Solwers

Extensive report

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Inderes corporate customer

This report is a summary translation of the report “Asiantuntijapalveluyhtiöiden konsolidaattori” published on 1/24/2023 at 6:47 pm

A consolidator of expert services companies

Solwers is a Group consisting of expert services companies that aims to create value by consolidating the industry. With lower valuation levels and a strong financial position, we estimate that value creation potential through inorganic growth is good. In our view, the valuation of the share is rather moderate, in light of which we consider the current risk/return ratio to be very good. We reiterate our EUR 5.50 target price for Solwers and raise our recommendation to Buy (previous Reduce) with the share price drop.

A Group formed by expert companies

Solwers, established in 2017, is a Group formed by expert companies in the field of technical consulting and design that owns 23 subsidiaries in Finland and Sweden. Solwers companies' expert services cover a wide range of project life cycle stages, from planning and mapping to project and post-project expert tasks. Solwers has an unusual business model in its field, as acquired subsidiaries are not integrated into the Group, but they continue with their own brands even after the change of ownership. However, Group management participates in the development and management of Group companies. Thanks to its business model, Solwers has managed to implement its strategy of inorganic growth aiming at rapid growth with good results during its short history.

We expect growth to continue through inorganic means

We expect that the company's target market, low capital intensity and high profitability of the business, together with an effective acquisition process, enable achievement of the rapid over 20% annual growth rate in line with Solwers' financial objectives. In our estimates for the coming years we expect organic revenue development to be fairly stable and there is no significant upside in the company's profitability based on the profitability levels of industry players. We expect the company's operational performance to be fairly stable in the coming years. Thus, we estimate that the earnings growth in the next few years will mainly consist of inorganic growth, where we expect the company to be active within the next year. Thanks to a strong financial position the preconditions to continue value creation with inorganic growth are in our opinion good and this is still supported by the generally fallen valuation levels. We believe that the main risks of the acquisition strategy are personnel risks typical for personnel-intensive businesses, potential challenges in managing growth, and slipping in the qualitative criteria and moderate valuation levels of acquisitions targets.

Valuation is moderate and we believe it has a clear upside

P/E ratios for 2022-2023 based on our estimates are 13x and 16x and corresponding EV/EBIT ratios that consider the balance sheet structure are 10x. In absolute terms, we find the earnings-based valuation multiples to be rather moderate, especially considering the resources available for inorganic growth. In relative terms, the share is valued at a hefty discount compared to the peer group, which we feel is reasonably valued. We, therefore, believe that there is considerable upside in the share's valuation, which our cash flow model also supports (EUR 5.5 per share). We believe the expected return mainly consists of the upside in the valuation while the role of the estimated dividend yield (~ 2% p.a.) is small. In addition to these, we expect M&A transactions to guide the expected return of the next 12 months.

Recommendation

Buy
(previous Reduce)

EUR 5.50
(previous EUR 5.50

Share price:
4.39

Key figures

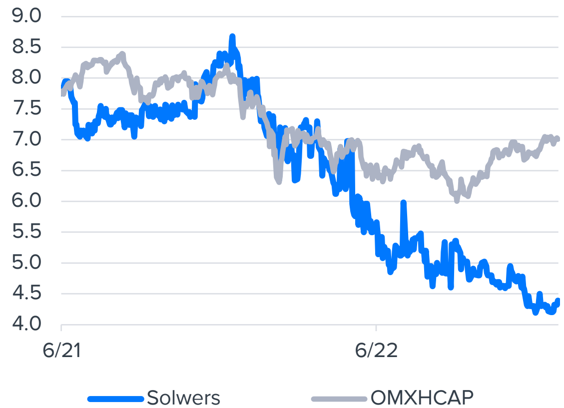
	2021	2022e	2023e	2024e
Revenue	44,7	64,2	64,0	65,0
growth-%	37 %	44 %	0 %	2 %
EBIT adj.	3,4	5,1	5,1	5,3
EBIT-% adj.	7,5 %	8,0 %	7,9 %	8,2 %
Net Income	1,4	3,0	2,8	3,2
EPS (adj.)	0,20	0,33	0,28	0,33
P/E (adj.)	36,3	13,3	15,6	13,5
P/B	1,7	1,1	1,1	1,0
Dividend yield-%	0,6 %	1,8 %	2,1 %	2,3 %
EV/EBIT (adj.)	18,0	10,3	9,8	8,8
EV/EBITDA	11,0	6,5	6,1	5,5
EV/S	1,4	0,8	0,8	0,7

Source: Inderes

Guidance (Unchanged)

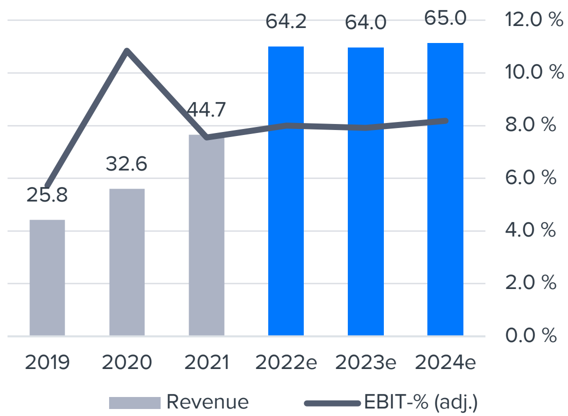
Solwers has not provided numerical guidance for 2022

Share price



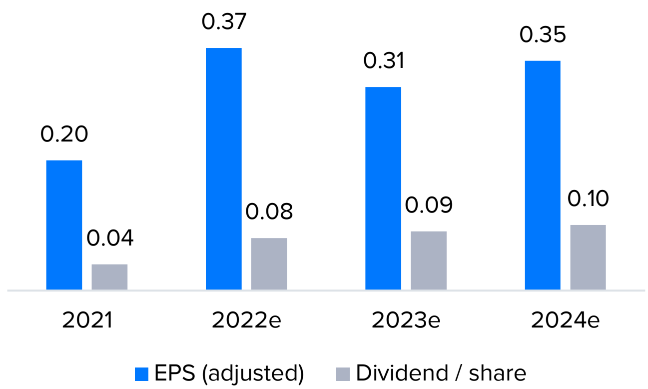
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Long-term organic growth supported by market growth
- Good profitability and cash flow ratio
- Good preconditions to continue the rapid and value creating inorganic growth strategy
- Efficient and agile acquisition process

Risk factors

- The cyclical nature of customer industries and a weaker investment outlook
- Uncertainty and low visibility related to the development of billable utilization and thus profitability
- Risks related to inorganic growth
- Personal dependence

Valuation	2022e	2023e	2024e
Share price	4,39	4,39	4,39
Number of shares, millions	9,8	9,8	9,8
Market cap	43	43	43
EV	53	50	47
P/E (adj.)	13,3	15,6	13,5
P/E	14,4	15,6	13,5
P/B	1,1	1,1	1,0
P/S	0,7	0,7	0,7
EV/Sales	0,8	0,8	0,7
EV/EBITDA	6,5	6,1	5,5
EV/EBIT (adj.)	10,3	9,8	8,8
Payout ratio (%)	26,2 %	31,9 %	30,7 %
Dividend yield-%	1,8 %	2,1 %	2,3 %

Source: Inderes

Contents

Solwers in brief

Solwers companies are specialized in architecture, technical consulting, electrical, automation and power transmission design, environmental impact assessment, project management and monitoring, circular economy, financial management, digital solutions, and logistics solutions.

2017
Year of establishment

23
subsidiaries operating under their own name

44.7 MEUR (+37%)
Reported revenue 2021

4.7 MEUR (EBITA % 10.5%)
Reported EBITA 2021

64 MEUR / 9.7%*
Consolidated revenue and EBIT % of subsidiaries 2021

571
Personnel at the end of 2021

2017

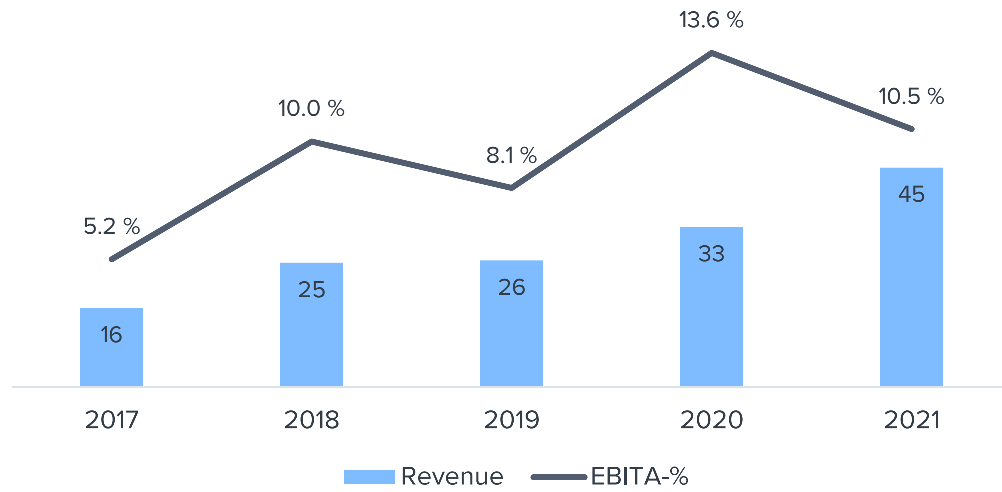
- The Group was established
- The first acquisition was Finnmap Infra, which has been active in the industry for over 20 years
- The company also increased its industry diversification with six acquisitions

2018–2021

- 15 acquisitions in total
- Expansion into, e.g., architecture and digital solutions
- The first acquisitions in Sweden expand geographical coverage
- Listing on the First North marketplace

2022-

- Two realized acquisitions
- The already good financial position was strengthened with a directed share issue
- Activity on the acquisition front likely to remain high



Source: Solwers, Inderes
*Inderes' estimate based on the figures of subsidiaries

Company description and business model 1/5

A Group formed by expert companies

Solwers, established in 2017, is a Group of expert companies that designs unique and sustainable living environments. The Group's services include, e.g., architecture, technical consulting, HVAC design, environmental impact assessment, project management and monitoring, circular economy solutions, electrical and automation solutions design, and digital services.

The Group acts as a platform for the companies it owns, supports their growth and stands out from conventional consulting companies by the owned companies operating in their areas of expertise under their own names and brands and the acquired companies are not integrated under the Solwers brand. The Group currently consists of 23 subsidiaries operating under their own name in Finland and Sweden.

Solwers Group's reported revenue for 2021 was EUR 44.7 million and reported EBITDA adjusted for depreciation of intangible assets was EUR 4.7 million (EBITA % 10.5%). During its short history, the company has carried out several acquisitions, and the 2021 consolidated revenue considering these (Inderes' estimate) was some EUR 63 million and EBIT was EUR 6.1 million (EBIT % 9.7%).

More business in Finland

Of the subsidiaries, 16 are domestic players and 7 operate in Sweden. Finland's weight in the company's business is currently higher and Finland's share in the reported revenue in 2021 was 64% (56% of consolidated revenue), while Sweden represented the remaining 36% (44% consolidated). The company did not report the distribution of EBIT, but Finland's share of consolidated EBIT was 40% and Sweden's 60%.

The company only reports revenue at Group level, so it is challenging to assess the more detailed structure of revenue. We estimate that good 50% of the company's revenue is generated by the public sector and infrastructure projects.

Public infrastructure projects hold the highest weight

The Group has eight companies specializing in infrastructure design and project management services, of which the biggest players are Finnmap Infra operating in Finland, and Licab specialized in project management and ELE Engineering focusing on, e.g., electrical and automation solution design both operating in Sweden. These three companies accounted for about 35% of the consolidated revenue in 2021 and employed 197 people, representing about 35% of the Group's personnel (571 at the end of 2021).

