Lindex Group

Company report

10/28/2024 09:30 am EET

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Inderes corporate customer

This report is a summary translation of the report "Heikko tulos, rakennemuutos tuo potentiaalia" published on 10/28/2024 at 8:15 am EET.

Poor result, restructuring brings potential

Lindex's Q3 results were weak as logistical challenges and a weak market environment weighed on earnings. The upper end of the guidance was lowered and the company now expects full-year adjusted EBIT to be in the range of 70-80 MEUR. Our forecast is 68 MEUR. Despite weaker-than-expected near-term results, we reiterate our Buy recommendation on Lindex as we believe the company will announce the divestment of its department stores in the coming months, which should support the stock.

Weak Q3 results with lower revenue and profit in Lindex segment

In the third quarter, Lindex Group and Lindex segment revenues decreased by 2% or slightly more in local currencies, both below our expectations. According to the company, this was due to logistical challenges and warm weather. The Stockmann division's revenue decreased by 3%, in line with our expectations. The Lindex division's adjusted EBIT was 21 MEUR, well below our expectations (27 MEUR) and the comparison period (26 MEUR). This was due to weaker sales, gross margin pressure from larger sales campaigns and slightly higher-than-expected fixed costs. The Stockmann segment's result was broadly in line with our expectations and at the level of the comparison period (-5 MEUR). In addition to weak EBIT, EPS were negatively impacted by significantly higher-than-expected taxes.

Top end of the guidance lowered; our forecast fell below guidance

Lindex revisited its guidance and lowered its upper ends. In 2024, the company now expects revenue to change by -2% to 0% in local currencies (previously +/- 2%) and adjusted EBIT to be 70-80 MEUR. In January-September, net sales decreased by 2.2% in local currencies and adjusted EBIT decreased by 11 MEUR, so the guidance suggests/requires a relatively better performance in Q4 than in the first half of the year. We lowered our forecasts after a weak Q3 result. We now expect adjusted EBIT in 2024 to be below guidance at 68 MEUR and also significantly below the comparison period (80 MEUR). We have also lowered our EBIT forecasts for 2025-26 slightly. Higher taxes significantly reduced net income forecasts.

Restructuring process continues, but results of strategic review still promised this year

Since the spring, the company has only one disputed claim (LähiTapiola) related to the restructuring process, for which a district court decision in favor of Lindex was issued on the day of the Q3 results. However, the actual dispute over the arbitration ruling is still pending in court. As a result, the completion of the restructuring process may be delayed until the middle of next year, although Lindex will of course try to reach an agreement with LähiTapiola as soon as possible. However, the results of the strategic review of the Stockmann division were promised to be announced this year. In our view, this suggests that the timetable is not linked to the completion of the restructuring, which we believe would facilitate its implementation. We believe the company will announce the divestment of the department stores in the coming months, which should have a clear positive impact on the stock.

The potential of the restructuring offers a good expected return

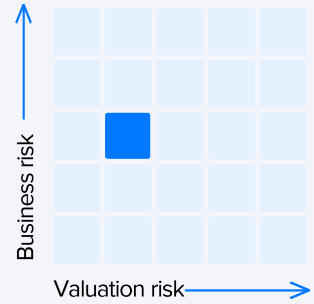
Based on the company's strategic assessment of the department store business, we believe that the sum-of-the-parts model is the best valuation method, which values the company at around EUR 4 per share. However, this should consider the uncertainties related to the manner and schedule of the possible structural changes in department stores. Overall, however, we think the expected return is good. With the current structure, the company's 2024 EV/EBIT is around 12x, which we think is relatively high, so the upside is mainly in potential restructuring.

Recommendation

Buy
(was Buy)

EUR 3.50
(was EUR 3.50)

Share price:
2.77



Key figures

	2023	2024e	2025e	2026e
Revenue	952	941	960	970
growth-%	-3%	-1%	2%	1%
EBIT adj.	80	68	75	80
EBIT-% adj.	8.4 %	7.2 %	7.8 %	8.2 %
Net Income	52	10	25	30
EPS (adj.)	0.16	0.13	0.15	0.18

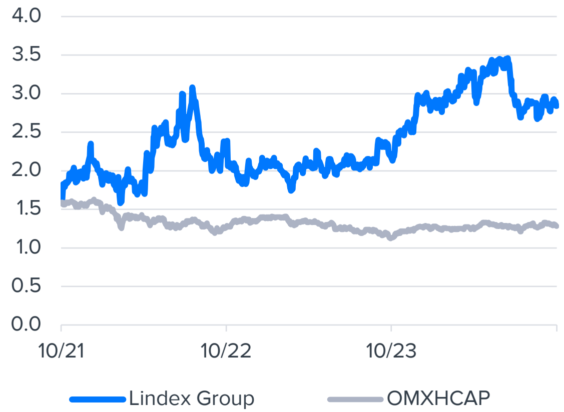
P/E (adj.)	17.0	21.8	17.9	15.0
P/B	1.1	1.1	1.1	1.0
Dividend yield-%	0.0 %	0.0 %	2.9 %	3.2 %
EV/EBIT (adj.)	11.9	15.1	13.2	12.1
EV/EBITDA	5.4	6.5	5.1	4.9
EV/S	1.0	1.1	1.0	1.0

Source: Inderes

Guidance (Downgraded)

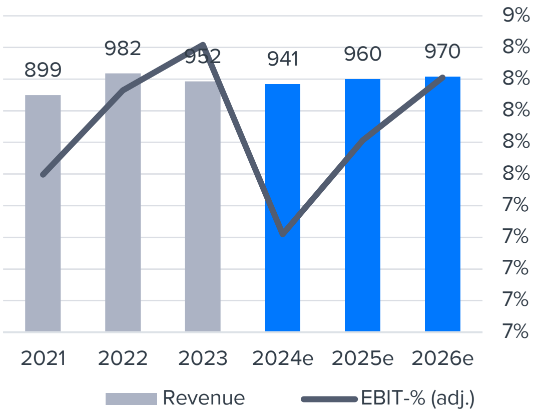
Lindex Group expects revenue in local currencies to change by -2% to 0% in 2024 compared to 2023. The Group's adjusted EBIT is estimated to be 70-80 MEUR.

