Harvia

Extensive report

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Rauli Juva
+358 50 588 0092
rauli.juva@inderes.fi

Thomas Westerholm
+358 50 541 2211
thomas.westerholm@inderes.fi

Inderes corporate customer

This report is a summary translation of the report "Houkutteleva arvostus laatuyhtiölle" published on 9/8/2022 at 8:08 pm

Attractive valuation for a quality company

Harvia is a leading company in its field with clear competitive advantages. This enables good ROIC and value creation, and the company's capital allocation to acquisitions has been successful. We expect that future quarters will be difficult for Harvia when revenue and earnings fall, but valuation with next year's figures is so low (EV/EBIT under 10x) that we raise Harvia's recommendation to Buy (previously Accumulate) with a EUR 20.0 target price (previously 22.0).

The world's leading sauna and spa company

In recent years Harvia has become the world's largest sauna and spa company. Harvia estimates its market share on the whole market to be about 5%, so it would be about 10% of its relevant product market. In recent years, the company has significantly increased its market share (both through acquisitions and organically), while market growth was strong during the COVID pandemic. However, Harvia still believes that the market will grow from 2023 onwards at the historic growth rate of around 5% per year. We are a slightly more cautious about development in the near future, but believe that the market and Harvia will achieve an annual growth rate of 5% starting from 2024.

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

In our opinion, Harvia has several clear competitive advantages that support the profitable growth and value creation of the company. They mainly concern the market for wood/electric heaters and their components. These represent about 75% of Harvia's sales. We believe Harvia's competitive advantages are: 1) vertical integration and own design, 2) economies of scale (in production), 3) strong brand(s), 4) broad and long-term distribution relationships. We feel that the company's management has been very successful since 2014 in driving the international growth of Harvia and strengthening these competitive advantages. We also believe that the company has succeeded in creating value by allocating capital to acquisitions. The competitive advantages and low capital requirements enable the company an ROIC of about 20% in the coming years.

Revenue and profit will fall in coming quarters, back to growth path in 2024

We expect that the absence of strong demand caused by COVID, withdrawal from Russia and weaker consumer demand will drive Harvia's revenue decline in H222 and 2023. The margin level will also fall from the 2021 record levels to a more typical 20% level for Harvia, even slightly below this in 2023. With our estimates, EPS will fall by about 20% p.a. in 2022 and 2023 and increase by about 10% p.a. in 2024-25.

Valuation is attractive, even though falling earnings and uncertainty is expected in the near term

We expect Harvia's revenue and EBIT to fall for the next three quarters. In addition, we believe there is a risk that the decline would be larger than expected. In terms of valuation, however, the 12.5x P/E and 10x EV/EBIT we estimate for 2023 are low despite the uncertainty as Harvia is a high-quality company with a reasonable growth outlook. We also expect that 2023 will be the weakest of the coming years, which highlights the low multiples. However, multiple expansion may require a more positive news flow and/or a change in the overall valuation level. We believe the expected return in 12 months is clearly positive, even though we do not see many positive drivers for the share in the coming months. Starting from 2024, we believe that Harvia will generate 5-10% earnings growth, in addition to which investors will receive 4% dividend yield. The longer-term expected return is therefore over 10%, which is also attractive.

Recommendation

Buy
(previous Accumulate)

EUR 20.00
(previous EUR 22.00)

Share price:
15.23

Key figures

	2021	2022e	2023e	2024e
Revenue	179	181	166	176
growth-%	64%	1%	-8%	6%
EBIT adj.	47.4	37.1	30.4	33.5
EBIT-% adj.	26.5 %	20.4 %	18.3 %	19.0 %
Net Income	33.7	28.2	22.7	25.1
EPS (adj.)	1.85	1.51	1.22	1.34
P/E (adj.)	31.7	10.1	12.5	11.3
P/B	13.5	2.9	2.6	2.3
Dividend yield-%	1.0 %	4.0 %	4.1 %	4.3 %
EV/EBIT (adj.)	24.9	8.4	9.6	8.3
EV/EBITDA	22.5	7.1	7.9	7.0
EV/S	6.6	1.7	1.8	1.6

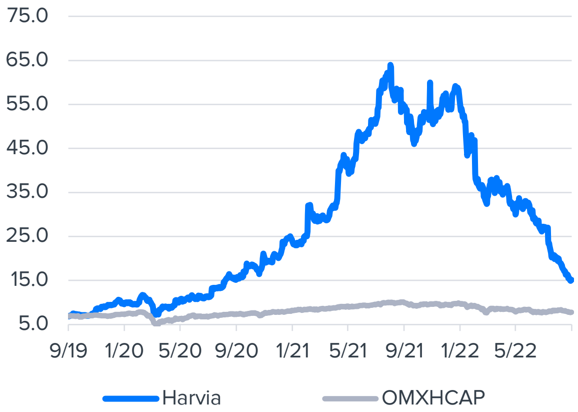
Source: Inderes

Guidance

(Unchanged)

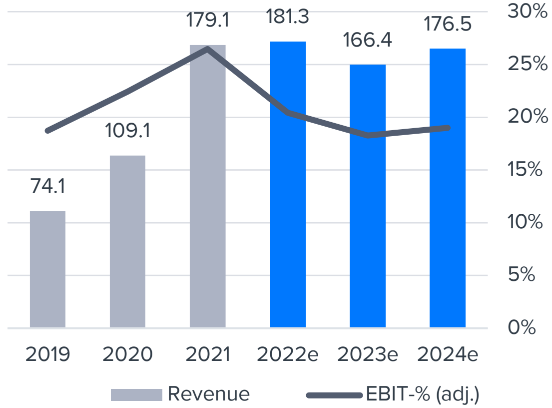
Harvia does not publish a short-term outlook. The company targets average annual revenue growth above 5% and 20% adjusted EBIT margin.

Share price



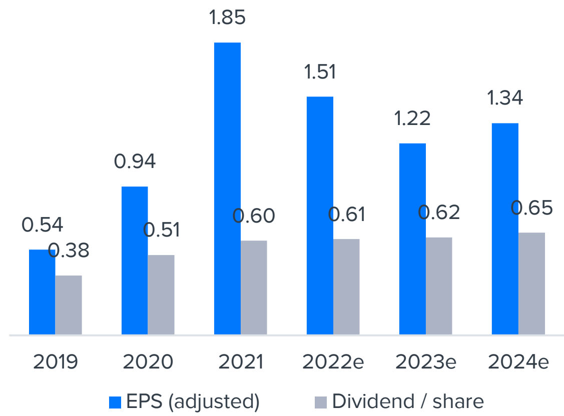
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

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

Risk factors

- Dependency on the Muurame plant
- Removal of tailwind produced by advance demand and its effect on revenue
- Changes in the competitive field or position
- Effect of material costs on profitability
- Economic fluctuations and fluctuations on the construction market may slow down growth
- Successful integration of acquisitions

Valuation	2022e	2023e	2024e
Share price	15.2	15.2	15.2
Number of shares, millions	18.7	18.7	18.7
Market cap	284	284	284
EV	312	292	278
P/E (adj.)	10.1	12.5	11.3
P/E	10.1	12.5	11.3
P/FCF	34.9	9.0	10.9
P/B	2.9	2.6	2.3
P/S	1.6	1.7	1.6
EV/Sales	1.7	1.8	1.6
EV/EBITDA	7.1	7.9	7.0
EV/EBIT (adj.)	8.4	9.6	8.3
Payout ratio (%)	40.4 %	51.0 %	48.4 %
Dividend yield-%	4.0 %	4.1 %	4.3 %

Source: Inderes

Contents

Harvia in brief

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

1950
Year of establishment

3/2018
IPO

189 MEUR **(+26 % y-o-y)**
Revenue for the last 12 months

43 MEUR **(23% of net sales)**
Adjusted EBIT for the last 12 months

#1
Market position on sauna heater and component market

#1
Market position on sauna and spa market

824
Personnel at the end of 2021

9
Own production plants

1950 - 2014

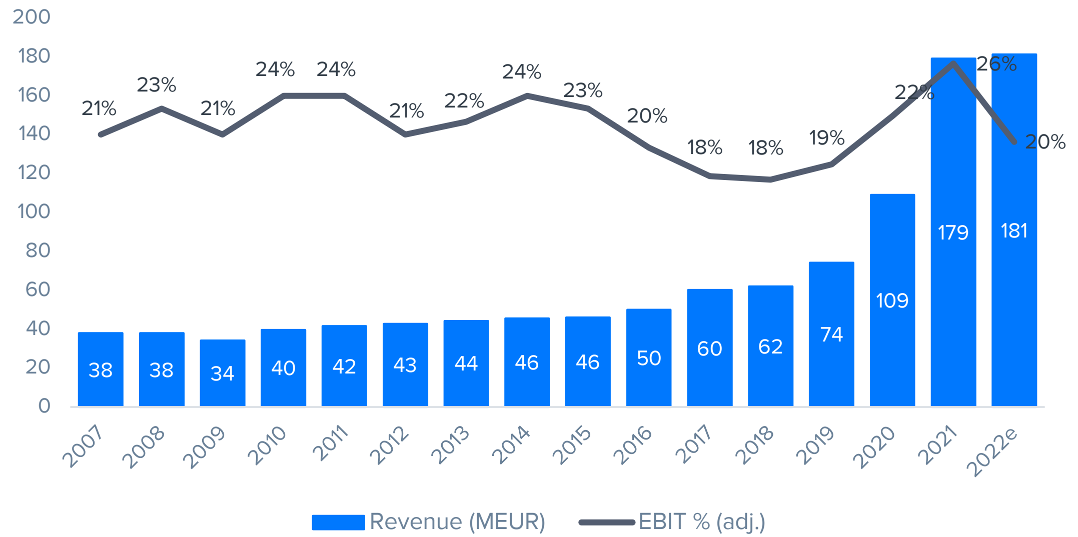
- Family-owned and driven company
- Strong market position in traditional sauna countries (Finland, Russia and Scandinavia)

2014 - 2017

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

2018-

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



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

Company description and business model 1/7

The world's leading sauna and spa company

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

The company has estimated its market share in the global sauna and spa market to be ~5% and in the more precisely defined heater and sauna component market to be ~20%. Historically, Harvia's market position has been particularly strong on large markets that focus on conventional sauna culture (Finland, Russia and Scandinavia). Of these, Russia is now falling off, as the company will withdraw completely from the country during 2022. Harvia has also estimated that it has clearly gained market shares in 2020-21, as the corresponding shares in 2019 were only 3% and 14%. This has also been boosted by acquisitions. As a result of the Sentiotec acquisition in 2016 and the EOS acquisition in spring 2020, the company has reached a market leader position also in Germany and strengthened its position in Central and Eastern Europe. With the 2018 Almost Heaven Saunas (AHS) acquisition, the company expanded its operations in North America.

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

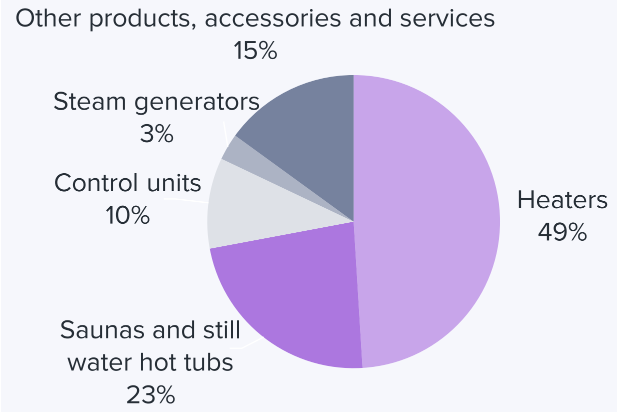
Harvia sells its products in over 80 countries. In 2021, almost 80% came from markets outside Finland. Acquisitions have reduced Finland's weight in sales.

Products: From heaters to a more comprehensive sauna company

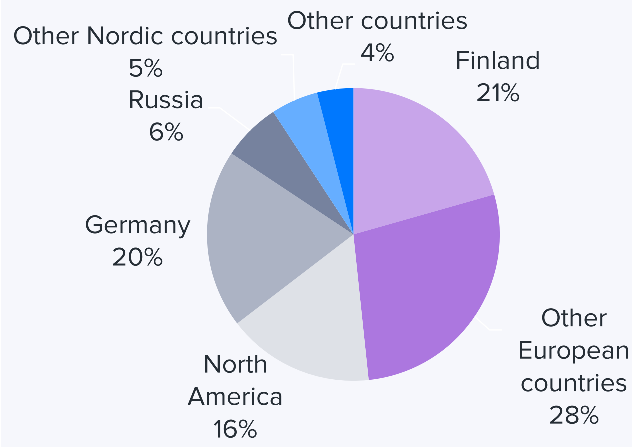
Harvia has previously been profiled mainly as a sauna heater manufacturer but the company has, in recent years, developed into a more comprehensive sauna and spa market player through acquisitions and new product launches, as well as opening new sales channels. The company's product portfolio covers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

The majority of Harvia's revenue comes from sauna heaters (49% of 2021 revenue), but the selection also includes ready-made saunas, control units, steam generators, still water hot tubs, and other sauna and spa products, spare parts, accessories, and services. In particular, sales of ready-made saunas has increased in recent years.