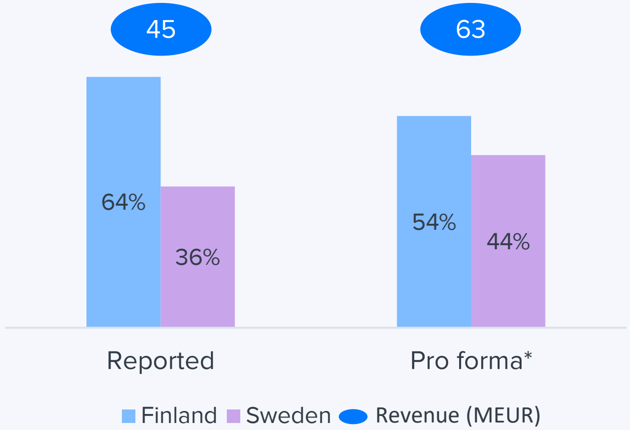
Typical projects of infrastructure design and project management companies include track layout planning, engineering structures design, geotechnical engineering and soil surveys, bridge and tunnel design, and project management services. The attractiveness of public sector infrastructure projects is increased by the stable nature of demand and lower dependence on general economic development. According to our estimates, these services accounted for about 54% of the revenue in 2021.

SOLWERS

- Architecture
- Technical consulting
- Environmental impact assessment
- Project management and monitoring
- Electrical and automation solution design
- Circular economy solutions
- Digital solutions

- 16 operational companies in Finland
- 7 operational companies in Sweden

Revenue distribution 2021



Source: Solwers, Inderes
* Consolidated figures are Inderes' estimates based on the figures of subsidiaries

Company description and business model 2/5

Architecture, structural engineering and HVAC design

There are four pure architects' offices in the Group companies, three of which operate in Finland and one in Sweden. The projects of these companies are typically main design of new projects, renovations, restoration design and interior design. In addition, this service entity includes two companies whose services cover not only architectural design but also underground and aboveground design and one company specializing in structural engineering. Three Group companies carry out HVAC design, in addition to which the Swedish company Enerwex offers, e.g., HVAC design and passive house design. Correspondingly, e.g., Falk sells project management consultants to customers' project organizations. According to our calculations, the relative share of the consolidated revenue of companies operating in architecture, structural engineering and HVAC design was 34% in 2021. Projects in this service entity are typically carried out in the private sector, which increases their dependence on general economic development. The company aims to balance the impact by expanding the range of design services in different areas of construction in the future.

Digital services

The Group's digital services consist of vibration and risk analysis services, digital services for remote monitoring and environmental measurements, and financial management services. In the Group, these services are produced by three companies in Finland, and in Sweden the Group has one company specializing in financial management services. The main reason for owning financial management services is that these companies are responsible for the financial management of the Group's companies (e.g. accounts and accounting), in addition to having external customer relationships. According to our calculations, these services accounted for 13% of revenue with 2021 figures.

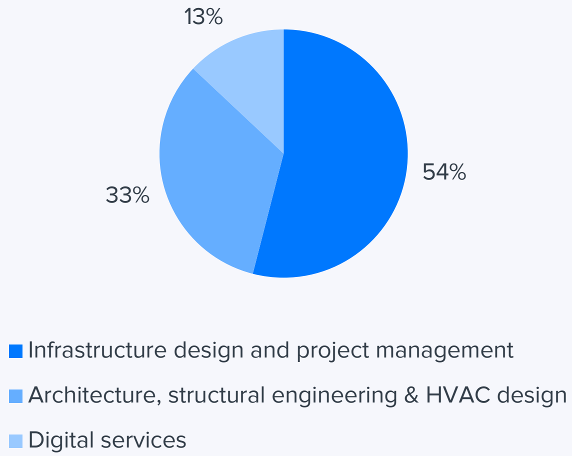
Circular economy

The circular economy is the smallest service entity. It currently consists mainly of an ongoing design project aimed at creating a housing and office block that adheres to the principles of the circular economy. However, circular economy is today an essential part of most planning and consultation projects.

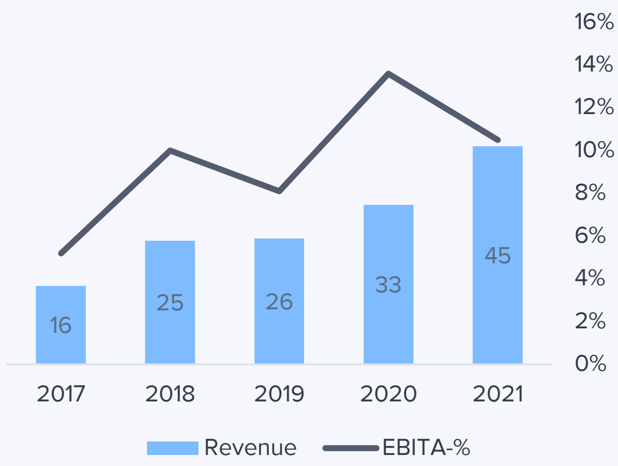
Strong inorganic growth

Solwers Group has grown strongly, as in its first financial year in 2017 (16 months) its reported revenue was EUR 16.1 million while the reported revenue for 2021 was EUR 44.7 million. This corresponds to an annual revenue growth of nearly 29%. We assess that the growth driver has mainly been realized acquisitions, while organic growth has like market growth been in line with economic growth. The business model is unique as the acquired companies are not integrated under the Solwers' brand although the Group participates in their management and control. By maintaining the own brands, the company aims to cherish the cultural elements of the companies.

Relative share of service entities*



Past development



Source: Solwers, Inderes
NB! 2017 financial year was 16 months
* Inderes' rough estimate based on the revenue of individual companies in 2021

Solwers companies

	Finland	Sweden
Public	Finnmap Infra; LUKKAROINEN ARCHITECTS; ROCKPLAN; PONTEK OY; INMECO RAKENNUSKONSULTIT; taitotekniikka	ROCKPLAN SWEDEN; Licab; FALK CM Falk Construction Management
Private	aDT Arkkitehdit Davidsson Tarkela Oy; GeoUnion Oy; KALLIOTEKNIIKKA CONSULTING ENGINEERS OY; INSINÖÖRITOIMISTO VARSINAIS-SUOMEN KALLIOTEKNIIKKA OY; CONTRIA; POLYPLAN; Zenner; ACCADO; LVI-INSINÖÖRITOIMISTO MESKANEN	ELE ENGINEERING; ENERWEX; DREEM; Schening; KAM REDOVISNING AB Srf auktoriserad byrå

Source: Solwers, Inderes, companies acquired after 07/21 assessed by Inderes

Company description and business model 3/5

Thanks to the exceptional business model, the company has also been able to maintain a rapid acquisition rate, as it does not have to implement integration projects that take time and resources. The company also claims that maintaining independence makes it a more attractive buyer for smaller, typically entrepreneurial/owner-driven acquisition targets compared to larger players.

Growth has been profitable

With growth the company's profitability has also increased from 5% (EBITA%) in 2017 to 10.5% in 2021, which is a commendable level in the industry. On average, the reported EBITA margin in 2017-2021 has been 9.5%. The key person(s) of the acquired company has in history often kept a small holding in their own company, with which the company has sought to maintain common interests with the seller. As a result, part of the Group's EBIT has been attributable to minority shareholders. Prior to the listing, Solwers acquired several minority shareholdings and in 2021, according to the financial statements, it owns over 90% of the Group companies, excluding two companies.

Revenue consists of small streams

In 2021, Solwers carried out over 3,800 orders, most of which were under EUR 10,000 in size. Correspondingly, the company's largest individual projects, which are spread over several years, are in the size class of EUR 3-4 million. Thus, considering Solwers' Group structure and the size class of the companies it owns we believe the Group's customer base is highly fragmented.

Due to the small size class, the company's ability to produce large projects is limited compared to the large players in the industry, but on the other hand, due to the small size class and local presence, the Group's companies typically have established positions in local markets. This, together with knowledge of the local market and the agility of a small size class, gives Solwers companies an advantage in tendering local projects.

In the project business, focusing on smaller projects is also usually a more moderate risk strategy, because in this type of business profitability challenges are quite typical for a highly growth-oriented player that focuses on increasing the size of projects.

Project and hourly pricing

Solwers' revenue consists of both project pricing and hourly invoiced projects, for which management has estimated that good 2/3 is hourly-charged work and the rest project pricing. Typically, tendering for, e.g., infrastructure projects in Finland is done through project pricing. Similarly, in Sweden, the hourly invoicing model is, in our opinion, a more normal operating model and the largest Swedish company, Licab that offers project management services, usually offers (> 90%) hourly invoiced services.

We estimate that the project pricing model is a higher risk model as with this pricing model the company carries some risks related to the project schedule being delayed or unsuccessful cost calculation. As the pricing model is the industry standard for certain types of projects, we suspect that the company cannot optimize the invoicing model. However, industry practice is that if the costs are exceeded, the excess is negotiated separately.

Moderate cyclical risks

Solwers Group's companies are active in the construction market in both new-build and renovation construction and infrastructure construction. New residential construction is more susceptible to cyclical fluctuations and projects are often shorter than in infrastructure construction. Infrastructure construction, in turn, stabilizes the effects of cyclical fluctuations.

In general terms, we believe that the demand for infrastructure construction can be expected to endure in a weaker economic climate. This is typically driven by the fact that in a weak economic environment, the public sector stimulates with infrastructure investments. This was also seen during the COVID crisis when, e.g., investments were made in transport route maintenance. Business continuity is also provided by over 100 framework agreements that means the company is in a good position to carry out public-sector projects.

We estimate that Solwers' demand is not as sensitive to cyclical changes as construction as such, although some of the Group's companies are vulnerable to cyclical changes in the operating environment.

Company description and business model 4/5

Construction consultancy is also characterized by the fact that, as the strongest construction growth phase fades, new projects are already planned well ahead of time for the next boom.

Cost structure consists mainly of personnel costs

Solwers has a cost structure typical of a personnel-related service company, whose largest cost item is personnel costs. During 2019-2021, personnel costs represented 59-61% of revenue. Solwers' operations are highly personnel-dependent expert services, which makes a high competence level among personnel a critical factor and makes personnel retention a critical function. The number of services and projects to be sold is linked to the time management and efficiency of the personnel, so the scalability of personnel costs is limited. Increasing the revenue load after a certain point requires recruitment, i.e. additional resource investments. Typically, these are front loaded investments and may temporarily reduce profitability, because the employee is not engaged in billable work from the first day or even month, and thus a revenue generating employee.

The second largest cost item with a clear difference to personnel costs is materials and services, which has been 14-17% of revenue over the same three-year review period. A significant share of this item is subcontracting services. The cost item is largely variable, as the company buys subcontracting services when its own resources are insufficient to carry out projects or Group companies do not have the necessary expertise to carry out the project. As a result, cost scalability for subcontracting services is low.

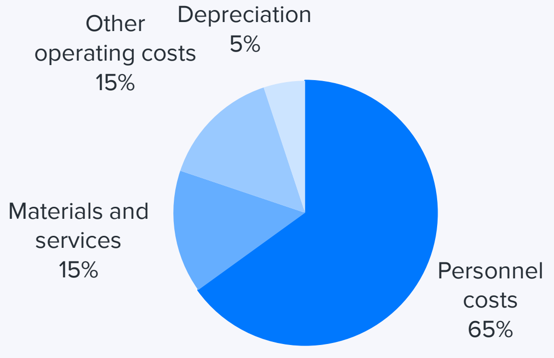
The smallest cost item is other operating expenses that mainly consists of ICT costs and usual administrative expenses. In 2019-2021, other expenses were 11-14% of revenue. For service companies, other operating expenses typically involve moderate scalability. For Solwers we estimate that this scalability is decreased by the Group structure, since companies acquired under the inorganic growth strategy are not integrated. In a big picture, the business cost structure as a whole consists of flexible costs, considering the flexibility in personnel costs from temporary layoffs.

