Harvia

Extensive report

09/13/2023 08:19

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Inderes corporate customer

This report is a summary translation of the report “Takaisin kasvutrendille Q423 alkaen” published on 9/13/2023 at 8:24 am EEST

Back to the growth trend from Q4'23

Harvia is a leading company in its field with clear competitive advantages. This enables good ROIC and value creation, in addition to which the company's capital allocation to acquisitions has been successful. We expect revenue and earnings to start rising again from Q4'23. Harvia's valuation level (e.g. EV/EBIT 2023 15x) is acceptable in our view, considering its return on capital and ability to generate cash-flow. We reiterate our Accumulate recommendation and raise our target price to EUR 25.5 (was EUR 24) with a continued strong cash-flow rate and slightly increased long-term assumptions.

The world's leading sauna and spa company

In recent years Harvia has become the world's largest sauna and spa company. The company estimates its market share on the whole market to be about 5%, which means that it would be about 10% of Harvia's relevant product market. The company has significantly increased its market share over the past five years (both through acquisitions and organically). The market has been exceptional compared to history, as it grew sharply during the COVID era and correspondingly declined last year and further this year. However, Harvia believes that the market will grow at the historic growth rate of around 5% per year in the longer term. Our forecasts expect the company to grow by 9% in 2024 and by 6% in 2025, as the market turns to growth and the company continues to gain market shares.

Harvia has clear competitive advantages, especially in its core area: heaters and components

In our opinion, Harvia has several clear competitive advantages that support the profitable growth and value creation of the company. They mainly concern the market for wood/electric heaters and their components. These represent about 70% of Harvia's sales. We believe Harvia's competitive advantages are: 1) vertical integration and own design, 2) economies of scale (in production), 3) strong brand(s), 4) broad and long-term distribution relationships. We feel that the company has been very successful since 2014 in driving the international growth of Harvia and strengthening these competitive advantages. We also believe that the company has succeeded in creating value by allocating capital to acquisitions. The competitive advantages and low capital requirements enable the company an ROIC of about 20% in the coming years.

Revenue and earnings will continue to fall in Q3, then return to growth

We expect the exit from Russia and weakened consumer demand to drive a further decline in revenue in Q3'23, i.e. for the sixth consecutive quarter. Harvia has managed to maintain its EBIT margin level above 22% despite the revenue decrease in H1'23. We believe that demand will stabilize toward the end of the year and Harvia will return to growth in Q4'23 and more clearly in 2024. Growth is driven especially by countries outside Europe, where Harvia still has significant potential. We made no estimate revisions.

Valuation relatively neutral, earnings growth and cash flow offer a reasonable expected return

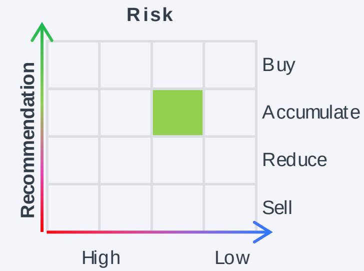
Harvia's valuation level (e.g. 2023 EV/EBIT 15x,/ P/E 20x) is acceptable in our view, considering its return on capital and ability to generate cash-flow. In 2024-25, we expect an annual EBIT increase of over 10% from Harvia, in addition to which the investor will receive a dividend yield of 3%. The company's current strong cash flow provides a cash-flow rate of some 7%. We believe that Harvia's capital allocation will continue to be value-creating, and thus channeling of cash into acquisitions and/or larger dividends will support the investor's expected return. In the medium term (organic) earnings growth will be limited to some 5% revenue growth.

Recommendation

Accumulate
(previous Accumulate)

EUR 25.50
(previous EUR 24.00)

Share price:
24.00



Key figures

	2022	2023e	2024e	2025e
Revenue	172	151	165	175
growth-%	-4%	-12%	9%	6%
EBIT adj.	36.5	33.2	37.8	40.4
EBIT-% adj.	21.2 %	21.9 %	22.9 %	23.1 %
Net Income	27.1	22.6	28.0	30.0
EPS (adj.)	1.55	1.23	1.50	1.61
P/E (adj.)	11.4	19.7	16.1	15.0
P/B	3.4	4.2	3.6	3.2
Dividend yield-%	3.6 %	2.7 %	2.8 %	2.9 %
EV/EBIT (adj.)	10.6	14.7	12.4	11.2
EV/EBITDA	9.2	12.4	10.6	9.7
EV/S	2.3	3.2	2.8	2.6

Source: Inderes

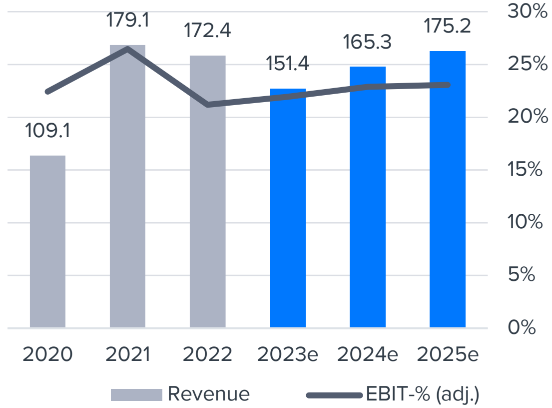
Guidance (Unchanged)

Harvia does not publish a short-term outlook. The company targets average annual revenue growth above 5% and 20% adjusted EBIT margin.

Share price

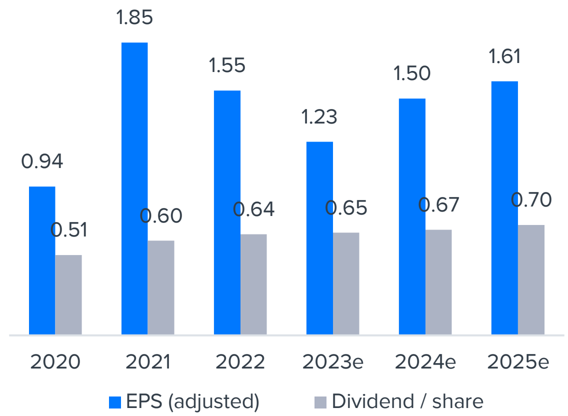
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Stably growing sauna and spa market in the longer term
- Leading market position and best profitability in the sector
- Strong cash flow and low investment need
- Revenue growth through complementing acquisitions and expansion of the reseller network

Risk factors

- Dependency on the Muurame plant
- Changes in the competitive field or position
- Economic fluctuations and fluctuations on the construction market may slow down growth
- Successful integration of acquisitions

Valuation	2023e	2024e	2025e
Share price	24.0	24.0	24.0
Number of shares, millions	18.7	18.7	18.7
Market cap	448	448	448
EV	485	467	449
P/E (adj.)	19.6	16.0	14.9
P/E	19.8	16.0	14.9
P/B	4.1	3.6	3.2
P/S	3.0	2.7	2.6
EV/Sales	3.2	2.8	2.6
EV/EBITDA	12.4	10.5	9.6
EV/EBIT (adj.)	14.6	12.4	11.1
Payout ratio (%)	53.6 %	44.7 %	43.5 %
Dividend yield-%	2.7 %	2.8 %	2.9 %

Source: Inderes

Contents

Harvia in brief

Harvia is the world's leading sauna and spa company. The company has an extensive selection from sauna heaters and heater components to comprehensive sauna and spa solutions. Harvia's customers include both consumers, as well as sauna and spa sector professionals. Nearly 80% of Harvia's revenue comes outside of Finland.

1950
Year of establishment

3/2018
IPO

153 MEUR
Revenue for the last 12 months (end of Q2'23)

33 MEUR **(21.5% of revenue)**
Adjusted EBIT for the last 12 months

#1
Market position on sauna heater and component market

#1
Market position on sauna and spa market

619
Personnel at the end of Q2'23

9
Own production plants

1950-2014

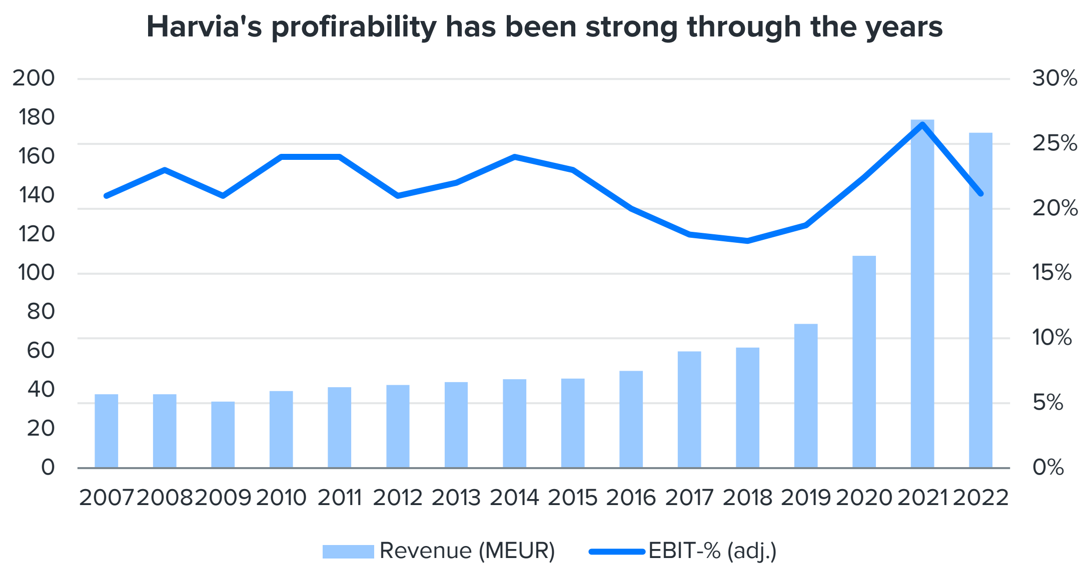
- Family-owned and driven company
- Strong market position in traditional sauna countries (Finland, Russia and Scandinavia)

2014-2017

- CapMan acquires a majority in Harvia in 2014
- Harvia expands its operations in Germany and elsewhere in Central Europe through the Sentiotec acquisition in 2016

2018-

- IPO 3/2018
- Expanding operations in North America through Almost Heaven Saunas acquisition 12/2018
- Expanding product selection in professional premium categories with the EOS acquisition 3/2020 and to still water hot tubs with the Kirami acquisition 5/2021



Source: Harvia / Inderes
* Figures for 2007-2014 are Harvia Oy's (currently Harvia Finland Oy) actual figures in accordance with FAS accounting. Figures for 2015-2022 are IFRS accordant EBIT adjusted for items that affect comparability.

Company description and business model 1/7

The world's leading sauna and spa company

Harvia, headquartered in Muurame, has during its 70-year history climbed to the world's leading sauna and spa company. Harvia's long history has resulted in considerable experience and skills in the organization, which creates a competitive advantage for Harvia in the relatively small and fragmented sauna and spa industry. We also believe that a well-known brand in the industry, vertical integration of production, economies of scale from large volumes and a wide distribution network are competitive advantages for the company.

The company has estimated its market share in the global sauna and spa market to be ~5% and in the more precisely defined heater and sauna component market over 20%. Historically, Harvia's market position has been particularly strong on large markets that focus on conventional sauna culture (Finland, Russia and Scandinavia). Russia was removed when the company withdrew from the country in 2022. Harvia has estimated that it has clearly gained market shares in 2020-22, as the corresponding shares in 2019 were only 3% and 14%. This has also been boosted by acquisitions. As a result of the Sentiotec acquisition in 2016 and the EOS acquisition in spring 2020, the company has reached a market leader position in heaters and components also in Germany and strengthened its position in Central and Eastern Europe. With the 2018 Almost Heaven Saunas (AHS) acquisition, the company expanded its operations in North America.

Harvia has long lasting customer relationships in all core areas of the sauna and spa market and its brands (Harvia, EOS, Almost Heaven Saunas) are among the best known in the industry. Harvia sells its products mainly through a reseller network globally.

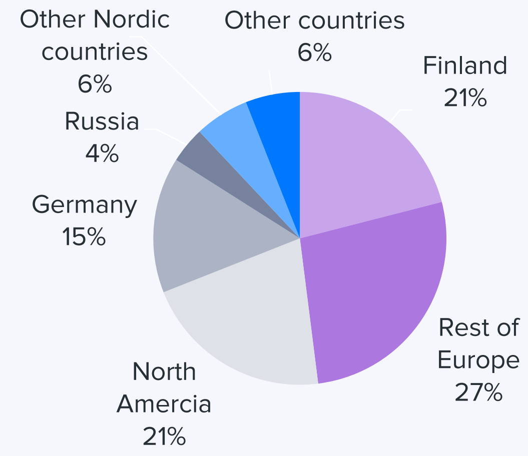
Harvia sells its products in over 80 countries. In 2022, almost 80% of revenue came from outside Finland. Acquisitions have reduced the role of the domestic market in sales.

Products: From heaters to a more comprehensive sauna company

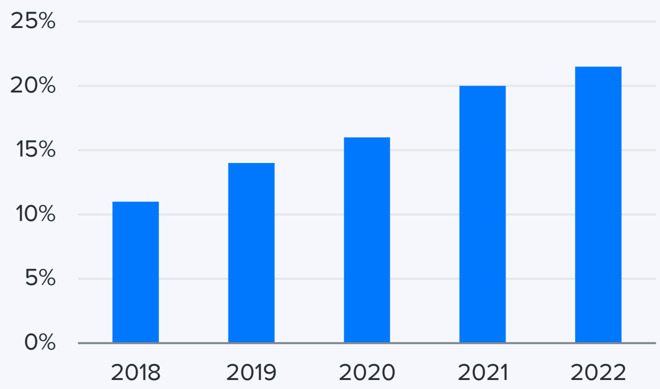
Harvia was previously profiled mainly as a sauna heater manufacturer but the company has, in recent years, developed into a more comprehensive sauna and spa market player through acquisitions and new product launches, as well as opening new sales channels. The company's product portfolio covers all three sauna types: traditional saunas, steam saunas and infrared saunas. However, its strongest area is clearly the traditional sauna. In the other two types we do not see as clear a competitive advantage in Harvia, but they still offer growth potential to the company. We believe more significant growth in these areas may require acquisitions. The company has built an extensive product portfolio, where both professional customers and consumers can find all necessary products from sauna heaters and components to a ready-made sauna delivery.

The majority of Harvia's revenue comes from sauna heaters (44% of 2022 revenue), but the selection also includes ready-made saunas, control units, steam generators, still water hot tubs, as well as spare parts, accessories, and services. In particular, sales of ready-made saunas have increased in recent years.