Revenue by product group 2021



Revenue by market area 2021



Company description and business model 2/7 - product groups

Product segment		Product description	Main brands	Share of revenue in 2021
Sauna heaters		▪ Electric and wood-burning heaters ▪ Heater accessories, e.g. protective railings and walls, protective base for hearths, flue pipes and chimneys	▪ Harvia ▪ EOS	**49%**
Saunas and still water hot tubs		▪ Ready-made indoor and outdoor saunas ▪ Still water hot tubs ▪ Sauna's interior design / accessories	▪ Harvia ▪ Sentiotec ▪ Almost Heaven ▪ Kirami (still water hot tubs)	**23%**
Materials, services and other products		▪ Heater resistors and other spare parts ▪ Heater stones, hot water tanks, sauna lights, water pails and ladles, thermometers and sauna fragrances ▪ Infrared products ▪ Sauna maintenance, installation and repair services for consumers and corporate customers (Saunamax)	▪ Harvia ▪ SaunaEurox (stones)	**15%**
Control units		▪ Control units for electric heaters, combination heaters, infrared saunas and hybrid saunas	▪ Harvia ▪ Sentiotec ▪ EOS	**10%**
Steam generators		▪ Steam generators ▪ Steam sauna accessories, e.g. nozzles and scent pumps	▪ Harvia	**3%**

Company description and business model 3/7

Distribution through resellers

The group's revenue mainly comes from product sales (a small share from sauna installations, as well as maintenance and repair services). Harvia sells most of its products to resellers, to builders/sellers of ready-made saunas and to distribution companies. Harvia's largest customer relationship is based on the customer's group level framework agreement under which the individual order agreements made by the group formed some 9% of the group's revenue in 2021. As the company has grown, this share has steadily decreased in recent years. Harvia's order backlog is short, typically only two to three weeks.

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

Own component design gives a competitive advantage

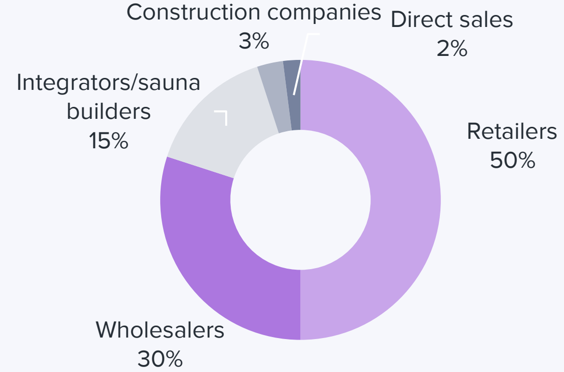
Harvia designs and manufactures almost all the products it sells, as well as most of the components itself, i.e. it is vertically more integrated than a typical competitor. We believe this is one of Harvia's important competitive advantages, since broader supply chain management gives Harvia a larger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

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

Cost structure provides operational leverage

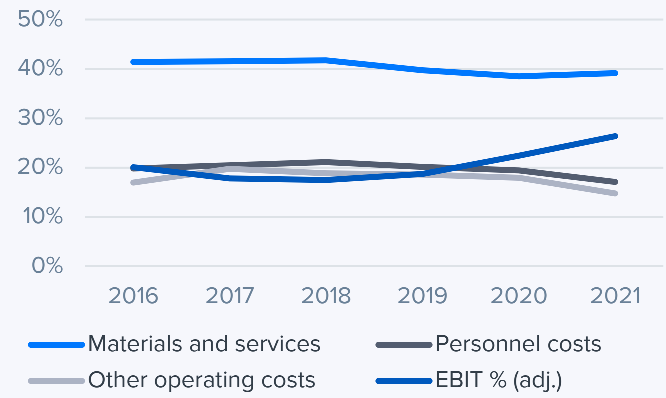
Approximately 40% of Harvia's costs (relative to revenue) goes to materials and services, i.e. mainly metal, wood and electrical/electronic components. Personnel costs and other expenses have both historically been about 20% of revenue, slightly less last year. At the end of 2021, about 2/3 of personnel were workers and 1/3 were clerical employees. Especially heater production in Finland and China is covered by piecework pay, so you can assume that about 40% of the personnel costs vary according to production volume. Thus, around 60% of the costs would be variable and the rest fixed. A reasonably high proportion of fixed costs causes operational leverage, which means that as volumes grow the margin should improve, as was seen in 2020-21, and when they decrease the margin should go down.

Distribution channels, estimate



Source: Harvia / Inderes

Harvia's cost structure



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

Distribution channel	Nature of the distribution channel	% share of revenue	Example customers
Retail stores	• Retailers are typically construction material stores, especially in Finland and Sweden • In Central Europe, also, e.g., stores specialized in saunas • Typical decision maker is the end user or seller	~50 %*	K Rauta, STARK, wayfair.com, bygghemma, KODIN TERRA, The Home Depot, Costco Wholesale
Wholesalers	• Wholesalers are typically electricity, HVAC or bathroom equipment wholesalers • Important channel especially in Finland and Sweden • Typical decision maker is the seller or electrician	~30 %*	onninen, ahlsell, SLO A Sonepar Company
Integrators / sauna builders	• An important channel on markets that focus on ready-made sauna solutions like Central Europe and North America. • Sauna builders carry out the construction for the end user • Typical decision maker is the seller, architect	~15 %*	DURAVIT, saluos, Finlandia Sauna, Teka
Construction firms	• In the Nordic countries, the company's products are also sold to construction firms that install saunas in new residential buildings • Construction firms purchase either individual sauna components or whole saunas • Typical decision maker is the architect	<5%*	YIT, SRV, NCC, Lujatalo Oy, PEAB
Direct sales	• The company has selective targeted direct sales, especially in Finland and elsewhere in Europe and North America, to large end customers, such as hotels and gym chains • Typical decision maker is the end user or architect • A significant part of the sales of the Almost Heaven Saunas company is direct sales also to consumers	<5%*	SATS ELIXIA, KÄMP, LAPLAND HOTELS, PUIJONSARVI

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

Harvia's largest customer relationship is based on the customer's group level framework agreement under which the individual order agreements made by the group formed some 9% of the group's revenue in 2021 (2020: 10%).

Company description and business model 5/7

Production in nine own factories

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

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

A well-known brand supports market positions

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

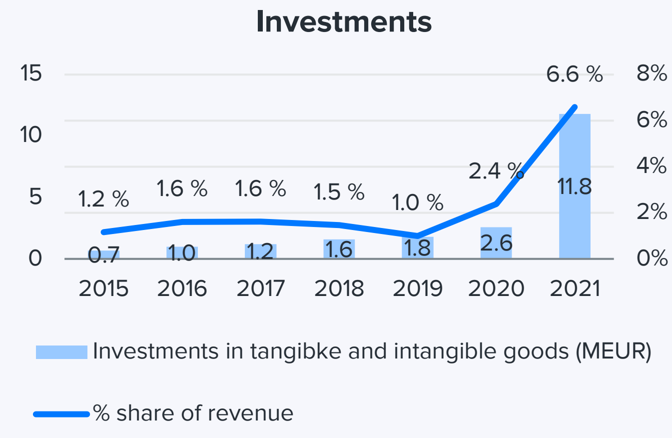
Strong operational cash flow and low investment need

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

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

Seasonal variation quite moderate

The seasonal variation in Harvia's business is rather moderate. A majority of orders in the distribution chains typically focus on Q1 and Q4, which have historically been the best quarters. However, the fluctuations have stabilized with acquisitions and growth but on the other hand quarterly fluctuations were blurred during the COVID era due to large demand changes. A majority of orders from Northern Europe are typically made in the first quarter, while the order activity of Central Europe and North America focuses on the end of the year.



Company description and business model 6/7 - production facilities

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

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

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

Lewisburg (WV), United States
- New production plant of Almost Heaven Saunas, acquired in 2021
- Main products: saunas (barrel saunas)

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

Sastamala, Finland
- Main product: Still water hot tubs (Kirami)
- Transferred to Harvia in the Kirami acquisition in 2021

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

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

Guangzhou, China
- Main products: cheaper electric heater models and steam generators

Company description and business model 7/7

Fragmented ownership structure

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

However, the overall ownership of Harvia is fragmented. In addition to Onvest, top 10 registered owners include three members of the Harvia family, domestic institutional investors and the CEO and CFO of the company. Foreign ownership is currently around 40%, down from 48.5% at the end of 2021. Before the COVID era at the end of 2019, foreign ownership was 50%, and it has subsequently varied in the range of 40-50%.

We believe that the lack of a clear main owner is reflected in the composition of the Board of Directors. The Chairman of the Board of Directors is still Olli Liitola, who became CapMan's representative on the board in 2014. Otherwise, the composition of the Board of Directors has changed a great deal, as three of the five members started in 2021 and one in 2022. At the same time, the Board of Directors has become international, which we see as a positive.

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

Management has significant share holdings

Harvia's CEO has since 2016 been Tapio Pajuharju, who was in the Board of Directors in 2014-16. In the past he has led Hartwall and Lumene. CFO Ari Vesterinen has worked at Harvia since 2014 and prior to that he worked for several years in management positions at Harvia's competitor the TylöHelo Group. Both have significant share holdings in Harvia, Pajuharju has 267,000 shares and Vesterinen 147,000.

Of the other eight members of the other Management Team, three have more than 100,000 shares, and three have tens of thousands. These members have come to Harvia in 2014-16 and are the result of the change of ownership in 2014, after which the management team was strengthened. The Scandinavian Sales Director and the innovation and market manager that joined the company after the IPO have lower holdings.

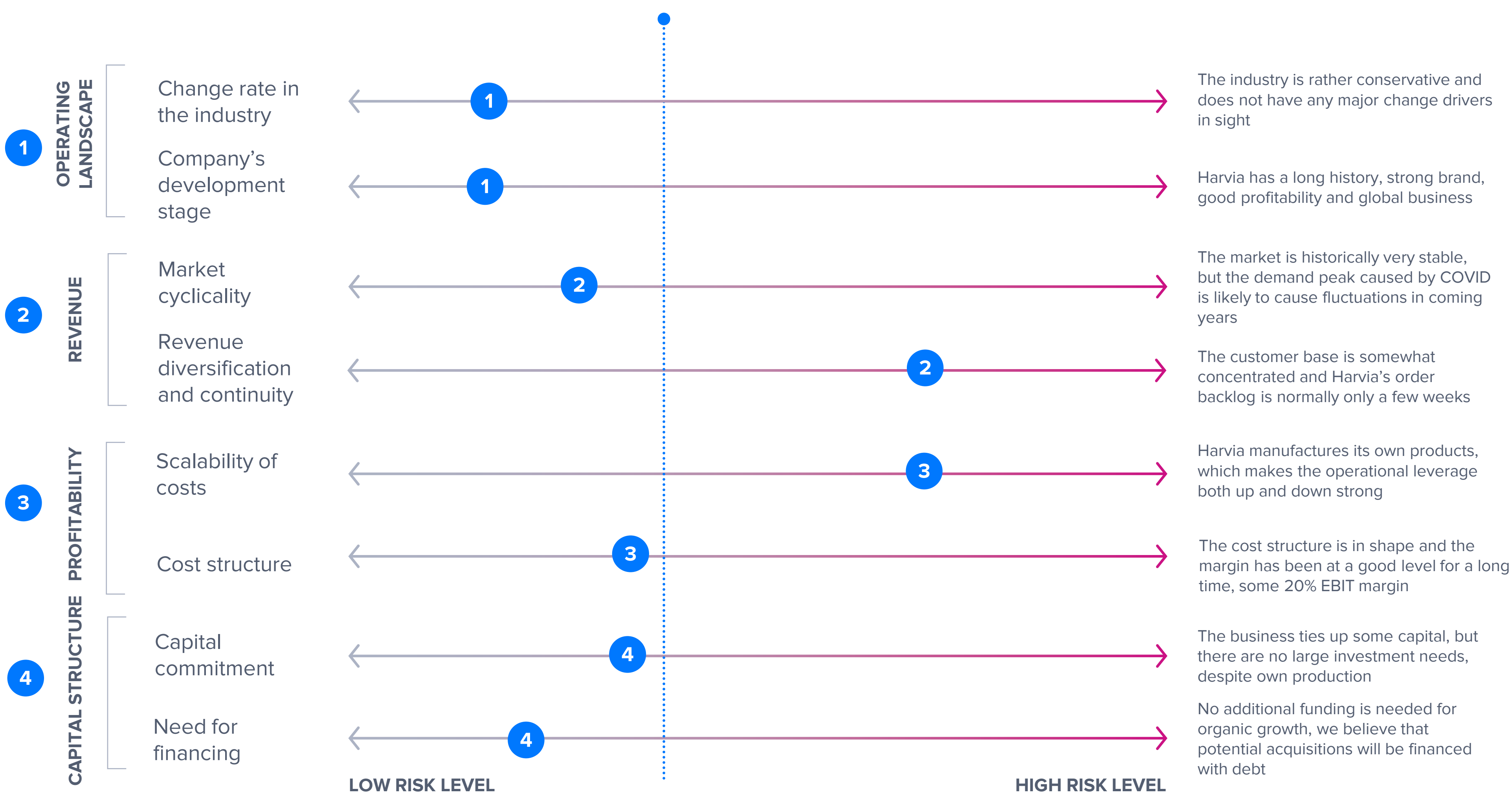
We feel that Harvia's management has performed well and efficiently implemented the chosen strategy of international growth. Acquisitions also seem to have been successful, which we will discuss further later in this report. In the future, we would value internal appointments to senior management.

Biggest owners 8/31/2022	Holding
Onvest	4.4 %
WestStar	3.1 %
Danske Invest Suomi Osake	2.6 %
Tiipeti Oy / Pertti Harvia	2.2 %
Ilmarinen	2.1 %
Elo	1.6 %
Tapio Pajuharju	1.4 %
KTR-Invest Oy / Risto Harvia	1.2 %
Mantereenniemi Oy / Sari Harvia-Jyllinmaa	1.2 %
Ari Vesterinen	0.8 %

Source: Inderes

Risk profile of the business model

Assessment of Harvia's overall business risk



Source: Inderes

Investment profile 1/2 – Harvia's competitive advantages

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

In our opinion, Harvia has several clear competitive advantages that support the profitable growth and value creation of the company. We also discuss these elsewhere in the report but give a summary of them here. The company's competitive advantages are of great importance for long-term success and thus crucial for share development. When discussing competitive advantages, we note that they mainly concern the market of Harvia's traditional product areas, i.e. wood/electric heaters and their components. These currently represent about 75% of Harvia's sales. However, in producing/selling ready-made saunas we feel the advantages are smaller but can be found in the same areas as for heaters and components. We will discuss these in more detail below.