The business model does not tie up significant capital

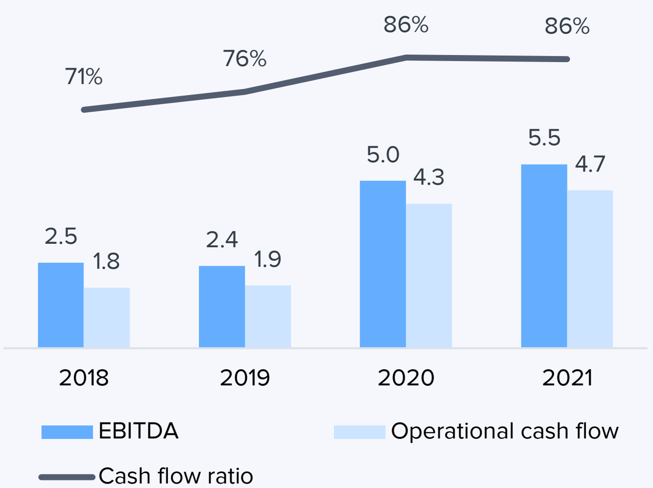
Solwers' business model does not tie up substantial working capital as the average working capital/revenue was 0.2% in 2018-2021. The service operations of the company do not tie up capital in inventories and working capital consists of accounts receivable and trade payables that have been pretty well balanced in the review period.

The business model is also, as is typical for service companies. characterized by low annual investment needs, mainly limited to system investments.

Cost structure 2021



EBITDA, cash flow and cash flow ratio



Source: Solwers, Inderes

Company description and business model 5/5

We estimate that the company's annual investment need without acquisitions is only about EUR 0.5-1 million and considering lease liabilities (IFRS 16) about EUR 2-3 million, which is in line with historical levels. Thus, the company's main need for capital is directed at implementing the inorganic growth strategy, which also means that non-current assets in Solwers' balance sheet largely consist of goodwill from acquisitions.

Management of billable utilization is a critical function

A good measure of business efficiency is billable utilization, which describes how much working time employees spend on invoiced project and service work. Billable utilization is directly linked to the company's operational profitability on one hand and the efficiency of capital use on the other.

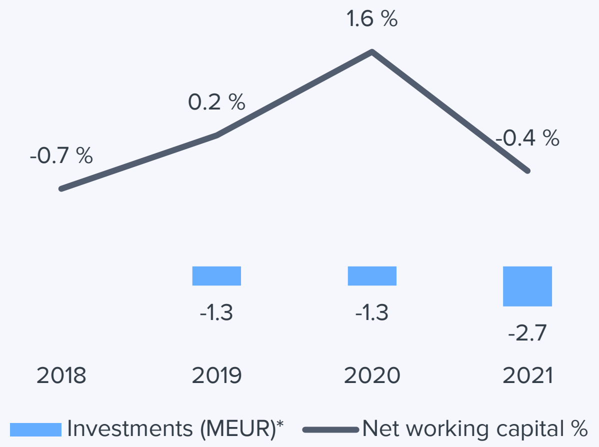
Individual factors, as well as how the company manages to win new projects for employees when previous projects end and how the company adapts to possible project delays, closure and/or cancellations are emphasized in the management of billable utilization. Failure here often results in inefficient resource use, which is also directly linked to the company's billable utilization and thus profitability. However, this impact is softened by Solwers' operating model that relies on several small businesses and independent operators, which means the relative importance of failed management of billable utilization in one company or project is small for the Group.

In general, 75-80% can be considered good billable utilization. With this indicator, Solwers has performed well in 2020-2021, when its billable utilization was 82-86%. Another indicator of good achieved billable utilization is that Solwers' level in recent years is clearly higher than its peers' like Sitowise (2018-2021 ~76-78%) and Sweco (~74%). According to the company, billable utilization is not a good operational indicator for all the companies it owns, so these have been excluded when examining billable utilization.

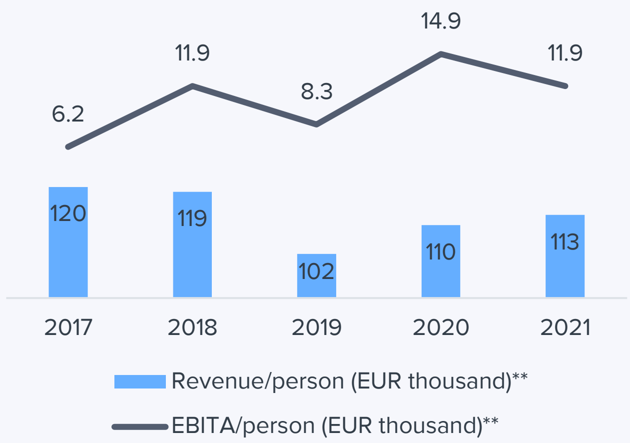
Staff productivity as a measure of efficiency

The development of the efficiency of Solwers' operational business can also be measured by examining revenue and operational profitability per employee. In 2017-2021, revenue per employee has varied between 102,000-120,000 per person and has averaged EUR 113,000. The level has decreased slightly from the early years of the examined period, although it has made an upturn again with growth. The operating result of the corresponding periods, i.e., EBITA/employee, has varied between EUR 6,200-14,900 with the average being EUR 10,600. The trend has mainly been rising, although we estimate that sick leaves related to COVID depressed the indicator in 2021. We estimate that the exceptional operating environment (i.e. COVID) has weakened these indicators in recent years, but in the long run they should reach a growing trend to reflect the sales synergies of Group companies and the slight improvement in efficiency resulting from growth.

Working capital and investments

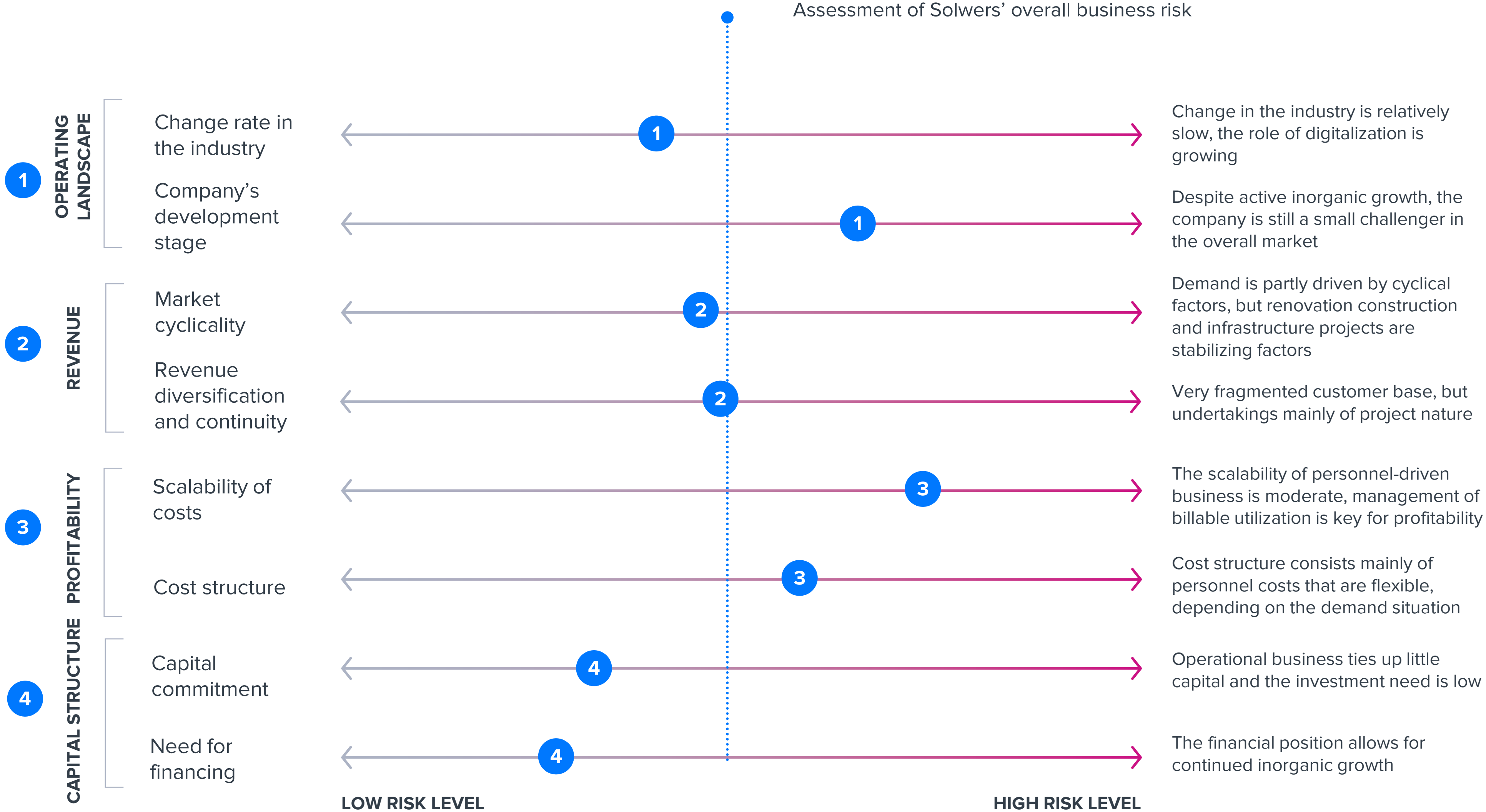


Staff productivity



Source: Solwers, Inderes
*Investments=investments in tangible and intangible assets + IFRS 16 repayments.
Average number of personnel

Risk profile of the business model



Source: Inderes

Markets and competitive landscape 1/3

Target markets in Finland and Sweden

Solwers' target market consists mainly of the Swedish and Finnish technical consulting and design markets, which are part of a huge overall construction market worth tens of billions of euros.

Based on the Finnish Association of Consulting Firm (SKOL), Solwers estimates their target market in Finland was EUR 6.5 billion in 2020. This market has grown by an average annual rate of around 5% in 2014-2020. Based on an estimate of the Swedish trade association (Innovationsföreningen), the corresponding market in Sweden was SEK 97.2 billion (EUR ~9.6 billion) in 2020. The market has grown by an average annual rate of around 8% in 2014-2020.

The size of the total market is affected by the included sub-sectors, in particular whether large industrial design is included in the overall market assessment. For example, according to an assessment ordered from an international consultancy firm by Sitowise active in the same industry, the total market for technical consulting and design in Finland is about EUR 1.5-1.7 billion, consisting of around EUR 1-1.1 billion residential construction market and EUR 0.5-0.6 billion infrastructure construction market. Similarly, according to this assessment, the size of the Swedish technical consulting and design market is estimated to be around EUR 3.1 billion.

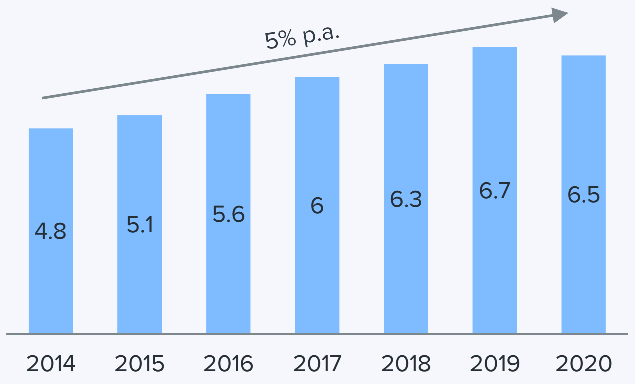
Another reasonable yardstick of the overall market is the revenue statistics of SKOL's members from 2021. According to it, the total revenue of 61 operators in residential construction was approximately EUR 676 million in 2021. Similarly, according to the same statistics, the revenue of Community industry (infrastructure construction) was some EUR 394 million. The smaller estimates are explained by the fact that not all industry operators are members of the trade association and we estimate that many, especially smaller operators, are excluded from this assessment. Thus, we believe that SKOL's statistics provides a smaller overall picture of the market than reality.

However, regardless of the approach and included sectors, we believe it is safe to say based on the various assessments that the overall market is huge relative to Solwers' size class. Thus, we do not believe the size of the company's target market limits its growth potential in the future.

