuation level. As can also be seen from the graphs, the multiples rise sharply during the years of poor forecast performance (2022-2023). In fact, after 2020, the multiples have not given a very good picture of the over-cycle valuation of the sector.

However, we believe that the earlier averages (2010-2020) provide a good basis for an acceptable valuation. Since 2010, the forward-looking EV/EBIT ratio has been about 13x and the P/E ratio about 13x over the same period. Low interest rates and a lack of investment alternatives have contributed to the increase in accepted multiples in the 2010s. In that sense, we think that multiples of 12x are reasonably neutral for the sector over the cycle.

Target price breakdown



Sector FW EV/EBIT



Sector FW P/E



Valuation 2/4

In our view, this level (12x) serves as a good starting point for both multiples when considering Kreate's valuation, but currently the level is chiefly the upper limit of the range. Our acceptable valuation range for Kreate is: P/E 10-12x and EV/EBIT: 10-12x.

Kreate operates in a counter-cyclical sector and has a proven track record of strong returns on capital and above-market growth. However, in our opinion, the current earnings situation, combined with market risks, limits the upside potential of the multiples. There may be upside to an acceptable valuation if the company manages to continue to grow in line with its targets while sustainably improving profitability to its target level. In our view, however, the factors affecting capital market valuations (falling interest rates, falling required returns) would also have to ease considerably for a clearly significantly valuation to be acceptable.

Absolute multiples

In our forecasts, Kreate's earnings will increase in 2024, but are still at a relatively low level in relation to its history and potential. With the rise in the share price, the valuation (24e: EV/EBIT: 11x, P/E: 17x) for the current year has already risen above our acceptable levels. However, with the turnaround in the preliminary earnings trend we have seen, we are already more confident about the longer-term potential.

An improving market and a positive earnings trend will bring Kreate's result back closer to normal in 2025, bringing the valuation down to a more attractive level (25e: EV/EBIT: 10x, P/E: 12x). At the mid-point of our acceptable valuation range (EV/EBIT: 10-12x, P/E: 10-12x) and based on the

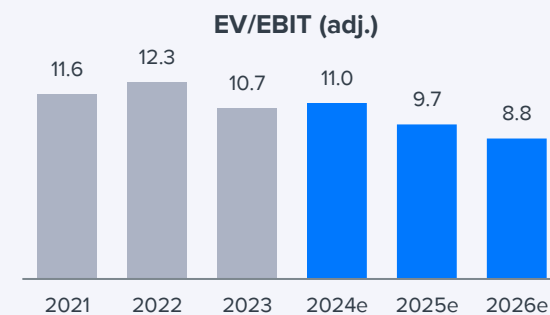
2025 valuation, the stock would have some upside. The earnings level in 2025-2026 will be closer to a sustainable normalized earnings level (25-26e avg.: EBITA-% 3.8%), which we also expect the market to converge to as Kreate progresses on its trajectory.

The volume-based EV/sales multiple is relatively low, although it is difficult to justify a very high valuation on this basis. However, the company's Finnish peers have been valued at around 0.5x since 2010, which we believe is a reasonably good support level for Kreate as well. The valuation, currently at 0.4x, would also have upside potential on this basis. We use the EV/sales multiple mainly to support the rest of the valuation, however, to catch any glaring overvaluation or undervaluation.

The strong cash flow of the business model enables Kreate to pay a moderately growing dividend. The current dividend yield of 6% provides good support for the expected return on the stock. Kreate has expressed its intention to pay an increasing dividend, and we believe the company has the potential to do so, even if the dividend/earnings-% rises almost to 100% in the near future. The business does not require significant capital for investment, and the company also has financing capacity for growth investments. However, we stress that the dividend at this payout ratio is dependent on the company's performance and any challenges to profitability are likely to reduce the dividend. In our view, the high dividend payout ratio slightly reduces the reliability of the dividend at the moment.