Vertical integration and own design

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

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

Economies of scale

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

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

Strong brand(s)

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

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

Extensive and long-term distribution relationships

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

Although we see, for example, the quality of the company's management and acquisitions as good, we do not include them in this list. This is because we believe that the competitive advantages should be more permanent and long-term issues related to the company. We do, however, believe that Harvia's management is a clear strength for the company, as it has successfully implemented profitable growth since 2014. We will discuss the success of acquisitions separately later. Similarly, market characteristics are not competitive advantages of the company but affect the company as an investment. We see economic figures mainly as a result of competitive advantages.

Investment profile 2/2

1. **Strong market position and globally well-known brand**

2. **Vertical integration and long experience support high profitability**

3. **Low investment need supports creation of strong free cash flow**

4. **The company's ROIC is high and well above the required return, i.e. the company creates value for the owners**

5. **Expansion to new markets and/or new product categories an opportunity for value creation**

6. **Historically steadily growing markets - however in the short term we expect a weaker market**

Potential

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

Risks

- **Normalization of strong demand after the COVID era.** Market size and growth outlook for the next few years are clearly more uncertain than historic steady growth
- **Dependence on the Muurame plant** is one of the biggest risks associated with the continuity of Harvia's operations, although more extensive production resulting from the acquisitions has stabilized this risk
- **A rise in material and service costs** could hinder profitability, unless the company is able to transfer the costs to its selling prices
- **Acquisition risks:** Price paid in possible future acquisitions and integration of operations generate their own operational risk

Source: Inderes

Industry and market overview 1/3

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

Global sauna and spa market

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

Harvia estimates that the global sauna and spa market amounted to some EUR 3.9 billion in 2021. This represents an increase of more than 25% from 2019. This market assessment refers to the size of the final market, i.e. the number of products sold out from Harvia's distributors. Harvia's demand in each year may therefore also be affected by distributors' inventory changes, which are expected to be negative in 2022, which means the demand/sell-in to distributors by Harvia is smaller than this market figure. Over a period of several years, this inventory effect should level off.

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

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

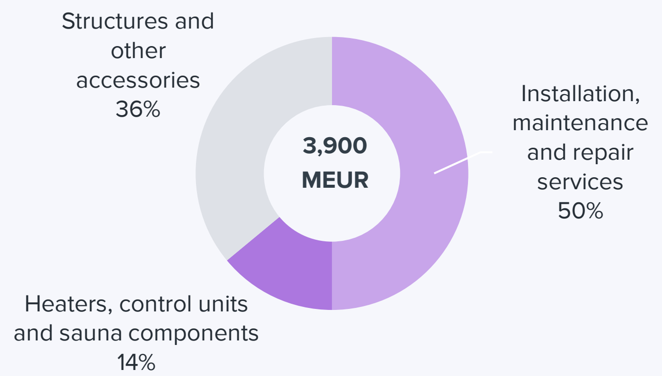
There are an estimated 18 million saunas in the world of which around 95% are used by households. In addition, saunas are in commercial use in, e.g. hotels, spas, gyms and swimming pools.

Harvia's target market is close on EUR 2 billion

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

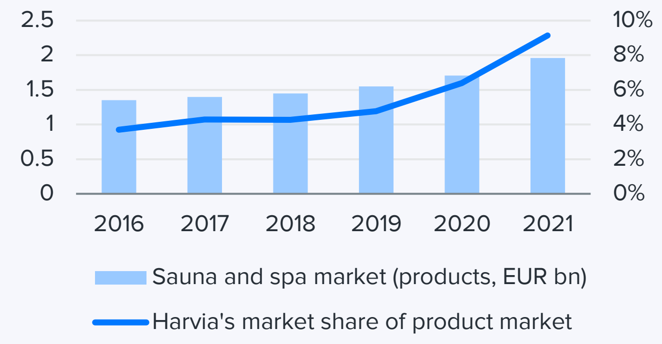
Harvia's target markets consist of sauna heaters and sauna components, incl. steam generators and infrared regulators, sauna rooms, control units and other accessories. Installation, repair and maintenance work is not part of Harvia's core business so Harvia's target market is, only around one-half of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

Global sauna and spa market



Source: Harvia's estimate of the overall market in 2021, study by an international management consultancy company for Harvia (2017) on the relative shares of the various segments

Harvia's relevant market and maket share



Source: Inderes' estimate

Industry and market overview 2/3

We do not believe that Harvia is looking for a stronger role in the labor-intensive service market, because the company's focus is more on product manufacturing and sales, and it has no clear competitive advantage here. Installation is performed by customers or cooperation partners.

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

Cyclically stable market

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

Large replacement market supports demand

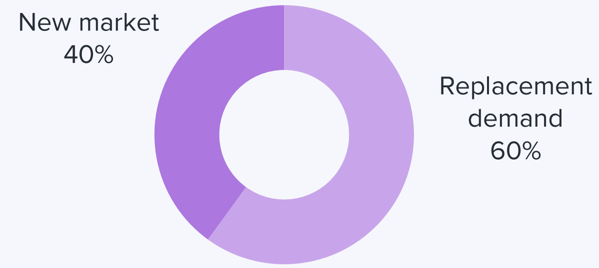
Management estimates that replacement demand for saunas and spa facilities accounts for about 60% of the global market, leaving 40% for the new market. This ratio has not changed substantially in recent years. However, no one knows the exact figures and, e.g., in COVID demand the figure may have been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

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

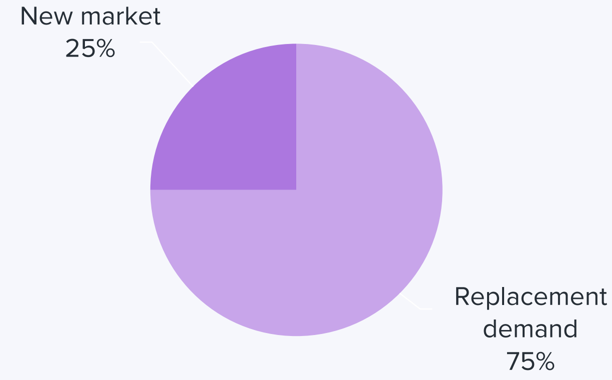
Growth drivers for the market

During 2010-2019, the sauna and spa market grew by about 5% annually and the new market grew somewhat faster than replacement demand. In 2020, the company estimated market growth was about 10% and about 15% in 2021. Harvia's management believes in the historic growth rate of 5% also in the longer term.

Sauna and spa market demand*



Heater demand*



*Source: Harvia, management estimates

Industry and market overview 3/3

We find this credible but consider the negative effect of destocking by distributors and reduced consumer demand during H2'22-H1'23. We discuss this short-term outlook in more detail in connection with our estimates.

Long-term growth drivers in the industry are, e.g.:

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

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

Biggest sauna and spa markets

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

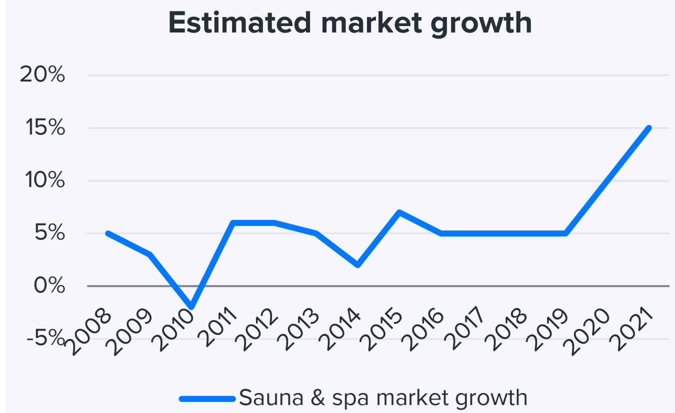
Finland is Harvia's domestic market and measured with revenue, the largest market area. Measured by revenue and recognition, Harvia is the leading sauna and spa company in Finland and the biggest manufacturer of sauna heaters and components. It is estimated that there are around 2.5 million saunas in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

The US competes for the position of Harvia's second largest market and is the fifth largest sauna and spa market in the world. The sauna and spa market in the United States is small compared to the size of the country, due to the relatively low knowledge of saunas. It is estimated that there are approximately one million saunas in the country. The new market share is clearly higher than e.g. in Finland, because the sauna stock is low.

In 2021, Germany had almost the same revenue as Finland, but this year it is likely to remain in third place. Germany is the world's second largest individual sauna and spa market. Harvia has grown into Germany's largest manufacturer of sauna heaters and components measured by revenue after the Sentiotec and EOS acquisitions. Germany is estimated to have more than 2 million saunas. In Germany, the number of saunas is smaller than in Finland, but the euro denominated market is larger, due to, .e.g., the higher share of large commercial saunas.

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

Russia is the world's largest individual sauna and spa market. Withdrawal from Russia therefore leaves a significant market out of Harvia's reach.



Source: Estimate by Harvia's management

Competitive environment 1/3

Harvia is the industry leader

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

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

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

The next largest players on the global sauna and spa market are the Chinese integrator **SaunaKing** and Harvia's direct competitor, the Finnish-Swedish sauna heater and component manufacturer **TylöHelo,** current group name Sauna 360. It is owned by the venture capital company Nordic Mezzazine. In the company's view, the largest infrared sauna dealers, such as **Golden Desings** and **Sauna Works** / **Clearlight**, are included in the same size category. However, as Harvia's infrared sales is relatively small, these are not actually direct competitors for Harvia.

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

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

Different types of companies and their market shares	Number of companies	Annual revenue	Examples	Description
Leading companies (15%)	4	Over 50 MEUR	Klafs, Harvia, SaunaKing, Sauna360	• Integrators or large sauna component manufacturers • Operate in several countries • Extensive sauna and sauna equipment selection
Local companies (5%)	Around 25	5-20 MEUR	Narvi, Huum, SaWo, Physiotherm, Effegibi	• Integrators, sauna component manufacturers or companies that only partially focus on the sauna market • Typically, a more restricted selection
Small companies (80%)	Over 2,000	Under 5 MEUR	Sunrans, Iki-Kiuas, Misa, Stoveman, Mondex	• Typically, narrow product selection covering low-end and medium-priced products • Also a few companies that focus on expensive products

Competitive environment 2/3

Sauna heaters and components

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

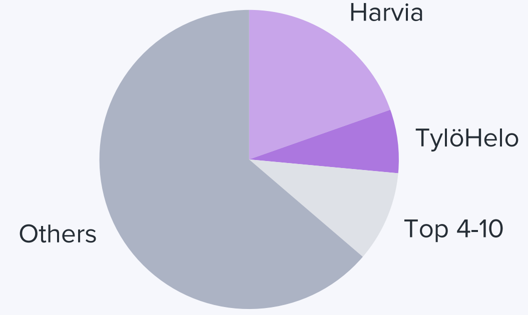
The 2nd largest player on the sauna heater and component market is **Sauna360**, which, like Harvia, focuses more on product manufacturing than building and repairing saunas. In addition to the Tylö and Helo brands, the company's brands include Kastor, Finnleo and Amerec. The company lost market position and sales in previous years, but in 2021 it managed to increase its revenue to over EUR 60 million. The company still holds a strong position in Sweden and is Sweden's market leader but Harvia has become a stronger contender even there. Sauna360 is a strong player in North America, especially on the steam side, thanks to its Amerec brand. This would certainly also be an interesting business for Harvia. Profitability is clearly lower than for Harvia, but in the COVID years it has been able to generate positive EBIT, with a margin of 5-7% in 2020-21.

Sawo is a company established in Finland that manufactures sauna heaters in the Philippines and focuses on low-end and medium-priced sauna heaters and components. The Finnish **Narvi** (revenue slightly over 12 MEUR in 2021) also sells heaters under the Kota and Aito brands. Narvi is strong in Finland, especially in wood-burning heaters. Narvi was taken over by a venture capitalist this year. The Estonian **Huum** that manufactures design heaters has reached the same size class. Other well-known sauna manufacturers on the Finnish market are **Iki-Kiuas Oy,** the **Mondex brand,** which is part of Protec Oy **and Misa Oy**, whose revenues are, in our opinion, under EUR 5 million.

Harvia's profitability is the best among its competitors and its EBIT margin has been around 20% for the past 10 years. Before COVID, Narvi generated an average 5% EBIT margin, but it was over 15% in 2021. Iki-Kiuas Oy's EBIT margin has varied between 7-12% and Misa Oy's EBIT margin improved to 8% last year. The improved performance of the competitors reflects the tailwind caused by COVID for the entire industry. We believe Harvia's strong profitability is due at least to 1) its own component design and production, 2) a strong brand and 3) economies of scale from large volumes.

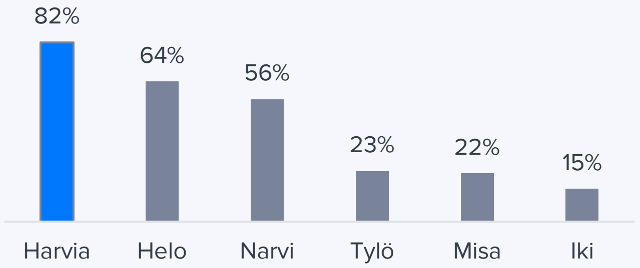
As a whole, the sauna and spa market is relatively fragmented and a majority of the market consists of small local players. Several players are also owned by venture capitalists, whose holding time is usually limited. Therefore, we believe that the consolidation of the market will continue. We feel that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

Estimated shares of the heater and sauna component market



Source: Harvia, Inderes' estimate

Best-known sauna brands in Finland*



*Survey carried out by an international consulting company in Finland in 2017.