Share price



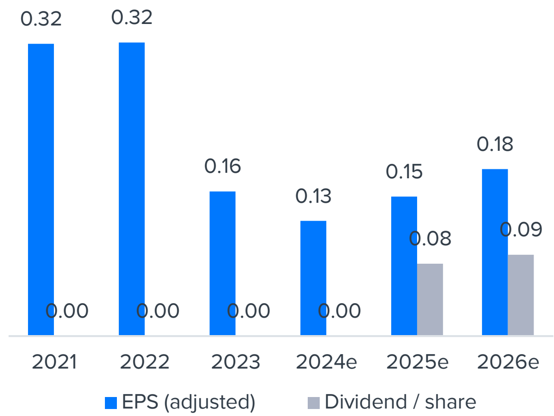
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Lindex division's cash flow and value creation
- Divestment of the Stockmann division or gradual improvement in its profitability
- Corporate restructuring ending, which enables, e.g., dividend distribution and alleviates structural arrangements

Risk factors

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

Valuation	2024e	2025e	2026e
Share price	2.77	2.77	2.77
Number of shares, millions	161.9	165.1	165.1
Market cap	457	457	457
EV	1027	987	967
P/E (adj.)	21.8	17.9	15.0
P/E	46.7	17.9	15.0
P/B	1.1	1.1	1.0
P/S	0.5	0.5	0.5
EV/Sales	1.1	1.0	1.0
EV/EBITDA	6.5	5.1	4.9
EV/EBIT (adj.)	15.1	13.2	12.1
Payout ratio (%)	0.0 %	51.8 %	48.7 %
Dividend yield-%	0.0 %	2.9 %	3.2 %

Source: Inderes

Lindex segment had a weak quarter

Revenue decreased in both segments

Lindex Group revenue decreased 2%, or slightly more in local currencies, compared to our forecast of flat revenue development year-on-year. The revenue of the Lindex division declined 2% (-2.5% in local currencies) due to international logistical challenges, compared to our expectations of 1% growth. In Lindex's main market, Sweden, the market development was slightly positive (although different sources had different estimates), so the Lindex division seems to have lost some market share as a result of the challenges. The Stockmann division's revenue decreased by 3%, in line with our expectations, partly due to weak market development in Finland.

Below prior year result and weaker-than-expected Lindex segment

The Lindex division's adjusted EBIT was 21 MEUR, well below our expectations (27 MEUR) and the comparison period (26 MEUR). The Lindex division's gross margin was 63.3%, down about one percentage point year-on-year and below our expectations, although still at a good level. According to the company, this was due to larger discounts/promotions. The weaker results were mainly due to lower-than-expected revenue and gross margin, but fixed costs were also slightly higher than expected.

The result of the Stockmann division was broadly in line with our expectations (-5 MEUR) and flat year-on-year, with cost increases offsetting the impact of lower revenue. In addition to weak EBIT, EPS were negatively impacted by significantly higher-than-expected taxes. The Lindex Group does not recognize tax assets on its loss-making operations (mainly the Stockmann division), resulting in a very high tax rate as a percentage of consolidated income.

Company turned to net debt

The Lindex Group, after the sale of properties in H1'22, has thus far been net cash, excluding lease liabilities. This changed in Q3, when the company's net debt excluding rental liabilities was 7 MEUR. The change is due to both the gradual progress of the Lindex segment's large (110 MEUR) investment in logistics and the increase in working capital this year. Working capital development in Q4 is typically seasonally positive, which will also support the cash/debt situation for the rest of the year.

Estimates	Q3'23	Q3'24	Q3'24e	Q3'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	227	222	228	229			-3%	941
EBIT (adj.)	20.6	15.8	21.2	-			-25%	67.9
EBIT	20.3	15.0	21.2	21.0			-29%	56.9
EPS (reported)	0.05	0.01	0.07	-			-85%	0.06
Revenue growth-%	-7.0 %	-2.1 %	0.5 %	0.9 %			-2.6 pp	-1.2 %
EBIT-% (adj.)	9.1 %	7.1 %	9.3 %				-2.2 pp	7.2 %

Source: Inderes & Bloomberg, 3 forecasts (consensus)

Lindex Q3'24: Fashion market continued to be volatile

The top of the guidance was lowered, our forecast fell below it

Top end of the guidance lowered; our forecast fell below guidance

Lindex revisited its guidance and lowered its upper ends. In 2024, the company now expects revenue to change by -2% to 0% in local currencies (previously +/- 2%) and adjusted EBIT to be 70-80 MEUR. In January-September, revenue decreased by 2.2% in local currencies and adjusted EBIT decreased by 11 MEUR (adj. EBIT was 80 MEUR), so the guidance suggests/requires a relatively better performance in Q4 than in the first half of the year.

We lowered our forecasts after a weak Q3 result. The company commented that the logistics issues in the Lindex segment eased in October, but we believe there may still be some negative impact. The company also commented on the warm weather in September and October, which slowed down sales. The general consumer environment also remained sluggish. As a result of these factors, we have also slightly lowered our Q4 forecasts, although the majority of the 2024 forecast downgrade is due to the weakness in Q3 results. We now expect adjusted EBIT in to be below guidance at 68 MEUR and also significantly below the comparison period (80 MEUR). Furthermore, higher taxes significantly reduced net income forecasts.

More cautious growth forecasts for the coming years

As the demand environment remains weak, we have lowered our growth expectations, particularly for next year. Naturally, this also lowered our 2025-26 earnings forecasts. In addition, we raised our tax forecasts in line with the company's accounting policy, which clearly lowered our net income forecasts.

Favorable court decision on restructuring

Since the spring, the company has only one disputed claim (LähiTapiola) related to the restructuring process, which resulted in a district court decision in favor of Lindex on the day of the Q3 results. However, the actual dispute over the earlier arbitration ruling is still pending in court. As a result, the completion of the restructuring process may be delayed until the middle of next year, although Lindex will of course try to reach an agreement with LähiTapiola as soon as possible.

In turn, the results of the strategic review of the Stockmann division, which has been underway for a year, were promised to be announced this year. In our view, this suggests that the timetable is not linked to the completion of the restructuring, which we believe would facilitate its implementation.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	948	941	-1%	980	960	-2%	981	970	-1%
EBITDA	164	157	-4%	196	194	-1%	199	198	0%
EBIT (exc. NRIs)	74	68	-9%	77	75	-3%	81	80	-1%
EBIT	64	57	-11%	77	75	-3%	81	80	-1%
PTP	34	25	-25%	46	41	-10%	50	47	-7%
EPS (excl. NRIs)	0.19	0.13	-32%	0.22	0.15	-29%	0.24	0.18	-23%
DPS	0.00	0.00		0.09	0.08	-11%	0.12	0.09	-25%

Source: Inderes

Lindex Group Q3 webcast

Structural change offers good risk/reward

Some challenges in valuation

We feel there are a few factors that make the valuation of Lindex Group difficult. Firstly, a loss-making Department Stores business affects the company's earnings multiples, which make it difficult to use group figures as a whole. Secondly, the performance of both divisions has been very volatile over the last decade, so finding some kind of normal level is not self-evident. This is also muddled by the effects of COVID and the structural changes in the Stockmann division. Third, the company's large lease obligations distort its balance sheet and EV-based figures. Fourth, the company does not recognize tax assets on the results of loss-making operations, which raises the tax rate and thus lowers net income and increases the P/E ratio. Based on these facts, we feel a need to look at figures that have been adjusted in various ways. After the company announced the strategic assessment of the Department Stores business, we find the sum of the parts to be the best valuation method. However, this should consider the uncertainties related to the manner and schedule of the possible structural changes in department stores.

Valuation summary - Buy

We consider the company's valuation attractive in terms of the risk/reward ratio, given the potential of structural arrangements. This potential is very near with the company's strategic assessment published in September 2023 and the restructuring process that may soon be completed. As such, we already consider the earnings-based valuation highish. We are not expecting a dividend until 2025, so it has a small but slightly positive impact.

The values indicated by the sum of the parts are well above the current share price. They assume the value of the department stores to be slightly negative or zero. This may materialize if the company decides to divest the department stores at the end of the strategic assessment. On the other hand, if department stores remain part of the group, their losses and negative cash flow continue to burden the company at least for the time being. Our DCF model assumes that department stores will be cash-flow neutral starting in 2028.