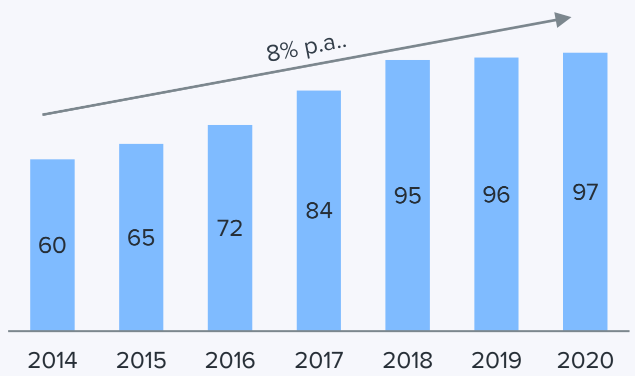
Familiar trends drive growth

We estimate that the growth outlook of the target market is slightly better than overall economic growth, as growth is, in addition to economic growth, affected by construction industry trends and structural factors. We, therefore, estimate that the growth of Solwers' target market will exceed GDP growth slightly in the medium term and that the market's growth potential is roughly 0-5% over time. We believe the increase in the relative share of consulting is supported by, e.g., the increase in technology, growth in dense construction, increase in infrastructure construction requirements, sustainable development, and digitalization.

Design and consulting industry market in Finland (EUR billion)



Design and consulting industry market in Sweden (SEK billion)



Source: Solwers, Inderes

Markets and competitive landscape 2/3

The megatrends and/or structural factors affecting the growth rate of the target market are:

Urbanization increases the density, high, underground and other demanding construction, where design plays an important role.

The aging building stock increases the need for both renovation and infrastructure maintenance planning, which support a stable demand flow.

Climate change requires greater consideration of environmental issues in construction, which in turn increases the need for design and resource optimization. This also supports demand for the company's **circular economy solutions**. Efforts to mitigate climate change also underline the role of energy efficiency and circular economy solutions. Growing energy efficiency requirements and emerging circular economy production models strengthen the demand outlook for design and consulting services.

The industry is fragmented

Solwers' industry is fragmented, as according to Statistics Finland, good 7,600 enterprises operate in Architectural and engineering activities and related technical consultancy in Finland alone. We believe that the Swedish market is clearly bigger, reflecting the size of its economy. This is also illustrated by the fact that, according to a market survey commissioned by Sitowise, there were over 9,000 operators in the residential building and infrastructure construction industry in Sweden in 2019.

We feel industry fragmentation is typical for personnel-dependent services business with a low entry barrier. Considering this low barrier, the market shares of the major players in the industry are rather moderate as a whole, even though they have consolidated the market in history through acquisitions. We estimate that there is a significant number of small companies with a few people in the industry. In light of this all industry players are not meaningful acquisition targets for Solwers, and we believe that all players do not meet the criteria the company has set for acquisition targets in terms of operational history and profitability. However, we do estimate that the number of companies in the fragmented industries is large enough to enable the company to continue implementing the growth strategy based on inorganic growth.

Competitive landscape for technical consulting and design

In Finland, the technical consulting and design industry consists of a few large Nordic and international players (Ramboll, Sweco, AFRY, WSP and Rejlers) and large local players (e.g. Granlund, Vahanen, FCG and A-Insinöörit). However, the ten largest players only represent about 55-62% of the market share if the total market size is estimated to be 1.5-1.7 billion. The relatively small market share of the biggest players also reflects the fragmented market.

Growth drivers and market trends

- Urbanization
- Renovation debt
- Climate change
- Energy efficiency and circular economy

Source: Solwers, Inderes

Markets and competitive landscape 3/3

In Sweden, the competitive environment is composed of the same large players as in Finland, and there are also large and purely local players (e.g. Tyréns, Projektengagemang). Correspondingly, these represent a much higher market share of 77%, when their revenue is proportioned to the estimate of Sitowise's report on the 2019 overall market. Thus, we can assume that consolidation of the Swedish market is further advanced than in Finland.

When looking at the competitive landscape it should be noted that Solwers acts in certain sectors of the market in which the above presented large players do not operate. Moreover, the companies it owns are considerably smaller players, so they are unlikely to compete for the same projects with large players that implement major projects. Thus, we believe the company's competitive landscape mainly consists of smaller local players but the competitors vary depending on which of Solwers' companies are examined.

Differences in profitability levels are moderate

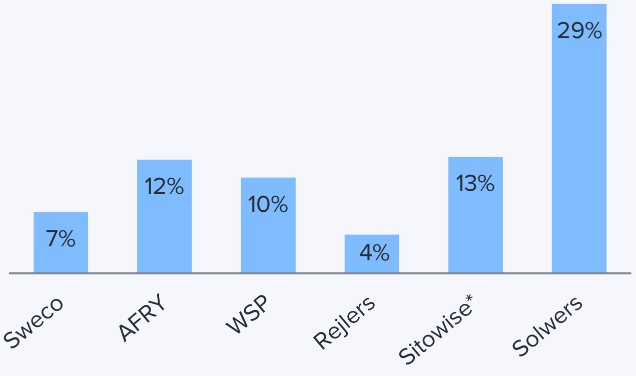
There are differences in the growth rates of listed companies operating in this sector in recent years, which we believe reflects their inorganic growth. Due to the different size classes, the relative growth of smaller companies is typically faster, and, thus, we do not consider comparing the growth rate of the companies meaningful.

Competitors' profitability (EBITA %) has averaged around 4-11% over the last five years. Solwers' average profitability has been around 8% over the same period. We note that the EBITA ratio currently reported by the company is adjusted for depreciation of leased premises in accordance with IFRS 16, but because they affect cash flow, we have readjusted IFRS 16 to improve the comparability of Solwers' EBITA.

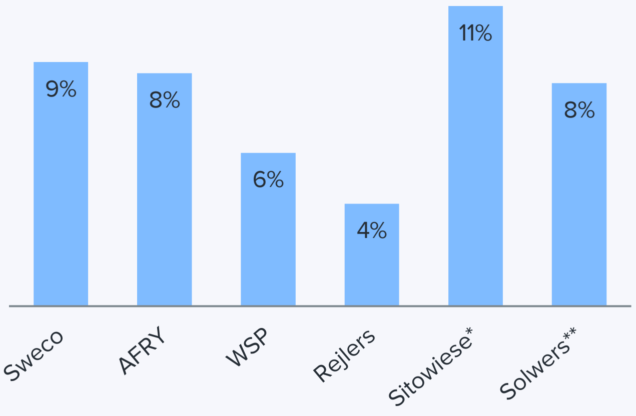
Individual companies in the competitive field do not differ significantly from each other in terms of profitability although Sitowise's profitability has on average been slightly higher than the peer group. We believe this reflects the quite similar business models and the cost structure defined by the personnel dependency of the business. The slight difference in profitability can be explained by different reporting methods, but we estimate that the rather identical profitabilities in the past 4-5 years describe quite well the profitability and value creation opportunities of technical consulting and design.

In line with similar profitability profiles, ROCE of industry players have been quite uniform in the past 5 years. Apart from the weaker performing WSP, the companies' ROCE has been around 10-15%. Solwers' average ROCE has been around 10% over the last three years, which corresponds to the average of the peer group.

Revenue growth CAGR-% (2017-2021)



Average EBITA-% (2017-2021)



Source: Companies, Inderes
* Figures for 2018-2021
**IFRS16 depreciation adjusted by the company has been returned to the EBITA for 2019-2021

Strategy and financial objectives 1/3

Acquisitions at the core of the strategy

The heart of Solwers' strategy is growth, both by expanding the service offering and increasing geographical coverage. The growth strategy is based on both acquisitions and organic growth. In addition, the company emphasizes the Group's attractiveness as a good employer for professionals in different sectors and continuous skill development in its strategy.

We believe that from the investors' viewpoint the clearest indicator to be monitored in strategy implementation is the progress and value creation of the inorganic growth strategy. In a personnel-driven business, people-centered cultural factors are key in the company's development, but measuring this development outside the company is challenging.

Financial objectives

Solwers' financial objectives are

> 20% revenue growth

> 12% EBITA margin

> 40% equity ratio

Growth target requires continued M&A transactions

The growth target clearly exceeds the organic growth rate of the market and thus achieving the growth target requires continued inorganic growth in line with the strategy. In a fragmented industry, we estimate that the company has the preconditions to achieve rapid growth in line with the target as in previous years.

In the industry context the profitability target is ambitious

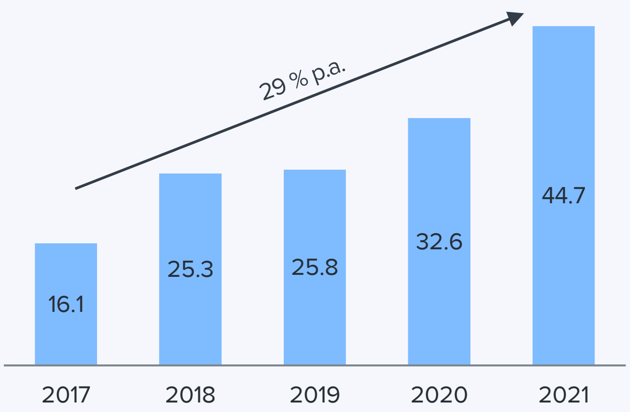
Relative to the industry we find the profitability target demanding, which is illustrated by the fact that in the past five years none of the competitors have reached an EBITA margin of over 12%. However, in 2020, Solwers reached a 13.6% EBITA margin, but it should be noted that the company adjusts IFRS 16 depreciation of leased premises from the figure, which we do not consider an adjustment item, as rental expenses affect cash flow. When depreciation in accordance with IFRS 16 (in 2020: EUR 0.821 million) are readjusted to the EBITA margin, it has on average a negative 2.3 percentage point effect on the 2019-2021 margin. Examined this way we also feel the profitability level is more comparable to other players in the industry.

We do not find the target impossible considering the company's reporting practice and the average reported EBIT % of the subsidiaries in the previous four years (2018-2021: 9.7%). Achieving the target also depends on what type of acquisitions the company makes. In the last five years, recent subsidiaries like Establish Schening, Dreem and Falk have achieved an average EBIT % of over 20%.

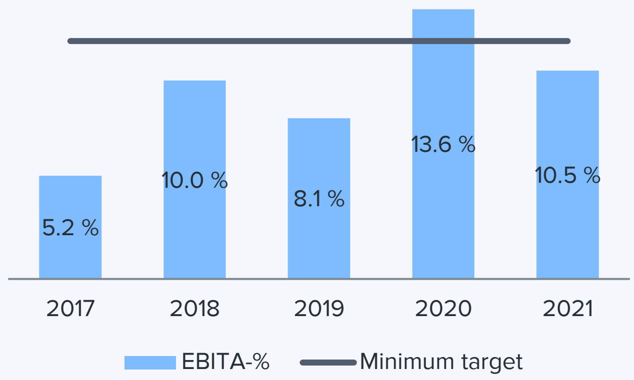
Balance sheet structure and profit distribution

At the end of H1'22, the company's equity ratio was 43.9% and thus in line with the objective. In general, we consider the > 40% level to be a good long-term goal.

Revenue development



Profitability development



Source: Solwers, Inderes
NB! 2017 financial year was 16 months

Strategy and financial objectives 2/3

The company's dividend distribution policy is to distribute 20-40% of the profit for the financial year. This is a relatively low profit distribution target and reflects the fact that capital allocation will focus on acquisitions in our opinion. Without acquisitions, considering the capital needs of existing businesses, the company could manage clearly higher profit distribution, but we consider capital allocation to value-creating acquisitions sensible.

Acquisition strategy

In addition to earnings growth, the company aims for a wider service diversification, which results in a more even distribution of revenue between different phases of construction projects. By expanding and leveling the supply from early project development to later project monitoring, or even to maintenance, the company stabilizes its business vulnerability to cyclical fluctuations.

In addition to increasing the service offering, the company aims to increase the geographical coverage with its acquisition strategy. The company has stated its objective to grow in the Nordic and Baltic countries. The company's operations currently extend to Finland and Sweden, so geographically the company's strategic playing field offers expansion opportunities.

According to the company, the acquisition targets include mainly smaller companies with over 10 years of operating experience, i.e. established companies. In addition, the company typically requires a track record of good profitability from the acquisition target, the general limit being an EBIT margin of > 10%.

