# Solwers

## Extensive report

**05/13/2024 20:31**

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Inderes corporate customer

**This report is a summary translation of the report "Konsultointia ja konsolidaatiota" published on 5/13/2024 at 8:33 pm EEST**

# Consultation and consolidation

Solwers is a group of expert services companies that aims to create value through both the operational business of the expert companies and by consolidating the industry through acquisitions. The considerable liquid assets on the balance sheet enable the company to implement its growth strategy, and we believe that success in this will also dictate the expected return for investors. We reiterate our EUR 5.0 target price for Solwers but after the price drop, we raise our recommendation to Buy (was Accumulate).

### A Group formed by expert companies

Solwers, established in 2017, is a Group formed by expert companies in the field of technical consulting and design that owns 29 operational subsidiaries in Finland and Sweden. Revenue is relatively evenly distributed between countries, and Solwers' expert services cover a wide range of project life cycle stages, and they are also widely distributed across different design areas of the built environment. Acquired companies are not integrated into the Group, but they continue with their own brands after the change of ownership. Thanks to its business model, Solwers has implemented its strategy of inorganic growth aiming at rapid growth with good results during its short history. In recent years, Solwers' capital turnover has, however, slowed down, decreasing its ROCE. In terms of its financial position, the company has good conditions for inorganic growth. Thus, the prerequisites for value creation are good as long as the company adheres to the qualitative criteria of its acquisition strategy and the pricing of the transactions remains moderate.

### Moderate organic growth outlook, we expect growth to be accelerated inorganically

The organic growth of Solwers' target markets is around the level of general economic growth or slightly above it thanks to structural drivers. In our forecasts for the next few years based on this growth image, we expect organic revenue growth to slow down this year in line with the economic growth picture. Similarly, after this year, we expect organic growth to return with economic growth. The scalability potential of the business model is moderate and thus we do not expect major changes in the company's profitability in the coming years. Thus, the organic earnings growth outlook consisting of these factors is moderate. However, we expect the company to continue active inorganic growth. We expect that acquisitions will focus on the current main markets, where there is still room for consolidation.

### Valuation is moderate and we believe it has a clear upside

Based on our estimates, P/E ratios for 2024-2025 are 13-12x and the corresponding EV/EBIT ratios considering the balance sheet structure are 12x and 10x. In absolute terms, we find the earnings-based valuation multiples moderate, especially considering the assets in the balance sheet available for inorganic growth. In relative terms, the share is valued at a hefty discount compared to the peer group, which we feel is reasonably valued. We, therefore, believe that there is considerable upside in the share's valuation, which our cash flow model also supports (EUR 5.0 per share). We believe the expected return mainly consists of the upside in the valuation while the role of the estimated dividend yield (~ 2% p.a.) is small. Thus, we estimate that the expected return will largely consist of more efficient use of assets in the balance sheet, which we suspect is likely to take place through acquisitions.

## Recommendation

**Buy**
(previous Accumulate)

**EUR 5.00**
(previous EUR 5.00)

**Share price:**
3.70


## Key figures

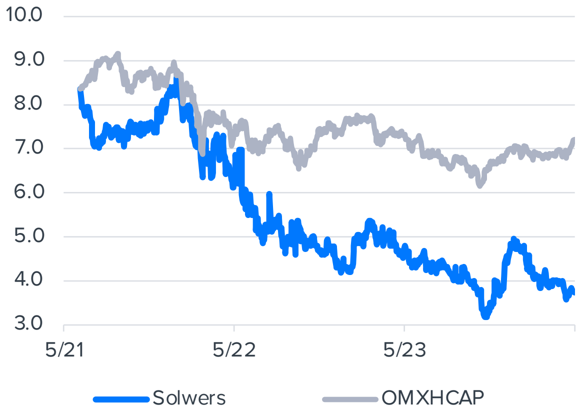
| | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|
| **Revenue** | 66.0 | 77.1 | 79.4 | 81.4 |
| **growth-%** | 5% | 17% | 3% | 3% |
| **EBIT adj.** | 4.8 | 4.9 | 5.2 | 5.3 |
| **EBIT-% adj.** | 7.3 % | 6.3 % | 6.6 % | 6.5 % |
| **Net Income** | 3.2 | 2.9 | 3.2 | 3.2 |
| **EPS (adj.)** | 0.32 | 0.29 | 0.32 | 0.32 |
| | | | | |
| **P/E (adj.)** | 15.1 | 12.9 | 11.7 | 11.4 |
| **P/B** | 1.2 | 0.9 | 0.8 | 0.8 |
| **Dividend yield-%** | 1.3 % | 2.0 % | 2.2 % | 2.4 % |
| **EV/EBIT (adj.)** | 13.5 | 11.8 | 10.5 | 9.9 |
| **EV/EBITDA** | 8.2 | 6.8 | 6.1 | 5.8 |
| **EV/S** | 1.0 | 0.7 | 0.7 | 0.6 |