With the current structure, we expect the company to reach 6-7% return on capital and around 7% return on free cash flow in the medium term. The company could also pay this out as a dividend in the longer term if there are no bigger investments. The earnings and dividend income generated by the current estimates are not as such sufficient to award a positive view of the share.

Getting rid of department stores would raise the value to over EUR 4

We believe that the sum of the parts is an interesting and useful perspective to the valuation of the stock. In our neutral scenario, we value the Lindex division at around 690 MEUR, which, with 2024 earnings estimates, means an EV/EBIT of around 9x (excluding lease liabilities). Lindex's closest peers KappAhl and MQ were usually priced below 10x EV/EBIT when listed. Considering the increased interest rate and IFRS 16 effects, the valuation could be expected to be slightly lower in the current market, although larger peers such as H&M are of course valued higher. With an EBIT of 80 MEUR, which we estimate to be the normalized earnings level, the Lindex division generates about 55 MEUR in free cash flow/net profit. By discounting this with a 1.5–2% growth assumption and a 9.5 % required return, the current value of the Lindex division is about 700 MEUR.

Valuation	2024e	2025e	2026e
Share price	2.77	2.77	2.77
Number of shares, millions	161.9	165.1	165.1
Market cap	457	457	457
EV	1027	987	967
P/E (adj.)	21.8	17.9	15.0
P/E	46.7	17.9	15.0
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EV/Sales	1.1	1.0	1.0
EV/EBITDA	6.5	5.1	4.9
EV/EBIT (adj.)	15.1	13.2	12.1
Payout ratio (%)	0.0 %	51.8 %	48.7 %
Dividend yield-%	0.0 %	2.9 %	3.2 %

Source: Inderes

Valuation is already highish with the current structure

Translated into a P/E ratio, this means around 13x. This is a bit below that of Nordic retail sector peers (9–18x for 2025, median 14x), and more clearly below the level of the larger global competitors H&M (19x) and Inditex (above 25x). We believe that the strong global market position and brand of these companies offer them clearly better growth prospects than the Lindex division, which makes the higher valuation justified.

If the company found a taker for its Department Stores business (i.e. sell it off at zero price), the value of the company would only consist of the Lindex division and would be around EUR 4 per share (see calculation on the right). However, the calculation must consider small group costs and negative cash flow generated by department stores as long as they are part of the group. Naturally, the company can also receive a small price for divesting the department stores although we do not expect the sum to be significant for a loss-making business. It is also possible that the company would in practice have to pay the buyer of the department stores, which would mean the value in the transaction would also be negative. Thus, the structural arrangements of the Department Stores business clearly have the potential to create value in the company.

Multiples and expected returns under the current structure

We feel one should not look directly at multiples calculated based on reported figures in the company's valuation. In our view, the sensible way to look at the current structure is to look at the EV/EBIT figure, which excludes rental liabilities. If we remove lease liabilities from EV their earnings impact included in financing items should be considered, which gives a comparable figure without IFRS 16 effects. In this way, EV/EBIT (or in practice EV/PTP) for this year would be around 12x. For 2025, the figure is around 10x. We find these multiples highish for Stockmann with the current structure, which highlights the need for restructuring for value creation.

We estimate the company's cash flow level in 2025 to be around 25 MEUR, which implies a cash flow yield of around 5%. As the Lindex Group is almost net debt-free on the cash side, the company could, at least in principle, distribute the entire cash flow as dividends as long as this is technically possible after the restructuring. In addition, we believe that earnings growth of around 5% over the next few years is realistic under the current structure. However, under the current structure, we do not believe that the expected return is attractive relative to the risks and required returns.

Probability weighted expected return

Without restructuring, we believe the expected return on the stock over the next few years will remain in the 5-10% range indicated by its sustainable cash flow yield and earnings growth. If we assume that the probability of the around EUR 4 sum-of-the-parts value realizing is, e.g., 2/3 within a year (and the remaining 1/3 for, e.g., 7.5% return) the expected return rises to good 30%. Our target price of EUR 3.5 also offers an expected return of approximately 30%.

Sum-of-the-parts calculation	Value, MEUR
Lindex	690
Department stores and other costs	-50
Total	640
Debt excluding lease liabilities	-73
Cash at the end of 2024	94
Value of the share capital	661
Value per share	4.0

Strategy and financial objectives 1/4 - Lindex division

Lindex's strategic objectives

Accelerating growth

- Lindex aims to grow in the current and new markets, both in existing and new channels, with a strong and distinctive offering.

Transforming into a sustainable business

- Lindex continues its sustainability-related transformation, which offers many business opportunities, including growth through new circular business models.

Decoupling costs and growth

- Lindex continues to improve efficiency and enable growth by utilizing digitalization in stores, logistics, procurement and processes as a whole.

Inderes' comments on Lindex division's strategic goals

- In Lindex's main markets (Nordic countries), we estimate that the growth of the clothing market is low, and Lindex already has a fairly strong market position. Thus, we consider the growth potential in the main markets to be limited
- The company already has good and profitable business outside the Nordic countries through its own stores, its own online stores and third-party online stores
- We believe that the new distribution center will enable growth in the future, especially in e-commerce, which supports international growth
- In our opinion, the company has good expertise, especially in lingerie. However, introducing them to the online store is slightly more difficult than for other products

- Lindex has already previously spoken about transitioning to sustainable business. The company has reduced its emissions in recent years and aims for significant additional reductions by 2030. The use of recycled materials has also increased. However, concrete measures to change the actual business model have been limited.
- We believe that the company has opportunities, e.g., in selling used clothes or to some respect, e.g., in renting clothes. On the other hand, for the company's traditional product group, lingerie, these models do not really work
- We see a high-volume low-cost fashion company like Lindex also facing challenges if regulation and/or consumer habits require, e.g., more sustainable products

- Lindex has already been able to significantly improve its profitability in recent years and is close to its long-term financial target (more about this on the following page).
- The new logistics center will further improve operational efficiency, although the impact is expected to be visible only in 2026
- If the company succeeds in continuing its growth in digital channels, it should support profitability as sales growth does not require an increase in store-related costs
- On the other hand, if the sales in physical stores decrease substantially, Lindex that still relies heavily on stores, may face challenges in adjusting its operations/costs This is facilitated by short leases (on average under 2 years).