Revenue by market area 2022



Harvia's market share of heater & component market



Source: Harvia / Inderes

Company description and business model 2/7 - product groups

Product segment		Product description	Main brands	Share of revenue in 2022
Sauna heaters		▪ Electric and wood-burning heaters ▪ Heater accessories, e.g. protective railings and walls, protective base for hearths, flue pipes and chimneys	▪ Harvia ▪ EOS	**44%**
Saunas and still water hot tubs		▪ Ready-made indoor and outdoor saunas ▪ Still water hot tubs ▪ Sauna's interior design / accessories	▪ Harvia ▪ Sentiotec ▪ Almost Heaven ▪ Kirami (still water hot tubs)	**27%**
Materials, services and other products		▪ Heater resistors and other spare parts ▪ Heater stones, hot water tanks, sauna lights, water pails and ladles, thermometers and sauna fragrances ▪ Infrared products ▪ Sauna maintenance, installation and repair services for consumers and corporate customers (Saunamax)	▪ Harvia ▪ SaunaEurox (stones)	**17%**
Control units		▪ Control units for electric heaters, combination heaters, infrared saunas and hybrid saunas	▪ Harvia ▪ Sentiotec ▪ EOS	**9%**
Steam generators		▪ Steam generators ▪ Steam sauna accessories, e.g. nozzles and scent pumps	▪ Harvia	**3%**

Company description and business model 3/7

Distribution through resellers

The group's revenue mainly comes from product sales (a small share from sauna installations, as well as maintenance and repair services). Harvia sells most of its products to resellers, to builders/sellers of ready-made saunas and to distribution companies. Harvia's largest customer relationship is based on the customer's group level framework agreement under which the individual order agreements made by the group formed some 10% of the group's revenue in 2022. Harvia's order backlog is short, typically only two to three weeks.

Harvia's resale channels can vary considerably depending on the characteristics of different geographical areas. They can, however, be divided into five main groups: 1) retail stores, 2) wholesalers, 3) integrators and sauna builders, 4) construction companies and 5) direct sales. We will discuss the distribution channels on the next page.

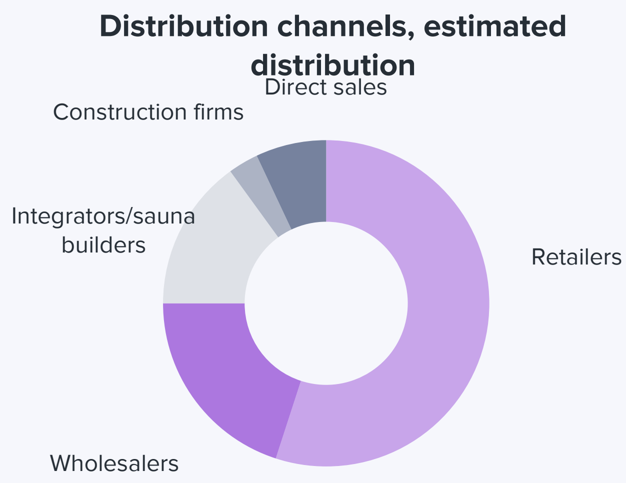
Own component design gives a competitive advantage

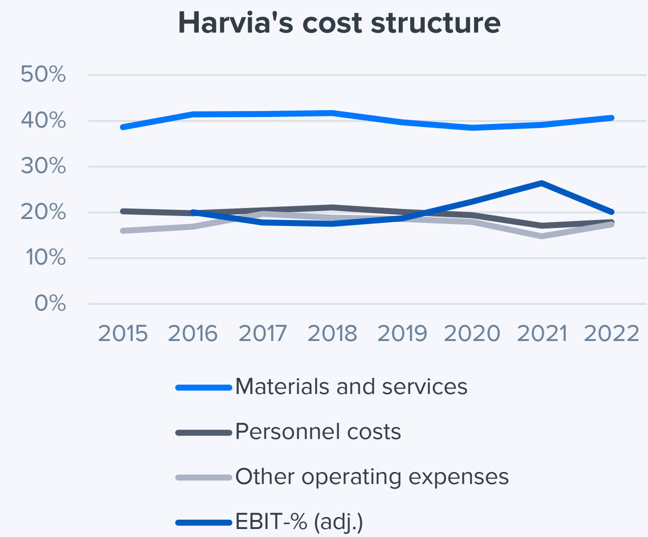
Harvia designs and manufactures almost all the products it sells, as well as most of the components itself, i.e. the company is vertically more integrated than a typical competitor. We believe this is one of Harvia's important competitive advantages, since broader supply chain management gives Harvia a larger share of the overall product margin than its competitors and enables unique and more efficient technical solutions. Own production also reduces exposure to supply chain disruptions. Our view is that together with large volumes, this makes Harvia's efficiency superior to its competitors.

The components and raw materials that Harvia needs to build sauna heaters are electronics and electrical components like control units and heating resistors, steel and other metal materials. Wood is also needed for sauna structures. In addition, the company acquires heater frames from contract manufacturers, as well as various sauna accessories from other third parties (e.g. sauna textiles). The company has many alternative suppliers and often also the ability to manufacture the parts it currently purchases from an external supplier.

Cost structure provides operational leverage

Approximately 40% of Harvia's costs (relative to revenue) goes to materials and services, i.e. mainly metal, wood and electrical/electronic components. Personnel costs and other expenses have both historically been about 20% of revenue, slightly less in recent years. At the end of 2022, good 60% of personnel were workers and the rest were clerical employees. The number of workers has decreased proportionately more during the past year. Especially heater production in Finland and China is covered by piecework pay, so you can assume that about 40% of the personnel costs vary according to production volume. Thus, around 60% of the costs would be variable and the rest fixed. A reasonably high proportion of fixed costs causes operational leverage, which means that as volumes grow the margin should improve and when they decrease the margin should go down. This was seen in 2020-22, although the overall margin remained surprisingly stable and at a high level also in 2022.





Source: Harvia / Inderes

Company description and business model 4/7 - customers and distribution channels

Distribution channel	Nature of the distribution channel	% share of revenue	Example customers
Retail stores	• Retailers are typically construction material stores, especially in Finland and Sweden. This group also includes online shops. • In Central Europe, also, e.g., stores specialized in saunas • Also an important distribution channel in the US • Typical decision maker is the end user or seller	~55%*	STARK, K Rauta, wayfair.com, The Home Depot, bygghemma, Costco Wholesale, NETRAUTA.FI
Wholesalers	• Wholesalers are typically electricity, HVAC or bathroom equipment wholesalers • Important channel especially in Finland and Sweden • Typical decision maker is the seller or electrician	~20%*	onninen, ahlsell, SLO A Sonepar Company
Integrators / sauna builders	• An important channel on markets that focus on ready-made sauna solutions like Central Europe and North America. • Sauna builders carry out the construction for the end user • Typical decision maker is the seller, architect	~15%*	Duravit, saluos, Finlandia Sauna, Teka
Construction firms	• In the Nordic countries, the company's products are also sold to construction firms that install saunas in new residential buildings • Construction firms purchase either individual sauna components or whole saunas • Typical decision maker is the architect	<5%*	YIT, SRV, NCC, Lujatalo Oy, PEAB
Direct sales	• A significant part of the sales of the Almost Heaven Saunas company (USA) is also direct sales to consumers • The company selectively targets direct sales to end customers, such as hotels and gym chains • Typical decision maker is the end user or architect	5-10%*	SATS ELIXIA, Kämp, Lapland Hotels, Puijonsarvi

*Inderes' estimate of the relative share of the distribution channel in the group's revenue.

Harvia's largest customer relationship is based on the customer's group level framework agreement under which the individual order agreements made by the group formed some 10% of the group's revenue in 2022 (2021: 9%).

Company description and business model 5/7

Production in nine own plants

Harvia has nine own production plants. The biggest is Harvia's heater production in its domicile in Muurame, but the company has also expanded its production to China and gained production in Germany, the US and Romania through acquisitions. In 2021, the company's production expanded with Kirami's (still water hot tubs) and SaunaEurox's (heater stones) production units in Finland. After Harvia withdrew from Russia, contract manufacturing there naturally ended. The company's cost effectiveness is promoted by a significant share of production plant employees being covered by performance-related pay and the piece work agreements used by the company (mainly in Finland and China) increase the flexibility of production and the profitability of manufacturing work. However, own production as such mainly increases the earnings leverage generated by sales fluctuations which works in both directions.

Harvia has also centralized the production of different products to particular production plants with in-house designed and manufactured special tools for producing the products in question. Centralization of certain product categories to different plants also makes the availability of raw materials and components more efficient and optimizes purchase costs.

A well-known brand supports market positions

Harvia's brands have a strong market position and reputation in their areas of specialization and, in particular, in the traditional market areas of the sauna and spa markets. In addition, the company was able to expand its selection in professional and premium products thanks to the EOS acquisition.

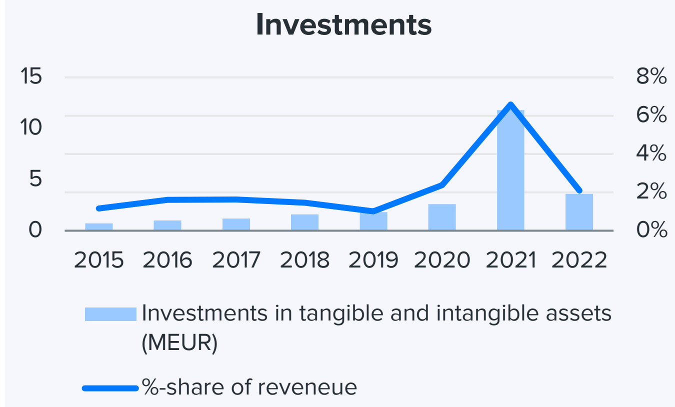
Strong operational cash flow and low investment need

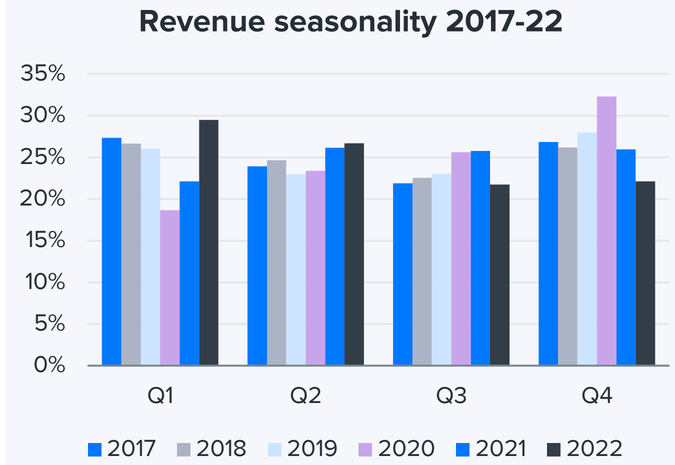
Harvia's operational cash flow is typically very strong. The company's EBIT margin has historically remained at an excellent level of around 20%, and due to the structure of the production, the annual investment need is relatively low. The company has modern production facilities and capacity was raised to meet the demand of the COVID era. Investments in 2021 were very high compared to the normal level of the company. We believe that this capacity, especially in heater production will be sufficient far into the future, as volume levels normalize after the COVID peak. In sauna production, new investment needs may occur more quickly but they are very small investments.

The low capital intensity of production keeps investment needs low in normal circumstances and, therefore, good operational cash flow is also converted into free cash flow.

Seasonal variation quite moderate

The seasonal variation in Harvia's business is rather moderate. A majority of orders in the distribution chains typically focus on Q1 and Q4, which have historically been the best quarters. Q3 tends to be the weakest quarter of the year. After the COVID years, the company is returning to this seasonal fluctuation this year. A majority of orders from Northern Europe are typically made in the first quarter, while the order activity of Central Europe and North America focuses on the end of the year.





Company description and business model 6/7 – production/sites

Muurame, Finland

- Harvia's head office
- Own product development and testing unit
- Own production and custom tools / design & tool shop
- Logistics center
- Main products: traditional sauna heaters and sauna rooms, benches and sauna interior products

Driedorf, Germany

- EOS' headquarters
- Production (EOS, Kusatek and Spatronic)
- Logistics center, sales, marketing and customer service office
- Main products: professional and premium class sauna heaters, control units and accessories
- Transferred to Harvia in the EOS acquisition in 2020

Vöcklabruck, Austria

- Harvia's and Sentiotec's Central European logistics center, and sales and customer service office
- Product development

Lewisburg (WV), United States

- New production plant of Almost Heaven Saunas, acquired in 2021
- Main products: Saunas (barrel saunas and sauna rooms)

Luvia, Finland

- Main product: Heater stones
- Production site included in the SaunaEurox acquisition (2021)

Sastamala, Finland

- Main product: Still water hot tubs and outdoor saunas (Kirami)
- Transferred to Harvia in the Kirami acquisition in 2021

Tartu, Estonia

- Main products: steam sauna and spa components and their installation services

Gheorgheni, Romania

- Main products: sauna rooms, assembly of infrared elements and sensors, accessories
- Production plant was transferred to Harvia in connection with the Sentiotec acquisition at the end of 2016

Guangzhou, China

- Main products: cheaper electric heater models and steam generators

Company description and business model 7/7

Fragmented ownership structure

Prior to the listing in March 2018, Harvia was owned by CapMan's funds. CapMan sold its last shares in November 2019. This 12.3% stake in Harvia was acquired by the family-owned investment company Onvest, which however sold the majority of its holding in September 2021 and currently owns 4.4% of Harvia. With this holding, Onvest remains the largest domestic owner of Harvia, but the biggest owner is Kempen, a Dutch investment company, who flagged an over 5% stake in Harvia in March 2022.

However, the overall ownership of Harvia is fragmented. In addition to Onvest, top 10 registered owners include three members of the Harvia family, domestic institutional investors and the former CEO and current CFO of the company. Foreign ownership is currently about 43%. Before the COVID era at the end of 2019, foreign ownership was 50%, and it has subsequently varied in the range of 40-50%.

We believe that the lack of a clear main owner is reflected in the composition of the Board of Directors. The Chairman of the Board of Directors is still Olli Liitola, who became CapMan's representative on the board in 2014. The composition of the Board of Directors, with the exception of Liitola, has changed in recent years, as other members have started working for the Board of Directors in or after 2021. At the same time, the Board of Directors has become international (2/6 foreigners), which we see as a positive.

In principle, fragmented ownership offers an opportunity for someone to make a bid for Harvia when there is no strong anchor owner nor an owner who alone could prevent the purchase (i.e. over 10% holding). However, as Harvia is the largest company in the industry, no inherent buyer can be found among industrial players. We find it possible that Harvia could again end up in the hands of a venture capital company, as its strong cash flow and consolidation possibilities in the industry could still make it an interesting asset for a venture capitalist. A bigger player wishing to enter the industry could also be a potential buyer, similar to when the US-based Masco acquired Harvia's competitor Sauna 360

Significant shareholdings in the Management Team

Matias Järnefelt that took over as Harvia's CEO in June has a background in managerial positions from, e.g., Hilti and Nokia. CFO Ari Vesterinen has worked at Harvia since 2014 and prior to that he worked for several years in management positions at Harvia's competitor the TylöHelo Group. Vesterinen holds a significant stake in the company, but Järnefelt naturally does not yet.