We estimate that the profitability target in acquisitions made in the past two years has largely been achieved, as the reported operational margin of three of the last five acquired companies has exceeded the target level clearly on average over the past five years. Thus, the Group's structure has developed in a more profitable direction in terms of EBIT.

SWOT analysis of the acquisition strategy

Solwers does not integrate the acquired companies, which means the acquisition process is efficient, does not cause integration costs and the cultural risks inherent in personnel business are not emphasized. Due to the efficient acquisition strategy, the company has been able to maintain an exceptionally rapid series of acquisitions.

We believe that engaging the original entrepreneurs of the acquisition targets is critical in the long run, because as the acquisition targets are small, key individuals, and especially the entrepreneurs themselves, are typically of great importance to the entire business because of the people-centered business and long-term customer relationships. Thus, finding new businesses and keeping their purchase prices moderate also requires that the company's value promise must be understandable and attractive to entrepreneurs of the acquisition targets. We suspect that this could also, to some extent, reduce the risks of the acquisition strategy, as it would probably support the continuity of key personnel.

SWOT analysis of the acquisition strategy

Strengths

- An efficient and fast process
- Lack of integration reduces costs
- Retention of cultural factors and entrepreneurs of the acquisition target in the operations

Weaknesses

- Managing the entity can be more challenging
- Cross selling can be more challenging

Opportunities

- Moderate valuation levels of unlisted companies enable value creation
- Balances service distribution and the risk profile of demand
- Enables faster growth than market growth

Threats

- Losing key personnel
- Managing growth
- Acquisition prices becoming too high
- Failure to verify the quality of acquisition targets
- Lack of mutual understanding between the buyer and the seller after the transaction

Source: Inderes

Strategy and financial objectives 3/3

Under Solwers, company entrepreneurs can give up some administrative tasks related to business operations, as the Group's support functions (HR, financial management, marketing, financing) help the company going forward. This allows entrepreneurs and key employees to focus on operating activities, which can create value in the long run, as entrepreneurs often know the customer field and its customers' business best and have long-term relationship with customers.

The acquisition strategy subjects the company to the risk that the key persons of independently managed companies, which typically consist of the owners, change. As the number of companies increases, there is also a risk that managing the whole becomes more difficult. In addition, growth management is emphasized in a rapid growth strategy that can prove challenging when the pace is fast. Of typical inorganic growth risks the model also underlines the criticality of ensuring the quality of the acquisition targets.

Assessment of inorganic growth

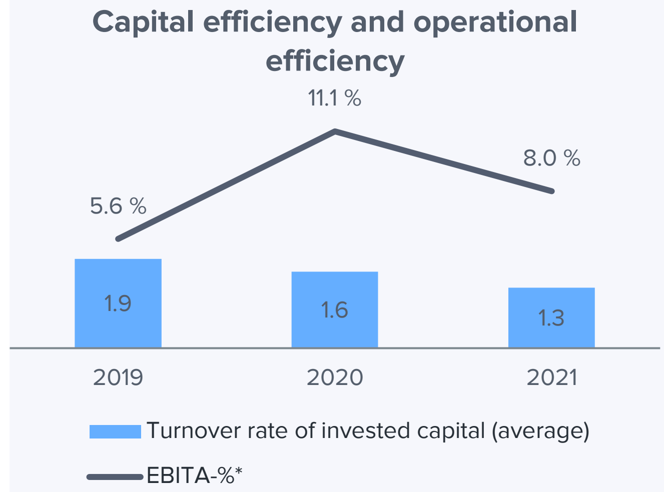
According to the company, acquisitions are typically carried out with moderate EBIT multiples of around 5-6.5x. Typically, the purchase price includes a so-called earn-out model based on post-acquisition earnings targets.

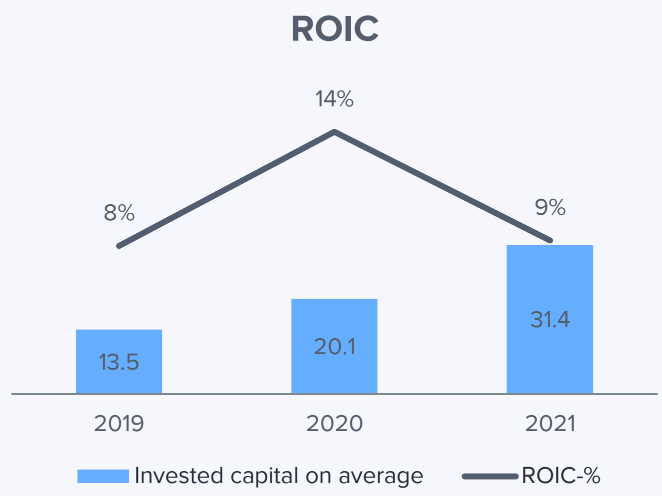
The valuation levels of acquisitions carried out so far as a listed company have mainly exceeded the target level (5-6.5x EBIT multiple). Analyzing is made more difficult by the fact that the purchase prices of some acquisitions have not been published, but, e.g., the EBIT multiple of the ELE Engineering acquisition was 13-14x, which is high. We believe, however, that the company paid some type of administrative costs to its previous owner so its historic earnings level is probably not the same as its current performance under Solwers. Correspondingly, the Lukkaroinen Arkkitehdit acquisition corresponded to an EBIT multiple of around 8x with the result of the latest financial period, but with the reported EBIT of the past three years the multiple fell below 7x which we find reasonable.

Assessment of the acquisition strategy

We believe that the Group's acquisition strategy should also be examined through ROCE. Over the past three years, the company's average ROCE has been 10%. Thus, ROCE has exceeded the required return we have applied in this short review period.

We feel an efficient acquisition strategy based on moderate valuation levels provides good preconditions for value creation also in the long run, which should be reflected as a higher ROCE compared to the required return. We also estimate that the company can improve ROCE from the current level by strengthening its capital efficiency. We, therefore, expect the company to continue with M&A transactions enabled by the company's financial and balance sheet position.





Source: Inderes
* IFRS 16 depreciation adjusted from the reported EBITA
ROIC-% = Nopat/invested capital

Inorganic growth strategy

2017
- Finnmap Infra
- Rockplan
- Rockplan Sweden
- Kalliotekniikka Consulting Engineers
- Insinööritoimisto Varsinais-Suomen Kalliotekniikka
- Accado
- Pontek

2018
- Polyplan
- ADT Arkkitehdit Davidsson Tarkela
- Contria
- Taitotekniikka

2019
- Zenner
- Dreem
- KAM Redovisning

2020
- LICAB
- Enerwex
- Geounion

2021
- INMECO Rakennuskonsultit
- LVI-Insinööritoimisto Meskanen
- Falk CM
- Lukkaroinen Arkkitehdit
- ELE Engineering

2022
- Arkkitehtitoimisto Sabelström Arkitektkontor
- Establish Schening AB

Realized

- Increasing the number of operational companies to 23 from 19 at the time of listing
- Acquired operations cover all project life cycle stages from the beginning to end
- 16 operational companies in Finland and 7 in Sweden
- Acquisition targets are very small in size
- An effective inorganic growth model has enabled five business acquisitions in the past 12 months

Medium term

- Expanding geographical coverage in the Nordic and Baltic countries
- Strengthening the service offering in service areas with a smaller relative share like infrastructure design in Sweden and smaller niches in Finland
- In the medium term, utilization of debt leverage and the cash flow generated by income financing enable maintenance of a relatively rapid acquisition rate

Source: Solwers and Inderes

Financial position

Balance sheet assets

In line with Solwers' business structures and inorganic growth strategy the assets in its balance sheet consist primarily of intangible assets.

At the end of H1'22, EUR 36.5 million (49% of assets) of the EUR 75 million balance sheet assets consisted of intangible assets, a majority of which was goodwill arising from acquisitions (2021: 33.5 MEUR) and the rest other intangible assets. Non-current assets included only EUR 5.9 million of tangible assets (8% of assets). The company's current assets included EUR 16.2 million in receivables (22% of assets) and EUR 12.6 million in cash assets (17% of assets).

Due to Solwers' inorganic growth strategy, the company's balance sheet has been and will probably tie up intangible assets in the form of goodwill arising from acquisitions The operations themselves tie up little capital, which indicates the low amount of intangible (excluding goodwill) and tangible assets in the balance sheet. The company's operational capital requirements are, therefore, related to working capital typical for expert services business in the form of accounts receivables and trade payables.

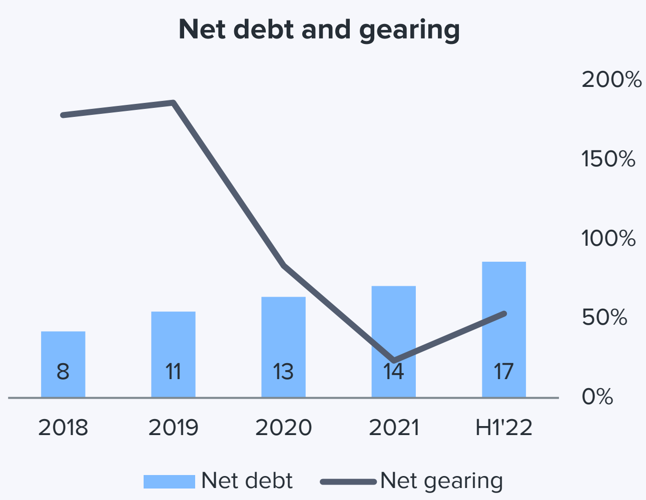
Capital structure

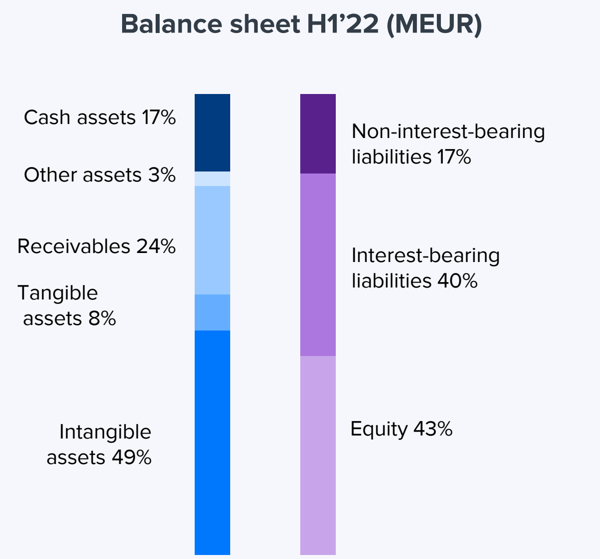
Solwers' equity at the end of H1'22 totaled EUR 32.3 million, of which EUR 0.6 million was attributable to non-controlling interests. Correspondingly, the company's equity ratio was 44% (2021: 45%), and exceeded the company's own 40% target level and the minimum of 35% as defined in the financing agreement with the company's main financing bank.

The total amount of liabilities in the company's balance sheet was EUR 42 million in H1'22. About EUR 29.7 million of this was interest-bearing liabilities (incl. lease liabilities and other interest-bearing liabilities) and considering the company's financial assets, net debt stood at around EUR 17.2 million in H1'22. Net gearing at the end of H1'22 was in turn 53% (2021: 44%), which can be classified as a fairly reasonable level. At the end of H1'22, the net debt to rolling 12-month EBITDA ratio was 2.6 (2021: 2.6). At the end of H1'22, the company had EUR 12.9 million in non-interest-bearing liabilities, which we estimate consisted of customary accounts payable, accrued expenses, deferred income, and other liabilities.

Small, directed issue strengthened the financial position

At the end of 2022, Solwers carried out a small, directed issue, when the company issued some 1.02 million new shares at a subscription price of EUR 4.4. Thus, the company raised total gross assets of some EUR 4.5 million in the directed issue and we estimate that it received EUR 4.3 million in net assets. Thus, relative to the situation of H1'22 and on the pretext of the issue alone (i.e. without H2'22 cash flow), the company's net debt would fall to just under EUR 13 million. This corresponds to a fairly moderate 1.6 net debt/EBITDA ratio with our 2022 estimate. We estimate that this would enable an acquisition capacity of at least EUR 12 million. Thus, based on its financial position the company has pretty good conditions to continue growing inorganically.