| Valuation | 2024e | 2025e | 2026e |
|------------------|--------|--------|--------|
| Share price | 8.36 | 8.36 | 8.36 |
| Market cap | 74 | 74 | 74 |
| EV | 100 | 106 | 105 |
| P/E (adj.) | 16.8 | 12.0 | 10.8 |
| P/B | 1.7 | 1.7 | 1.6 |
| EV/Sales | 0.4 | 0.4 | 0.3 |
| EV/EBITDA | 6.6 | 6.1 | 5.6 |
| EV/EBIT (adj.) | 11.0 | 9.7 | 8.8 |
| Payout ratio (%) | 98.2 % | 71.6 % | 65.8 % |
| Dividend yield-% | 5.9 % | 6.0 % | 6.1 % |

Source: Inderes



Source: Inderes

Valuation 3/4

Peer group

A good peer group of Nordic listed companies in the industry is available for Kreate. In our view, the most suitable peers are Finnish construction companies with the same market and also Nordic infrastructure companies. However, the list also includes larger Nordic players such as Skanska, NCC and PEAB.

Looking ahead to 2025, we believe the valuation level of peers is moderate (2025e median EV/EBIT: 11x, P/E: 12x). Relative to the 2025e median multiples for the peer group, Kreate is valued just over 5% below the peer level, but the differences in valuations between peers are currently large.

The peer group shows that for steadily performing companies, valuation levels do not vary significantly from year to year. However, as is typical in the

construction industry, some companies' performance levels vary significantly from year to year. This means that not every company's valuation level can be directly relied upon. The business mix is also different for a large part of the group compared to Kreate and to some extent more risky (more cyclical construction).

Kreate should be priced at least at the level of peers

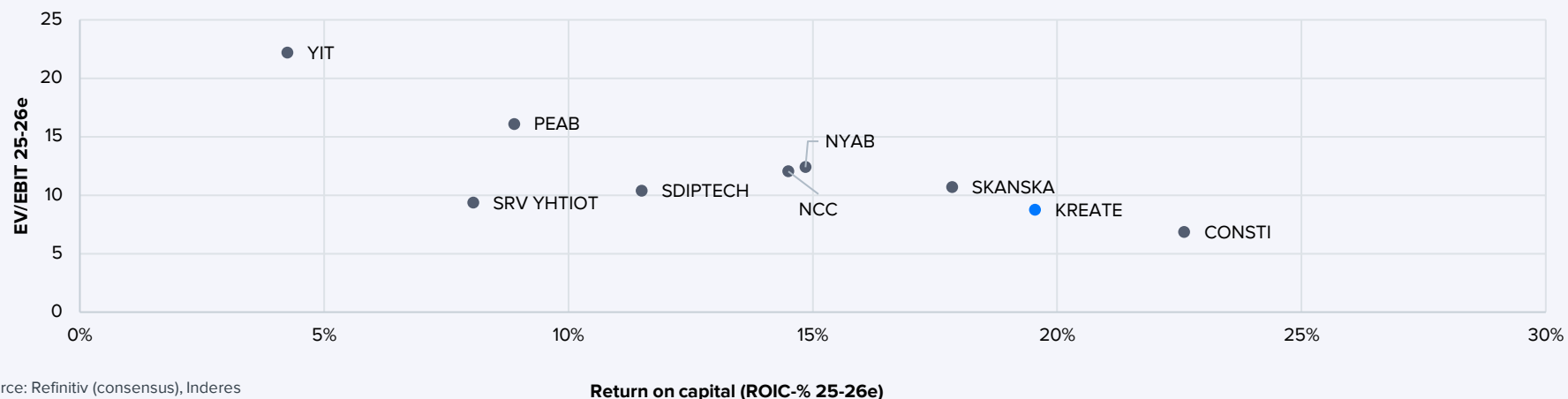
We believe it is justified to price Kreate at least at the level of the peer group. Kreate's profitability and growth have been stronger than its peers in recent years. In addition, Kreate's projected return on capital/valuation shown below is among the most attractive.

However, the company's development and expansion phase, the group's short history, the

smaller size compared to some peers, and the more concentrated business decrease the acceptable level.