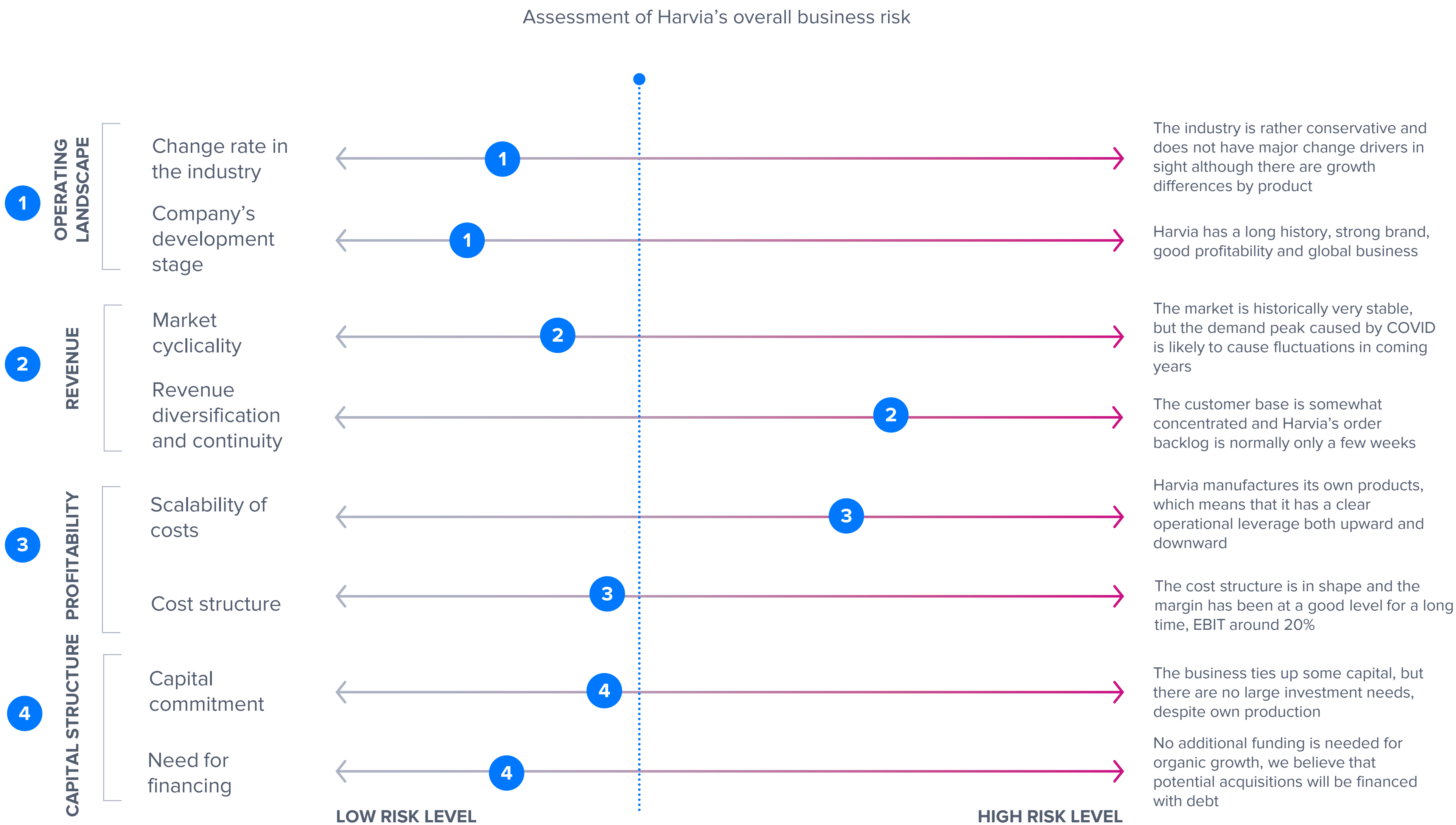
Among the rest of the Management Team, three have more than 100,000 shares, and three have tens of thousands. To our understanding, the shares have been received/acquired in connection with the 2014 changes of ownership or as part of acquisitions. The Scandinavian Sales Director and the Innovation and Market Manager that joined the company after the IPO have lower holdings.

We feel that Harvia's management has performed well and efficiently implemented the chosen strategy of international growth. Acquisitions also seem to have been successful, which we will discuss further later in this report. In the future, we would value internal appointments to senior management.

Biggest owners on 8/31/2023	Holding
Onvest	4.4%
WestStar	3.1%
Danske Invest Suomi Osake	2.4%
Tiipeti Oy / Pertti Harvia	2.2%
Ilmarinen	2.1%
Elo	1.8%
Tapio Pajuharju	1.3%
KTR-Invest Oy / Risto Harvia	1.3%
Mantereenniemi Oy / Sari Harvia-Jyllinmaa	1.2%
Ari Vesterinen	0.8%

Source: Inderes

Risk profile of the business model



Source: Inderes

Investment profile 1/2 – Harvia's competitive advantages

Harvia has clear competitive advantages, especially in its core area: heaters and components

In our opinion, Harvia has several clear competitive advantages that support the profitable growth and value creation of the company. We also discuss these elsewhere in the report but give a summary of them here. The company's competitive advantages are of great importance for long-term success and thus crucial for share development. When discussing competitive advantages, we note that they mainly concern the market of Harvia's traditional product areas, i.e. wood/electric heaters and their components. These currently represent about 70% of Harvia's sales. However, in producing/selling ready-made saunas we feel the advantages are smaller but can be found in the same areas as for heaters and components. We will discuss these in more detail below.

Vertical integration and own design

Harvia designs and manufactures almost all the products it sells, as well as most of the components itself, i.e. it is vertically more integrated than a typical competitor. We believe this is one of Harvia's important competitive advantages, since broader supply chain management gives Harvia a larger share of the overall product margin than its competitors and enables unique and more efficient technical solutions. Related expertise has accumulated in Harvia over the decades and we believe that it is not easy to copy. Own design and efficient manufacturing also require some resources that small companies probably cannot afford.

We do not see a similar advantage in the sales of ready-made saunas at Harvia, although the construction of saunas can be seen as further vertical integration. This fits Harvia's strategy to take a bigger share of the entire sauna and spa market perfectly but we do not feel it brings an actual competitive advantage.

Economies of scale

Partly related to the previous point, Harvia's large production volumes also bring efficiency to production, which smaller competitors are unlikely to be able to achieve. This enables good profitability for Harvia also in lower price segment products (for heaters and components).

As regards saunas, Harvia has a relatively large volume and a new, efficient production plant in the US in comparison with its competitors, so the company has at least some advantage there. As business grows, this can become a clear competitive advantage. In other areas the scale of saunas is not, at least currently, ahead of competitors.

Strong brand(s)

The Harvia brand is very well known in all sauna markets. Because the decision-maker is often someone other than the end user/consumer, brand awareness is also important among professionals (wholesalers, electricians, architects, etc.). Harvia's long history and strong position especially in electric and wood-burning heaters directed at consumer use, guarantee its brand's reputation. Brands bought into the group, like EOS and Sentiotec, are strong in professional segment heaters and the Almost Heaven Saunas in the US sauna market complement the brand portfolio and product offering well.

In ready-made saunas, Harvia should be able to utilize its well-known brand, especially in Europe. However, the importance of the brand in sauna construction in general is supposedly less important than in heaters, which also reduces the importance of this competitive advantage for saunas.

Extensive and long-term distribution relationships

As the products in Harvia's product groups are primarily sold through distributors, the distribution network and distributor relationships are important. With its long history and wide product range, Harvia has an extensive distribution network and often decades long customer relations. Compared to competitors in the industry, we see this more as a result of Harvia's other competitive advantages. However, the barrier to entry in the industry, at least on a larger scale, is hampered by the well-established positions of existing operators in the main sales channels.

We also see, e.g., the quality of the company's management, acquisitions and the strategy and its implementation as good things, but we do not include them in this list, as we believe competitive advantages should be more permanent and long-term issues related to the company. We will discuss the success of acquisitions separately later.

Investment profile 2/2

1. Strong market position and globally well-known brand
2. Vertical integration and long experience support high profitability
3. Low investment need supports creation of strong free cash flow
4. The company's ROIC is high and well above the required return, i.e. the company creates value
5. Expansion to new markets and/or new product categories
6. Historically a stably growing market

Potential

- **Increasing the value of average purchases** by expanding the product portfolio, with up-selling and by selling products with more advance features and entire sauna solutions
- **Geographical expansion** both organically and inorganically (90% of sauna markets are located outside Finland)
- **Complementing acquisitions** on the fragmented global sauna and spa market have already generated shareholder value and we believe Harvia will continue making complementing acquisitions if suitable targets are found. In our opinion, natural targets would be, for example, steam generators or infrared emitters, where Harvia has a weaker position and/or related more extensive sauna units.

Risks

- **Demand recovery after the current weaker period** After the high demand during the COVID era and the subsequent decline partly due to weakening purchasing power, the growth outlook for the coming years is clearly more uncertain than historically
- **Dependence on the Muurame plant** is one of the biggest risks associated with the continuity of Harvia's operations, although more extensive production resulting from the acquisitions has stabilized this risk
- **Acquisition risks:** Price paid in possible future acquisitions and integration of operations generate their own operational risk

Source: Inderes

Industry and market overview 1/3

The information in this section is mainly estimates by the company and in some cases several years old. Precise figures on the market are not collected and are therefore not available.

Global sauna and spa market

The sauna and spa market has historically grown at an annual rate of 4.5% (2008-2019). The sauna heater market has grown slightly slower, at about 3%.

Harvia estimates that the global sauna and spa market amounted to good EUR 3.5 billion in 2022. This corresponds to a decrease of around 10% from the previous year but is still some 15% above the 2019 level. This market assessment refers to the size of the final market, i.e. the number of products sold out from Harvia's distributors. Harvia's demand in each year may, therefore, also be affected by distributors' inventory changes, which were negative, e.g., in 2022, which means the demand/sell-in to distributors by Harvia is smaller than this market figure. Over a period of several years, this inventory effect should level off.

The strong market growth in the COVID era was partly due to so-called advance demand, according to our and the company's estimates. We believe that this is partly due to increased product penetration, which means that new users have come more quickly than average, but also due to a temporary shortening of the replacement cycle, i.e., during the COVID era saunas, heaters, etc., have been renewed more quickly than average. We believe this will stabilize in coming years and reduce demand.

Around one-half of the overall market consists of installation, maintenance and repair services for saunas and spas, around 15% consists of heaters, sauna components and control units. The remaining share of the market includes sauna and spa room structures and other accessories.

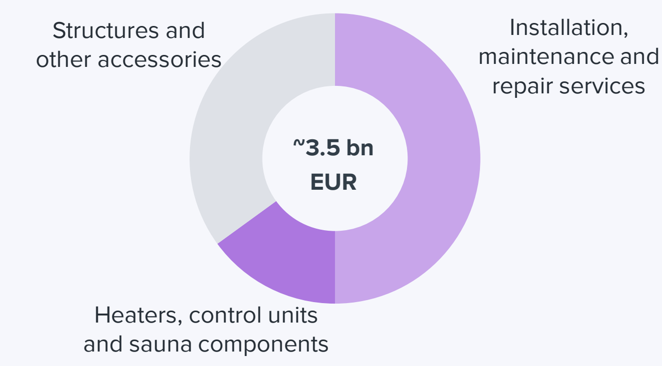
There are an estimated 18 million saunas in the world of which around 95% are used by households. In addition, saunas are in commercial use in, e.g. hotels, spas, gyms and swimming pools.

Harvia's target market is close on EUR 2 billion

Harvia's target market covers three sauna types: traditional saunas, steam saunas and infrared saunas. Traditional saunas (electric and wood-burning) are the most common sauna type and their share of the sauna stock is an estimated two-thirds. Especially in Finland, saunas are largely traditional saunas. Steam saunas represent a good 20% of the sauna stock and it is the most popular sauna type especially in Southern Europe and the Middle East. Around 10% of saunas are infrared saunas. Infrared saunas are still a relatively new sauna type that is better known in Central Europe and North America.

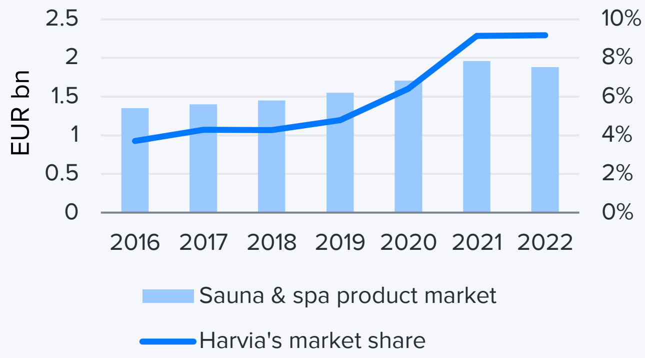
Harvia's target markets consist of sauna heaters and sauna components, incl. steam generators and infrared regulators, sauna rooms, control units and other accessories. Installation, repair and maintenance work is not part of Harvia's core business so Harvia's target market is, only around one-half of the sauna and spa market.

Global sauna and spa market



Source: Harvia's estimate of the overall market in 2022, study by an international management consultancy company for Harvia (2017) on the relative shares of the various segments

Market and market share relevant to Harvia



Source: Inderes' estimate

Industry and market overview 2/3

We do not believe that Harvia seeks a stronger role in the labor-intensive service market, because the company's focus is more on product manufacturing and sales, and we feel it has no clear competitive advantage here. Installation is performed by customers or cooperation partners. In our opinion, some sort of expansion in maintenance services could be possible, e.g., through cooperation partners. We believe, this could be a value-creating business for Harvia, because even if the margin would be relatively small, the business would not tie up capital from Harvia's point of view and the company would not bear much risk. On the other hand, it could utilize its strong brand to sell the service.

According to Harvia's estimate it has a market share of about 5% of the entire sauna and spa market and over 20% of the heater market. Considering that Harvia does not perform installation, its share of the relevant half of the sauna and spa market is approximately 10%.

Cyclically stable market

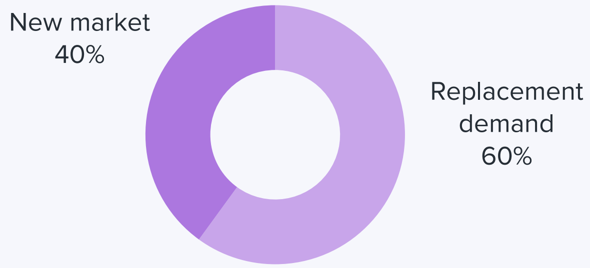
The sauna and spa market has historically been extremely cyclically stable as the large installed sauna stock and especially replacement demand of sauna heaters generate stable annual replacement demand. According to the company's experience, when a sauna heater or some other part of the sauna starts showing its age they are repaired or replaced regardless of the construction business cycle, especially in Finland and other traditional sauna markets. The market has not historically been dependent on/correlated with the construction market. This is well reflected, e.g., during the financial crisis, when the market grew slightly in 2009 and in 2010 the entire sauna and spa market only decreased by 2%, while the heater market remained slightly positive (1%).