Source: Solwers, Inderes

Estimates 1/3

Estimate model

We estimate Solwers' short- and medium-term revenue development through expected market growth, realized acquisitions and estimated order book development. Similarly, we forecast the company's cost structure in proportion to revenue, based on historical levels and our estimates of future developments.

Economic growth outlook in target markets

The Finnish economy recovered well from the COVID crisis, and in 2022 economic growth was faster than the long-term trend, 1.9% according to Bloomberg's forecast. However, 2023 is expected to be more difficult and Bloomberg's forecast expects -0.5% economic growth in 2023 and 1.1% in 2024. Growth forecasts for Sweden have also been lowered and are currently -1.1% for 2023 and 1.3% for 2024 (2022e: -2.7%). Both economies are now plagued by energy-driven inflation, tightening monetary policy and the weakening global economic cycle. In addition, the rapid deterioration of the housing market outlook and the fall in housing prices in Sweden are already reflected in the economic outlook, which is why economic growth forecasts are partly lower than in Finland.

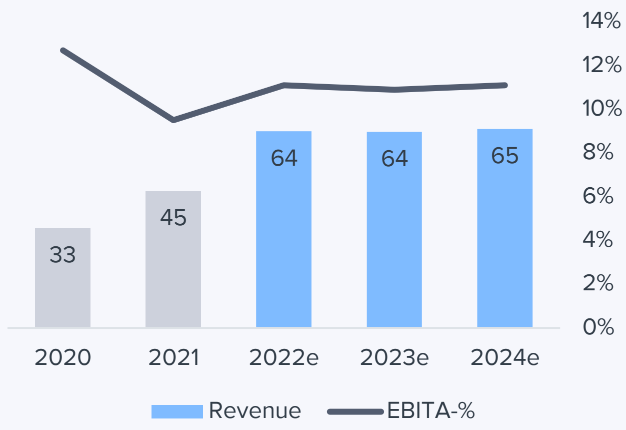
Estimates for 2022

During the first half of 2022, Solwers' revenue increased by 48% to EUR 32.6 million. This was mainly due to completed acquisitions, i.e. inorganic growth, whereas the company estimates organic growth was slightly positive in H1. In H1, EBITA reached EUR 3.8 million, corresponding to a profitability of 11.7%. Thus, the increased sick leaves related to COVID flagged by the company, do not seem to have had a significant impact on the company's development in the early part of the year, which was a relief after the slightly more subdued profitability development in H2'21.

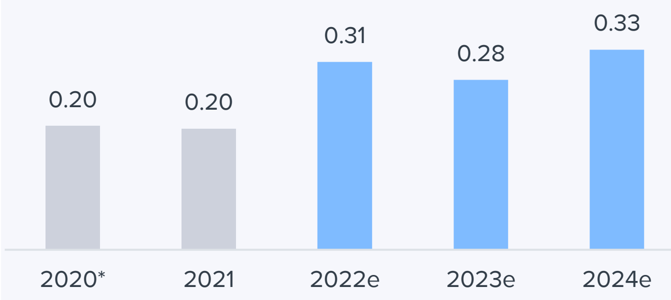
Solwers has not provided guidance for 2022 but has in its outlook estimated that demand for infrastructure design services in Finland is stable, and demand for industrial and infrastructure design and project management services in northern Sweden is expected to continue as strong. The company also pointed out that the COVID pandemic had and could increase the number of sick days among personnel also in the future. This may affect the company's revenue and earnings as long as the higher-than-normal sick leave resulting from COVID continues.

We estimate that the weakening economic growth image because of increased inflation and the uncertainty caused by the Russian war of aggression is slightly reflected in Solwers' markets and caused some delays or postponements of projects. However, we do not expect this to slow down Solwers' organic development substantially in H2. We expect the company's revenue to develop stably organically, as the activity especially in northern Sweden continues to be high. However, thanks to acquisitions, we expect H2 revenue to increase by 39% to EUR 31.7 million, and thus we expect growth for the full year to reach almost 44%.

Revenue and profitability development



EPS (reported)



Source: Inderes

* Calculated with the number of shares after the IPO

Estimates 2/3

With this revenue mass and relatively stable cost structure, we expect the company's H2 EBITA to be EUR 3.8 million still corresponding to a good profitability of 10.5%. Thus, we expect EBITA for the full year to be EUR 7.1 million, corresponding to a margin of 11.1%. We estimate that the company's financing costs will increase slightly in H2 due to increased interest rates, but the estimated non-recurring cost of the directed issue will clearly increase net financing costs. We expect the tax rate for the whole year to be at its normal level. Thus, we expect the EPS for 2022 to be EUR 0.31 per share, on which we expect the company, in line with the moderate dividend policy, to distribute a dividend of EUR 0.08 per share doubling from the year before.

As typical for the business model, we expect working capital commitment to be limited, in light of which we estimate that the cash flow for 2022 reflects the operating result relatively well. Considering moderate investment needs and the directed issue, the company's balance sheet position remains strong and, together with the good financial position, it enables significant growth leaps through acquisitions.

Estimates for 2023-2024

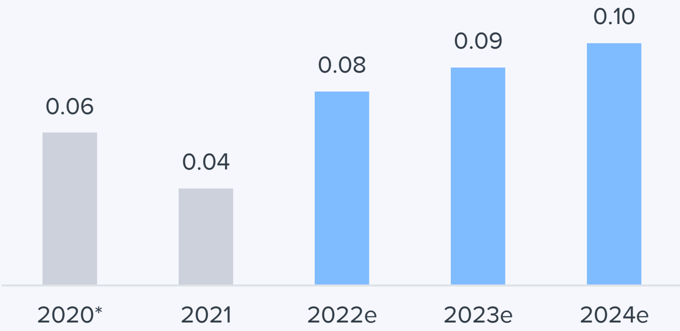
In our 2023 estimates, we expect the slowing down of economic activity to depress organic growth slightly into red to -2%, which we believe reflects, in particular, the partial shift and decline in private sector investments. In line with the inorganic growth from acquisitions made in 2022, full year 2023 revenue is expected to reach roughly the previous year's level at EUR 64 million.

Considering the company's cost structure, we expect it will avoid sharp cost increases and that wage inflation in the main markets will also be more moderate than in the rest of Europe. Thus, we expect the company to be able to maintain its profitability fairly stable and at a good level of 10.9% in 2023, which corresponds to an EBITA of EUR 7 million.

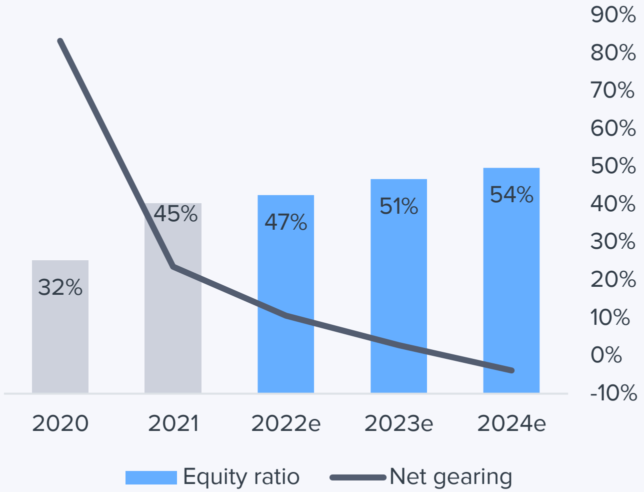
With the increase in interest rates, we expect net financing costs in 2023 to rise from the previous year, while we expect the tax rate to remain at its typical level. Thus, we expect the 2023 EPS to be EUR 0.28 and expect the company to increase its dividend to EUR 0.09 per share.

In line with slightly recovering economic growth, we expect 2024 revenue to grow organically by 1.5% to EUR 65 million. Considering the moderating inflation, we believe that the upward pressure on costs should remain moderate in 2024, which will provide conditions for a stable profitability trend. Our EBITA estimate for 2024 corresponds to a profitability of 11.1% in line with previous years. With this operating result, relatively stable net financing costs and tax rate, we expect the company to reach an EPS of EUR 0.33. We expect the company to increase its dividend again in 2024 to EUR 0.10 per share.

Dividend per share



Development of balance sheet position



Source: Inderes

* Calculated with the number of shares after the IPO

Estimates 3/3

Our estimates do not include inorganic growth, because it is practically impossible to estimate it with reasonable accuracy. Thus, in our estimates, the company's balance sheet continues to strengthen in line with earnings development and a good cash flow ratio in 2023 and 2024. We believe one can expect continued inorganic growth from the company in the short- and medium-term, which means the actual revenue and earnings growth will probably differ from the estimated growth.

Long term estimates

Our medium- and long-term estimates expect the company's revenue to grow slightly more rapidly than the economy, as our revenue growth estimates for 2025-2029 are 2.0-2.5%. Correspondingly, our medium- and long-term profitability estimates are 10-11%, reflecting our assessment of the longer-term profitability potential of the business model and are broadly in line with the overall profitability level of the industry.

Estimate revisions

We have not made any substantial changes to our operational estimates. We did, however, revise our short-term financing cost estimates slightly upward in line with the estimated non-recurring cost item related to the directed issue in H2'22 and the increased interest rate level for the next few years. However, a significantly greater effect on our per-share estimates was the directed share issue carried out by the company, which increased the number of outstanding shares and thus decreased EPS. We believe that the allocation of these and the assets already in the balance sheet before the issue to sensible acquisitions in terms of financial and qualitative criteria create a clear potential earnings growth driver in the short- and medium-term.

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	64,2	64,2	0 %	64,0	64,0	0 %	64,7	65,0	0 %
EBITDA	8,1	8,1	0 %	8,2	8,2	0 %	8,4	8,4	0 %
EBIT	5,1	5,1	0 %	5,1	5,1	0 %	5,3	5,3	1 %
PTP	4,6	4,2	-8 %	4,4	3,8	-15 %	4,6	4,3	-7 %
EPS (excl. NRIs)	0,37	0,33	-11 %	0,37	0,28	-24 %	0,39	0,33	-16 %
DPS	0,08	0,08	0 %	0,09	0,09	0 %	0,10	0,10	0 %

Source: Inderes

Quarterly estimates

Income statement	2020	H1'21	H2'21	2021	H1'22	H2'22e	2022e	2023e	2024e	2025e
Revenue	**32,6**	**22,0**	**22,7**	**44,7**	**32,6**	**31,7**	**64,2**	**64,0**	**65,0**	**66,6**
Group	32,6	22,0	22,7	44,7	32,6	31,7	64,2	64,0	65,0	66,6
EBITDA	**5,0**	**3,0**	**2,5**	**5,5**	**4,2**	**3,8**	**8,1**	**8,2**	**8,4**	**8,5**
Depreciation	-1,4	-1,0	-1,1	-2,1	-1,4	-1,5	-2,9	-3,1	-3,1	-3,1
EBIT	**3,5**	**2,0**	**1,4**	**3,4**	**2,8**	**2,3**	**5,1**	**5,1**	**5,3**	**5,4**
EBITA	**4,1**	**2,7**	**2,0**	**4,3**	**3,8**	**3,3**	**7,1**	**7,0**	**7,2**	**7,2**
Net financial items	-0,1	-1,0	-0,2	-1,3	-0,2	-0,7	-0,9	-1,3	-1,0	-0,7
PTP	**3,4**	**1,0**	**1,1**	**2,1**	**2,6**	**1,6**	**4,2**	**3,8**	**4,3**	**4,7**
Taxes	-0,8	0,0	-0,5	-0,4	-0,7	-0,3	-1,0	-0,8	-0,9	-1,0
Minority interest	-0,9	-0,1	-0,1	-0,2	-0,1	-0,1	-0,2	-0,2	-0,2	-0,2
Net earnings	**1,7**	**0,9**	**0,5**	**1,4**	**1,8**	**1,2**	**3,0**	**2,8**	**3,2**	**3,5**
EPS (adj.)	**7,98**	**0,13**	**0,07**	**0,20**	**0,18**	**0,15**	**0,33**	**0,28**	**0,33**	**0,35**
EPS (rep.)	**7,98**	**0,13**	**0,07**	**0,20**	**0,18**	**0,12**	**0,31**	**0,28**	**0,33**	**0,35**

Key figures	2020	H1'21	H2'21	2021	H1'22	H2'22e	2022e	2023e	2024e	2025e
Revenue growth-%	26,5 %			36,8 %	48,3 %	39,4 %	43,8 %	-0,3 %	1,5 %	2,5 %
EBITDA-%	15,2 %	13,7 %	11,0 %	12,3 %	13,0 %	12,1 %	12,6 %	12,8 %	13,0 %	12,7 %
EBITA-%	12,7 %	12,1 %	9,0 %	9,5 %	11,7 %	10,5 %	11,1 %	10,9 %	11,1 %	10,8 %
Net earnings-%	5,3 %	4,2 %	2,3 %	3,2 %	5,6 %	3,7 %	4,7 %	4,3 %	4,9 %	5,2 %

Valuation 1/2

Basis of the valuation

We are pricing Solwers through earnings-based valuation multiples, which we also compare with the relative peer group valuation. We particularly favor EV/EBIT and P/E multiples in the valuation. The use of EV-based multiples is supported by them considering the balance sheet structure, but due to the minorities in the Group structure, the operating result does not flow to Solwers' shareholders in full. This, in turn, promotes the use of P/E-based valuation multiples, which also considers moderate minority interests. In addition to the earnings-based valuation, we also use the DCF model. In the total expected return, the role of dividends is small considering the company's profit distribution policy and capital allocation strategy.