Competitive environment 3/3

Sauna heater and sauna component manufacturers

Company	Country	Estimated market position: Sauna heaters and components	Estimated market position: Entire sauna and spa market	Product offering
Harvia	Finland	#1	#1	▪ *Extensive product selection with Harvia, Sentiotec and EOS brands*
TyloHelo	Finland, Sweden	#2	top #5	▪ *Wide product selection under the Tylö, Helo, Finnleo and Amerec brands*
Sawo	Philippines	#4	top #10	▪ *Low-range and medium-priced sauna heaters and components*
Narvi	Finland	#5	top #15	▪ *Wood-burning heaters in Finland and Sweden under the Narvi, Kota and Aito brands*

Integrators and sauna builders

Company	Country	Estimated market position: Entire sauna and spa market	Product offering
Klafs	Germany	#2	▪ *Wide selection of sauna solutions*
SaunaKing	China	#3	▪ *Wide sauna selection*
Duravit	Germany	top #10	▪ *Company specialized in bathrooms with limited sauna selection*
Physiotherm	Austria	top #10	▪ *Selection of infrared saunas*
effegibi	Italy	top #10	▪ *Traditional saunas and steam saunas*

Source: Inderes/ Harvia

Strategy

Harvia's strategic objectives

Increasing average purchases

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

Geographical expansion

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

Improving productivity

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

Inderes' comments on Harvia's strategic objectives

- Harvia has expanded to more expensive products (Sentiotec & EOS) and sauna solutions (Almost Heaven Saunas), especially through acquisitions, which has increased the average price of the products in line with the target

- Cross selling enables Harvia to increase sales of these products also in its own sales channels

- We note that in addition to the average price, the sales margin is important. For example, sauna solutions have a lower margin than Harvia's traditional strengths (heaters, control units)

- We believe Harvia has limited possibilities to directly influence the average purchase of the end customer, as sales are made through distributors

- In recent years Harvia has been successful in increasing its market share both organically and through acquisitions. However, Russian sales ending took one big sauna market from Harvia, thus limiting future potential to some extent

- Sustainability of demand growth after peak demand during COVID is still uncertain

- Expanding the reseller network is a slow job that is progressing according to Harvia

- A strong brand and good products support the expansion potential

- Sales growth can be supported by developing cross selling of acquisitions, e.g., in Central Europe in coming years

- We believe that improving productivity is a normal part of any company's operations

- In practice, Harvia has produced products with full capacity in 2020-21 and has increased production significantly in recent years to meet high demand. If demand permanently stabilizes at a lower level, the challenge is to maintain efficient production, despite a lower utilization rate

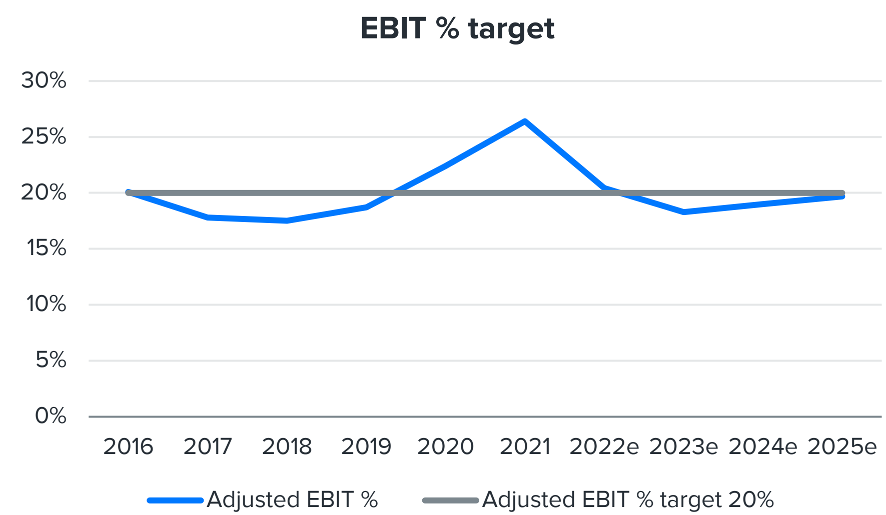
- We believe that Harvia's historically good and steady profitability indicates that its production is on average quite efficient. This is supported by high volumes and a compensation model based on volumes

Source: Inderes

Financial objectives

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

Annual revenue growth of over 5% on average	Adjusted EBIT margin 20%	Net debt/adjusted EBITDA 1.5x-2.5x
• Harvia has grown at a tremendous pace in 2020-21, which we expect to stabilize in coming years. • Historic market growth is around 5% p.a., so the target requires slightly faster growth than market growth • We find the growth target to be realistic for Harvia as an average level, and after the demand supported by COVID stabilizes	• Harvia's historic profitability has been on both sides of the 20% target, clearly stronger in the peak year 2021 • We believe that Harvia will continue to be able to achieve roughly the targeted margin level • However, the level is already at the top of the industry and Harvia has expanded its operations in product areas with slightly lower margins. Therefore, we do not find it likely that the target will be raised or clearly exceeded	• Harvia's cash flow is strong and investment needs smallish • Thus, in normal circumstances, the company is able to repay its debt nicely and it is mainly increased by possible acquisitions • At the end of Q2'22 Harvia was at 1.4x considering the EOS-Germany minority deal • We believe that Harvia will remain in the target range, or below it, also in the future



Harvia's key acquisitions

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

Past development

Revenue growth has been strong

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

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

However, supported by acquisitions the growth rate was approximately 20% in both 2017 and 2019, after which COVID blew off the top of demand and, partly supported by acquisitions, growth was 47% and 64% in 2020 and 2021. The pace continued as strong in Q1'22, but in Q2'22 growth numbers turned negative, especially as a result of the huge drop in Germany.

Profitability among the best in the industry

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

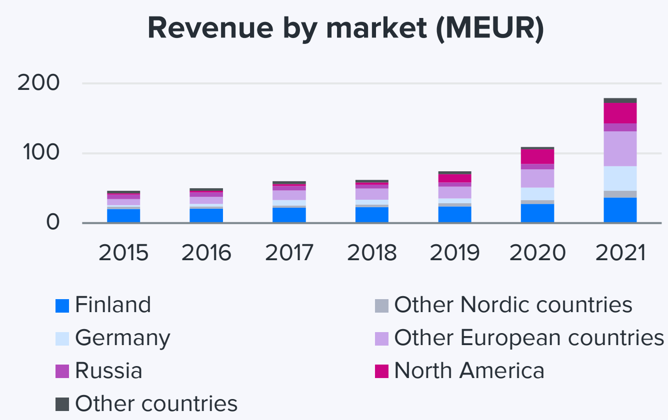
Despite the fact that the companies acquired by Harvia have partly been less profitable than its traditional operations, the profitability trend during 2020-21 has been clearly upward. This was naturally supported by a huge sales increase, which has allowed the company to enjoy positive operational leverage and, according to our assessment, also good pricing when product demand has been high.

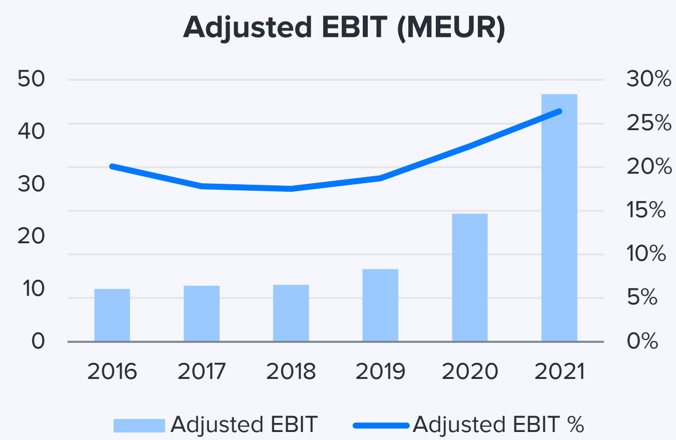
The adjusted EBIT margin rose well above the 20%target in 2021 to 26.4%. We do, however, believe that this will be the peak year and that profitability will even out in future.

Investments increased dramatically in 2021

Harvia's annual investment need is typically very low. In 2015-2019 the company only invested EUR 1.3 million per year (1.5-2.6% of revenue). These investments were mainly maintenance investments. During 2020-21, the company's investment level increased significantly as the company sought to meet the rapidly growing demand. This included investments, e.g., in the Muurame plant and a completely new plant in the US.

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





Financial position

Balance sheet has remained strong despite acquisitions

Harvia's balance sheet has been on a strong level since the IPO in 2018 when the company used the collected capital nearly fully to repay shareholder loans. Although the company has made several acquisitions, the equity ratio at the end of Q2'22 was at good level of over 40%.

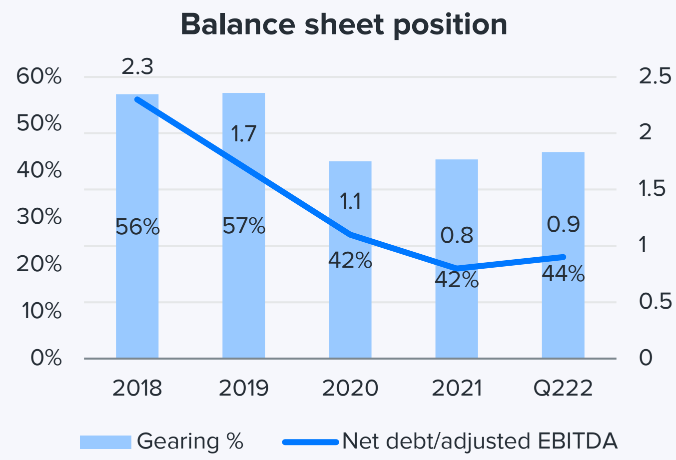
The company's leverage target is to maintain net debt/adjusted EBITDA in the range of 1.5x to 2.5x. Harvia has succeeded well in this goal throughout its time as a listed company, and the ratio has in fact declined steadily. In 2020-21, the ratio has been around 1x, supported by strong performance and cash flow. Considering the minority acquisition in EOS-Germany in July, the ratio was 1.4x at the end of Q2'22. Thanks to its high profitability and cash flow the company can, if necessary, reduce its debt relatively quickly if, e.g., the debt would increase as a result of an acquisition.

Balance sheet position enables continued acquisitions, but does not guarantee them

Harvia has been an active consolidator in the sauna and spa market in recent years. Harvia will continue to pursue acquisitions and has a good track record of previous acquisitions. However, we currently believe that the acquisition market is difficult for the buyer, given the exceptionally good results generated in the industry in recent years. Sellers presumably want to value their company on the basis of these results, which we do not see as sensible for Harvia as a buyer. On the other hand, the acquisitions carried out by Harvia have typically been companies with which they have cooperated for a longer time, and the motive for the transaction (for the seller) has not necessarily been to find the optimal timing for the sale. So interesting acquisition targets may appear for Harvia based on its strong position and relationships. In any case, we believe that it can take some time to find a suitable and suitably priced acquisition target.

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

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



Estimates 1/3

We expect organic development

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

In this section, we discuss the basis of our official estimates and then present three different potential scenarios.

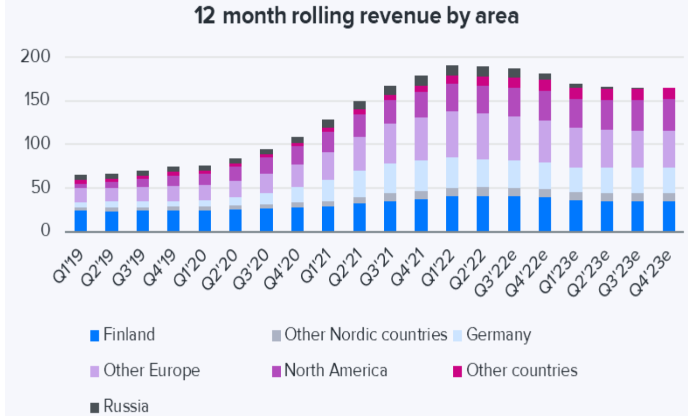
The company believes the underlying market will keep growing

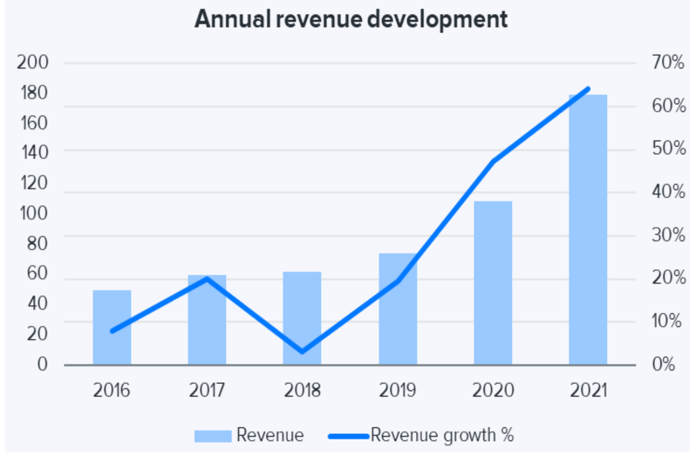
Harvia does not publish a short-term outlook, and thus no earnings or revenue guidance. In connection with its Q2 report, the company stated that it still sees the frequency of sauna and spa products growing and that replacement demand remains stable. The company's long-term target is average annual revenue growth of above 5% and over 20% adjusted EBIT margin. The company also commented that the current market situation does not affect these estimates or targets. We note, however, that this does not mean that growth or the growth target is over 5% every year. In our estimates the level is not reached in 2022 (1% or 4% without Russian influence) nor 2023 (-8% or -4% without Russian influence).