Large replacement market supports demand

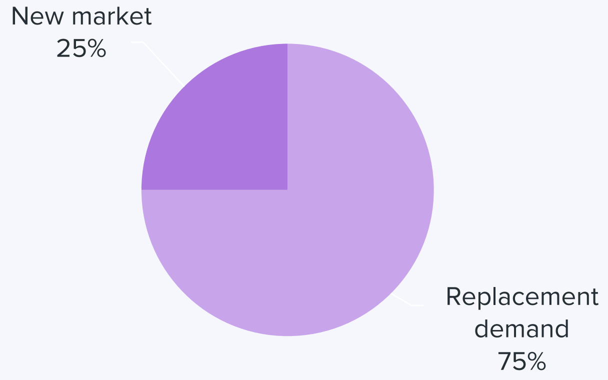
Management estimates that replacement demand for saunas and spa facilities accounts for about 60% of the global market, leaving 40% for the new market. This ratio has not changed substantially in recent years. However, no one knows the exact figures and, e.g., in COVID demand the figure may have been lower when advance demand has been more concentrated on new product demand. As sauna benches, other structures and equipment wears over time, saunas are estimated to be renewed every 20 to 30 years depending on the stress, and in joint commercial use more often than in household use. The new market includes building of saunas and spas in new construction works and existing buildings.

Replacing sauna heaters and other sauna components is relatively cheaper than renewing entire saunas and they are renewed more often. According to Harvia's management, a sauna heater is renewed or replaced in two to five years in commercial used and in some 10-20 years in household use. Management estimates that around 75% of the heater and component market is replacement demand and therefore 25% is new demand. There have not been major changes in this figure either based on available information. The relative effect of replacement demand and new market on sauna and spa market growth varies from region to region and market to market. In newer sauna markets, the share of new demand is naturally higher.

Sauna and spa market demand*



Heater demand*



*Source: Harvia, management estimates

Industry and market overview 3/3

Growth drivers for the market

During 2010-2019, the sauna and spa market grew by about 5% annually and the new market grew somewhat faster than replacement demand. In 2020-21, the market grew much faster while in 2022 it declined. Harvia's management believes in the historical growth rate of around 5% also in the longer term, which we find credible. Long-term growth drivers in the industry are, e.g.:

Sauna is becoming more known: How well sauna is known varies by area and it is expected to grow in many emerging sauna and spa markets. Factors that affect how well sauna is known are, e.g. increasing awareness of the health benefits related to saunas and people focusing more on wellbeing.

Growth of the average purchase: In addition to the replacement demand and new market for saunas, sauna heaters and sauna components, the growth in average purchases is estimated to affect the development of the sauna and spa market. The average purchase is affected by the price development of a similar sauna solution, switching to a better product and the expansion of the average purchase to include different accessories next to the sauna heater.

Biggest sauna and spa markets

Europe's largest individual sauna and spa markets are Russia, Germany, Finland and Sweden. These countries together cover an estimated over 40% of the global sauna and spa market. The share of the rest of Europe was ~20%, North America's ~10%, and the rest of the world ~30%.

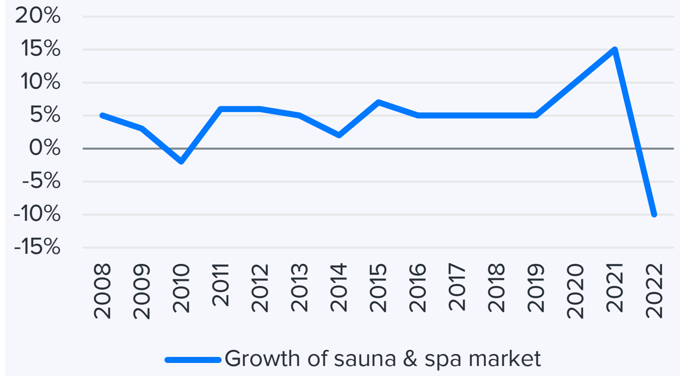
Finland is Harvia's home market. Measured by revenue and recognition, Harvia is the leading sauna and spa company in Finland and the biggest manufacturer of sauna heaters and components. It is estimated that there are around 2.5 million saunas in Finland and thanks to the large sauna stock, the new market share is low.

The US is becoming Harvia's largest market and is the fifth largest sauna and spa market in the world. The sauna and spa market in the United States is small compared to the size of the country, due to the relatively low knowledge of saunas. It is estimated that there are approximately one million saunas in the country. In the US, steam and infrared saunas have grown faster than traditional saunas, at least recently. The new market share is clearly higher than e.g. in Finland, because the sauna stock is low.

Germany is Harvia's third largest country and the world's second largest individual sauna and spa market. With the Sentiotec and EOS acquisitions, Harvia has grown into Germany's largest manufacturer of sauna heaters and components. Germany is estimated to have more than 2 million saunas. In Germany, the number of saunas is smaller than in Finland, but the euro denominated market is larger, due to, .e.g., the higher share of large commercial saunas.

Sweden is the second largest sauna and spa market in the Nordic countries after Finland. Sweden is estimated to have over 0.5 million saunas. Harvia is Sweden's second largest company on the sauna and spa market after TylöHelo.

Estimated market growth



Source: Estimate by Harvia's management, Inderes

Competitive environment 1/2

Harvia is the industry leader

The global sauna and spa market is relatively fragmented. On the other hand, when half of the market is installation and maintenance services, typically carried out by different companies than the equipment itself, we do not find this surprising. For example, in heaters, Harvia's market share is quite high at over 20%. Harvia's competition field consists primarily of two types of companies: 1) heater and component manufacturers, and 2) sauna builders and integrators. The operating models of these two groups differ from each other so that the latter usually do not manufacture the heaters and components they use but purchase them from manufacturers like Harvia.

We believe that measured by revenue Harvia's biggest competitor is the German **Klafs** that supplies sauna solutions for both consumers and commercial use. Sauna and spa solutions delivered by Klafs can be found, e.g. in many hotels, gyms and spas. Klafs offers various sauna solutions, sauna heaters and control units also for domestic use. The majority holding in Klafs was sold to the investment company Egeria in early 2021, after which Klafs has expanded its product range to, e.g., swimming pools.

Harvia's approach to the industry is very different than that of Klafs. Harvia's revenue mainly consists of various products (sauna heaters, sauna components, control units, sauna rooms, steam generators, spare parts, etc.), which the company distributes through different resale channels.

The next largest players on the global sauna and spa market are the Chinese integrator **SaunaKing** and Harvia's direct competitor, the heater and component manufacturer **Sauna 360,** that was acquired by the listed US company Masco last summer. In the company's view, the largest infrared sauna dealers, such as **Golden Desings** and **Sauna Works** / **Clearlight**, are included in the same size category. However, as Harvia's infrared sales is relatively small, these are not actually direct competitors for Harvia.

There are also several local companies operating on the sauna and spa market, e.g. **SaWo**, **Narvi** (traditional sauna heaters and components), **Lang** (German EOS' peer in the premium segment), **Mr. Steam**, **Steamist** also owned by Masco (manufacturers of steam rooms and generators, both are Harvia's customers), **Effegibi** (traditional saunas and steam saunas), **Physiotherm (infrared saunas)**, **Huum** (design heaters).

Harvia has a particularly strong market position on the developed sauna and spa markets (Finland, Sweden and Germany) and the company is the biggest or second biggest player on all of these markets. Harvia has strengthened its position considerably on the North American markets as a result of the AHS acquisition (larger product portfolio and new distribution channels for its own products). On the APAC market, Harvia belongs to the top 5 to 10 players.

Different types of companies	Number of companies	Annual revenue	Examples	Description
Leading companies	4	Over 50 MEUR	Klafs, Harvia, SaunaKing, Sauna360	• Integrators or large sauna component manufacturers • Operate in several countries • Extensive sauna and sauna equipment selection
Local companies	Around 25	5-20 MEUR	Narvi, Huum, SaWo, Physiotherm, Effegibi	• Integrators, sauna component manufacturers or companies that only partially focus on the sauna market • Typically, a more restricted selection
Small companies	Over 2,000	Under 5 MEUR	Sunrans, Iki-Kiuas, Misa, Stoveman, Mondex	• Typically, narrow product selection covering low-end and medium-priced products • Also a few companies that focus on expensive products

Competitive environment 2/2

Sauna heaters and components

Harvia's main target market is the heater and sauna component market, where the company's market share is over 20%. Harvia operates in the heater and component market with a wide range of products from Harvia, Sentiotec, EOS and Kusatek brands, which apart from Harvia have been acquired through acquisitions, and they have supplemented both the product portfolio (higher and premium price classes and professional channels) and geographical coverage (greater presence in Central and Eastern Europe).

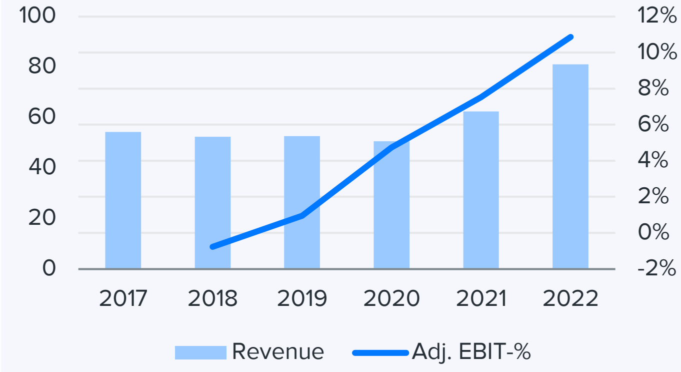
The 2nd largest player on the sauna heater and component market is **Sauna360**, which, like Harvia, focuses more on product manufacturing than building and repairing saunas. In addition to the Tylö and Helo brands, the company's brands include Kastor, Finnleo and Amerec. The company lost market position and sales in previous years, but in 2021-22 it managed to increase its revenue to over EUR 80 million from around EUR 50 million in previous years. The growth has come in particular from the US, where we believe it has grown especially in steam and infrared products (which Harvia does not have much of). In the Nordic countries, however, the company's sales are still on a downward trend. We believe the company is still the market leader in Sweden but Harvia has become a stronger contender even there. Profitability is clearly lower than for Harvia, but with growth, adjusted EBIT rose to around 11% last year.

Sawo is a company established in Finland that manufactures sauna heaters in the Philippines and focuses on low-end and medium-priced sauna heaters and components. The Finnish **Narvi** (revenue close on 12 MEUR in 2022) also sells heaters under the Kota and Aito brands. Narvi is strong in Finland, especially in wood-burning heaters. Narvi was taken over by a venture capitalist last year. The Estonian **Huum** that manufactures design heaters has reached the same size class. Other well-known sauna manufacturers on the Finnish market are **Iki-Kiuas Oy,** the **Mondex brand,** which is part of Protec Oy **and Misa Oy**, whose revenues are, in our opinion, under EUR 5 million.

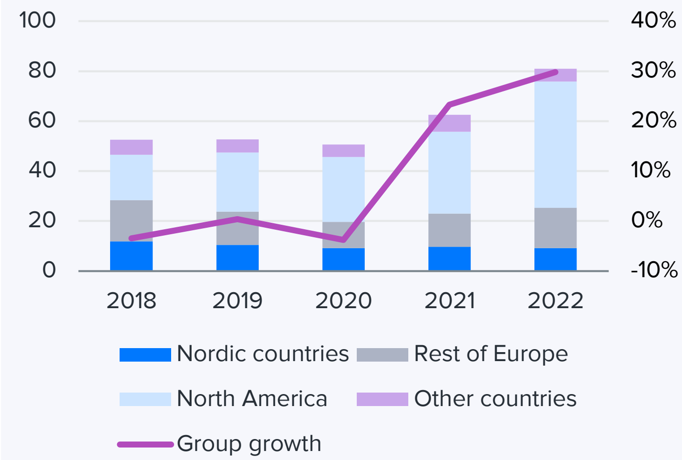
Harvia's profitability is the best among its competitors and its EBIT margin has been around 20% for the past 10 years. Before COVID, Narvi generated an average 5% EBIT margin, but it was barely in the black last year. IKI-Kiuas Oy's EBIT margin has historically fluctuated between 7-12%, but its EBIT was also zero last year and Misa Oy's EBIT margin has been 8% in 2021-22. The competitors' performance shows the tailwind caused by the COVID era and, on the other hand, the challenges of last year for the whole industry. We believe Harvia's strong profitability is due at least to 1) its own component design and production, 2) a strong brand and 3) economies of scale from large volumes.

As a whole, the sauna and spa market is relatively fragmented and a majority of the market consists of small local players. Venture capitalists are also active in the sector. Therefore, we believe that the consolidation of the market will continue. We feel that Harvia will continue complementing its portfolio through acquisitions, especially in the segments that are still missing from its portfolio (e.g. companies with know-how in professional steam and infrared saunas).

Development of Sauna360 group



Development of Sauna360 revenue



Source: Asiakastieto, Inderes

Strategy

Harvia's strategic objectives

Increasing average purchases

- The aim is to sell more heaters with more advanced characteristics and wider sauna packages and to increase sales of higher-price products

Geographical expansion

- Increasing the market share in all markets
- Strengthening the reseller network and improving the availability and visibility of products in the main market
- Utilizing cross selling synergies of acquisitions

Improving productivity

- Optimizing the geographical structure, product range and design of production
- Improving purchasing and logistics efficiency
- Improving capacity utilization and increasing automation

Inderes' comments on Harvia's strategic objectives

- Harvia has expanded to more expensive products (Sentiotec & EOS) and sauna solutions (Almost Heaven Saunas), especially through acquisitions, which has increased the average price of the products in line with the target
- We note that in addition to the average price, the sales margin is important. For example, sauna solutions have a lower margin than Harvia's traditional strengths (heaters, control units)
- We believe Harvia has limited possibilities to directly influence the average purchase of the end customer, as sales are made through distributors

- In recent years Harvia has been successful in increasing its market share both organically and through acquisitions. However, Russian sales ending took one big sauna market from Harvia, thus limiting future potential to some extent
- There are several potential growth markets where we believe Harvia can be more active. We also believe this is one of the key tasks of the new CEO
- However, growing the retail network is slow work
- A strong brand and good products support the expansion potential
- Sales growth can be supported by developing cross-selling of acquisitions.