For these reasons, we value Kreate at the same level as its peers (0%). Against this background, the current discount of more than 5% in the company's valuation would offer some upside. However, in the current environment of market demand uncertainty, peer earnings forecasts are subject to a very high degree of risk. In this sense, we think that short-term relative valuation should now be treated with caution, and we do not give it much weight. Nevertheless, the long-term level of the peers is already taken into account in the absolute valuation of Kreate.

Kreate's return on capital and valuation vs. selected peers



Source: Refinitiv (consensus), Inderes

Valuation 4/4

DCF scenarios

We also use DCF in the valuation. However, the DCF model is sensitive to variables such as the terminal period, which investors should take into account. We have created three different DCF scenarios by modifying the forecasts to give some idea of the future that is already priced into the share price today. The weighted average cost of capital (WACC) we use in each scenario is 9.0%, and the cost of equity is 11.0%. The cost of capital is slightly below that of more cyclical builders, but in line with builders in the contracting business.

In our baseline scenario, after growing by around 3.6% in the medium term, the company's revenue growth slows to 1.5% in the terminal period. Thus, growth in the terminal period is estimated to be in line with or slightly above GDP. In the baseline scenario, the EBIT margin rises to 4.0% and slightly above in the medium term, but levels off at around 4.0% in the terminal period. This is below the company's target EBITA margin of over 5%, but in line with the company's historical profitability. In the baseline scenario, our DCF model indicates a share value of about EUR 10.7.

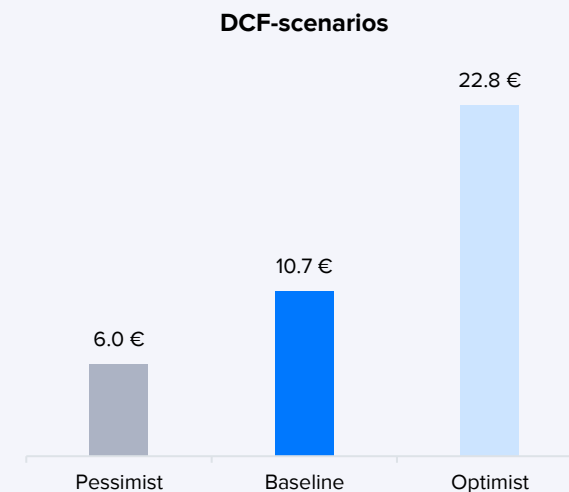
In the pessimistic scenario, the company's growth remains weak and is close to zero in the medium term. In the terminal, growth would remain at 0.5%, below the level of GDP. The weak growth could be due to the failure of the Swedish expansion and the continuation of the weak Finnish market and fierce competition. These factors will also depress profitability in the medium term to around 3.0%, keeping it in the terminal at the lowest levels in

Kreate's history at 2.5%. Under the pessimistic scenario, our DCF model would value the stock at EUR 6.0.

In the optimistic scenario, the company's growth rises to the target levels (5-10%) in the medium term, thanks to stronger-than-expected growth in Sweden and a pick-up in construction investment in Finland Thanks to Kreate's strong competitiveness and the infrastructure megatrends, terminal growth would rise above GDP levels to 2.5%. Good revenue growth and success in Sweden would also raise profitability to the target level of around 5% in the medium term and around 5.5% in the terminal. Under the optimistic scenario, our DCF model would value the stock at EUR 22.8.

Thus, the current share price of around EUR 8 is not inflated by a significantly positive scenario for Kreate. However, if the risks materialize, there is still a clear downside in the share. Of course, the scenarios are only illustrative examples of what is currently priced into the share price. We note that in a negative scenario, investments could be lower and the WACC-% used could be higher due to the risks. Conversely, in a more positive scenario, investments would likely be higher due to growth, but the WACC-% could even fall slightly from current levels.