The company also said that it sees the market growing with the support of price increases, possibly by 10% this year. This refers to sell-out of Harvia's distributors and due to inventory changes the market can develop more weakly in terms of Harvia's sell-in. We believe that due to weaker consumer demand, market growth may be weaker this year than Harvia's management expects. Harvia no longer believes that the market will grow faster than 5%in the next few years, as it estimated until spring 2022. This is due to an end to advance demand. The company also stated that the order backlog, which remained exceptionally strong during the COVID era, had now normalized to a few weeks. So the visibility of the company has reduced significantly, which increases uncertainty.

Revenue decreasing in H2'22-2023

Harvia's revenue made a downturn in Q2'22 mainly due to a 30% decrease in Germany. We estimate that weakening consumer demand will slow down growth/turn it negative in other European markets as well during H2'22. The layoffs announced for Kirami in summer and the company's comments suggest that at least in still water hot tubs, the 'normalization' from COVID may result in a clear drop in sales. As a whole, we see a small drop in Finland and other Nordic countries in H2 and a larger drop in Germany and elsewhere in Europe. In North America, the stronger USD vs. EUR supports growth and in the other countries segment we expect good sales growth to continue. EOS heaters will still be sold to Russia in H2 to the tune of good EUR 2 million, after which Russian sales will cease. This will have a negative effect on H2'22 and 2023 sales. For the full year 2022, we expect a 1% increase in sales or 4% without Russia, mainly due to strong Q1 growth (28%).





Estimates 2/3

We believe that the demand among both consumers and distributors will be cautious, especially in early 2023. The decline in Harvia's demand started this year in the heater segment, but we also believe that the demand in saunas will decrease as we move toward the end of the year.

We believe that the lead time for buying saunas is longer than for heaters, so changes in demand will appear with a small delay. We do, however, believe the same applies to heaters that are being replaced, e.g., during renovations, so when the willingness to renovate decreases, the demand for heaters falls with a delay.

We expect a 10% drop in sales in Finland, the Nordic countries and the rest of Europe, while Germany is expected to stabilize after the major drop in 2022. There should be no more Russian sales in 2023. In North America, we expect low growth to continue, and in the other countries segment, we expect 10% growth as Harvia directs the resources released from Russian sales to growth in new markets. If we compare the peak sales (190 MEUR) of Q2'21-Q1'22 with 2023, we estimate that the normalization of Kirami's demand alone (about 10 MEUR) and Russian sales disappearing (11 MEUR) should result in a revenue decrease of more than EUR 20 million. On the other hand, price increases can result in over 10% more revenue, which means that volume development is clearly weaker than revenue development.

As comparison figures become easier from Q2'23 onwards, Harvia's relative development should look better towards the end of 2023. We also expect the consumer situation to at least stabilize during 2023, which would also mean Harvia's demand would stabilize. However, we do not expect much growth in H2'23. For the full year 2023, we expect an 8% drop in sales, but excluding Russia the drop, is 4%.

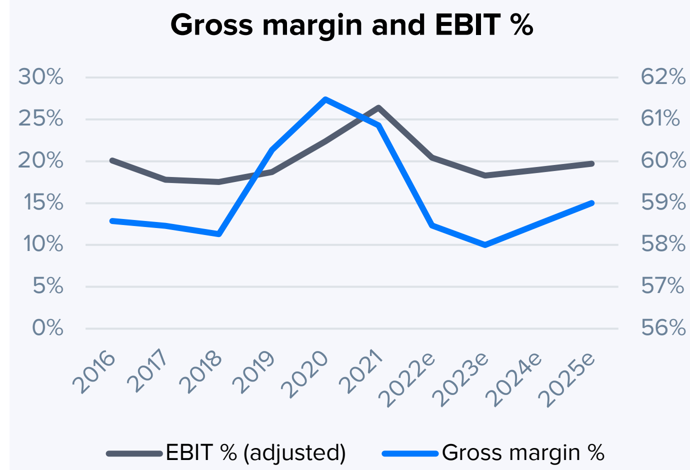
Back to a growth trend in 2024

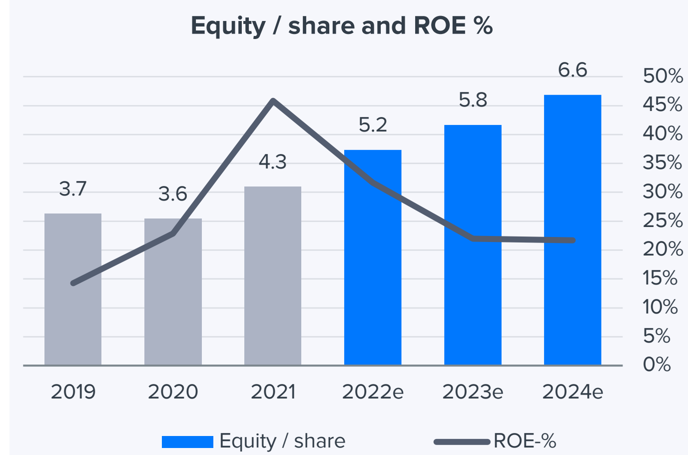
In 2024-25, we expect the market to return closer to about 5% trend growth and Harvia to exceed it in line with its financial objectives. The 6% growth we estimate is driven by the North America and other countries segment, but we expect growth in all market areas.

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

EBIT margin will return to 20%

Harvia's gross margin was over 60% in 2019-21, which we believe was supported by favorable pricing due to high demand and fully utilized production. After the high demand stabilized, the gross margin in H1'22 was 58.5%, which was also affected by the decrease in sales of the higher-margin heater products. We estimate that gross margin will remain at 58-59% levels in the coming years, where it was in 2016-18.





Estimates 3/3

However, this is influenced by product group specific revenue development, as the margin in saunas is still somewhat weaker than for heaters and components. We do not estimate product groups directly, but the growth we expect in North America and the decline in Europe suggest a weakening of the product mix.

We also estimate that fixed costs will rise in proportion to revenue from the very good level in recent years, as revenue makes a downturn. In terms of production, personnel costs are somewhat flexible, but we do not believe that Harvia will otherwise significantly reduce personnel due to a temporary decline in revenue as it continues to operate in a clearly growing market in the long term. The same logic applies to other fixed costs.

We expect that the total fixed costs will be slightly below last year's level in 2023 in absolute terms but higher relative to revenue. After a depreciation level that remains roughly the same this will result in a drop in the EBIT margin to around 20% this year from the record high 26% in 2021 and further to 18% in 2023, until it returns to the target level of about 20% by 2025, which the company has historically reached.

EPS and dividend

Harvia's gearing is moderate and thus financial expenses are relatively small, we estimate about EUR 1 million net financing costs for 2023-24. In 2022, net financing costs are positive due to value changes of interest rate swaps.

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

In our estimates, comparable EPS decreases by about 20% p.a. in 2022-23 and increases by about 10% p.a. in 2024-25. Thus in 2025, the level will be roughly the same as this year at around EUR 1.5.

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

Balance sheet remains strong also in estimates

Although we expect a declining result for 2022-23, Harvia's strong cash flow will result in the company's balance sheet being virtually net debt free as early as the end of 2023. After the acquisition of the minority stake in EOS in Germany, the additional purchase prices related to previous acquisitions are only a couple of million (mainly Kirami), so there will be no significant additional debt either. Therefore, despite the weakening result, the company has excellent conditions to both increase dividend and make acquisitions. With the figures at the end of 2023, it would already have some EUR 100 million firepower for acquisitions within its leverage target. If no acquisition targets are found or if the acquisitions are smallish, we believe Harvia can also optimize its balance sheet structure with an extra dividend. However, this is only likely to happen when the result trend is on the rise again, so perhaps in spring 2024.

High ROE creates value

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

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

Estimate changes

Slightly more conservative estimates

In Europe, factors depressing consumers' purchasing power and confidence, i.e., the rise in interest rates and the escalation of the energy crisis, have continued in recent weeks. That is why we have lowered our annual estimates by about 5 % across the board. Since already half of 2022 has passed, the impact for this year will be 2%.

The estimate drops are due to demand, while the margin profile in our estimates is unchanged. Therefore both revenue and profit lines have fallen by roughly the same amount.

We have also slightly lowered our dividend estimates but are still expecting increasing dividends.

The estimates are discussed in more detail on the previous pages, including more detailed numbers.

	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Revenue	**50**	**60**	**62**	**74**	**109**	**179**	**181**	**166**	**176**
Materials and services	-20	-25	-26	-29	-42	-70	-75	-70	-73
Materials and services (% of revenue)	*-41.4 %*	*-41.5 %*	*-41.7 %*	*-39.7 %*	*-38.5 %*	*-39.1 %*	*-41.5 %*	*-42.0 %*	*-41.5 %*
Gross margin	**29**	**35**	**36**	**45**	**67**	**109**	**106**	**97**	**103**
Gross margin %	*58.6 %*	*58.5 %*	*58.3 %*	*60.3 %*	*61.5 %*	*60.9 %*	*58.5 %*	*58.0 %*	*58.5 %*
Other operating income	0.4	0.2	0.2	0.5	0.4	0.5	0.4	0.4	0.4
Personnel costs	-10	-12	-13	-15	-21	-31	-32	-32	-34
Personnel costs (% of revenue)	-19.8 %	-20.5 %	-21.1 %	-20.1 %	-19.4 %	-17.1 %	-17.9 %	-19.0 %	-19.0 %
Other operating costs	-8	-12	-12	-14	-20	-26	-30	-28	-30
Other operating costs (% of revenue)	-16.9 %	-19.7 %	-18.9 %	-18.6 %	-17.9 %	-14.8 %	-16.7 %	-17.0 %	-17.0 %
EBITDA	**11**	**11**	**12**	**16**	**27**	**52**	**44**	**37**	**40**
EBITDA %	*22.6 %*	*18.6 %*	*18.6 %*	*22.2 %*	*24.5 %*	*29.3 %*	*24.1 %*	*22.2 %*	*22.7 %*
Depriciation	-1.6	-1.9	-2.2	-3.1	-4.3	-5.8	-6.7	-6.6	-6.6
Adjusted EBIT	**10**	**11**	**11**	**14**	**24**	**47**	**37**	**30**	**34**
EBIT % (adjusted)	*20.1 %*	*17.8 %*	*17.5 %*	*18.7 %*	*22.4 %*	*26.4 %*	*20.4 %*	*18.3 %*	*19.0 %*

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	184	181	-2%	175	166	-5%	186	176	-5%
EBITDA	44.4	43.7	-2%	38.9	37.0	-5%	41.9	39.9	-5%
EBIT (exc. NRIs)	37.7	37.1	-2%	32.3	30.4	-6%	35.6	33.5	-6%
EBIT	37.7	37.1	-2%	32.3	30.4	-6%	35.6	33.5	-6%
EPS (excl. NRIs)	1.54	1.51	-2%	1.28	1.22	-5%	1.42	1.34	-5%
DPS	0.63	0.61	-3%	0.65	0.62	-5%	0.68	0.65	-4%

Source: Inderes

Revenue and EBIT scenarios 1/3

Modeling of advance/extra demand caused by COVID

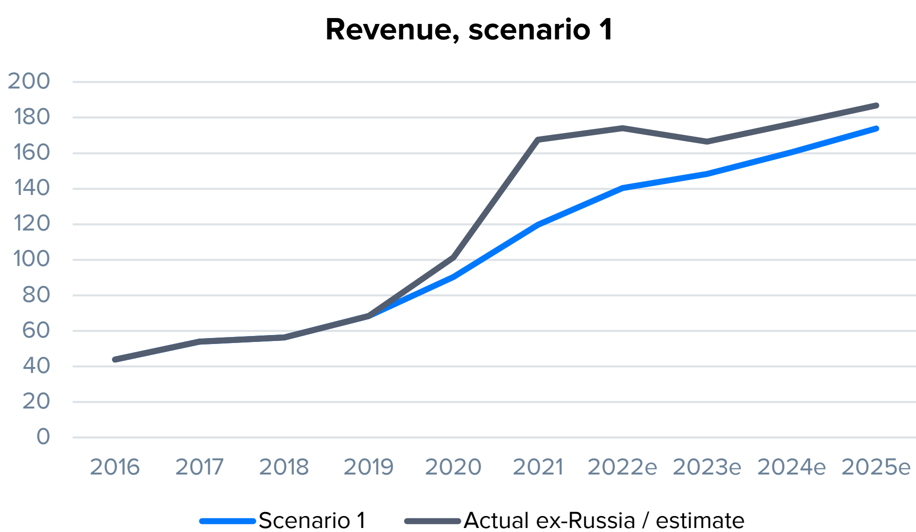
We have tried to model advance/extra demand caused by the COVID years with a few different scenarios. To this end, we have used different assumptions about what Harvia's so-called sustainable/trend growth has been in 2020-22 and what part is extraordinary growth generated by COVID that will not recur. If this demand above the trend is considered advance demand, it should correspondingly be reflected as weaker than trend demand/revenue in coming years. Of course, much depends on how that trend growth is estimated.