Source: Inderes

Strategy and financial objectives 2/4 - Lindex division

Financial targets (issued in November 2023)

3-5% annual local currency revenue growth (in the medium term)

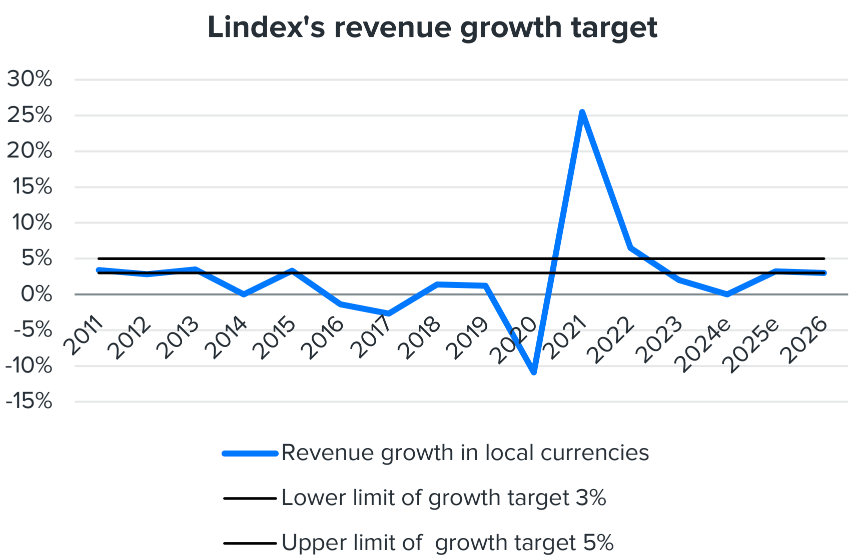
- According to the company, Lindex has grown by about 4% since 2019 compared to the last 12 months However, this includes high inflation in recent years
- Prior to this, Lindex's historical growth has been only around 1%
- We consider the target realistic, but believe that Lindex will be at the bottom of it in the next few years
- Medium term refers to 3-4 years

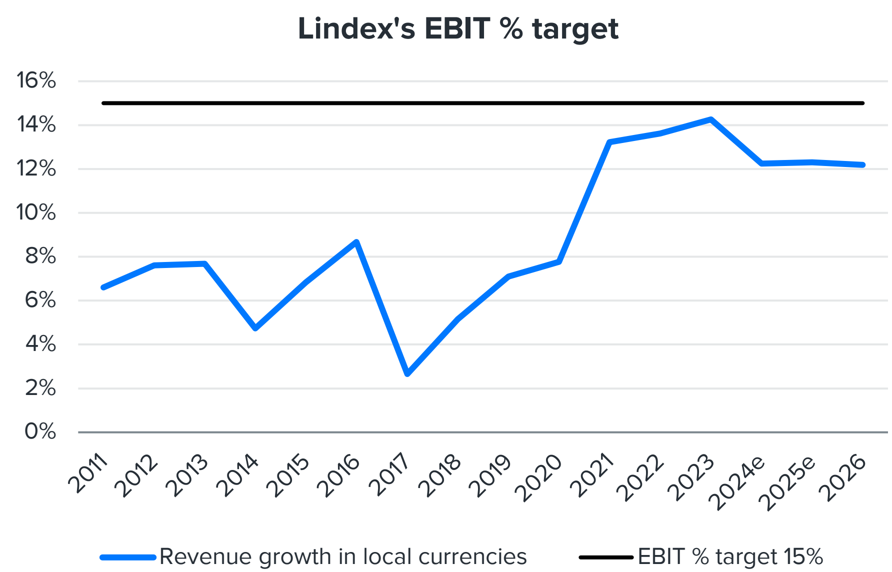
15% adjusted EBIT margin (in the long-term)

- Lindex's profitability has historically been around 8%, as previously explained, but 14-15% in 2022-23, which is close to the target level
- The company aims to maintain the profitability level of 2023 (around 14%) in the coming years and to reach 15% in the long term (around 5 years) This is a logical goal given the strong profitability levels of the past
- In our forecasts, Lindex's margin will be only 11-12% in the coming years, mainly due to the investments required by competition and growth

Digital sales account for 30% of revenue (in the medium-term)

- Lindex's share of digital sales grew strongly during the COVID era and is currently around 18%, slightly below the level of the COVID years
- We believe that both the market trend and the company's own actions will support the increase in the share of digital sales in the future. However, the target of 30% in 3-4 years seems challenging to us
- According to the company, digital sales are more profitable than in-store sales, but we feel that the division is partly artificial





Strategy and financial objectives 3/4 - Stockmann division

Strategic goals of the Stockmann division

Developing the offering

- The Stockmann division continues to strengthen its position in premium and luxury categories, adding new brands, complementary product categories and services, and developing the sustainability of its offering. The Helsinki department store plays a key role in this.

Increasing and leveraging the loyalty customer base

- Stockmann will continue to develop its loyalty program to further activate its 1.4 million loyal customer base and better utilize data and personalization capabilities.

Ensuring a seamless omni-channel customer experience

- Stockmann ensures a seamless omni-channel customer experience by developing its department stores, accelerating e-commerce and investing in digitalization and automation.

Inderes' comments on Stockmann division's strategic goals

- Stockmann has already decided in the restructuring program (early 2021) to focus more on the premium category. This sounds reasonable as such, but we suspect that the network/sales area of the company is too big for a store focused only on more expensive categories

- The company emphasizes the role of the Helsinki department store, which may suggest that smaller department stores will be abandoned over time. We think that this would correspond to our observation that the network is too extensive.

- Developing the offering/product portfolio is continuous work where we feel Stockmann has not succeeded in recent years, as sales have been on a downward trend

- The number and utilization of loyal customers has long been one of Stockmann's themes, like for many other consumer companies

- We do not see this bringing any major changes that would be substantially reflected in Stockmann's numbers

- Stockmann was clearly behind in its e-commerce development in the last decade, but we believe that in recent years it has been relatively functional

- Omni-channel is, in practice a requirement in modern fashion/department store trade, and we see no competitive advantage in this regard nor significant improvement steps in Stockmann in this respect

- In our opinion, the company is not planning to invest significantly in the Stockmann division either

Source: Inderes

Strategy and financial targets 4/4 - Stockmann division

Financial targets (issued in November 2023)

Revenue growth in line with market growth (in the medium-term)

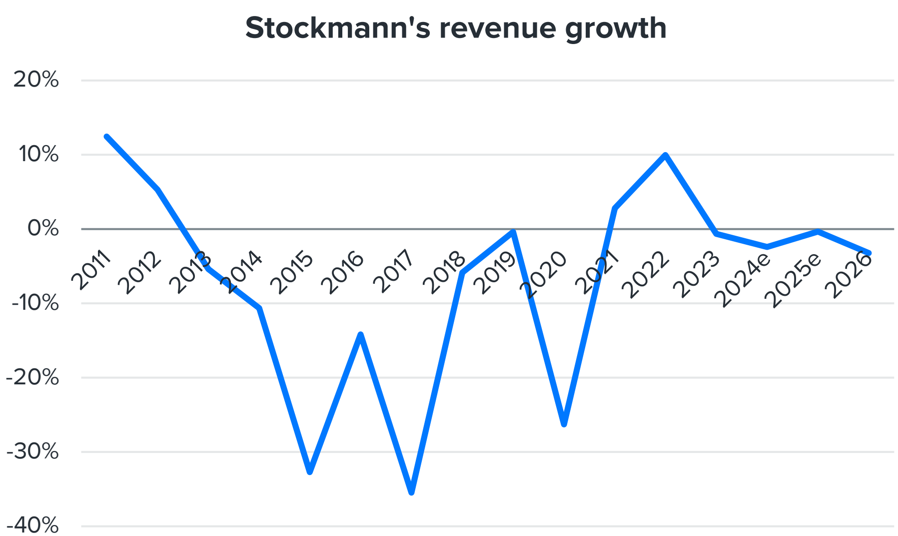
- The revenue of the Stockmann division has been on a structural downward trend for a long time
- The company has not provided an estimate of market growth, but we believe it to be modest
- In our forecasts, Stockmann division's revenue will continue to decline in the coming years, mainly due to a decrease in the sales area