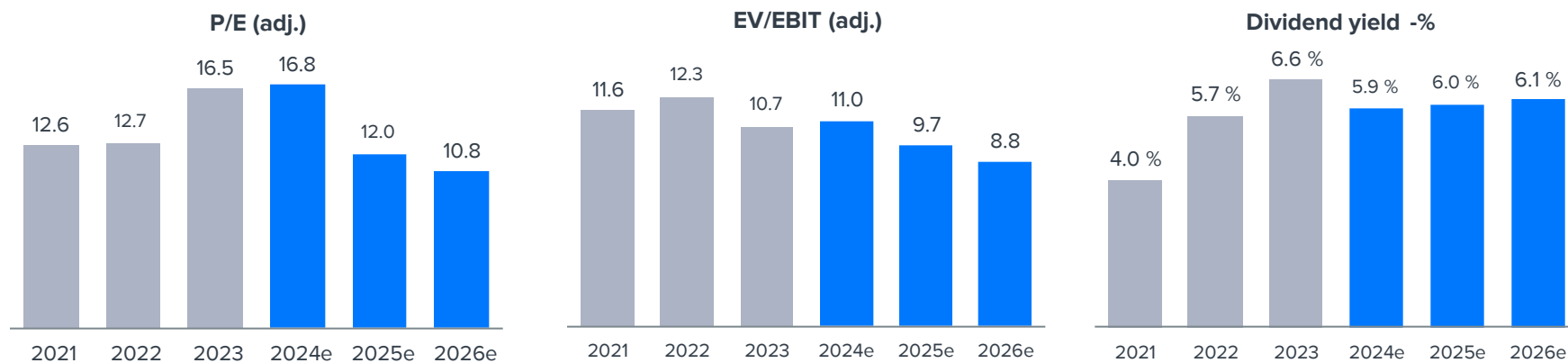
| DCF scenario assumptions | Pessimist | Baseline | Optimist |
|-----------------------------------|-----------|----------|----------|
| Growth CAGR 2025–2030e | 0% | 3.6% | 7.5% |
| Terminal growth assumption | 0.5% | 1.5% | 2.5% |
| Average EBIT-% 2025e–2030e | 3.0% | 4.0% | 5.0% |
| Terminal EBIT-% | 2.5% | 4.0% | 5.5% |



Valuation table

| Valuation | 2019 | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
|------------------|------|------|--------|--------|---------|---------------|---------------|---------------|---------------|
| Share price | | | 11.4 | 8.09 | 7.22 | 8.36 | 8.36 | 8.36 | 8.36 |
| Market cap | | | 99 | 73 | 64 | 74 | 74 | 74 | 74 |
| EV | | | 120 | 106 | 81 | 100 | 106 | 105 | 103 |
| P/E (adj.) | | | 12.6 | 12.7 | 16.5 | 16.8 | 12.0 | 10.8 | 9.8 |
| P/B | | | 2.4 | 1.7 | 1.5 | 1.7 | 1.7 | 1.6 | 1.5 |
| EV/Sales | | | 0.5 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 |
| EV/EBITDA | | | 8.4 | 7.8 | 5.8 | 6.6 | 6.1 | 5.6 | 5.1 |
| EV/EBIT (adj.) | | | 11.6 | 12.3 | 10.7 | 11.0 | 9.7 | 8.8 | 8.0 |
| Payout ratio (%) | | | 56.4 % | 72.4 % | 109.7 % | 98.2 % | 71.6 % | 65.8 % | 60.7 % |
| Dividend yield-% | | | 4.0 % | 5.7 % | 6.6 % | 5.9 % | 6.0 % | 6.1 % | 6.2 % |