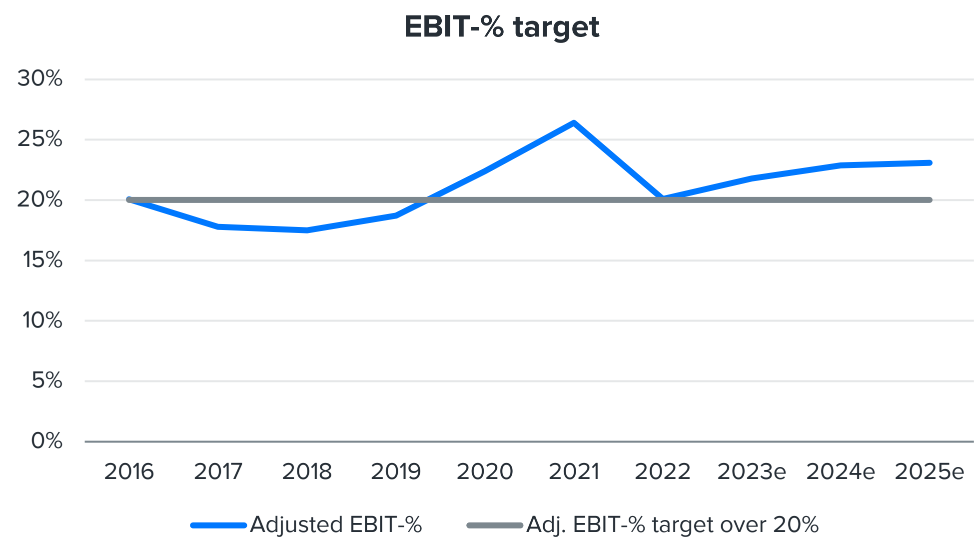
- We believe that improving productivity is a normal part of any company's operations. Harvia has maintained excellent efficiency despite the large volume drop after COVID.
- We believe that the company is exploring the integration of production and structures after numerous acquisitions, which has potential to increase efficiency.
- We believe that Harvia's historically good and steady profitability indicates that its production is on average quite efficient. This is supported by high volumes and a compensation model based on volumes

Source: Inderes

Financial targets

Financial objectives (issued in connection with the IPO in 2018)

Annual revenue growth of over 5% on average	Adjusted EBIT margin over 20%	Net debt/adjusted EBITDA 1.5x-2.5x
• Harvia grew strongly in 2020-21, while in 2022-23 revenue decreased/will decrease • Historic market growth is around 5% p.a., so the target requires slightly faster growth than market growth • We find the growth target to be realistic for Harvia as an average level, and after the demand supported by COVID stabilizes	• Harvia's historic profitability has been on both sides of the 20% target, clearly stronger in the peak year 2021 • We believe that Harvia will continue to be able to achieve the targeted margin level • However, the level is already at the top of the industry and Harvia has expanded its operations in product areas with slightly lower margins. Therefore, we do not find it likely that the target will be raised or clearly exceeded	• Harvia's cash flow is strong and investment needs smallish • Thus, in normal circumstances, the company is able to repay its debt nicely and it is mainly increased by possible acquisitions • Harvia was 1.2x at the end of Q2'23 • We believe that Harvia will remain in the target range, or below it, also in the future. Harvia can keep the balance sheet strong for possible acquisitions



Harvia's key acquisitions

	11/2016 Sentiotec	12/2018 Almost Heaven Saunas	4/2020 EOS	5/2021 Kirami
Revenue	7.4 MEUR (2015)	~8 MEUR (2017)	17.3 MEUR (2019)	22.1 MEUR (5/2020-4/2021)
Profitability	Weaker than Harvia's at time of acquisition (EBITDA <10%)	EBITDA neg. (2017)	Adj. EBIT %: 16.5% (2019)	Adj. EBIT %: 14.1% (5/2020-4/2021)
Deal price	4.5 MEUR	4 MEUR (EV/S ~0.5x)	19.7 MEUR (EV/EBITDA ~8x) + additional purchase price 19 MEUR (7/22) with the same multiple for the last 12 months	7 MEUR + 0-4 MEUR three years after the sale (EV/EBIT 2.3 – 4.8x)
Share of ownership	100%	100%	78.6% of German and 80% of Russian businesses (the remainder of German business acquired in 7/22, Russian operations divested in 3/23)	100%, 50% of Estonian and Swedish companies
Number of personnel	73	Around 40	Around 150	Around 40
Main markets	Central Europe	US	Central and Eastern Europe, Russia	Finland, Central Europe, Scandinavia
Brands	sentiotec	Almost Heaven Saunas	EOS, KUSATEK powered by EOS	KIRAMI
Product selection	Higher price class sauna heaters, control units, sauna rooms and accessories	Lower price class outdoor and indoor saunas (e.g. barrel saunas)	Professional and premium class sauna heaters and steam generators (EOS), gas-operated heaters (Kusatek), control units and electronics (Spatronic)	Still water hot tubs Outdoor saunas (Finvision brand)

Source: Inderes, Harvia – we discuss the value creation of acquisitions on page 32

Past development

Revenue growth has been strong

Until the Sentiotec acquisition in 2016, Harvia's revenue development was quite stable (low one-digit percentages), after which the revenue started growing strongly, in particular through acquisitions.

In 2016 to 2018, Harvia's organic growth was slightly slower than that of the global sauna and spa market being 3 to 4% annually. We estimate that this was caused by the company's heavy exposure to the more slowly growing traditional sauna markets (Finland, Scandinavia and Russia), which in 2018 still generated one-half of the company's revenue. Harvia's strong area, the heater market, also typically grows slightly slower than the market as a whole. Thanks to acquisitions, new product launches, and new distribution channels, the company has, however, been able to expand sales geographically and an increasing share of its revenue now comes from more rapidly growing sauna markets.

However, supported by acquisitions the growth rate was approximately 20% in both 2017 and 2019, after which COVID blew off the top of demand and, partly supported by acquisitions, growth was 47% and 64% in 2020 and 2021. The pace continued as high in Q1'22 but overall it fell by 4% in 2022 and last quarter by about 20%.

Profitability among the best in the industry

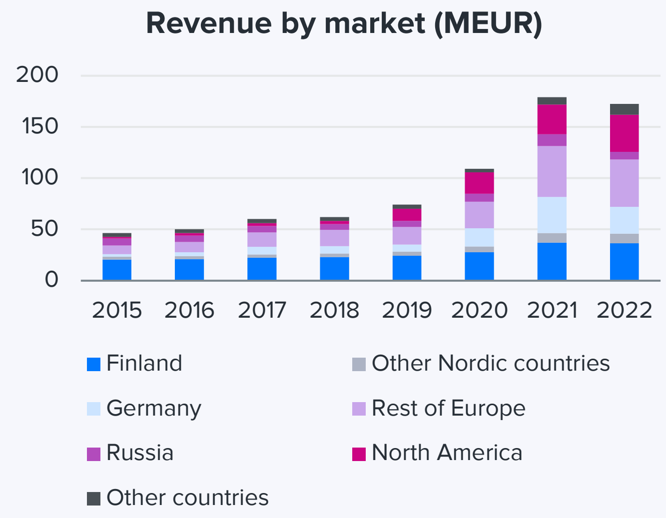
Harvia's profitability is at the top of the industry and it has also been highly stable. The company's excellent profitability has continued for decades. In 2015-2018, Harvia's adjusted EBIT fluctuated in a narrow range (10-11 MEUR) and the company reached on average an adjusted EBIT margin of 18.5%. In 2019, adjusted EBIT improved to EUR 13.9 million as a result of, e.g. the AHS acquisition.

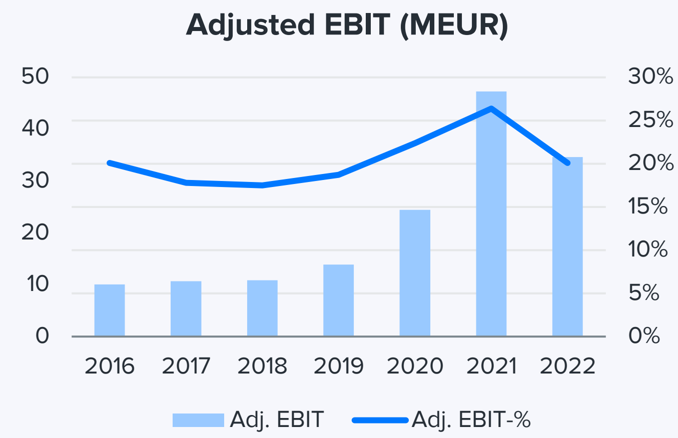
Despite the fact that the companies acquired by Harvia have partly been less profitable than its traditional operations, the profitability trend during 2020-21 has been clearly upward. This was naturally supported by a huge sales increase, which has allowed the company to enjoy positive operational leverage and, according to our assessment, also good pricing when product demand has been high. Harvia also improved the efficiency and expanded the operations of the acquired companies, increasing their margin. The adjusted EBIT margin rose well above the 20% target in 2021 to 26%. As demand weakened, the margin returned to around 20%, but still remained above it in 2022.

Large investments were made during the COVID era

Harvia's annual investment need is typically very low. In 2015-2019 the company only invested EUR 1 million per year (1.5-2.6% of revenue). These investments were mainly maintenance investments. During 2020-21, the company's investment level increased significantly as the company sought to meet the rapidly growing demand. This included investments, e.g., in the Muurame plant and a completely new plant in the US.

In addition to factory investments, Harvia has used its strong cash flow for acquisitions in recent years. Thanks to strong cash flow and earnings development, the balance sheet has nevertheless remained strong and, e.g., net debt/EBITDA is below the company's target range of 1.5-2.5x.





Financial position

Apart from goodwill, the balance sheet is rather light

The main item on the assets side of Harvia's balance sheet is goodwill resulting from structural arrangements and acquisitions, representing good one-third of the balance sheet. Given the company's strong profitability, we see no realistic write-down risk in the near future. As indicated above, Harvia's production structure is rather light and only good 10% of the balance sheet is committed to tangible assets. Significant items include working capital reserves (about 20%) and trade receivables (about 10%). Harvia also had a fair amount of cash at the end of Q2'23.

On the liabilities side, the company's balance sheet is fairly straightforward. Share capital represents almost half, i.e., the equity ratio is strong, while the majority of the other half is non-current interest-bearing debt. Trade payables are about 10%, i.e., about 20% of the balance sheet total is net working capital or 20-25% relative to revenue.

Capital turnover is good

Thanks to the light balance sheet, the company's capital turnover is relatively good, especially if goodwill is removed from capital. This in practice translates to the productivity of the company's operating assets. Thanks to this and a good margin level, the company achieves a value-creating return on capital. In the coming years, the company will be able to grow without significant investments in production capacity, which should make growth very profitable in terms of return on capital and cash flow.

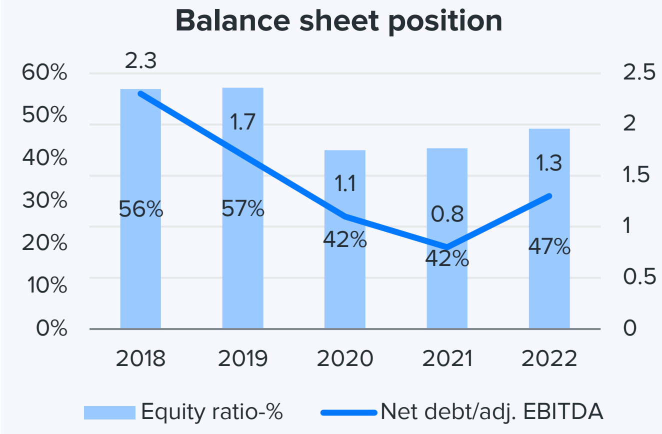
Balance sheet has remained strong despite acquisitions

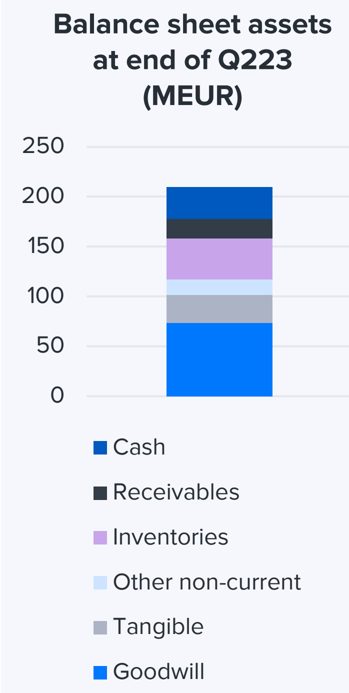
Harvia's balance sheet has been on a strong level since the IPO in 2018 when the company used the collected capital nearly fully to repay shareholder loans. The company's equity ratio has been at a good level of 40-50% in recent years.

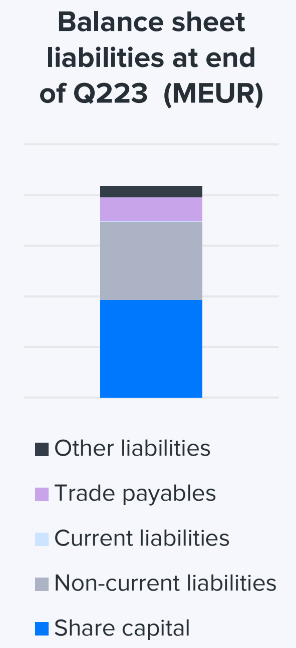
The company's leverage target is to maintain net debt/adjusted EBITDA in the range of 1.5x to 2.5x. Harvia has succeeded well in this goal throughout its time as a listed company, and the ratio has in fact declined steadily. In 2020-21, the ratio was around 1x, supported by strong performance and cash flow, and at the end of 2022 it was 1.3x, i.e. below the target range. However, we expect the company to remain there until acquisitions continue. Thanks to its high profitability and cash flow the company can, if necessary, reduce its debt relatively quickly if, e.g., the debt would increase as a result of an acquisition.

Balance sheet position enables continued acquisitions

A strong balance sheet, good performance and cash flow enable even reasonably sized acquisitions quickly. Within the net debt/EBITDA target, Harvia could currently increases its debt by some EUR 50 million. Looking back, and according to our estimates, the size of potential acquisitions fits well into this figure.







Estimates 1/4

We expect organic development

We model Harvia based on the revenue of its geographical segments and group level gross margin, expenses and, hence, operating profit. We do not include potential future acquisitions in our estimates so they are based on organic development.

The company does not publish a guidance or short-term outlook

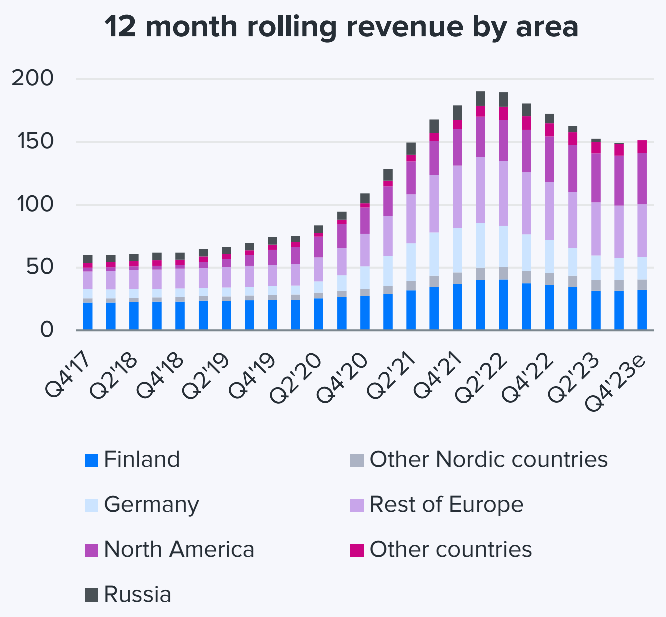
Harvia does not publish a short-term outlook, and thus no earnings or revenue guidance. This year, the company has announced that the market will continue to grow outside Europe while it has been declining in Europe. The company's long-term target is average annual revenue growth of above 5% and over 20% adjusted EBIT margin. The company has stressed that the margin target is valid also during weaker demand, although individual quarters may sometimes fall short of the target. The company has also been able to do this in the latest quarters.