Absolute valuation multiples are moderate for the coming years

Solwers' adjusted P/E ratios for 2022 and 2023 according to our estimates are 13x and 16x. Corresponding EV/EBIT ratios that consider the strong balance sheet are 10x. In our opinion, these earnings-based valuation multiples for the coming years are, as a whole, moderate, especially considering the assets in the balance sheet that can be allocated to inorganic and thus earnings growth. We feel there is clear upside in the share's valuation.

Relative valuation picture is also moderate

The group of peer companies we established consists of companies with similar business models, whose organic growth and profitability potential are quite well in line with Solwers. Of the peer group companies especially Sitowise, Sweco and AFRY, compete with Solwers on the same markets. Similarly, the target market for Etteplan, for example, differs from that of Solwers, but the convergence of the business model of the expert service company supports including them in the peer group.

The peer group companies are also characterized by pursuing inorganic growth, but Solwers' value creation model also compares with so-called serial consolidators. On the other hand, the track record of serial consolidators of value-creating M&A transactions are clearly longer and their historical ROCE is also significantly higher than in Solwers' own history. Thus, we do not believe that it is justified at this stage to value Solwers at the same level as the peer group consisting of serial consolidators. If the company succeeds in systematically creating value through inorganic growth, increase its return on capital and strengthen the scalability of its value creation model in the medium-term, we believe that the valuation could rely more strongly on the valuation levels of serial consolidators.

The median P/E ratios for the peer group for 2022-2023 are 19x and 17x and corresponding EV/EBITDA ratios are 11x and 9x. We apply the EBITDA ratio in the peer group valuation because different depreciation practices can distort EBIT-based multiples.

Valuation	2022e	2023e	2024e
Share price	4,39	4,39	4,39
Number of shares, millions	9,8	9,8	9,8
Market cap	43	43	43
EV	53	50	47
P/E (adj.)	13,3	15,6	13,5
P/E	14,4	15,6	13,5
P/B	1,1	1,1	1,0
P/S	0,7	0,7	0,7
EV/Sales	0,8	0,8	0,7
EV/EBITDA	6,5	6,1	5,5
EV/EBIT (adj.)	10,3	9,8	8,8
Payout ratio (%)	26,2 %	31,9 %	30,7 %
Dividend yield-%	1,8 %	2,1 %	2,3 %

Source: Inderes

Valuation 2/2

With earnings-based valuation multiples Solwers is valued at a discount of around 20% to its peers. Also based on the volume-based EV/S ratio the relative valuation is at a discount of around 35%, although the profitability levels and potentials of the companies are fairly similar.

Solwers' clearly smaller size and shorter history than for the peers would favor a discount relative to the peers but considering the company's historical development and fragmentation of the business portfolio, we consider it justified to value the company in line with the industry peers. In our view, the valuation multiples of the peer group are reasonable in absolute terms. We believe the relative valuation indicates an upside for the share.

DCF model

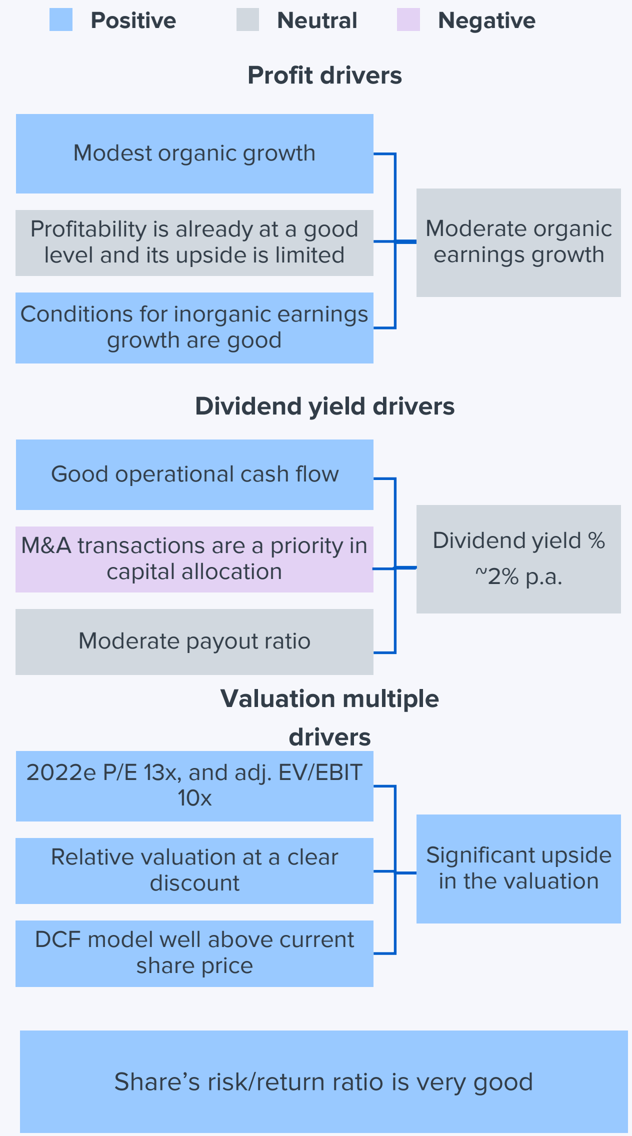
We feel the DCF model is quite well suited for the valuation of Solwers' business. However, in the case of Solwers, the usefulness of the model is undermined by the value creation potential of inorganic growth, which is not considered in the DCF model. Our DCF model is based on our medium- and long-term estimates, the terminal revenue growth estimate is 2% and the corresponding profitability estimate is 10.0% (EBITA %). In our DCF model, the cost of equity is 9.9% while the average cost of capital (WACC-%) is 8.5%. With these assumptions, the value of the share indicated by our DCF model is EUR 54 million or EUR 5.5 per share. 59% of the value of the model consists of the terminal, which is a rather neutral level.

Expected return in next few years

Based on our organic revenue growth and profitability estimates, we have gauged the expected return for the next few years. Based on our estimates, organic earnings growth in 2022-2024 will be low, as we expect market growth to be sluggish in the next few years and do not believe there is much upside in the profitability that is on a good level. The expected return receives some support from the average dividend yield of around 2% in our estimates for the next couple of years. However, we believe that the clear upside in the valuation is the biggest driver of the expected return by far. In line with the company's value creation model, we expect that the acquisitions we find likely in the next few years and already in the next 12 months will largely control investors' expected return.

We estimate that the company's current financial position together with moderating general valuation levels give the company good conditions to create value through M&A transactions. To investors, this should appear as more efficient use of balance sheet capital and higher ROCE. We do not believe that the current valuation relies on the value creation of future arrangements, which is why we consider the risk/return ratio to be very good at the current share price, even though the cyclicality risks connected to the operating environment and the economy are elevated. Thus, we raise our recommendation to Buy (previously Reduce) and reiterate our EUR 5.50 target price.

TSR drivers 2022-2024e



Source: Inderes

Valuation

Valuation	2019	2020	2021	2022e	2023e	2024e	2025e
Share price			7.20	4.39	4.39	4.39	4.39
Number of shares, millions			7.24	9.8	9.8	9.8	9.8
Market cap			52	43.2	43.2	43.2	43.2
EV			61	52.6	49.7	46.6	43.6
P/E (adj.)			36.3	13.3	15.6	13.5	12.4
P/E			36.3	14.4	15.6	13.5	12.4
P/B			1.7	1.1	1.1	1.0	1.0
P/S			1.2	0.7	0.7	0.7	0.6
EV/Sales			1.4	0.8	0.8	0.7	0.7
EV/EBITDA			11.0	6.5	6.1	5.5	5.1
EV/EBIT (adj.)			18.0	10.3	9.8	8.8	8.1
Payout ratio (%)			20.2 %	26.2 %	31.9 %	30.7 %	30.0 %
Dividend yield-%			0.6 %	1.8 %	2.1 %	2.3 %	2.4 %

Source: Inderes

Investment profile

Growth company with good profitability

Based on its investment profile, Solwers is a growth company because although we expect the total market to grow slightly faster than the economy, the company's growth target is well above the expected market growth. Thus, the company can be expected to continue its rapid growth through a combination of market growth and inorganic growth. Based on good historical profitability and cash flow, we believe the company is well placed to continue implementing its inorganic growth strategy.

In line with its dividend policy, Solwers can be expected to pay dividends, but we believe that inorganic growth is a priority in capital allocation. Thus, we estimate that the dividend only supports the expected business growth moderately in the medium term.

Value drivers and strengths

In our view, Solwers' most important value drivers and strengths are:

Throughout the short history of the Group, Solwers' **profitability** has been on a rising trajectory. In 2020, the company reached excellent profitability levels considering the industry and, thus, business performance has been proven, even though relative profitability deteriorated slightly in 2021.

Thanks to the **good financial position, balance sheet and efficient acquisition process,** the company has excellent preconditions to continue to grow quickly and in line with financial objectives at >20%. In its acquisitions the company also focuses on established companies with several years of history that have proven their profitability, which is why we feel the acquisition strategy does not jeopardize the profitability target. Acquisitions also have good value creation preconditions if the company manages to continue to purchase smaller unlisted targets with moderate valuation multiples.

With their small **size class**, Solwers companies have established local customer relationships and good knowledge of the market. In 2021, Solwers companies carried out over 3,800 orders, so the orders consist of small projects. In our view, the level of risk associated with the large and diversified **number of projects** is more moderate than for a concentrated portfolio.

Risks

We believe Solwers' main weaknesses and risks are:

The cyclical nature of the target market and volatility of demand are a risk for implementing the growth strategy and for earnings growth. A key driver for the company's demand is construction that is cyclical. However, the impact is balanced by renovation and infrastructure construction, which are less susceptible to economic cycles and demand fluctuations.

The cost structure consists largely of inflexible fixed personnel costs in the short term. To maintain good profitability, the company must succeed in adjusting personnel costs to possible demand fluctuations to maintain high billable utilization that is critical for good profitability. In Finland, the possibility of temporary layoffs bring flexibility to the cost structure.

Failure of acquisitions is a key risk, as the cornerstone of the company's growth strategy is inorganic growth. After numerous acquisitions, the company has a tested and proven acquisition process, but each acquisition is a separate project that can fail. Solwers mainly buys relatively small players that are not fully integrated into the Group. Thus, we believe the acquisition strategy has higher **key personnel risks** than normal, which the company is trying to reduce with share ownership.