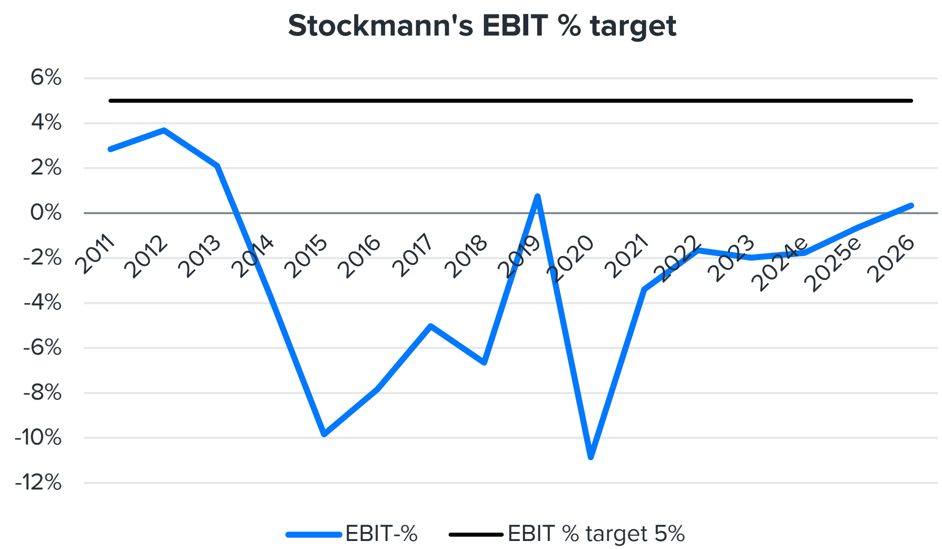
5% adjusted EBIT margin (in the medium-term)

- In terms of EBIT, it should be noted that a significant share of rental costs is only visible in financial expenses due to IFRS 16. Therefore, we estimate that a 5% margin means about zero profit taking these rental costs into account. This could be considered a minimum requirement for any business
- The Stockmann division (and its predecessors) has been generating losses for a decade, we forecast zero EBIT in the coming years

Reaching a positive free cash flow (in the medium-term)

- We believe that this target is very much in line with the margin target, since we assume that depreciation is close to the investment level
- However, we predict that cash flow will remain negative in the coming years due to weak earnings





Climate targets and taxonomy

Lindex Group's business remains mainly outside taxonomy

Linde Group's main business, retail, is not covered by taxonomy at this stage. We believe that this is because taxonomy initially identified sectors that have the most significant impact on climate change, which does not include retail.

Properties related to the company's operations, on the other hand, are included in taxonomy. At the beginning of 2022, the company still owned department store properties for which taxonomic revenue and expenses were recorded. In addition, right-of-use assets (i.e. leases) under IFRS 16 are covered by taxonomy, which explains the very high taxonomy eligibility of the capex ratio. Since the company sold its department store properties in 2022, the figures have decreased slightly in 2023. The company estimates that it has no taxonomy activities in the Group.

We feel taxonomy has no impact on the business

As the company's main business is currently not covered by taxonomy, we do not believe that current taxonomy will have any impact on the business, and thus on e.g. the financial situation or financial costs. As taxonomy expands, retail trade may be included, e.g. in criteria covering the circular economy.

Climate target in line with SBTi

In November 2023, the company published a new climate target (previously it did not have a group level target) to achieve a 42% reduction in the entire value chain, i.e. Scope 1, 2 and 3 by 2030 compared to the 2022 level. The Science Based Targets project approved Lindex's targets as set out in the Paris Agreement (1.5 degrees Celsius).

Lindex Group has significantly reduced its emissions in recent years. Scope 1 emissions have dropped by about 70% and Scope 2 by over 55%. In terms of Scope 3, the company made a comprehensive calculation only for 2021-22, when emissions were at the same level. So, at least for own emissions, the trend is good, but over 90% of emissions were in Scope 3 last year. Reducing total emissions requires considerable work on Scope 3 emissions, which we consider to be more challenging than own emissions. We note that the possible separation of the department store business from the Group would also have a significant impact on emissions. The company already reports emissions separately for the Lindex and Stockmann divisions, so the development can be monitored separately for each of them. Lindex already has its own target to reduce carbon dioxide emissions in the entire value chain by 50% by 2030 compared to 2017.

Taxonomy eligibility	2022	2023
Revenue	2%	2%
OPEX	10%	9%
CAPEX	92%	88%

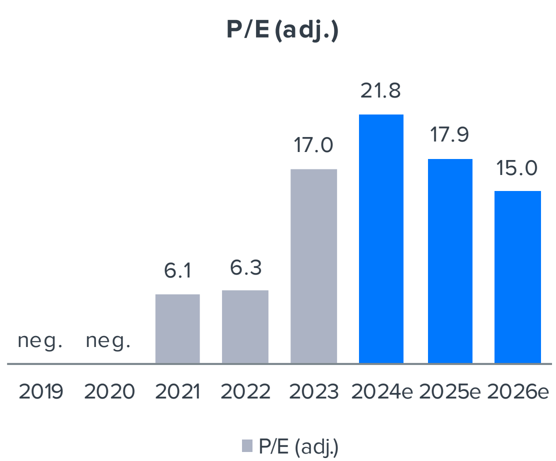
Taxonomy alignment	2022	2023
Revenue	0%	0%
OPEX	0%	0%
CAPEX	0%	0%

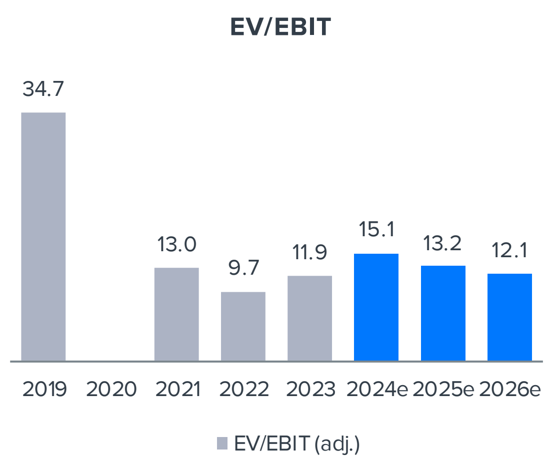
Climate		
Climate target	No	Yes
Target according to Paris agreement (1.5°C warming scenario)	No	Yes