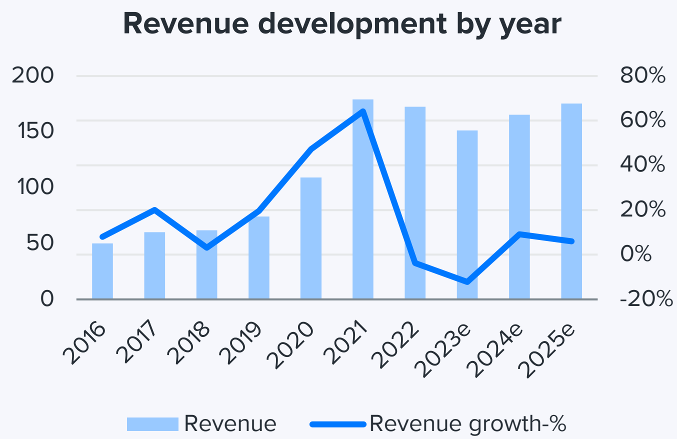
We expect revenue to continue declining in Q3'23

Harvia's revenue made a downturn in Q2'22, as demand from the COVID era subsided, and, on the other hand, accelerating inflation and uncertainty caused by the Russian invasion of Ukraine began to affect consumer demand more widely. Since then, revenue has decreased by some 20% in Q3'22-Q2'23, of which the impact of Russian sales has been around 5%.

We expect revenue development to still be negative in Q3'23 mainly due to demand remaining very weak in Germany and the return of normal seasonality where Q3 is the slowest quarter of the year. Q4, on the other hand, is typically the second-best quarter of the year, and due to already clearly weak comparison figures, we expect Q4'23 revenue to grow by around 5%. We also expect that consumers' purchasing power will stabilize towards the end of the year. At the end of last year and partly at the beginning of this year, distributors were destocking, which pushed Harvia's final demand lower. On the negative side, new construction has slowed down significantly this year, which may be reflected negatively in Harvia's demand toward the end of the year and next year.

For the full year 2023, this means a 12% decrease in revenue or 8% without the effect from Russia (where revenue will no longer be generated in 2023). We expect sales to decrease by 10% in Finland, the Nordic countries and rest of Europe, while we expect Germany to decline by some 30% on top of an almost similar drop last year. In North America, we expect growth to continue at slightly over 10%, and in the other countries segment, we expect 10% growth as Harvia directs the resources released from Russian sales to growth in new markets. We estimate that Harvia's rolling 12-month revenue will be around EUR 150 million, while at its best it was around EUR 190 million. This still represents an average annual growth of around 10% compared to the reported 2019 pro forma revenue (i.e. revenue of the current structure), which was good EUR 100 million.





Estimates 2/4

Back to a growth trend in 2024

In 2024-25, we expect the market to return closer to about 5% trend growth and Harvia to exceed it in line with its financial objectives. The 9% growth we estimate for 2024 will continue to be driven by the North America and other countries segments with 10-15% growth, but we also expect the German market to recover from this year's weak level and forecast growth in all markets.

Gradual growth in the sales of the EOS brand in North America will support the growth in the market area, but we do not expect the expansion of EOS to America to be a significant growth driver for the whole company. The company has said that (also) this market will be entered gradually, so in coming years revenue is likely to be below one million.

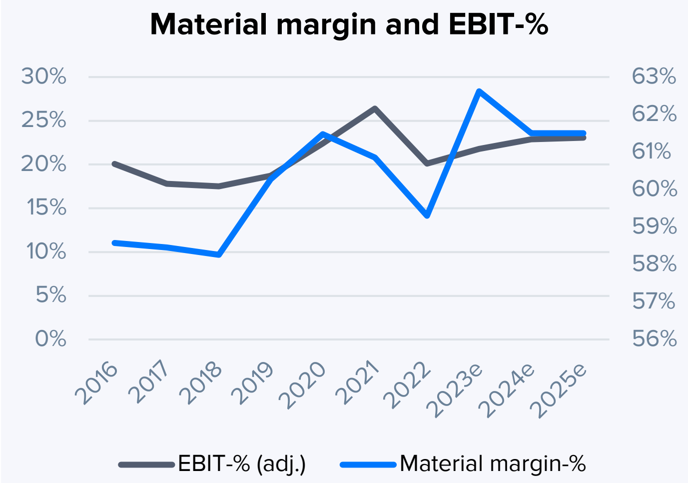
Other countries in the segment, especially Japan, are already important for Harvia and a joint venture with the distribution partner Bergman has just been established, which aims to boost growth by, e.g., opening plenty of new own exhibition rooms. When launched, the joint venture will also slightly increase Harvia's revenue and, on the other hand, costs (this is not yet reflected in our estimates). This market is also progressing gradually, but in the medium term, the company aims to replace sales from Russia with Japan (which pre-COVID was some 6 MEUR/year and at best over 10 MEUR).

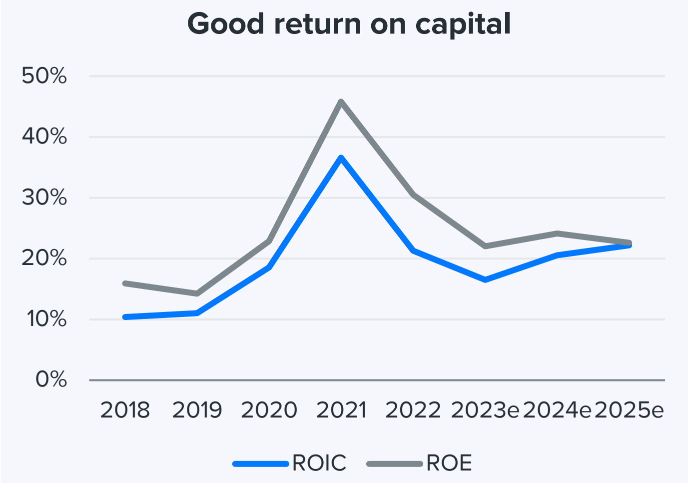
In our opinion, the most obvious risk in terms of estimates is the recovery of the European market that can be slower than we expect, and new growth investments may not yet be clearly reflected in revenue in the short term.

For 2025, we estimate 6% revenue growth, which is still a good pace. As usual, this is driven by the double-digit growth of the North America and other countries segments, with growth in the European market stabilizing at just under 5%.

EBIT margin remain at the target level of above 20%

Harvia's material margin was over 60% in 2019-21, which we believe was supported by favorable pricing due to high demand and fully utilized production. After the high demand stabilized, the material margin in H1'22 was 58.5%, which was also affected by the decrease in sales of the higher-margin heater products. As raw material costs made a downturn, Harvia's material margin was at a record high of 65% in Q2'23. We do not believe that this level is maintained, but the company will still be able to achieve a level of 62%, which is good compared to history. Harvia says that thus far, the market has not had high price pressure and it has no need to reduce prices. Price decreases would probably not create much additional demand, so we feel it would almost directly come out of the company's profitability and thus be a clear negative.





Estimates 3/4

Margin development is, however, also influenced by product group specific revenue development, as the margin in saunas is somewhat weaker than for heaters and components. We do not estimate product groups directly, but the higher relative growth in North America suggests a weakening of the product mix.

While Harvia has been able to keep its margins strong, fixed costs/revenue have increased this year, even though absolute costs have fallen. We expect this trend to turn next year, and revenue growth will thus provide operational leverage and support for profitability. In terms of production, personnel costs are, to some extent, flexible upwards, as mentioned earlier.

This year, we estimate the adjusted EBIT margin to be 21.8%, close to the H1 level. For next year, we expect a slightly lower material margin, but on the other hand, thanks to a lower fixed costs/revenue ratio the result margin will rise to around 23%. We also find this to be a sustainable level on a 3-5-year horizon. Growing revenue in principle brings upside to the margin, but on the other hand, we believe that Harvia will invest in growth, e.g., in new markets that brings frontloaded fixed costs.

EPS and dividend

Harvia's gearing is moderate and thus financial expenses are relatively low, we estimate good EUR 3 million financing costs this year and around EUR 1-2 million net financing costs for 2024-25.

We expect the tax rate to remain at the level of recent times, i.e. some 23% in 2023-25. EPS is somewhat supported by the elimination of minority interests at the end of 2022, when the minority interest in EOS-Germany was redeemed in July 2022 and operations of EOS-Russia ended and the company was divested at the end of 2022.

In our estimates, comparable EPS decreases by about 20% p.a. in 2023 and increases by about 15% p.a. in 2024-25. Thus, in 2025, the level will be roughly the same as in 2022 at around EUR 1.6.

Harvia has traditionally distributed a relatively large proportion of its profits as dividends. However, in connection with the 2021 dividend decision, the company removed the previous target of 'at least 60% of net profit' from its dividend policy and now seeks 'only' growing dividend. Supported by this, the company sensibly decreased the payout ratio clearly for 2021, but nonetheless increased its absolute dividend. As a result, we believe that Harvia will be able to continue the trend of rising dividends, despite the declining result, also in 2022-23. This raises the payout ratio to 50% for 2023. Considering the strong cash flow, a larger payout ratio is also possible.

Balance sheet remains strong also in estimates

Harvia's strong cash flow drives the company's balance sheet to net debt-free during 2025. After the acquisition of the minority stake in EOS in Germany, the additional purchase prices related to previous acquisitions are only a couple of million (mainly Kirami), which are not even likely to materialize, so there will be no significant additional debt either. Therefore, despite the weaker result, the company has excellent conditions to both increase dividend and make acquisitions. If no acquisition targets are found or if the acquisitions are smallish, we believe Harvia can also optimize its balance sheet structure with an extra dividend. However, the company seems to have a clear aim to continue acquisitions and, thus, a significant increase in dividend distribution seems unlikely.

High ROE creates value

The return on capital we expect (ROIC and return on equity, ROE, see image on previous page) for the next few years is around 20-25% for Harvia. As the company's growth requires little capital, capital recycling and return have risen as earnings have grown. We expect the growth trend to continue from 2024 onwards and ROE to remain high, which creates value for owners. In this respect, we see the only clear risk that Harvia would commit its capital to a costly acquisition that would also be reflected in lower return on capital.

The balance sheet turning to net cash in coming years will have some negative impact on ROE. For example, by using assets for successful acquisitions and/or larger dividends, the ROE can be improved. This is also encouraged by the lower limit of Harvia's net debt/adjusted EBITDA target of 1.5x.

Estimates 4/4

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue	**50**	**60**	**62**	**74**	**109**	**179**	**172**	**151**	**165**	**175**
Materials and services	-20	-25	-26	-29	-42	-70	-70	-57	-64	-67
Materials and services (% of revenue)	*-41.4%*	*-41.5%*	*-41.7%*	*-39.7%*	*-38.5%*	*-39.1%*	*-40.7%*	*-37.4%*	*-38.5%*	*-38.5%*
Material margin	**29**	**35**	**36**	**45**	**67**	**109**	**102**	**95**	**102**	**108**
Material margin-%	*58.6%*	*58.5%*	*58.3%*	*60.3%*	*61.5%*	*60.9%*	*59.3%*	*62.6%*	*61.5%*	*61.5%*
Other operating income	0.4	0.2	0.2	0.5	0.4	0.5	0.7	0	0.5	0.5
Personnel costs	-10	-12	-13	-15	-21	-31	-31	-29	-30	-32
Personnel costs (% of revenue)	*-19.8%*	*-20.5%*	*-21.1%*	*-20.1%*	*-19.4%*	*-17.1%*	*-17.9%*	*-19.1%*	*-18.0%*	*-18.0%*
Other operating expenses	-8	-12	-12	-14	-20	-26	-30	-27	-28	-30
Other operating expenses (% of revenue)	*-16.9%*	*-19.7%*	*-18.9%*	*-18.6%*	*-17.9%*	*-14.8%*	*-17.4%*	*-17.8%*	*-17.0%*	*-17.0%*
EBITDA	**11**	**11**	**12**	**16**	**27**	**52**	**42**	**39**	**44**	**47**
EBITDA %	*22.6%*	*18.6%*	*18.6%*	*22.2%*	*24.5%*	*29.3%*	*24.4%*	*25.9%*	*26.8%*	*26.8%*
Depreciation	-1.6	-1.9	-2.2	-3.1	-4.3	-5.8	-7.5	-6.3	-6.5	-6.5
Adjusted EBIT	**10**	**11**	**11**	**14**	**24**	**47**	**34.6**	**33**	**38**	**40**
EBIT-% (adjusted)	*20.1%*	*17.8%*	*17.5%*	*18.7%*	*22.4%*	*26.4%*	*20.1%*	*21.8%*	*22.9%*	*23.1%*

Valuation and recommendation 1/3

Recent earnings fluctuation creates a challenge for valuation

Harvia has historically been a fairly evenly growing quality company. This enables the use of both the DCF model and earnings-based valuation, and also makes dividend yield more predictable. The rapid growth during the COVID era and the decline in earnings in 2022-23 still poses some challenges to valuation. However, the situation is becoming clearer in this respect when we have seen the rough level at which revenue and profitability will stabilize in the current situation. We believe, however, that making assumptions concerning Harvia is still more difficult than, e.g., some five years ago. Our expected return looks at the profit and cash flow levels and their growth, dividends and possible changes in valuation multiples for the next few years.

The risk/return ratio is on the positive side and we find the long-term outlook good

We estimate that Harvia's revenue will still decrease in Q3'23 until easier comparison figures provide an opportunity to turn back to growth. However, due to the good margin, we expect the result to be at the comparison level already in Q3.

In terms of valuation, the P/E 20x and EV/EBIT 15x estimated for 2023 are, in our view, slightly elevated, although acceptable, considering it is the weakest result for the coming years. We consider the 2024 multiples (P/E 16x, EV/EBIT 12x) to be relatively cheap. However, we do not expect a significant margin improvement after 2024, and thus earnings growth is mainly limited to approximately 5% revenue growth.

Harvia's valuation for this year is slightly below the peer group, but above it next year. In this respect, Harvia's valuation seems relatively correct, although we do not see the peer group as directly comparable to Harvia.