Source: Inderes



Peer group valuation

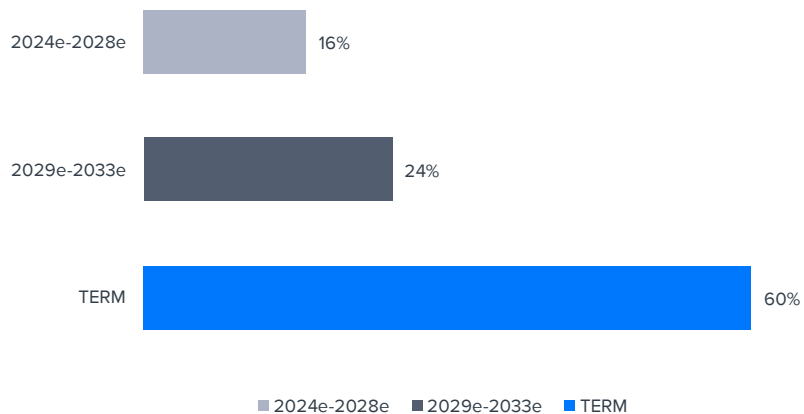
| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | EV/Liikevaihto | | P/E | | Dividend yield-% | | P/B |
|--------------------------|------------|------------|--------------|-------------|-------------|-------------|----------------|------------|-------------|-------------|------------------|------------|------------|
| Company | MEUR | MEUR | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e |
| YIT Oyj | 610 | 1571 | 7854.3 | 27.2 | 136.6 | 19.0 | 0.8 | 0.8 | | | | | 0.8 |
| NRC Group ASA | 30 | 105 | | 6.8 | 7.2 | 3.2 | 0.2 | 0.2 | | 3.5 | | 17.7 | 0.1 |
| Veidekke ASA | 1404 | 1360 | 9.9 | 9.1 | 6.0 | 5.6 | 0.4 | 0.4 | 13.3 | 12.4 | 6.7 | 7.0 | 5.0 |
| Sdiptech AB (publ) | 1004 | 1004 | 12.3 | 10.9 | 8.9 | 8.1 | 2.1 | 1.9 | 23.7 | 19.7 | | | 2.6 |
| Ncc AB | 1491 | 1952 | 12.4 | 12.3 | 7.3 | 7.3 | 0.4 | 0.4 | 11.8 | 11.5 | 4.6 | 4.6 | 2.1 |
| Peab AB | 2083 | 3480 | 17.2 | 16.9 | 10.5 | 10.2 | 0.7 | 0.7 | 14.3 | 14.1 | 3.0 | 3.8 | 1.5 |
| Skanska AB | 7933 | 7887 | 12.8 | 11.1 | 9.7 | 8.6 | 0.5 | 0.5 | 14.5 | 12.8 | 3.5 | 3.8 | 1.5 |
| SRV Yhtiot Oyj | 96 | 226 | 13.7 | 9.2 | 9.8 | 7.2 | 0.3 | 0.3 | 12.3 | 7.0 | | 2.3 | 0.7 |
| Consti Oyj | 88 | 92 | 8.0 | 6.8 | 5.9 | 5.4 | 0.3 | 0.3 | 10.3 | 8.6 | 5.9 | 6.7 | 1.9 |
| MT Hoejgaard Holding A/S | 223 | 191 | 3.2 | 3.9 | 2.4 | 2.7 | 0.1 | 0.2 | 9.2 | 6.2 | | | 1.6 |
| NYAB | 383 | 375 | 16.7 | 13.4 | 13.7 | 11.6 | 1.1 | 1.0 | 21.5 | 17.9 | 1.9 | 3.7 | 1.9 |
| Kreate (Inderes) | 74 | 100 | 11.0 | 9.7 | 6.6 | 6.1 | 0.4 | 0.4 | 16.8 | 12.0 | 5.9 | 6.0 | 1.7 |
| Average | | | 796.0 | 11.6 | 19.8 | 8.1 | 0.6 | 0.6 | 14.5 | 11.4 | 4.3 | 6.2 | 1.8 |
| Median | | | 12.6 | 10.9 | 8.9 | 7.3 | 0.4 | 0.4 | 13.3 | 12.0 | 4.0 | 4.2 | 1.6 |
| Diff-% to median | | | -12% | -11% | -26% | -17% | -4% | -5% | 26% | 0% | 46% | 42% | 6% |