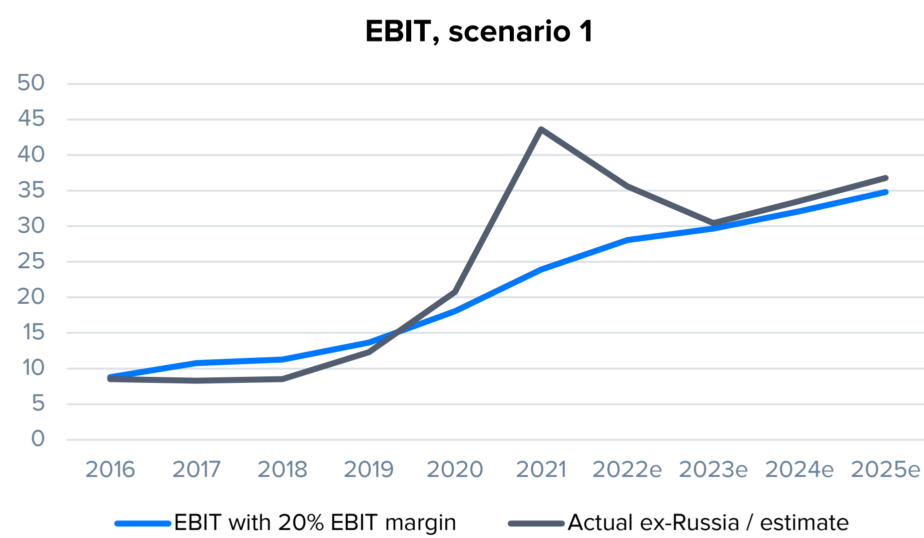
This way, we have evaluated different revenue scenarios that can be compared to actual figures (without Russia) and our actual estimates for the next few years. In addition, we have calculated the EBIT trend with an even 20% EBIT margin.

Scenario 1 – 10-15% trend growth in 2020-21

- In scenario 1, we use 2019 as the base figures and assume 10% in Finland and 15% on other markets as the 'trend growth' in 2020-21. This consists of a faster growth rate than the 5% historic market growth and Harvia's increased market shares.
- In 2022, all markets are expected to grow by 10%, supported by price increases, and volumes are stable. In addition, the strengthened USD supports North American sales
- In 2023, growth is expected to be 5% in all markets, except for North America, where supported by a stronger USD it is 10%.
- In 2024-25, we assume that Finland's sales will grow by 5% and other countries by 10% as Harvia continues to win market shares and the sauna trend continues.
- Acquisitions have been considered with published or estimated 2019 figures using the above growth estimates.
- With a 20 % EBIT margin assumption this scenario shows a EUR 30 million EBIT for 2023

We note that in this scenario the modeled revenue and EBIT are below our actual estimates in the estimate years. If this scenario is in the right direction, there is still downside in the estimates, especially if the revenue is below the trend in the coming years.





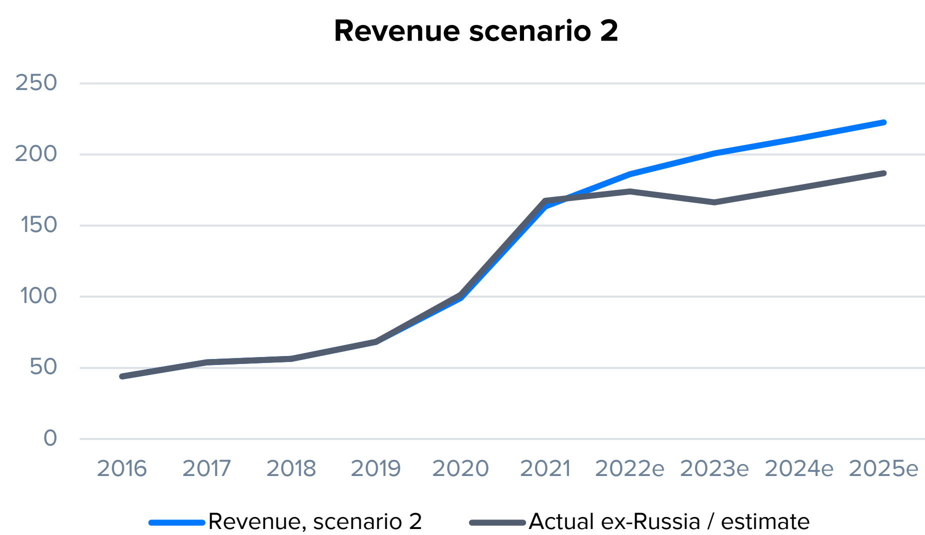
Revenue and EBIT scenarios 2/3

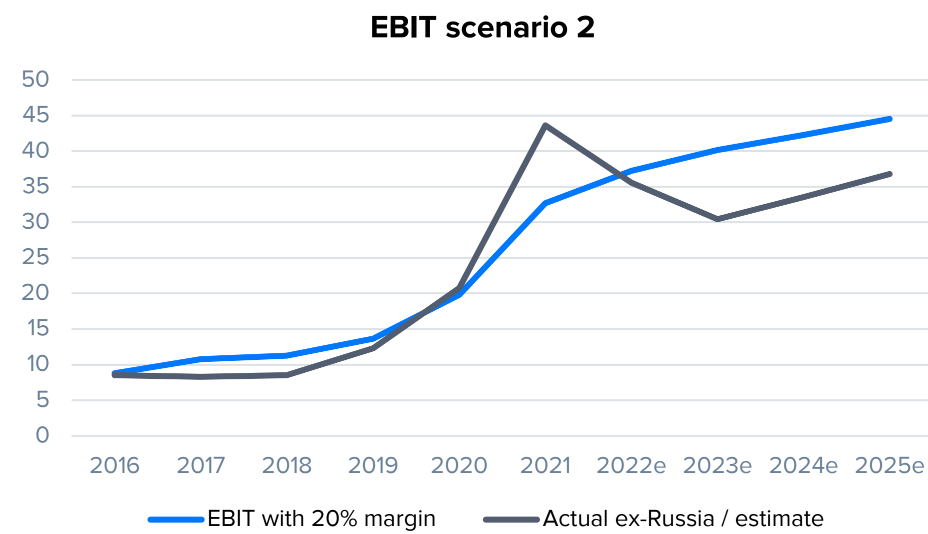
Scenario 2 – international growth continues

- Scenario 2 assumes that Harvia, with the exception of Finland, is able to continue to grow at the high revenue levels seen during COVID. In Finland, the reputation of saunas and Harvia is already so high that we do not believe that the COVID era sustainably boosted the market, but it is advance demand / a one-off sales peak.
- In Finland, we therefore use the 2019 level as the base figure and calculate that the 'sustainable growth' was 5% p.a. in 2020-21, 10% in 2022 supported by price increases and 5% p.a. from 2023 onwards. Acquisitions have been considered and, for Kirami and SaunaEurox, the assumptions are in line with the Finnish sales.
- In other countries, we expect growth to continue at 2021 levels and to be 10% in 2022 (North America slightly more supported by the USD) and 5% from 2023 onwards (again North America a bit more supported by the USD).
- With a 20 % EBIT margin assumption this scenario's revenue estimate for 2023 is around EUR 40 million.

This scenario in practice assumes that the advance/additional demand of the COVID era was only applied to Finland and Kirami. In this scenario, the figures are somewhat above our actual estimates for the coming years. The drop in demand in Germany seen in Q2 does not, in our opinion support this scenario unless it was a very temporary drop.

In this scenario, the 'normalization' of demand is scheduled for 2023. This is mainly to facilitate modeling, in practice the timing is not as clear cut, or at least not for a particular calendar year. The same applies to other scenarios.





Revenue and EBIT scenarios 3/3

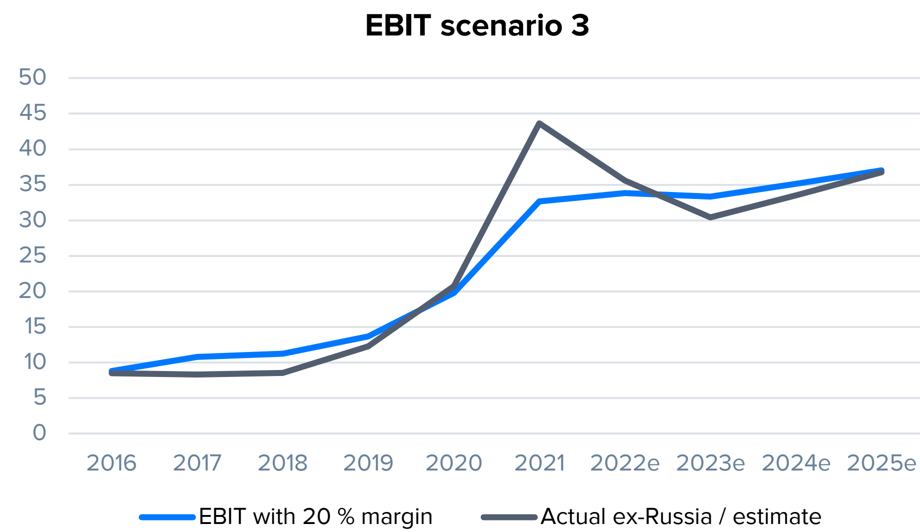
Scenario 3 – Central Europe suffers from inflation and the energy crisis

- Scenario 3 is the same as scenario 2, but assumes that Germany and the rest of Europe will suffer from the weakening of purchasing power and willingness in 2022-23 caused by inflation and the energy crisis resulting in a clear fall in sales (-10% p.a. for both 2022 and 2023) after which the market will continue to grow by 5% p.a. from 2024 onwards.
- With a 20 % EBIT margin assumption this scenario's revenue estimate for 2023 is around EUR 33 million.

Scenario 3 is close to our actual estimates in terms of revenue and also similar in terms of geographical development although not exactly the same. However, in terms of EBIT, we assume that the sales decline and weakening market situation will also have a negative impact on the margin, so that the EBIT margin falls below 20 %. Therefore, our EBIT estimate is EUR 30 million, which is slightly lower than the steady margin assumption of 20% in the scenario.

This scenario also clearly shows that, in addition to revenue development, the profitability trend and level were exceptionally high in 2021. In addition to the leveling off of revenue, the expected normalization of profitability to around the 20% target level will therefore have a significant impact on the absolute earnings level.

When looking at all scenarios, it should be born in mind that these are only indicative scenarios.



Valuation and recommendation 1/3

Short-term earnings fluctuation creates a challenge for valuation

Harvia is a quality company that historically has grown fairly evenly. This enables the use of both the DCF model and earnings-based valuation, and also makes the dividend yield more predictable. However, the rapid growth of recent years and the earnings decline in our estimates for 2022-23, as well as the related uncertainty, pose some challenges to the valuation. It does not affect the functionality of the methods as such but making assumptions for Harvia is much more difficult than, e.g., three years ago. For the expected return, we look at the earnings growth in the coming years, the dividend level and possible changes in valuation multiples.

Positive return/risk ratio despite uncertainty

After Q2, we estimate that Harvia's earnings will also fall in the next three quarters until easier comparison figures provide the opportunity to turn back to the positive. We also continue to see the risk that the drop in the near future will be faster than our expectations as demand normalizes after COVID and weakening consumer demand hits Harvia. During this downward earnings trend, it is difficult to see clear positive drivers for the share.

In terms of valuation, however, the 12.5x P/E and 10x EV/EBIT we estimate for 2023 are low despite the uncertainty as Harvia is a high-quality company with a reasonable growth outlook. However, multiple expansion may require a more positive news flow and/or a change in the market valuation level.

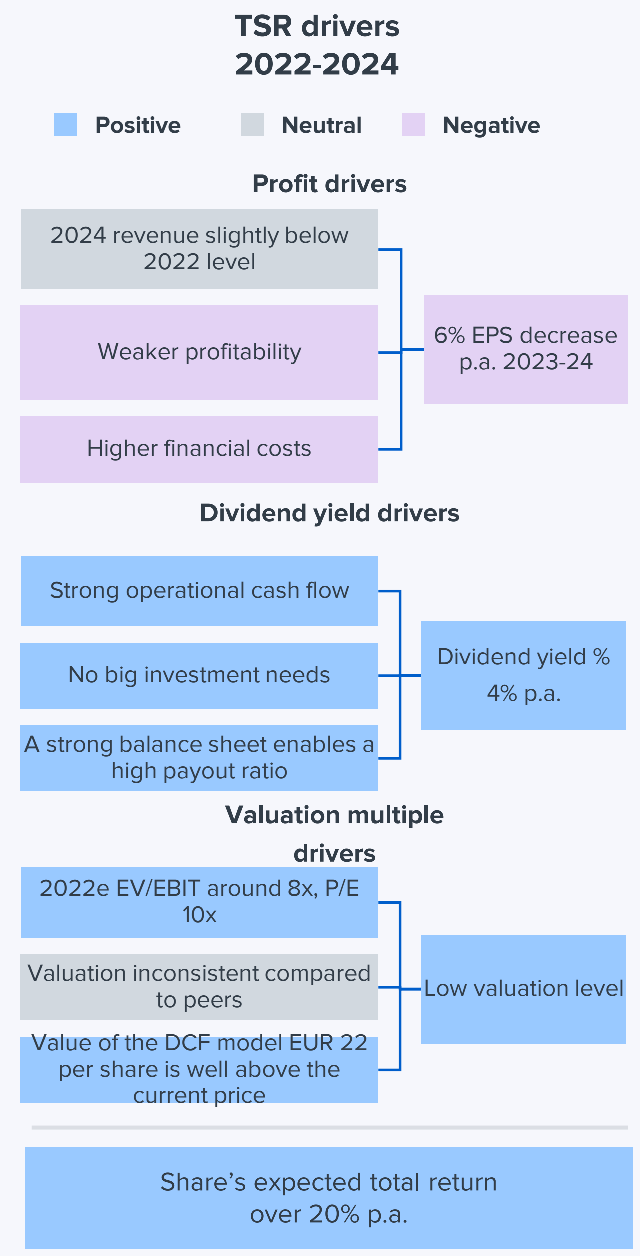
If we assume a trend growth rate of only 5% for 2020-23 (i.e. all growth above this has only been temporary 'COVID extra') and a 20% EBIT margin in 2023, EBIT would be EUR 24 million. Even at this level, 2023 EV/EBIT would be 12x, i.e. quite moderate and easily justifiable.