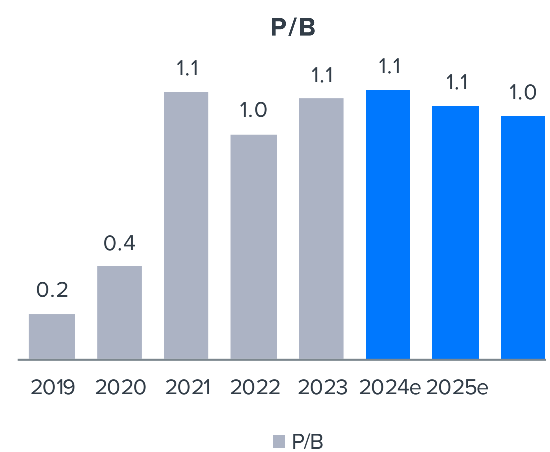
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	2.26	1.14	1.96	2.05	2.72	**2.77**	**2.77**	**2.77**	**2.77**
Number of shares, millions	72.0	72.0	114.0	155.2	160.5	**161.9**	**165.1**	**165.1**	**165.1**
Market cap	155	80	303	320	432	**457**	**457**	**457**	**457**
EV	542		889	774	953	**1027**	**987**	**967**	**944**
P/E (adj.)	neg.	neg.	6.1	6.3	17.0	**21.8**	**17.9**	**15.0**	**12.9**
P/E	neg.	neg.	4.7	3.1	8.4	**46.7**	**17.9**	**15.0**	**12.9**
P/B	0.2	0.4	1.1	1.0	1.1	**1.1**	**1.1**	**1.0**	**1.0**
P/S	>100	0.1	0.3	0.3	0.5	**0.5**	**0.5**	**0.5**	**0.5**
EV/Sales	>100		1.0	0.8	1.0	**1.1**	**1.0**	**1.0**	**1.0**
EV/EBITDA			4.8	3.0	5.4	**6.5**	**5.1**	**4.9**	**4.7**
EV/EBIT (adj.)	34.7		13.0	9.7	11.9	**15.1**	**13.2**	**12.1**	**11.2**
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	**0.0 %**	**51.8 %**	**48.7 %**	**46.5 %**
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	**0.0 %**	**2.9 %**	**3.2 %**	**3.6 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**
Lindex	459	1043	14.6	13.3	6.3	5.5	1.1	1.1	13.9	11.6	1.1	3.4	1.1
H & M	24290	28680	18	16	8	8	1	1	22.5	19.0	3.9	4.3	6.1
Fast Retailing	97390	89800	26.6	27.7	21.5	19.8	4.8	4.4	43.4	40.7	0.8	0.9	7.8
Inditex	171416	165760	24.5	21.8	16.9	15.5	4.6	4.3	32.0	28.6	2.7	3.1	9.4
Tokmanni	626	1450	14.2	12.0	6.3	5.8	0.9	0.8	12.4	9.2	6.5	7.9	2.3
Puuilo	785	878	15.6	14.2	12.1	10.8	2.5	2.3	18.9	17.5	4.3	5.0	8.6
Kesko	7123	10008	15.9	14.6	8.3	7.9	0.8	0.8	16.6	15.0	5.3	5.5	2.6
Clas Ohlson	983	1099	16.8	12.0	7.6	6.8	1.2	1.1	20.5	14.1	2.9	3.5	5.9
Lindex Group (Inderes)	**457**	**1027**	**15.1**	**13.2**	**6.5**	**5.1**	**1.1**	**1.0**	**21.8**	**17.9**	**0.0**	**2.9**	**1.1**
Average			**18**	**16**	**11**	**10**	**2**	**2**	**21.5**	**18.7**	**3.6**	**4.3**	**5.2**
Median			**15.9**	**14.2**	**8.2**	**7.5**	**1.4**	**1.2**	**18.9**	**15.0**	**3.9**	**4.3**	**5.9**
Diff-% to median			***-5%***	***-7%***	***-20%***	***-32%***	***-20%***	***-15%***	***15%***	***19%***	***-100%***	***-33%***	***-81%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**982**	**199**	**252**	**227**	**274**	**952**	**193**	**252**	**222**	**274**	**941**	**960**	**970**	**971**
Lindex	661	127	176	162	168	633	131	170	159	170	630	650	670	686
Stockmann	321	72	76	65	106	319	62	82	63	104	311	310	300	285
EBITDA	**258**	**22.7**	**55.3**	**45.2**	**53.5**	**177**	**17.8**	**45.0**	**39.9**	**54.2**	**157**	**194**	**198**	**201**
Depreciation	-103	-25.6	-25.1	-24.9	-24.6	-100	-25.4	-24.7	-24.9	-25.0	-100	-119	-118	-117
EBIT (excl. NRI)	**79.8**	**-2.4**	**31.6**	**20.6**	**30.3**	**80**	**-6.5**	**29.5**	**15.7**	**29.2**	**68**	**75**	**80**	**84**
EBIT	**155**	**-2.9**	**30.2**	**20.3**	**28.9**	**76.5**	**-7.6**	**20.3**	**15.0**	**29.2**	**57**	**75**	**80**	**84**
Lindex	90	5.6	36.2	26.2	22.3	90	4.2	30.8	21.1	21.0	77	80	82	83
Stockmann	-5	-7.0	-3.5	-4.8	9.0	-6	-9.4	-0.6	-4.5	9.0	-5.5	-2.0	1.0	4.0
Non-allocated	-4.8	-1.0	-1.1	-0.8	-1.0	-3.9	-1.2	-0.8	-0.9	-0.8	-3.7	-3.0	-3.0	-3.0
Net financial items	-26	-7.3	-7.0	-6.7	-8.9	-30	-6.5	-8.1	-8.7	-8.5	-32	-34	-33	-32
PTP	**129**	**-10.2**	**23.2**	**13.6**	**20.0**	**46.6**	**-14.1**	**12.2**	**6.3**	**20.7**	**25**	**41**	**47**	**52**
Taxes	-27.5	29.7	-9.4	-5.0	-10.3	5.0	-1.3	-5.2	-4.5	-4.6	-15.6	-15.8	-16.1	-16.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**102**	**19.5**	**13.8**	**8.6**	**9.7**	**51.7**	**-15.4**	**7.0**	**1.8**	**16.1**	**10**	**25**	**30**	**36**
EPS (adj.)	**0.32**	**-0.06**	**-0.09**	**-0.13**	**-0.12**	**-0.39**	**-0.09**	**0.10**	**0.02**	**0.10**	**0.13**	**0.15**	**0.18**	**0.22**
EPS (rep.)	**0.66**	**0.13**	**0.09**	**0.05**	**0.06**	**0.32**	**-0.10**	**0.04**	**0.01**	**0.10**	**0.06**	**0.15**	**0.18**	**0.22**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	9.2 %	1.2 %	-6.3 %	-7.0 %	0.6 %	-3.1 %	-2.9 %	-0.2 %	-2.1 %	-0.1 %	-1.2 %	2.1 %	1.0 %	0.2 %
Adjusted EBIT growth-%	16.8 %	-35.7 %	-10.8 %	-6.4 %	16.1 %	0.4 %	170.8 %	-6.6 %	-23.8 %	-3.6 %	-15.2 %	10.5 %	6.1 %	5.8 %
EBITDA-%	26.3 %	11.4 %	21.9 %	19.9 %	19.5 %	18.6 %	9.2 %	17.9 %	18.0 %	19.8 %	16.7 %	20.2 %	20.4 %	20.7 %
Adjusted EBIT-%	8.1 %	-1.2 %	12.5 %	9.1 %	11.0 %	8.4 %	-3.4 %	11.7 %	7.1 %	10.7 %	7.2 %	7.8 %	8.2 %	8.7 %
Net earnings-%	10.4 %	9.8 %	5.5 %	3.8 %	3.5 %	5.4 %	-8.0 %	2.8 %	0.8 %	5.9 %	1.0 %	2.7 %	3.1 %	3.7 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**890**	**963**	**992**	**991**	**988**
Goodwill	251	251	251	251	251
Intangible assets	114	115	115	115	115
Tangible assets	498	562	591	590	587
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.7	0.9	0.9	0.9	0.9
Other non-current assets	3.1	3.2	3.2	3.2	3.2
Deferred tax assets	23.8	30.3	30.3	30.3	30.3
Current assets	**385**	**348**	**311**	**308**	**329**
Inventories	174	163	169	163	165
Other current assets	0.0	5.3	5.3	5.3	5.3
Receivables	43.2	42.0	42.3	43.2	43.6
Cash and equivalents	168	138	94.1	96.0	116
Balance sheet total	**1276**	**1311**	**1303**	**1299**	**1317**