Source: Refinitiv / Inderes

DCF calculation

| DCF model | 2023 | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | 2033e | TERM |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue growth-% | 16.8 % | -14.0 % | 6.4 % | 4.1 % | 3.0 % | 4.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 1.5 % | 1.5 % |
| EBIT-% | 2.4 % | 3.3 % | 3.7 % | 3.9 % | 4.1 % | 4.0 % | 4.0 % | 4.0 % | 4.0 % | 4.0 % | 4.0 % | 4.0 % |
| EBIT (operating profit) | 7.6 | 9.1 | 10.9 | 11.9 | 12.8 | 13.1 | 13.3 | 13.6 | 13.9 | 14.1 | 14.3 | |
| + Depreciation | 6.4 | 6.1 | 6.5 | 6.9 | 7.2 | 7.5 | 7.7 | 7.8 | 7.9 | 8.0 | 8.0 | |
| - Paid taxes | -0.5 | -2.2 | -2.0 | -2.0 | -2.2 | -2.3 | -2.4 | -2.5 | -2.6 | -2.7 | -2.8 | |
| - Tax, financial expenses | -0.5 | -0.6 | -0.5 | -0.6 | -0.5 | -0.5 | -0.5 | -0.4 | -0.4 | -0.4 | -0.3 | |
| + Tax, financial income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Change in working capital | 15.9 | -6.7 | -5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Operating cash flow | 28.9 | 5.7 | 9.3 | 16.2 | 17.2 | 17.7 | 18.1 | 18.4 | 18.7 | 19.0 | 19.3 | |
| + Change in other long-term liabilities | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Gross CAPEX | -6.8 | -8.2 | -8.2 | -8.2 | -8.2 | -8.2 | -8.2 | -8.2 | -8.2 | -8.2 | -8.0 | |
| Free operating cash flow | 23.3 | -2.5 | 1.1 | 8.0 | 9.0 | 9.5 | 9.9 | 10.2 | 10.5 | 10.8 | 11.3 | |
| +/- Other | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FCFF | 23.5 | -2.5 | 1.1 | 8.0 | 9.0 | 9.5 | 9.9 | 10.2 | 10.5 | 10.8 | 11.3 | 153 |
| Discounted FCFF | | -2.4 | 1.0 | 6.6 | 6.8 | 6.6 | 6.3 | 6.0 | 5.7 | 5.3 | 5.1 | 69.2 |
| Sum of FCFF present value | | 116 | 119 | 118 | 111 | 104 | 97.6 | 91.3 | 85.3 | 79.6 | 74.3 | 69.2 |
| Enterprise value DCF | | 116 | | | | | | | | | | |
| - Interest bearing debt | | -40.4 | | | | | | | | | | |
| + Cash and cash equivalents | | 23.6 | | | | | | | | | | |
| -Minorities | | 0.2 | | | | | | | | | | |
| -Dividend/capital return | | -4.3 | | | | | | | | | | |
| Equity value DCF | | 95.4 | | | | | | | | | | |
| Equity value DCF per share | | 10.7 | | | | | | | | | | |

Cash flow distribution



| WACC | |
|--|---------------|
| Tax-% (WACC) | 20.0 % |
| Target debt ratio (D/(D+E)) | 25.0 % |
| Cost of debt | 3.5 % |
| Equity Beta | 1.50 |
| Market risk premium | 4.75% |
| Liquidity premium | 1.40% |
| Risk free interest rate | 2.5 % |
| Cost of equity | 11.0 % |
| Weighted average cost of capital (WACC) | 9.0 % |