When we look at the expected return of the share in 12 months, we assume that the multiples will rise, while Harvia expects earnings growth in the next few years. Our EUR 20 target price means an 11x EV/EBIT and 15x P/E for Harvia in 2024. We believe that these are at the bottom end of a neutral multiple range for Harvia but justified in the current uncertainty. The return/risk ratio for the next 12 months is positive, leading to the Buy recommendation

DCF model

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

After our more accurate estimate years (2022-25, which were discussed earlier), we expect the revenue and earnings growth to slow down from 5% to 2% in 2026-2031 (a steady EBIT margin of 20%), which is also our growth assumption in the terminal period.



Source: Inderes

Valuation 2/3

We expect the investment level to remain moderate, as Harvia has carried out significant investments last year, which will allow it to grow. On the other hand, in our estimates, revenue will grow by about EUR 50 million p.a. from 2022 to 2031, while in 2019-21 it increased by EUR 100 million (partly through acquisitions though). So the expected growth can therefore be generated even with small investments.

As the required return (WACC) we use 7.9%. A large proportion (about 60%) of cash flows will only be generated after 2031, i.e. during the terminal period.

Our DCF model gives Harvia a debt-free value of about EUR 470 million, which means that the share capital is worth about EUR 420 million, or about EUR 22 per share. We believe that the DCF reflects the company's longer-term potential. However, the share price returning closer to this value will have to wait until the depth of the current earnings slump is evident and the company's earnings start growing again.

Earnings-based valuation

Harvia's EV/EBIT valuation is approximately 8x with 2022 earnings. It is a low level, but in view of the earnings drop we expect after the COVID peak, the 2022 multiple is not the best starting point in our view. The 2023 EV/EBIT is under 10x, which looks very favorable. It is particularly attractive if 2023 is the weakest year in the near future, as we expect. Harvia's historical valuation has been clearly higher, but it is mainly due to the multiples of 2020-21 caused by the tremendous growth and share price rise. Considering the over 20% ROE, Harvia's EV/EBIT could be significantly higher, as a clearer view to the short-term performance is gained and/or earnings turn to growth again.

With the P/E Harvia is priced at 12.5x with 2023 earnings, even though we think even this is a modest level, but not clearly as cheap as the EV/EBIT. This is because, with our estimates Harvia does not have much debt at the end of 2023 which is reflected in the EV/EBIT multiples.

With the current share price and a gradually rising 40-50% payout ratio, Harvia offers a dividend yield of over 4%.

Valuation compared to peer group

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

As Finnish peer companies we have selected, consumer product companies like Nokian Tyres and Rapala. As Swedish peer companies we have chosen, e.g. Thule that manufactures roof racks, Dometic that manufactures air conditioning and electronic equipment, Electrolux that manufactures appliances and Nibe that manufactures heat pumps.

Valuation	2022e	2023e	2024e
Share price	15.2	15.2	15.2
Number of shares, millions	18.7	18.7	18.7
Market cap	284	284	284
EV	312	292	278
P/E (adj.)	10.1	12.5	11.3
P/E	10.1	12.5	11.3
P/FCF	34.9	9.0	10.9
P/B	2.9	2.6	2.3
P/S	1.6	1.7	1.6
EV/Sales	1.7	1.8	1.6
EV/EBITDA	7.1	7.9	7.0
EV/EBIT (adj.)	8.4	9.6	8.3
Payout ratio (%)	40.4 %	51.0 %	48.4 %
Dividend yield-%	4.0 %	4.1 %	4.3 %

Source: Inderes

Valuation 3/3

Other peer companies include, e.g. home ware manufacturer De'Longhi and exercise equipment manufacturer Technogym.

The median EV/EBIT of the peer group for 2023 is 10x and the P/E is 12x. So compared to peer group, Harvia does not seem particularly cheap, so partly it seems to be a question of modest valuation in the entire market or industry. The dividend yield of the peer group is in the same ballpark as Harvia's. Due to the differences in the peer group, we do not feel its valuation is directly applicable to Harvia.

Previous acquisitions seem successful

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

For recent acquisitions (EOS, Kirami), the demand boom generated by COVID is blurring the company's own contribution to the improved performance. Despite this, if we estimate that EOS will be able to generate at least EUR 20 million in revenue (17 MEUR reported in 2019) and Harvia's typical profitability of 20%, the EV/EBIT multiple on the deal price would be 10x. This despite the fact that Harvia had to pay a relatively large amount for the German minority holding compared to the original purchase price. In terms of Kirami, we do not believe that final conclusions on the soundness of the acquisition can be drawn yet, but on the other hand, the price was very low compared to the strong performance during COVID, so financially speaking, it is unlikely to be going poorly unless the business turns to red. Overall, we believe that capital allocation to acquisitions has been successful and created value.

Acquisitions are less likely in the near future

At present, however, the situation in the entire industry is probably similar as in Harvia, which means that the last few years have been good and the future is likely to be weaker. We believe that this creates enough difference between the seller's and buyer's purchase price expectation that at least for Harvia (the buyer), it may be difficult to find value-creating acquisition targets for the time being. Harvia has also significantly increased its own production capacity in recent years, so even in this respect, it has no needs that could be met with acquisitions. On the other hand, the acquisitions carried out by Harvia have typically been companies with which they have cooperated for a longer time, and the motive for the transaction (for the seller) has not necessarily been to find the optimal timing for the sale.

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

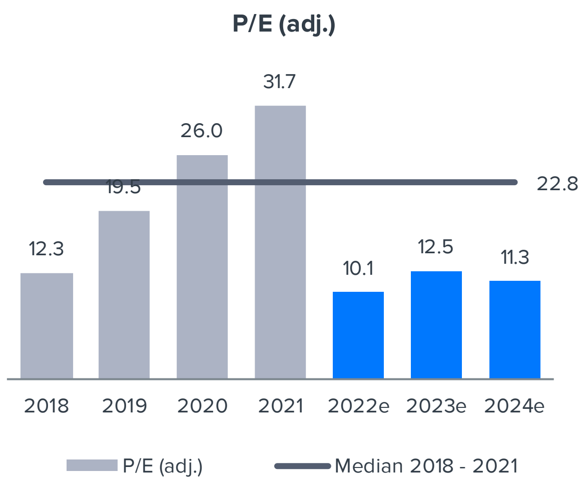
Reasonable expected return in the longer term

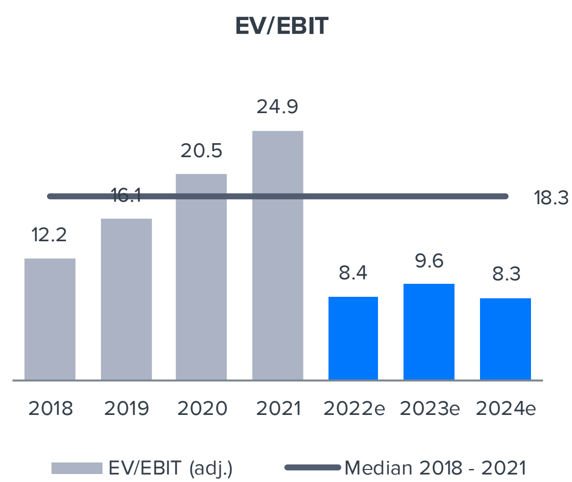
We believe that after next year's drop, Harvia will return to a growing revenue path of about 5%, or slightly above in line with its objective. We also believe that the target EBIT margin of around 20% will continue to be achieved in future, although not the 25% level seen last year. This gives us a 5-10 % future earnings growth estimate p.a. When we add the approximately 4% dividend yield, the total expected return is over 10%. When the normalization of Harvia's earnings level after COVID is witnessed the risk level of achieving this return falls clearly in our opinion compared to the current uncertain situation. As mentioned earlier, a clarification of the situation should also lead to an increase in valuation multiples, which is clearly the key component of the expected return for the next few years.

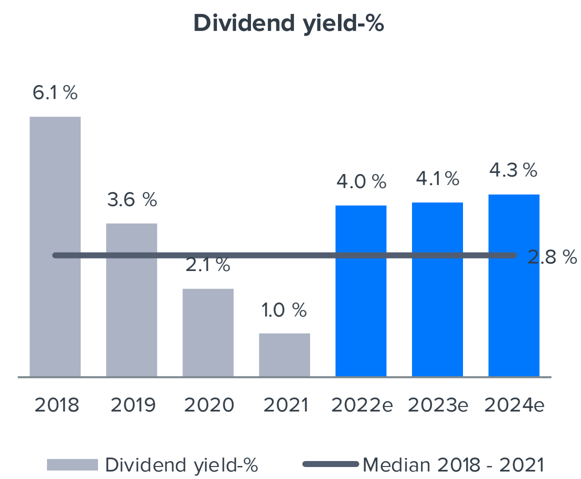
Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price		6.10	10.6	24.5	58.7	**15.2**	**15.2**	**15.2**	**15.2**
Number of shares, millions		16.7	18.7	18.6	18.6	**18.7**	**18.7**	**18.7**	**18.7**
Market cap		102	198	457	1091	**284**	**284**	**284**	**284**
EV		132	224	503	1181	**312**	**292**	**278**	**264**
P/E (adj.)		12.3	19.5	26.0	31.7	**10.1**	**12.5**	**11.3**	**10.3**
P/E		15.0	20.6	29.5	32.4	**10.1**	**12.5**	**11.3**	**10.3**
P/FCF		17.6	16.2	32.4	>100	**34.9**	**9.0**	**10.9**	**10.3**
P/B		1.5	2.9	6.9	13.5	**2.9**	**2.6**	**2.3**	**2.1**
P/S		1.6	2.7	4.2	6.1	**1.6**	**1.7**	**1.6**	**1.5**
EV/Sales		2.1	3.0	4.6	6.6	**1.7**	**1.8**	**1.6**	**1.4**
EV/EBITDA		11.4	13.6	18.8	22.5	**7.1**	**7.9**	**7.0**	**6.2**
EV/EBIT (adj.)		12.2	16.1	20.5	24.9	**8.4**	**9.6**	**8.3**	**7.2**
Payout ratio (%)		91.1 %	74.0 %	61.5 %	33.1 %	**40.4 %**	**51.0 %**	**48.4 %**	**47.4 %**
Dividend yield-%		6.1 %	3.6 %	2.1 %	1.0 %	**4.0 %**	**4.1 %**	**4.3 %**	**4.6 %**

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**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**
Thule Group AB	2440	2682	12.9	12.2	11.9	11.2	2.6	2.6	15.4	14.7	5.4	5.6	4.2
Nobia AB	418	658	9.5	7.6	4.3	3.9	0.5	0.5	8.9	7.5	8.5	9.0	0.9
Dometic Group AB	1793	3237	10.0	9.8	7.6	7.5	1.2	1.2	8.6	9.0	4.1	4.3	0.8
Nokian Tyres plc	1480	1723	22.4	13.3	5.2	6.5	1.1	1.2	12.9	14.4	5.0	4.5	1.0
Rapala VMC Oyj	195	303	18.9	11.4	11.7	7.6	1.1	1.1	22.2	11.8	2.5	4.0	1.4
Husqvarna AB	3734	4625	10.5	9.2	6.9	6.3	1.0	1.0	12.0	10.2	4.4	4.8	1.7
Inwido AB	550	669	7.1	7.2	5.5	5.6	0.8	0.8	7.9	8.0	6.4	6.6	1.2
Nibe Industrier AB	20301	20981	42.3	37.2	33.2	29.3	5.9	5.3	54.8	48.3	0.5	0.6	8.7
Technogym SpA	1304	1258	14.4	11.8	9.8	8.4	1.8	1.6	20.2	16.7	2.6	3.0	3.8
Rockwool A/S	4033	3957	8.9	8.9	6.0	5.9	1.0	1.0	12.5	12.1	0.4	0.4	1.5
Kingspan Group PLC	10537	11983	14.2	14.7	11.7	11.8	1.5	1.5	16.1	17.0	0.9	0.9	3.1
Electrolux AB	3349	4972	10.9	7.7	5.4	4.4	0.4	0.4	12.6	7.7	7.1	7.5	1.9
De' Longhi SpA	2505	2732	10.5	8.9	7.8	6.9	0.9	0.9	13.1	10.9	3.4	3.7	1.5
Harvia (Inderes)	**284**	**312**	**8.4**	**9.6**	**7.1**	**7.9**	**1.7**	**1.8**	**10.1**	**12.5**	**4.0**	**4.1**	**2.9**
Average			**14.8**	**12.3**	**9.8**	**8.9**	**1.5**	**1.5**	**16.7**	**14.5**	**3.9**	**4.2**	**2.4**
Median			**10.9**	**9.8**	**7.6**	**6.9**	**1.1**	**1.1**	**12.9**	**11.8**	**4.1**	**4.3**	**1.5**
Diff-% to median			***-23%***	***-2%***	***-6%***	***15%***	***62%***	***67%***	***-22%***	***7%***	***-3%***	***-5%***	***90%***