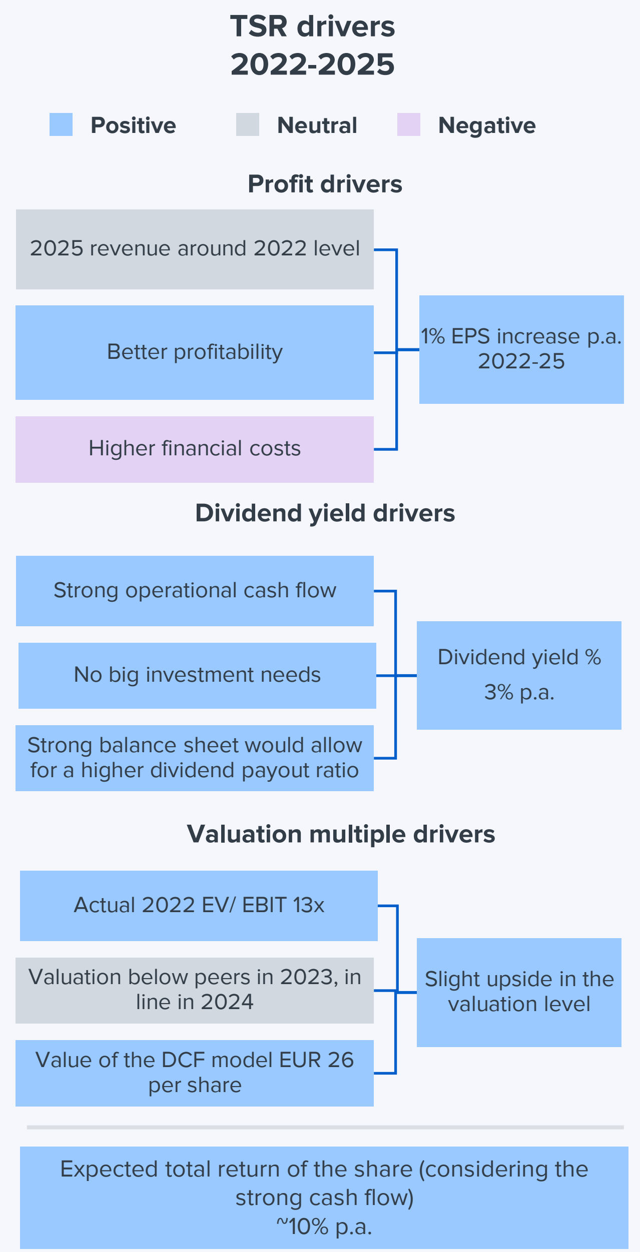
Examined through earnings growth and dividend we currently reach an expected return of 5-10%. However, it should be noted that with our estimates, Harvia's net debt/EBITDA falls below one this year, while the target is 1.5-2.5x. This allows for, or almost requires, either larger profit distribution or acquisitions from the company, which we feel support the expected return. In our opinion, Harvia seeks acquisitions in the future.

DCF model

Due to the stable industry, steady growth and relatively easily predictable business, the DCF model is, in our opinion, a relevant valuation method for Harvia.

We expect the revenue and earnings growth to slow down from 6% to 2.5% in 2026-2032 (EBIT margin of 22-23%), which is our growth assumption in the terminal period. The terminal growth assumption increased by 0.5 percentage points in this report.

We expect the investment level to remain moderate throughout the decade, as Harvia has carried out significant investments in 2021, which allows it to grow. The company's capital requirement is generally low and the return on capital is high, which enables strong cash flow and growth. So the expected growth can, in our opinion, be generated even with small investments.



Source: Inderes

Valuation 2/3

As the required return (WACC) we use 8.7%. A large proportion (about 55%) of cash flows will only be generated after 2032, i.e. during the terminal period.

Our DCF model gives Harvia a debt-free value of about EUR 560 million, which means that the share capital is worth about EUR 490 million, or about EUR 26 per share.

Earnings-based valuation

Harvia's EV/EBIT valuation is approximately 15x with 2023 earnings. It is not a low level but considering that this is the weakest level of the coming years we find the valuation acceptable/cheap. The 2024 EV/EBIT is 12x, which looks cheap. Harvia's historical valuation has been clearly higher, but it is mainly due to the multiples of 2020-21 caused by the tremendous growth and share price rise. Considering the over 20% return on capital, Harvia's EV/EBIT could be higher and the rapidly strengthening balance sheet provides opportunities for acquisitions and/or larger dividends.

With the P/E ratio, Harvia is priced at 20x with 2023 earnings, which translates into an earnings return of 5%. The valuation is not cheap but considering the level of cash flow and capital return and the growth outlook, not particularly expensive either. With the current share price and a gradually rising 40-50% payout ratio, Harvia offers a dividend yield of some 3%.

We estimate that Harvia's free cash flow will be EUR 30-35 million in the next few years, which at the current share price offers a cash-flow rate of approximately 7%. Because we believe that Harvia can achieve an earnings growth of about 5% in the coming years, the expected return is over 10% p.a.

Valuation compared to the peer group

It is difficult to find similar listed peer companies for Harvia as there is, in practice, no relevant company that focuses on manufacturing sauna heaters and sauna equipment. We have used international listed companies in the peer group that each in their own characteristics are somehow similar to Harvia. Common features can be found in the same geographical business area, similar production and distribution strategy, growth and profitability profiles, etc.

As Finnish peers among consumer product companies we have chosen Nokian Tyres, Rapala and Tulikivi, which also sells heaters. As Swedish peers we have chosen, e.g. Thule that manufactures roof racks, Dometic that manufactures air conditioning and electronic equipment, Electrolux that manufactures appliances and Nibe that manufactures heat pumps. Other peer companies include, e.g. home ware manufacturer De'Longhi and exercise equipment manufacturer Technogym.

The median EV/EBIT of the peer group for 2023 is 15.5 and the P/E is 20x. With 2024 figures, Harvia's valuation is slightly higher than the peer group's. However, for the next few years, the valuation is roughly in line with the peers. The dividend yield of the peer group is in the same ballpark as Harvia's. Due to the differences in the peer group, we do not feel its valuation is directly applicable to Harvia, but it does not currently give a strong signal that Harvia is over- or undervalued.

Valuation	2023e	2024e	2025e
Share price	24.0	24.0	24.0
Number of shares, millions	18.7	18.7	18.7
Market cap	448	448	448
EV	485	467	449
P/E (adj.)	19.6	16.0	14.9
P/E	19.8	16.0	14.9
P/B	4.1	3.6	3.2
P/S	3.0	2.7	2.6
EV/Sales	3.2	2.8	2.6
EV/EBITDA	12.4	10.5	9.6
EV/EBIT (adj.)	14.6	12.4	11.1
Payout ratio (%)	53.6 %	44.7 %	43.5 %
Dividend yield-%	2.7 %	2.8 %	2.9 %

Source: Inderes

Valuation 3/3

The sale of Harvia's unlisted competitor Sauna 360 to US Masco in July 2023 offers one approach to the valuation. The EV/S ratio for the transaction was 1.5x and EV/EBIT was around 14x with last year's figures, while Harvia's corresponding ratios are 2.8x and 13x. Harvia's clearly higher EV/S ratio is due to better profitability. So the valuation level (EV/EBIT) of the transaction indicates that Harvia's multiples are roughly correct, although the companies are different in many respects.

Previous acquisitions seem successful

Harvia has been relatively active in acquisitions and will continue to pursue them in the future. The company has also clearly succeeded in developing them and been able to improve the profitability of the acquired targets. For example, Sentiotec and Almost Heaven Saunas acquired years ago have been brought to a much better profitability level by bringing Harvia's know-how of different processes to the acquired companies and by utilizing the organization of the acquired companies to sell Harvia's products. Since the purchase prices for these acquisitions were only EUR 4-5 million, it can be said that they have been value generating acquisitions for Harvia.

For recent acquisitions (EOS, Kirami), the demand boom generated by COVID is blurring the company's own contribution to the improved performance. Despite this, if we estimate that EOS will be able to generate at least EUR 20 million in revenue (17 MEUR reported in 2019) and Harvia's typical profitability of 20%, the EV/EBIT multiple on the deal price would be 10x. This despite the fact that Harvia had to pay a relatively large amount for the German minority holding compared to the original purchase price. For Kirami, the timing of the transaction was clearly not optimal at the peak of COVID demand. On the other hand, the transaction price was very low compared to the strong results of the COVID period, so financially we believe the transaction is still reasonable. At least last year, Kirami achieved a positive operating result, considering which, the purchase price is reasonable. Overall, we believe that capital allocation to acquisitions has been successful and created value.

We see acquisitions as an opportunity

As a whole, we see that Harvia's acquisitions have been successful and thus the company will continue to have an opportunity to create value with them. As we mentioned earlier, complementing the product category, particularly in infrared and steam saunas, would seem the most logical targets for potential acquisitions in our opinion. Of course, integration to the sauna production side in the style of the Almost Heaven Saunas acquisition would also be logical for Harvia's strategy.

In terms of the product portfolio, it would be natural for Harvia to buy know-how in infrared and/or steam saunas, where its position is still modest. We believe that there have been several transactions on the steam sauna side in recent years, so it may be that in the short-term potential targets have already changed ownership. In infrared saunas, most of the major players have outsourced sauna production, making it difficult to stand out/increase efficiency on that side. The sales arguments for infrared saunas and the use of the products are also somewhat different from Harvia's current product portfolio. In terms of infrared, we believe that direct synergies/efficiency improvement possibilities are smaller than in, e.g., the Sentiotec or Almost Heaven Saunas acquisitions. In these, Harvia brought its own expertise to the acquired companies and, on the other hand, gained a stronger foothold in the markets of these companies, which resulted in a clear improvement in the acquired companies.

Harvia has significantly increased its own production capacity in recent years, so in this respect we feel it has no needs that could be met with acquisitions.

Reasonable expected return in the longer term

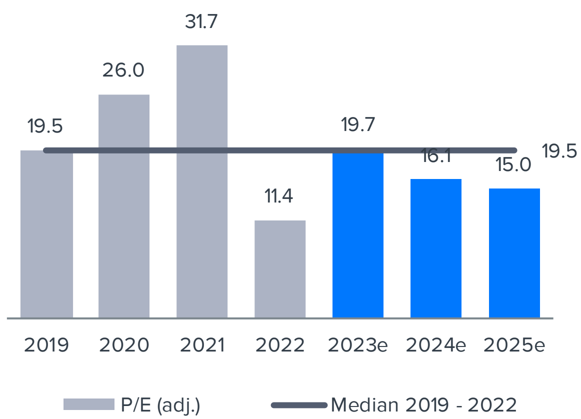
We believe that after this year's drop, Harvia will return to a growing revenue path of about 5%, or slightly above in line with its objective. We also believe that the target EBIT margin of over 20% can be achieved in future, although not the top level of 25%. From this we derive a medium-term earnings growth expectation of good 5%. When we add the dividend yield of some 3%, the total return is good 8%, i.e. roughly in line with our required return. When the normalization of Harvia's earnings level after COVID is soon over, the risk level of achieving this return falls clearly in our opinion compared to the earlier uncertain situation.

Valuation table

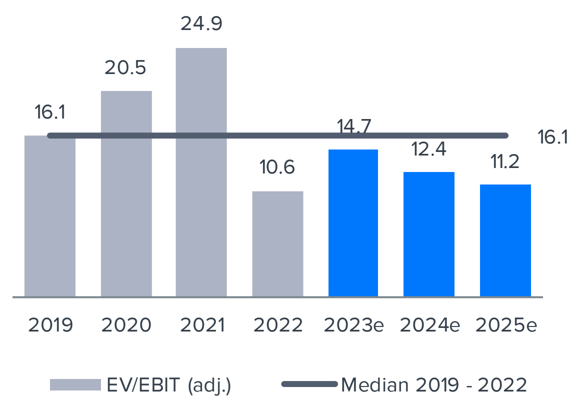
Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	6.10	10.6	24.5	58.7	17.7	**24.2**	**24.2**	**24.2**	**24.2**
Number of shares, millions	16.7	18.7	18.6	18.6	18.7	**18.7**	**18.7**	**18.7**	**18.7**
Market cap	102	198	457	1091	330	**451**	**451**	**451**	**451**
EV	132	224	503	1181	388	**488**	**471**	**453**	**434**
P/E (adj.)	12.3	19.5	26.0	31.7	11.4	**19.7**	**16.1**	**15.0**	**14.1**
P/E	15.0	20.6	29.5	32.4	12.2	**19.9**	**16.1**	**15.0**	**14.1**
P/B	1.5	2.9	6.9	13.5	3.4	**4.2**	**3.6**	**3.2**	**2.8**
P/S	1.6	2.7	4.2	6.1	1.9	**3.0**	**2.7**	**2.6**	**2.4**
EV/Sales	2.1	3.0	4.6	6.6	2.3	**3.2**	**2.8**	**2.6**	**2.3**
EV/EBITDA	11.4	13.6	18.8	22.5	9.2	**12.4**	**10.6**	**9.7**	**8.9**
EV/EBIT (adj.)	12.2	16.1	20.5	24.9	10.6	**14.7**	**12.4**	**11.2**	**10.0**
Payout ratio (%)	91.1 %	74.0 %	61.5 %	33.1 %	44.0 %	**53.6 %**	**44.7 %**	**43.5 %**	**60.0 %**
Dividend yield-%	6.1 %	3.6 %	2.1 %	1.0 %	3.6 %	**2.7 %**	**2.8 %**	**2.9 %**	**4.2 %**

Source: Inderes

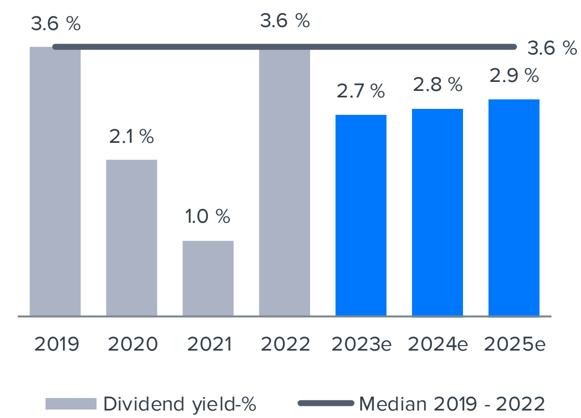
P/E (adj.)