Source: Inderes

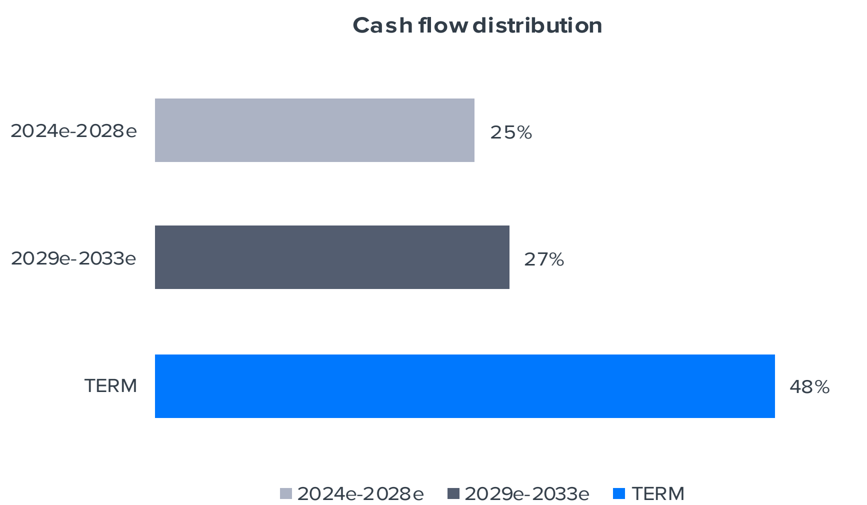
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**336**	**393**	**403**	**428**	**445**
Share capital	77.6	77.6	77.6	77.6	77.6
Retained earnings	205	257	267	292	309
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	-18.9	-17.3	-17.3	-17.3	-17.3
Other equity	72.3	75.9	75.9	75.9	75.9
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**586**	**629**	**601**	**601**	**601**
Deferred tax liabilities	40.3	51.0	51.0	51.0	51.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	545	578	550	550	550
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.7	0.3	0.0	0.0	0.0
Current liabilities	**361**	**290**	**299**	**269**	**271**
Interest bearing debt	77.3	81.6	113	75.4	75.0
Payables	179	178	174	182	184
Other current liabilities	105	29.7	11.7	11.7	11.7
Balance sheet total	**1283**	**1312**	**1303**	**1299**	**1317**

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-3.1 %	-1.2 %	2.1 %	1.0 %	0.2 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %	1.0 %	1.0 %
EBIT-%	8.0 %	6.0 %	7.8 %	8.2 %	8.7 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %
EBIT (operating profit)	**76.5**	**56.9**	**75.0**	**79.6**	**84.2**	**92.7**	**93.2**	**93.7**	**94.1**	**94.6**	**95.5**	
+ Depreciation	100	100.0	119	118	117	116	115	115	111	111	111	
- Paid taxes	9.2	-15.5	-15.8	-16.1	-16.4	-16.8	-13.1	-13.4	-13.6	-13.9	-14.8	
- Tax, financial expenses	3.2	-6.7	-7.1	-6.9	-6.8	-8.6	-6.5	-6.3	-6.1	-6.0	-5.3	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-68.7	-29.1	13.6	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	
Operating cash flow	**120**	**106**	**185**	**174**	**178**	**183**	**189**	**188**	**185**	**185**	**187**	
+ Change in other long-term liabilities	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-166.3	-129.0	-118.0	-115.0	-115.0	-115.0	-115.0	-98.1	-113.6	-113.6	-120.3	
Free operating cash flow	**-46.2**	**-23.7**	**66.6**	**59.4**	**62.8**	**68.1**	**73.6**	**90.3**	**71.4**	**71.8**	**66.2**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-46.2	-23.7	66.6	59.4	62.8	68.1	73.6	90.3	71.4	71.8	66.2	793
Discounted FCFF		**-23.3**	**59.9**	**48.8**	**47.2**	**46.7**	**46.2**	**51.8**	**37.4**	**34.3**	**29.0**	**347**
Sum of FCFF present value		724	748	688	639	592	545	499	447	410	375	347
Enterprise value DCF		**724**										
- Interest bearing debt		-322										
+ Cash and cash equivalents		138										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**540**										
Equity value DCF per share		**3.3**										

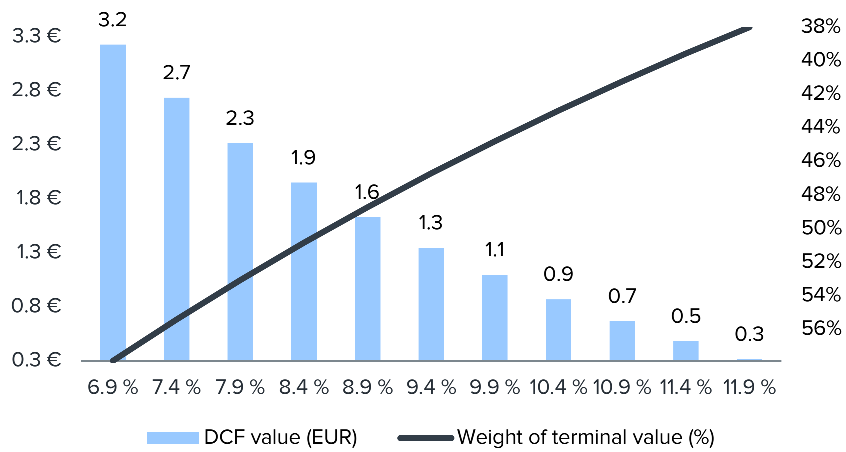
WACC	
Tax-% (WACC)	21.0 %
Target debt ratio (D/(D+E)	0.0 %
Cost of debt	5.0 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	**9.4 %**
Weighted average cost of capital (WACC)	**9.4 %**