Source: Inderes

Summary

| Income statement | 2022 | 2023 | 2024e | 2025e | Per share data | 2022 | 2023 | 2024e | 2025e |
|---------------------------|-------|-------|-------|-------|--------------------------|--------|--------|--------|--------|
| Revenue | 273.9 | 320.0 | 275.2 | 292.9 | EPS (reported) | 0.64 | 0.44 | 0.50 | 0.70 |
| EBITDA | 13.6 | 14.0 | 15.2 | 17.4 | EPS (adj.) | 0.64 | 0.44 | 0.50 | 0.70 |
| EBIT | 8.6 | 7.6 | 9.1 | 10.9 | OCF / share | 0.88 | 3.25 | 0.64 | 1.05 |
| PTP | 6.7 | 4.7 | 6.3 | 8.4 | FCF / share | -0.63 | 2.64 | -0.28 | 0.13 |
| Net Income | 5.7 | 3.9 | 4.4 | 6.2 | Book value / share | 4.75 | 4.81 | 4.83 | 5.04 |
| Extraordinary items | 0.0 | 0.0 | 0.0 | 0.0 | Dividend / share | 0.46 | 0.48 | 0.49 | 0.50 |
| Balance sheet | 2022 | 2023 | 2024e | 2025e | Growth and profitability | 2022 | 2023 | 2024e | 2025e |
| Balance sheet total | 134.5 | 134.6 | 128.0 | 135.8 | Revenue growth-% | 15% | 17% | -14% | 6% |
| Equity capital | 42.6 | 42.7 | 42.9 | 44.7 | EBITDA growth-% | -4% | 3% | 9% | 15% |
| Goodwill | 40.0 | 40.0 | 40.0 | 40.0 | EBIT (adj.) growth-% | -17% | -12% | 21% | 20% |
| Net debt | 33.4 | 16.8 | 26.2 | 31.8 | EPS (adj.) growth-% | -29% | -31% | 14% | 40% |
| Cash flow | 2022 | 2023 | 2024e | 2025e | EBITDA-% | 5.0 % | 4.4 % | 5.5 % | 5.9 % |
| EBITDA | 13.6 | 14.0 | 15.2 | 17.4 | EBIT (adj.)-% | 3.1 % | 2.4 % | 3.3 % | 3.7 % |
| Change in working capital | -4.1 | 15.9 | -6.7 | -5.5 | EBIT-% | 3.1 % | 2.4 % | 3.3 % | 3.7 % |
| Operating cash flow | 7.9 | 28.9 | 5.7 | 9.3 | ROE-% | 13.6 % | 9.1 % | 10.3 % | 14.1 % |
| CAPEX | -12.8 | -6.8 | -8.2 | -8.2 | ROI-% | 11.2 % | 9.0 % | 11.0 % | 12.8 % |
| Free cash flow | -5.7 | 23.5 | -2.5 | 1.1 | Equity ratio | 31.6 % | 31.7 % | 33.5 % | 32.9 % |
| | | | | | Gearing | 78.5 % | 39.3 % | 61.1 % | 71.1 % |
| Valuation multiples | 2022 | 2023 | 2024e | 2025e | | | | | |
| EV/S | 0.4 | 0.3 | 0.4 | 0.4 | | | | | |
| EV/EBITDA | 7.8 | 5.8 | 6.6 | 6.1 | | | | | |
| EV/EBIT (adj.) | 12.3 | 10.7 | 11.0 | 9.7 | | | | | |
| P/E (adj.) | 12.7 | 16.5 | 16.8 | 12.0 | | | | | |
| P/B | 1.7 | 1.5 | 1.7 | 1.7 | | | | | |
| Dividend-% | 5.7 % | 6.6 % | 5.9 % | 6.0 % | | | | | |

Source: Inderes

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

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| Date | Recommendation | Target | Share price |
|------------|----------------|---------|-------------|
| 11/22/2021 | Buy | 13.00 € | 10.75 € |
| 11/24/2021 | Buy | 13.00 € | 11.45 € |
| 1/27/2022 | Accumulate | 13.00 € | 11.75 € |
| 4/27/2022 | Buy | 12.00 € | 9.00 € |
| 7/28/2022 | Buy | 12.00 € | 8.80 € |
| 10/4/2022 | Buy | 11.00 € | 8.02 € |
| 10/27/2022 | Buy | 11.00 € | 8.45 € |
| 11/21/2022 | Accumulate | 10.50 € | 8.92 € |
| 1/12/2023 | Accumulate | 10.50 € | 9.05 € |
| 2/1/2023 | Accumulate | 10.50 € | 9.30 € |
| 5/2/2023 | Accumulate | 9.00 € | 7.94 € |
| 7/12/2023 | Reduce | 7.90 € | 7.58 € |
| 7/20/2023 | Accumulate | 7.90 € | 7.44 € |
| 10/26/2023 | Accumulate | 7.00 € | 6.32 € |
| 11/28/2023 | Accumulate | 7.30 € | 6.84 € |
| 2/1/2024 | Accumulate | 8.50 € | 7.94 € |
| 4/29/2024 | Accumulate | 8.50 € | 7.80 € |
| 7/17/2024 | Accumulate | 8.50 € | 7.82 € |
| 10/1/2024 | Accumulate | 9.00 € | 8.36 € |



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