EV/EBIT



Dividend yield-%



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**
Thule Group AB	2576	2799	20.0	16.2	17.4	14.4	3.5	3.1	24.9	19.9	2.9	3.6	4.2
Nobia AB	118	473	47.9	13.7	5.5	4.5	0.4	0.4	35.7	14.6	6.1	8.0	0.3
Dometic Group AB	1834	3136	12.3	10.9	8.7	8.0	1.3	1.3	14.1	11.3	2.4	3.2	0.8
Nokian Tyres plc	1112	1331	16.6	11.8	6.2	5.3	1.0	0.9	109.6	16.9	4.6	5.6	0.8
Rapala VMC Oyj	121	233	46.6	13.3	14.6	8.6	1.0	0.9		15.9	1.0	1.9	0.9
Husqvarna AB	4135	5160	12.5	10.8	7.8	7.1	1.1	1.1	15.9	13.0	3.6	3.8	2.0
Inwido AB	512	599	8.1	8.3	5.9	5.9	0.8	0.8	10.0	10.6	6.1	5.8	1.1
Nibe Industrier AB	13245	14052	22.3	19.5	18.1	15.8	3.5	3.1	29.1	25.4	1.0	1.1	4.9
Technogym SpA	1595	1524	14.7	12.4	10.1	8.8	1.9	1.7	20.3	16.9	3.4	3.5	4.3
Rockwool A/S	4958	4982	10.6	10.6	7.0	7.0	1.4	1.4	13.9	13.9	2.3	2.4	1.8
Kingspan Group PLC	13338	15000	18.0	17.2	14.4	13.8	1.8	1.8	20.9	20.1	0.7	0.7	3.5
Electrolux AB	2771	5176	20.9	9.5	7.1	5.0	0.5	0.4	26.7	8.8	2.6	5.5	1.9
De' Longhi SpA	3520	3336	11.7	10.0	8.5	7.5	1.1	1.1	16.8	14.5	2.4	2.7	2.2
Tulikivi	28	36	5.2	9.0	4.0	5.2	0.7	0.8	6.0	9.6	4.2	6.2	1.5
Harvia (Inderes)	**451**	**488**	**14.7**	**12.4**	**12.4**	**10.6**	**3.2**	**2.8**	**19.7**	**16.1**	**2.7**	**2.8**	**4.2**
Average			**19.1**	**12.4**	**9.7**	**8.3**	**1.4**	**1.3**	**26.4**	**15.1**	**3.1**	**3.9**	**2.1**
Median			**15.6**	**11.3**	**8.1**	**7.3**	**1.1**	**1.1**	**20.3**	**14.5**	**2.8**	**3.5**	**1.8**
Diff-% to median			***-6%***	***10%***	***53%***	***46%***	***192%***	***165%***	***-3%***	***11%***	***-3%***	***-22%***	***130%***

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	**179**	**50.8**	**46.0**	**37.4**	**38.1**	**172**	**41.4**	**35.8**	**34.1**	**40.1**	**151**	**165**	**175**	**186**
Finland	36.9	11.7	10.4	7.0	7.4	36.4	9.7	7.8	6.9	8.1	32.4	34.1	35.1	36.1
Other Nordic countries	9.4	2.1	2.6	2.3	2.5	9.5	1.9	1.9	2.0	2.5	8.3	8.7	9.0	9.3
Germany	35.4	8.6	6.4	5.7	5.4	26.1	4.6	3.7	4.0	5.4	17.7	20.4	21.4	22.5
Rest of Europe	49.7	13.4	12.0	10.7	10.3	46.4	11.3	9.8	10.2	10.9	42.1	44.2	46.0	47.8
Rusia	11.5	2.3	2.6	1.7	0.9	7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North America	29.1	9.6	8.9	7.9	9.7	36.1	11.1	10.3	8.7	10.7	40.7	46.9	51.5	56.7
Other countries	7.2	3.2	3.1	2.2	2.0	10.4	2.7	2.3	2.4	2.6	10.1	11.1	12.2	13.4
EBITDA	**52.5**	**13.7**	**10.4**	**8.9**	**9.2**	**42.2**	**10.8**	**9.3**	**8.6**	**10.5**	**39.2**	**44.3**	**46.7**	**48.7**
Depreciation	-5.8	-1.6	-1.6	-1.6	-2.6	-7.5	-1.6	-1.5	-1.6	-1.6	-6.3	-6.5	-6.3	-5.5
EBIT (excl. NRI)	**47.4**	**12.1**	**8.6**	**7.8**	**8.0**	**36.5**	**9.3**	**8.0**	**7.0**	**8.9**	**33.2**	**37.8**	**40.4**	**43.3**
EBIT	**46.6**	**12.1**	**8.7**	**7.3**	**6.6**	**34.7**	**9.2**	**7.8**	**7.0**	**8.9**	**33.0**	**37.8**	**40.4**	**43.3**
Net financial items	-1.5	0.7	1.0	1.1	-0.8	2.1	-0.9	-0.9	-0.8	-0.8	-3.4	-1.5	-1.5	-1.8
PTP	**45.2**	**12.8**	**9.8**	**8.4**	**5.9**	**36.8**	**8.3**	**6.9**	**6.2**	**8.1**	**29.6**	**36.3**	**39.0**	**41.5**
Taxes	-10.4	-3.2	-2.0	-1.9	-1.7	-8.7	-2.0	-1.7	-1.4	-1.9	-6.9	-8.4	-9.0	-9.5
Minority interest	-1.1	-0.4	-0.4	-0.2	-0.1	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**33.7**	**9.2**	**7.4**	**6.3**	**4.1**	**27.1**	**6.3**	**5.3**	**4.8**	**6.3**	**22.6**	**28.0**	**30.0**	**31.9**
EPS (adj.)	**1.85**	**0.50**	**0.39**	**0.37**	**0.30**	**1.55**	**0.34**	**0.29**	**0.26**	**0.33**	**1.23**	**1.50**	**1.61**	**1.71**
EPS (rep.)	**1.81**	**0.50**	**0.40**	**0.34**	**0.22**	**1.45**	**0.34**	**0.28**	**0.26**	**0.33**	**1.21**	**1.50**	**1.61**	**1.71**

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	64.2 %	28.2 %	-1.8 %	-18.9 %	-18.0 %	-3.8 %	-18.6 %	-22.2 %	-8.9 %	5.3 %	-12.2 %	9.2 %	6.0 %	6.1 %
Adjusted EBIT growth-%	93.8 %	8.7 %	-34.9 %	-34.0 %	-29.0 %	-23.1 %	-22.9 %	-7.5 %	-9.7 %	11.1 %	-9.0 %	13.8 %	7.0 %	6.9 %
EBITDA-%	29.3 %	27.0 %	22.5 %	23.8 %	24.1 %	24.5 %	26.0 %	26.0 %	25.3 %	26.2 %	25.9 %	26.8 %	26.7 %	26.2 %
Adjusted EBIT-%	26.5 %	23.8 %	18.7 %	20.8 %	21.1 %	21.2 %	22.5 %	22.2 %	20.6 %	22.2 %	21.9 %	22.9 %	23.1 %	23.3 %
Net earnings-%	18.8 %	18.2 %	16.1 %	16.9 %	10.9 %	15.7 %	15.3 %	14.7 %	14.0 %	15.6 %	14.9 %	16.9 %	17.1 %	17.2 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**119**	**118**	**115**	**112**	**109**
Goodwill	73.7	73.4	73.4	73.4	73.4
Intangible assets	12.7	10.5	10.7	10.9	11.1
Tangible assets	28.0	29.2	26.0	22.5	19.5
Associated companies	0.7	0.0	0.0	0.0	0.0
Other investments	2.6	3.9	3.9	3.9	3.9
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	1.5	1.4	1.4	1.4	1.4
Current assets	**82.2**	**90.3**	**101**	**103**	**104**
Inventories	46.1	45.3	37.9	39.7	42.0
Other current assets	0.1	1.0	1.0	1.0	1.0
Receivables	20.4	18.7	19.7	21.5	22.8
Cash and equivalents	15.5	25.3	42.7	40.6	38.6
Balance sheet total	**201**	**209**	**217**	**215**	**214**

Source: Inderes

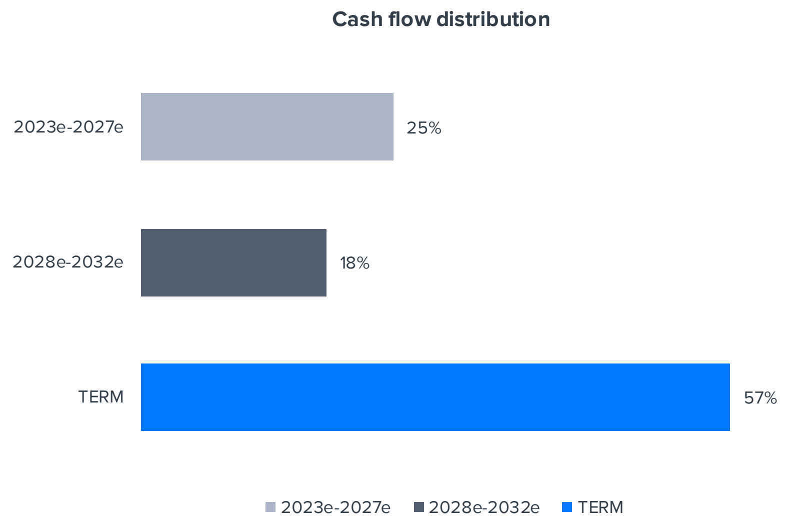
Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**84.1**	**98.4**	**109**	**125**	**142**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	47.9	63.8	74.5	90.3	108
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	32.6	33.4	33.4	33.4	33.4
Minorities	3.6	1.1	1.1	1.1	1.1
Non-current liabilities	**84.9**	**84.6**	**82.3**	**63.3**	**43.8**
Deferred tax liabilities	2.3	1.7	1.7	1.7	1.7
Provisions	0.3	2.0	2.0	2.0	2.0
Long term debt	56.4	77.3	75.0	56.0	36.5
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	25.9	3.6	3.6	3.6	3.6
Current liabilities	**32.4**	**25.8**	**25.2**	**26.6**	**27.5**
Short term debt	0.0	2.6	0.0	0.0	0.0
Payables	24.6	18.7	21.2	23.1	24.5
Other current liabilities	7.7	4.5	4.0	3.5	3.0
Balance sheet total	**201**	**209**	**217**	**215**	**214**

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	-3.8 %	-12.2 %	9.2 %	6.0 %	6.1 %	5.5 %	5.0 %	4.0 %	3.5 %	3.0 %	2.5 %	2.5 %
EBIT-%	20.1 %	21.8 %	22.9 %	23.1 %	23.3 %	23.0 %	23.0 %	23.0 %	23.0 %	22.0 %	22.0 %	22.0 %
EBIT (operating profit)	**34.7**	**33.0**	**37.8**	**40.4**	**43.3**	**45.1**	**47.3**	**49.2**	**51.0**	**50.2**	**51.5**	
+ Depreciation	7.5	6.3	6.5	6.3	5.5	5.0	4.8	4.7	4.8	4.4	4.7	
- Paid taxes	-9.2	-6.9	-8.4	-9.0	-9.5	-10.2	-10.9	-11.3	-11.7	-11.6	-11.9	
- Tax, financial expenses	0.5	-0.8	-0.3	-0.3	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	
+ 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	-7.5	8.5	-2.2	-2.8	-2.4	-2.4	-2.3	-1.9	-1.7	-1.5	-1.3	
Operating cash flow	**26.0**	**39.9**	**33.4**	**34.6**	**36.3**	**37.4**	**39.0**	**40.7**	**42.3**	**41.5**	**43.0**	
+ Change in other long-term liabilities	-20.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-7.4	-3.2	-3.2	-3.6	-4.0	-4.4	-4.8	-5.2	-5.5	-5.8	-5.8	
Free operating cash flow	**-2.0**	**36.7**	**30.2**	**31.1**	**32.4**	**33.0**	**34.2**	**35.6**	**36.8**	**35.7**	**37.2**	
+/- Other	-4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-6.0	36.7	30.2	31.1	32.4	33.0	34.2	35.6	36.8	35.7	37.2	668
Discounted FCFF		**35.9**	**27.3**	**25.9**	**24.9**	**23.5**	**22.5**	**21.6**	**20.7**	**18.5**	**17.9**	**321**
Sum of FCFF present value		559	523	496	470	445	422	399	378	357	338	321
Enterprise value DCF		**559**										
- Interest bearing debt		-79.9										
+ Cash and cash equivalents		25.3										
-Minorities		-4.6										
-Dividend/capital return		-11.9										
Equity value DCF		**488**										
Equity value DCF per share		**26.2**										

WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	10.0 %
Cost of debt	5.0 %
Equity Beta	1.3
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**8.7 %**
Weighted average cost of capital (WACC)	**8.2 %**

Source: Inderes



Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	109.1	179.1	172.4	**151.4**	**165.3**
EBITDA	26.7	52.5	42.2	**39.2**	**44.3**
EBIT	22.4	46.6	34.7	**33.0**	**37.8**
PTP	20.3	45.2	36.8	**29.6**	**36.3**
Net Income	15.5	33.7	27.1	**22.6**	**28.0**
Extraordinary items	-2.1	-0.8	-1.8	**-0.2**	**0.0**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	165.6	201.5	208.7	**216.6**	**214.9**
Equity capital	68.9	84.1	98.4	**109.1**	**124.9**
Goodwill	71.0	73.7	73.4	**73.4**	**73.4**
Net debt	29.1	40.9	54.6	**32.3**	**15.4**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	26.7	52.5	42.2	**39.2**	**44.3**
Change in working capital	2.5	-21.3	-7.5	**8.5**	**-2.2**
Operating cash flow	25.8	21.1	26.0	**39.9**	**33.4**
CAPEX	-23.9	-21.9	-7.4	**-3.2**	**-3.2**
Free cash flow	14.1	9.4	-6.0	**36.7**	**30.2**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	4.6	6.6	2.3	**3.2**	**2.8**
EV/EBITDA (adj.)	18.8	22.5	9.2	**12.4**	**10.6**
EV/EBIT (adj.)	20.5	24.9	10.6	**14.7**	**12.4**
P/E (adj.)	26.0	31.7	11.4	**19.7**	**16.1**
P/B	6.9	13.5	3.4	**4.2**	**3.6**
Dividend-%	2.1 %	1.0 %	3.6 %	**2.7 %**	**2.8 %**

Source: Inderes

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	0.83	1.81	1.45	**1.21**	**1.50**
EPS (adj.)	0.94	1.85	1.55	**1.23**	**1.50**
OCF / share	1.38	1.14	1.39	**2.14**	**1.79**
FCF / share	0.76	0.51	-0.32	**1.97**	**1.62**
Book value / share	3.56	4.33	5.21	**5.78**	**6.63**
Dividend / share	0.51	0.60	0.64	**0.65**	**0.67**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	47%	64%	-4%	**-12%**	**9%**
EBITDA growth-%	62%	97%	-20%	**-7%**	**13%**
EBIT (adj.) growth-%	76%	94%	-23%	**-9%**	**14%**
EPS (adj.) growth-%	74%	97%	-16%	**-21%**	**22%**
EBITDA-%	24.5 %	29.3 %	24.5 %	**25.9 %**	**26.8 %**
EBIT (adj.)-%	22.4 %	26.5 %	21.2 %	**21.9 %**	**22.9 %**
EBIT-%	20.5 %	26.0 %	20.1 %	**21.8 %**	**22.9 %**
ROE-%	22.9 %	45.8 %	30.5 %	**22.0 %**	**24.1 %**
ROI-%	19.4 %	35.2 %	21.8 %	**18.2 %**	**20.7 %**
Equity ratio	41.6 %	41.8 %	47.1 %	**50.4 %**	**58.1 %**
Gearing	42.2 %	48.7 %	55.5 %	**29.6 %**	**12.3 %**

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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
11/26/2020	Buy	22.00 €	19.10 €
2/12/2021	Accumulate	33.00 €	30.00 €
4/18/2021	Buy	45.00 €	33.65 €
5/6/2021	Accumulate	47.00 €	42.25 €
5/31/2021	Accumulate	52.00 €	46.05 €
7/17/2021	Accumulate	62.00 €	58.20 €
8/12/2021	Accumulate	64.00 €	59.00 €
9/2/2021	Buy	64.00 €	53.30 €
11/5/2021	Accumulate	65.00 €	60.00 €
Analyst changed			
1/27/2022	Buy	57.00 €	44.20 €
2/10/2022	Buy	51.00 €	39.20 €
3/11/2022	Buy	42.00 €	34.15 €
5/5/2022	Buy	42.00 €	32.22 €
7/20/2022	Accumulate	27.00 €	24.00 €
Analyst changed			
8/12/2022	Accumulate	22.00 €	19.93 €
9/9/2022	Buy	20.00 €	15.23 €
11/4/2022	Buy	20.00 €	15.46 €
12/19/2022	Accumulate	21.00 €	18.33 €
2/10/2023	Reduce	22.00 €	22.10 €
5/5/2023	Reduce	24.00 €	25.06 €
5/29/2023	Accumulate	24.00 €	22.14 €
8/11/2023	Accumulate	24.00 €	22.00 €
9/13/2023	Accumulate	25.50 €	24.00 €

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