Source: Inderes

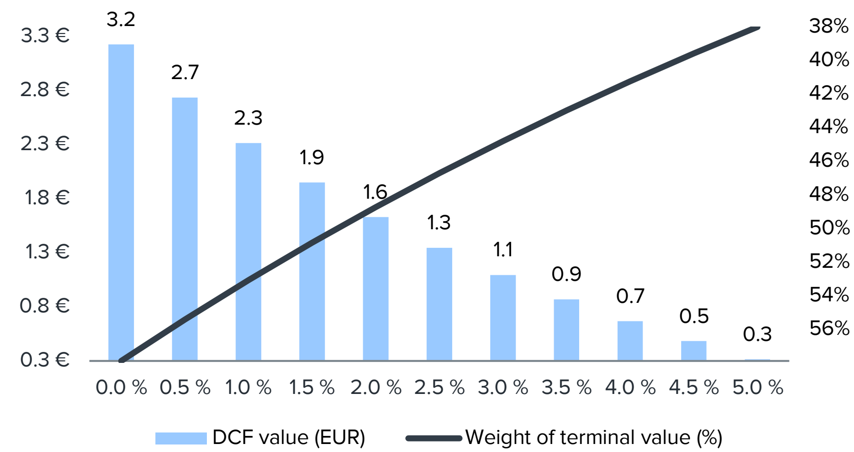


DCF sensitivity calculations and key assumptions in graphs

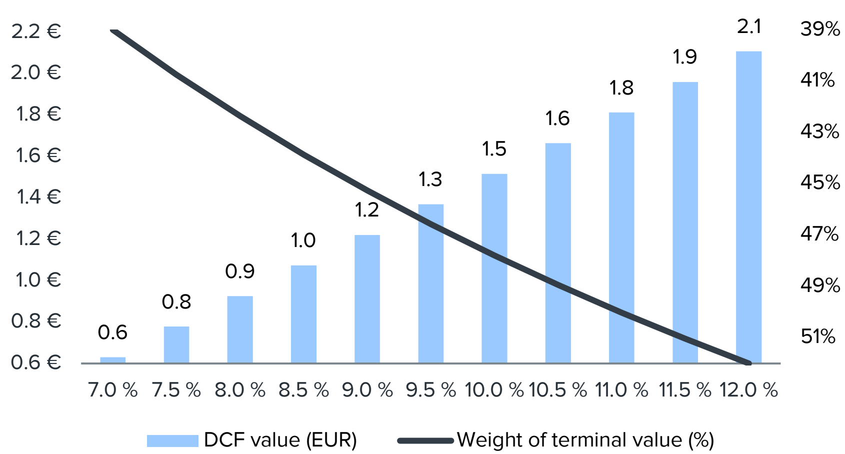
Sensitivity of DCF to changes in the WACC-%



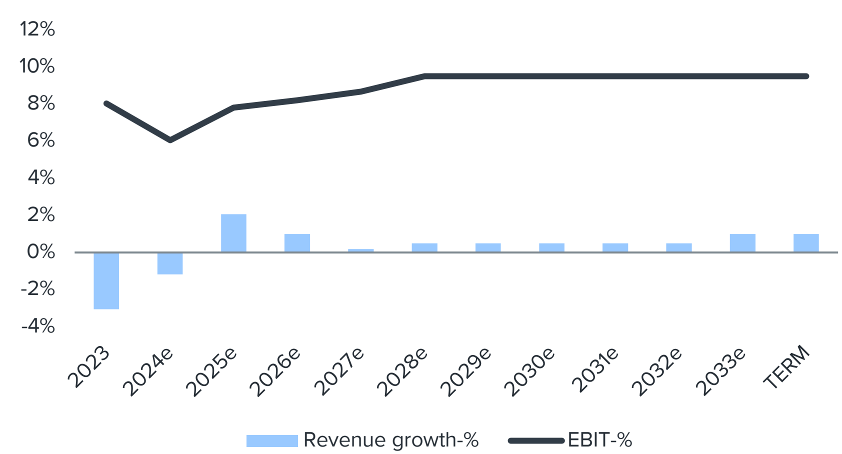
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	899.0	981.7	951.7	**940.5**	**960.0**
EBITDA	185.0	258.1	176.7	**156.9**	**193.8**
EBIT	82.1	154.9	76.5	**56.9**	**75.0**
PTP	65.2	129.2	46.6	**25.1**	**41.2**
Net Income	45.1	101.7	51.7	**9.6**	**25.5**
Extraordinary items	13.8	75.1	-3.6	**-11.0**	**0.0**

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	0.42	0.66	0.32	**0.06**	**0.15**
EPS (adj.)	0.32	0.32	0.16	**0.13**	**0.15**
OCF / share	1.01	1.43	0.75	**0.65**	**1.12**
FCF / share	1.16	1.89	-0.29	**-0.15**	**0.40**
Book value / share	2.35	2.16	2.45	**2.49**	**2.59**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.08**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	1416.1	1275.5	1310.5	**1302.8**	**1298.7**
Equity capital	268.1	335.5	393.1	**402.7**	**428.2**
Goodwill	271.5	250.9	250.9	**250.9**	**250.9**
Net debt	586.7	454.4	521.6	**569.3**	**529.4**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	14%	9%	-3%	**-1%**	**2%**
EBITDA growth-%	-173%	40%	-32%	**-11%**	**24%**
EBIT (adj.) growth-%	1294%	17%	0%	**-15%**	**10%**
EPS (adj.) growth-%	-168%	0%	-51%	**-20%**	**21%**
EBITDA-%	20.6 %	26.3 %	18.6 %	**16.7 %**	**20.2 %**
EBIT (adj.)-%	7.6 %	8.1 %	8.4 %	**7.2 %**	**7.8 %**
EBIT-%	9.1 %	15.8 %	8.0 %	**6.0 %**	**7.8 %**
ROE-%	20.2 %	33.7 %	14.2 %	**2.4 %**	**6.1 %**
ROI-%	7.6 %	15.3 %	7.6 %	**5.4 %**	**7.1 %**
Equity ratio	18.9 %	26.3 %	30.0 %	**30.9 %**	**33.0 %**
Gearing	218.8 %	135.4 %	132.7 %	**141.4 %**	**123.6 %**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	185.0	258.1	176.7	**156.9**	**193.8**
Change in working capital	-56.9	-2.4	-68.7	**-29.1**	**13.6**
Operating cash flow	115.0	222.4	120.5	**105.6**	**184.6**
CAPEX	-17.1	8.5	-166.3	**-129.0**	**-118.0**
Free cash flow	132.7	293.8	-46.2	**-23.7**	**66.6**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	1.0	0.8	1.0	**1.1**	**1.0**
EV/EBITDA	4.8	3.0	5.4	**6.5**	**5.1**
EV/EBIT (adj.)	13.0	9.7	11.9	**15.1**	**13.2**
P/E (adj.)	6.1	6.3	17.0	**21.8**	**17.9**
P/B	1.1	1.0	1.1	**1.1**	**1.1**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**2.9 %**

Source: Inderes

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
11/18/2022	Reduce	2.00 €	1.97 €
1/20/2023	Reduce	2.10 €	2.05 €
2/27/2023	Reduce	2.10 €	2.00 €
3/21/2023	Accumulate	2.10 €	1.76 €
5/2/2023	Accumulate	2.35 €	2.11 €
7/24/2023	Accumulate	2.40 €	2.08 €
9/26/2023	Accumulate	2.80 €	2.34 €
10/30/2023	Buy	2.80 €	2.13 €
11/17/2023	Accumulate	2.80 €	2.47 €
12/19/2023	Accumulate	3.10 €	2.73 €
2/12/2024	Accumulate	3.20 €	2.82 €
4/29/2024	Accumulate	3.50 €	2.96 €
7/16/2024	Accumulate	3.50 €	3.28 €
7/22/2024	Accumulate	3.50 €	2.98 €
9/23/2024	Buy	3.50 €	2.74 €
10/28/2024	Buy	3.50 €	2.77 €

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2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020

Olli Koponen
2020

Joni Grönqvist
2019, 2020

Erkki Vesola
2018, 2020

Petri Gostowski
2020

Atte Riikola
2020

Analyysi kuuluu kaikille.