Due to the **Group and organizational structure**, Solwers is dependent on both the key personnel of the owned companies and on the key personnel of the Group, i.e. management. We also believe that the effective acquisition strategy and light administration structure is counterbalanced by the risk that, as the decentralized group grows, it becomes more difficult to manage as the company does not integrate the acquisition targets.

Investment profile

1. **Strong growth-orientation and efficient acquisition process**

2. **Business portfolio that balances cyclical fluctuations and good profitability**

3. **Low investment need and good cash flow support the conditions for inorganic growth**

4. **Risks related to inorganic growth and personnel dependency**

5. **Managing billable utilization is key**

Potential

- Moderate organic and profitable growth in the core business
- An efficient and well-established acquisition process drives business growth
- Low investment needs and good cash flow enable increased capital allocation
- Established customer relationships and large number of small projects

Risks

- Usual risks associated with acquisitions
- Dependency on the availability and commitment of staff in an industry suffering from expert shortage
- We estimate that changes in billable utilization are reflected relatively strongly in profitability

Source: Inderes

Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**
Sitowise	174	263	18,8	13,9	10,8	8,8	1,3	1,3	16,0	13,5	2,4	2,8	1,4
Sweco AB	3755	4179	21,7	22,1	15,9	15,6	1,9	1,9	26,0	26,0	2,2	2,2	4,4
Afry AB	1977	2603	18,2	16,0	11,9	10,9	1,2	1,2	17,3	16,5	3,0	3,3	1,9
Rejlers AB	276	315	14,7	14,7	8,9	8,9	1,0	1,0	16,5	16,9	2,6	2,8	2,3
WSP Global	14671	17330	27,0	22,4	16,6	14,0	2,8	2,5	31,2	27,0	0,9	0,9	3,5
Etteplan Oyj	375	449	15,7	14,8	9,2	8,9	1,3	1,2	20,2	16,7	2,2	3,0	3,6
Arcadis NV	3621	3893	14,8	10,6	10,5	7,8	1,1	0,8	18,8	15,3	2,2	2,5	3,3
Solwers (Inderes)	**43**	**53**	**10,3**	**9,8**	**6,5**	**6,1**	**0,8**	**0,8**	**13,3**	**15,6**	**1,8**	**2,1**	**1,1**
Average			**18,7**	**16,3**	**12,0**	**10,7**	**1,5**	**1,4**	**20,9**	**18,8**	**2,2**	**2,5**	**2,9**
Median			**18,2**	**14,8**	**10,8**	**8,9**	**1,3**	**1,2**	**18,8**	**16,7**	**2,2**	**2,8**	**3,3**
Diff-% to median			***-44 %***	***-34 %***	***-39 %***	***-32 %***	***-35 %***	***-37 %***	***-29 %***	***-7 %***	***-19 %***	***-26 %***	***-65 %***

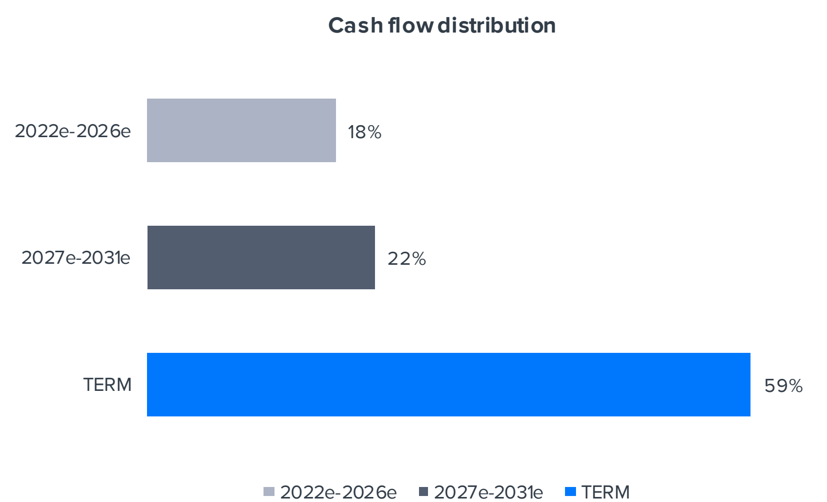
Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	36,8 %	43,8 %	-0,3 %	1,5 %	2,5 %	2,5 %	2,5 %	2,5 %	2,0 %	2,0 %	2,0 %	2,0 %
EBIT-%	7,5 %	8,0 %	7,9 %	8,2 %	8,1 %	8,6 %	8,5 %	8,5 %	8,5 %	8,5 %	8,5 %	8,5 %
EBIT (operating profit)	**3,4**	**5,1**	**5,1**	**5,3**	**5,4**	**5,9**	**5,9**	**6,1**	**6,2**	**6,3**	**6,5**	
+ Depreciation	2,1	2,9	3,1	3,1	3,1	2,9	2,8	2,8	2,4	2,4	2,4	
- Paid taxes	-0,4	-1,0	-0,8	-0,9	-1,0	-1,1	-1,1	-1,2	-1,2	-1,2	-1,2	
- Tax, financial expenses	-0,3	-0,2	-0,3	-0,2	-0,2	-0,1	-0,1	-0,1	-0,1	-0,1	-0,1	
+ 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	0,7	-6,3	0,2	0,0	-0,2	-0,2	-0,1	-0,3	-0,2	-0,2	-0,3	
Operating cash flow	**5,5**	**0,5**	**7,3**	**7,3**	**7,2**	**7,4**	**7,4**	**7,3**	**7,1**	**7,2**	**7,3**	
+ Change in other long-term liabilities	2,9	-0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-21,8	-4,2	-2,4	-2,4	-2,4	-2,4	-2,4	-2,4	-2,4	-2,4	-2,4	
Free operating cash flow	**-13,4**	**-4,6**	**4,9**	**4,9**	**4,8**	**5,0**	**5,0**	**4,9**	**4,7**	**4,8**	**4,9**	
+/- Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-13,4	-4,6	4,9	4,9	4,8	5,0	5,0	4,9	4,7	4,8	4,9	76,8
Discounted FCFF		**-4,7**	**4,7**	**4,3**	**3,8**	**3,7**	**3,4**	**3,1**	**2,7**	**2,6**	**2,4**	**37,7**
Sum of FCFF present value		63,7	68,4	63,7	59,5	55,6	52,0	48,5	45,4	42,7	40,2	37,7
Enterprise value DCF		**63,7**										
- Interesting bearing debt		-20,2										
+ Cash and cash equivalents		12,6										
-Minorities		-0,7										
-Dividend/capital return		-0,3										
Equity value DCF		**55**										
Equity value DCF per share		**5,6**										

WACC	
Tax-% (WACC)	23,0 %
Target debt ratio (D/(D+E)	20,0 %
Cost of debt	3,5 %
Equity Beta	1,25
Market risk premium	4,75 %
Liquidity premium	1,50 %
Risk free interest rate	2,5 %
Cost of equity	**9,9 %**
Weighted average cost of capital (WACC)	**8,5 %**

Source: Inderes



Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**24**	**44**	**45**	**44**	**43**
Goodwill	16,6	16,6	18,6	18,6	18,6
Intangible assets	2,4	17,8	15,8	14,9	14,0
Tangible assets	2,8	5,9	7,1	7,3	7,5
Associated companies	0,0	0,0	0,0	0,0	0,0
Other investments	1,6	1,9	1,9	1,9	1,9
Other non-current assets	0,5	1,4	1,4	1,4	1,4
Deferred tax assets	0,0	0,0	0,0	0,0	0,0
Current assets	**16**	**27**	**33**	**31**	**32**
Inventories	0,3	0,2	0,0	0,0	0,0
Other current assets	0,3	0,3	0,3	0,3	0,3
Receivables	9,4	13,6	15,6	15,4	15,4
Cash and equivalents	6,1	12,6	16,7	15,4	16,1
Balance sheet total	**40**	**70**	**77**	**75**	**75**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**13**	**32**	**39**	**41**	**43**
Share capital	1,0	1,0	1,0	1,0	1,0
Retained earnings	3,3	-0,9	1,8	3,8	6,1
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	6,2	31,1	36	36	36
Minorities	2,3	0,6	0,6	0,6	0,6
Non-current liabilities	**14**	**20**	**23**	**21**	**19**
Deferred tax liabilities	0,0	0,0	0,0	0,0	0,0
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	13,0	16,4	20,0	18,0	16,0
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	1,1	3,9	3,0	3,0	3,0
Current liabilities	**13**	**18**	**15**	**13**	**13**
Short term debt	3,7	3,8	5,5	3,3	3,0
Payables	1,3	2,0	3,9	3,8	3,9
Other current liabilities	8,2	12,4	6,0	6,0	6,0
Balance sheet total	**40**	**70**	**77**	**75**	**75**

Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	25,8	32,6	44,7	**64,2**	**64,0**
EBITDA	2,4	5,0	5,5	**8,1**	**8,2**
EBIT	1,5	3,5	3,4	**5,1**	**5,1**
PTP	1,3	3,4	2,1	**4,2**	**3,8**
Net Income	0,6	1,7	1,4	**3,0**	**2,8**
Extraordinary items	0,0	0,0	0,0	**0,0**	**0,0**

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)		7,98	0,20	**0,31**	**0,28**
EPS (adj.)		7,98	0,20	**0,33**	**0,28**
OCF / share		20,51	0,76	**0,05**	**0,75**
FCF / share		-14,31	-1,85	**-0,46**	**0,50**
Book value / share		48,05	4,32	**3,91**	**4,11**
Dividend / share		2,06	0,04	**0,08**	**0,09**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	27,9	40,0	70,3	**77,5**	**75,2**
Equity capital	5,9	12,7	31,9	**39,1**	**41,0**
Goodwill	11,1	16,6	16,6	**18,6**	**18,6**
Net debt	10,9	10,6	7,5	**8,8**	**5,9**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	2 %	27 %	37 %	**44 %**	**0 %**
EBITDA growth-%	-4 %	103 %	11 %	**47 %**	**1 %**
EBIT (adj.) growth-%	-32 %	139 %	-5 %	**52 %**	**-1 %**
EPS (adj.) growth-%			-98 %	**67 %**	**-15 %**
EBITDA-%	9,5 %	15,2 %	12,3 %	**12,6 %**	**12,8 %**
EBIT (adj.)-%	5,7 %	10,8 %	7,5 %	**8,0 %**	**7,9 %**
EBIT-%	5,7 %	10,8 %	7,5 %	**8,0 %**	**7,9 %**
ROE-%	18,5 %	23,7 %	6,9 %	**8,6 %**	**7,0 %**
ROI-%	8,2 %	14,0 %	8,3 %	**8,8 %**	**8,0 %**
Equity ratio	21,0 %	31,8 %	45,4 %	**50,4 %**	**54,6 %**
Gearing	186,1 %	83,4 %	23,6 %	**22,6 %**	**14,4 %**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	2,4	5,0	5,5	**8,1**	**8,2**
Change in working capital	-0,2	-0,5	0,7	**-6,3**	**0,2**
Operating cash flow	1,9	4,5	5,5	**0,5**	**7,3**
CAPEX	-6,1	-8,7	-21,8	**-4,2**	**-2,4**
Free cash flow	-5,3	-3,1	-13,4	**-4,6**	**4,9**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S			1,4	**0,8**	**0,8**
EV/EBITDA (adj.)			11,0	**6,5**	**6,1**
EV/EBIT (adj.)			18,0	**10,3**	**9,8**
P/E (adj.)			36,3	**13,3**	**15,6**
P/B			1,7	**1,1**	**1,1**
Dividend-%			0,6 %	**1,8 %**	**2,1 %**

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

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
21.6.2021	Reduce	8,20 €	8,35 €
16.9.2021	Accumulate	8,20 €	7,40 €
3.11.2021	Accumulate	8,60 €	7,34 €
1.12.2021	Accumulate	9,00 €	7,90 €
9.3.2022	Accumulate	8,00 €	7,20 €
16.3.2022	Reduce	7,00 €	6,97 €
16.9.2022	Reduce	5,50 €	5,34 €
25.1.2023	Buy	5,50 €	4,39 €

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