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

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	**109**	**39.6**	**46.8**	**46.2**	**46.5**	**179**	**50.8**	**46.0**	**44.1**	**40.4**	**181**	**166**	**176**	**187**
Finland	27.7	8.2	10.1	10.1	8.5	36.9	11.7	10.4	9.8	7.7	39.5	35.6	36.6	37.7
Other Nordic countries	5.6	1.8	2.3	2.6	2.7	9.4	2.1	2.6	2.5	2.4	9.6	8.6	9.1	9.4
Germany	17.6	8.5	9.1	9.1	8.7	35.4	8.6	6.4	7.7	7.4	30.1	29.2	30.6	32.2
Other European countries	26.1	10.5	12.7	13.1	13.3	49.7	13.4	12.0	11.8	11.3	48.5	43.6	45.8	47.7
Russia	7.9	2.4	2.6	2.9	3.7	11.5	2.3	2.6	1.9	0.4	7.2	0.0	0.0	0.0
North America	20.8	6.7	8.4	6.6	7.4	29.1	9.6	8.9	7.2	8.1	33.9	35.6	39.2	43.1
Other countries	3.3	1.6	1.5	1.8	2.2	7.2	3.2	3.1	3.1	3.1	12.5	13.8	15.2	16.7
EBITDA	**26.7**	**12.3**	**14.3**	**13.3**	**12.7**	**52.5**	**13.7**	**10.4**	**10.9**	**8.8**	**43.7**	**37.0**	**39.9**	**42.4**
Depreciation	-4.3	-1.2	-1.4	-1.7	-1.6	-5.8	-1.6	-1.6	-1.7	-1.7	-6.7	-6.6	-6.4	-5.6
EBIT (excl. NRI)	**24.5**	**11.1**	**13.2**	**11.8**	**11.3**	**47.4**	**12.1**	**8.6**	**9.2**	**7.1**	**37.1**	**30.4**	**33.5**	**36.8**
EBIT	**22.4**	**11.0**	**12.9**	**11.6**	**11.1**	**46.6**	**12.1**	**8.7**	**9.2**	**7.1**	**37.1**	**30.4**	**33.5**	**36.8**
Net financial items	-2.0	-0.2	-0.5	-0.4	-0.4	-1.5	0.7	1.0	-0.5	-0.5	0.8	-1.0	-0.9	-0.9
PTP	**20.3**	**10.8**	**12.4**	**11.2**	**10.8**	**45.2**	**12.8**	**9.8**	**8.7**	**6.6**	**37.8**	**29.5**	**32.6**	**35.8**
Taxes	-4.4	-2.4	-3.0	-2.7	-2.3	-10.4	-3.2	-2.0	-2.0	-1.5	-8.7	-6.8	-7.5	-8.2
Minority interest	-0.5	-0.2	-0.3	-0.3	-0.3	-1.1	-0.4	-0.4	-0.2	0.0	-1.0	0.0	0.0	0.0
Net earnings	**15.5**	**8.2**	**9.1**	**8.3**	**8.2**	**33.7**	**9.2**	**7.4**	**6.5**	**5.1**	**28.2**	**22.7**	**25.1**	**27.6**
EPS (adj.)	**0.94**	**0.45**	**0.51**	**0.45**	**0.45**	**1.85**	**0.50**	**0.39**	**0.35**	**0.27**	**1.51**	**1.22**	**1.34**	**1.48**
EPS (rep.)	**0.83**	**0.44**	**0.49**	**0.44**	**0.44**	**1.81**	**0.50**	**0.40**	**0.35**	**0.27**	**1.51**	**1.22**	**1.34**	**1.48**

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	47.3 %	94.6 %	83.4 %	65.1 %	31.9 %	64.2 %	28.2 %	-1.8 %	-4.5 %	-13.1 %	1.2 %	-8.2 %	6.1 %	5.8 %
Adjusted EBIT growth-%	76.4 %	164.8 %	146.0 %	93.5 %	28.4 %	93.8 %	8.7 %	-34.9 %	-21.5 %	-37.0 %	-21.9 %	-17.9 %	10.2 %	9.7 %
EBITDA-%	24.5 %	31.0 %	30.5 %	28.7 %	27.3 %	29.3 %	27.0 %	22.5 %	24.7 %	21.7 %	24.1 %	22.2 %	22.6 %	22.7 %
Adjusted EBIT-%	22.4 %	28.1 %	28.3 %	25.5 %	24.3 %	26.5 %	23.8 %	18.7 %	21.0 %	17.6 %	20.4 %	18.3 %	19.0 %	19.7 %
Net earnings-%	14.2 %	20.7 %	19.3 %	17.9 %	17.5 %	18.8 %	18.2 %	16.1 %	14.7 %	12.5 %	15.6 %	13.6 %	14.2 %	14.8 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**103**	**119**	**117**	**114**	**110**
Goodwill	71.0	73.7	73.7	73.7	73.7
Intangible assets	10.4	12.7	12.7	12.9	13.1
Tangible assets	16.9	28.0	26.3	22.7	19.4
Associated companies	0.0	0.7	0.0	0.0	0.0
Other investments	2.7	2.6	2.6	2.6	2.6
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	1.9	1.5	1.5	1.5	1.5
Current assets	**62.7**	**82.2**	**98.0**	**110**	**128**
Inventories	20.7	46.1	47.1	39.9	42.4
Other current assets	0.2	0.1	0.1	0.1	0.1
Receivables	14.4	20.4	21.8	21.6	22.9
Cash and equivalents	27.3	15.5	29.0	48.4	62.3
Balance sheet total	**166**	**201**	**215**	**224**	**238**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**68.9**	**84.1**	**97.8**	**109**	**123**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	23.7	47.9	64.9	76.2	89.8
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	42.6	32.6	32.6	32.6	32.6
Minorities	2.4	3.6	0.2	0.2	0.2
Non-current liabilities	**74.4**	**84.9**	**84.6**	**84.6**	**84.6**
Deferred tax liabilities	1.9	2.3	2.3	2.3	2.3
Provisions	0.3	0.3	0.3	0.3	0.3
Long term debt	56.3	56.4	56.0	56.0	56.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	15.8	25.9	25.9	25.9	25.9
Current liabilities	**22.4**	**32.4**	**32.6**	**30.0**	**30.9**
Short term debt	0.1	0.0	0.0	0.0	0.0
Payables	17.2	24.6	25.4	23.3	24.7
Other current liabilities	5.2	7.7	7.2	6.7	6.2
Balance sheet total	**166**	**201**	**215**	**224**	**238**

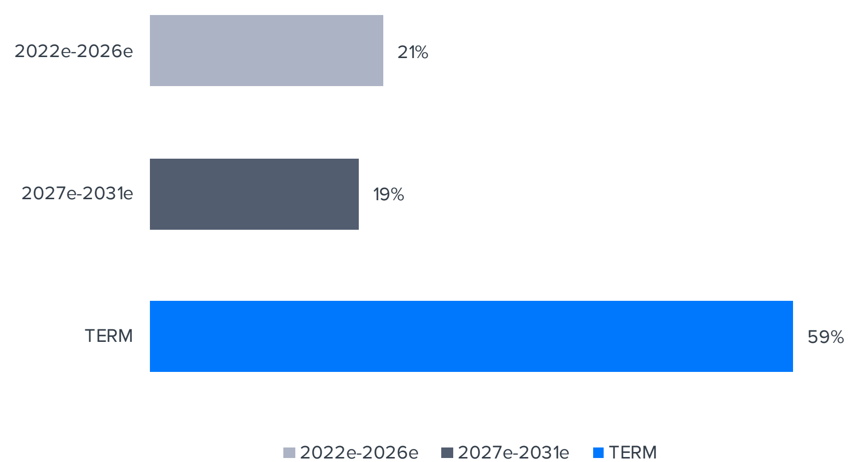
DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	**46.6**	**37.1**	**30.4**	**33.5**	**36.8**	**39.2**	**40.8**	**42.0**	**43.1**	**43.9**	**44.8**	
+ Depreciation	5.8	6.7	6.6	6.4	5.6	5.0	4.6	4.4	4.4	3.8	4.0	
- Paid taxes	-9.7	-8.7	-6.8	-7.5	-8.2	-8.9	-9.3	-9.7	-9.9	-10.1	-10.3	
- Tax, financial expenses	-0.3	0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-21.3	-2.1	4.7	-2.8	-2.9	-2.1	-1.8	-1.4	-1.2	-1.0	-1.0	
Operating cash flow	**21.1**	**33.1**	**34.8**	**29.4**	**31.1**	**33.0**	**34.2**	**35.4**	**36.3**	**36.6**	**37.5**	
+ Change in other long-term liabilities	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-21.9	-5.0	-3.2	-3.2	-3.5	-3.9	-4.2	-4.4	-4.6	-4.8	-4.8	
Free operating cash flow	**9.4**	**28.1**	**31.6**	**26.2**	**27.5**	**29.1**	**30.0**	**30.9**	**31.7**	**31.8**	**32.7**	
+/- Other	0.0	-20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	9.4	8.1	31.6	26.2	27.5	29.1	30.0	30.9	31.7	31.8	32.7	566
Discounted FCFF		**8.0**	**28.6**	**22.0**	**21.4**	**21.0**	**20.1**	**19.2**	**18.2**	**16.9**	**16.1**	**279**
Sum of FCFF present value		471	463	434	412	391	370	350	331	313	296	279
Enterprise value DCF		**471**										
- Interesting bearing debt		-56.4										
+ Cash and cash equivalents		15.5										
-Minorities		-0.6										
-Dividend/capital return		-11.2										
Equity value DCF		**418**										
Equity value DCF per share		**22.4**										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	10.0 %
Cost of debt	5.0 %
Equity Beta	1.3
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.0 %
Cost of equity	**8.3 %**
Weighted average cost of capital (WACC)	**7.9 %**

Source: Inderes

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	74.1	109.1	179.1	**181.3**	**166.4**
EBITDA	16.4	26.7	52.5	**43.7**	**37.0**
EBIT	13.3	22.4	46.6	**37.1**	**30.4**
PTP	12.1	20.3	45.2	**37.8**	**29.5**
Net Income	9.6	15.5	33.7	**28.2**	**22.7**
Extraordinary items	-0.6	-2.1	-0.8	**0.0**	**0.0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	121.8	165.6	201.5	**215.0**	**223.7**
Equity capital	68.8	68.9	84.1	**97.8**	**109.1**
Goodwill	60.2	71.0	73.7	**73.7**	**73.7**
Net debt	25.6	29.1	40.9	**27.0**	**7.6**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	16.4	26.7	52.5	**43.7**	**37.0**
Change in working capital	2.3	2.5	-21.3	**-2.1**	**4.7**
Operating cash flow	15.6	25.8	21.1	**33.1**	**34.8**
CAPEX	-5.2	-23.9	-21.9	**-5.0**	**-3.2**
Free cash flow	12.2	14.1	9.4	**8.1**	**31.6**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	3.0	4.6	6.6	**1.7**	**1.8**
EV/EBITDA (adj.)	13.6	18.8	22.5	**7.1**	**7.9**
EV/EBIT (adj.)	16.1	20.5	24.9	**8.4**	**9.6**
P/E (adj.)	19.5	26.0	31.7	**10.1**	**12.5**
P/E	2.9	6.9	13.5	**2.9**	**2.6**
Dividend-%	3.6 %	2.1 %	1.0 %	**4.0 %**	**4.1 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	0.51	0.83	1.81	**1.51**	**1.22**
EPS (adj.)	0.54	0.94	1.85	**1.51**	**1.22**
OCF / share	0.84	1.38	1.14	**1.78**	**1.86**
FCF / share	0.65	0.76	0.51	**0.44**	**1.69**
Book value / share	3.68	3.56	4.33	**5.23**	**5.84**
Dividend / share	0.38	0.51	0.60	**0.61**	**0.62**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	20%	47%	64%	**1%**	**-8%**
EBITDA growth-%	43%	62%	97%	**-17%**	**-15%**
EBIT (adj.) growth-%	28%	76%	94%	**-22%**	**-18%**
EPS (adj.) growth-%	10%	74%	97%	**-18%**	**-20%**
EBITDA-%	22.2 %	24.5 %	29.3 %	**24.1 %**	**22.2 %**
EBIT (adj.)-%	18.7 %	22.4 %	26.5 %	**20.4 %**	**18.3 %**
EBIT-%	18.0 %	20.5 %	26.0 %	**20.4 %**	**18.3 %**
ROE-%	14.3 %	22.9 %	45.8 %	**31.7 %**	**22.0 %**
ROI-%	12.7 %	19.4 %	35.2 %	**25.2 %**	**19.1 %**
Equity ratio	56.5 %	41.6 %	41.8 %	**45.5 %**	**48.8 %**
Gearing	37.2 %	42.2 %	48.7 %	**27.6 %**	**6.9 %**

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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 price	Share price
14-08-20	Accumulate	16.00 €	14.40 €
05-11-20	Accumulate	22.00 €	19.95 €
26-11-20	Buy	22.00 €	19.10 €
12-02-21	Accumulate	33.00 €	30.00 €
18-04-21	Buy	45.00 €	33.65 €
06-05-21	Accumulate	47.00 €	42.25 €
31-05-21	Accumulate	52.00 €	46.05 €
17-07-21	Accumulate	62.00 €	58.20 €
12-08-21	Accumulate	64.00 €	59.00 €
02-09-21	Buy	64.00 €	53.30 €
05-11-21	Accumulate	65.00 €	60.00 €
Analyst changed			
27-01-22	Buy	57.00 €	44.20 €
10-02-22	Buy	51.00 €	39.20 €
11-03-22	Buy	42.00 €	34.15 €
05-05-22	Buy	42.00 €	32.22 €
20-07-22	Accumulate	27.00 €	24.00 €
Analyst changed			
12-08-22	Accumulate	22.00 €	19.93 €
09-09-22	Buy	20.00 €	15.23 €

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Inderes Oyj
Itämerentori 2
FI-00180 Helsinki, Finland
+358 10 219 4690

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