Source: Inderes

## Guidance (Unchanged)

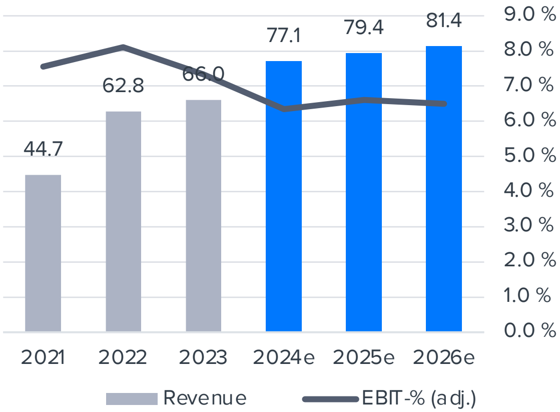
Solwers' business environment is expected to improve toward the end of 2024 with the general market pick up.

## Share price



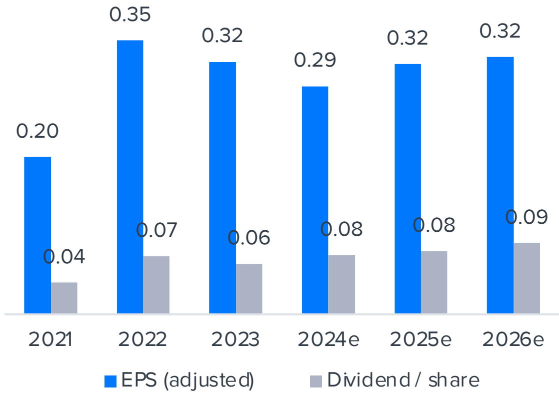

Source: Millistream Market Data AB

## Revenue and EBIT-%




Source: Inderes

## EPS and dividend




Source: Inderes

## Value drivers

- Long-term organic growth supported by market growth
- Good preconditions to continue the rapid and value creating inorganic growth strategy
- Efficient and agile acquisition process
- Success in capital allocation determines the level of long-term value creation

## Risk factors

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

| Valuation | 2024e | 2025e | 2026e |
|---|---|---|---|
| **Share price** | 3.70 | 3.70 | 3.70 |
| **Number of shares, millions** | 10 | 10 | 10 |
| **Market cap** | 37 | 37 | 37 |
| **EV** | 58 | 55 | 52 |
| **P/E (adj.)** | 12.9 | 11.7 | 11.4 |
| **P/E** | 12.9 | 11.7 | 11.4 |
| **P/B** | 0.9 | 0.8 | 0.8 |
| **P/S** | 0.5 | 0.5 | 0.5 |
| **EV/Sales** | 0.7 | 0.7 | 0.6 |
| **EV/EBITDA** | 6.8 | 6.1 | 5.8 |
| **EV/EBIT (adj.)** | 11.8 | 10.5 | 9.9 |
| **Payout ratio (%)** | 26.1 % | 25.4 % | 27.7 % |
| **Dividend yield-%** | 2.0 % | 2.2 % | 2.4 % |

Source: Inderes

# Contents

# Solwers in brief

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

**2017**

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

**2018-2021**

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

**2022-2024**

- Eight completed acquisitions
- Relatively stable operational developments despite high inflation and economic downturn
- The balance sheet position enables continued geographical and sectoral diversification through inorganic growth

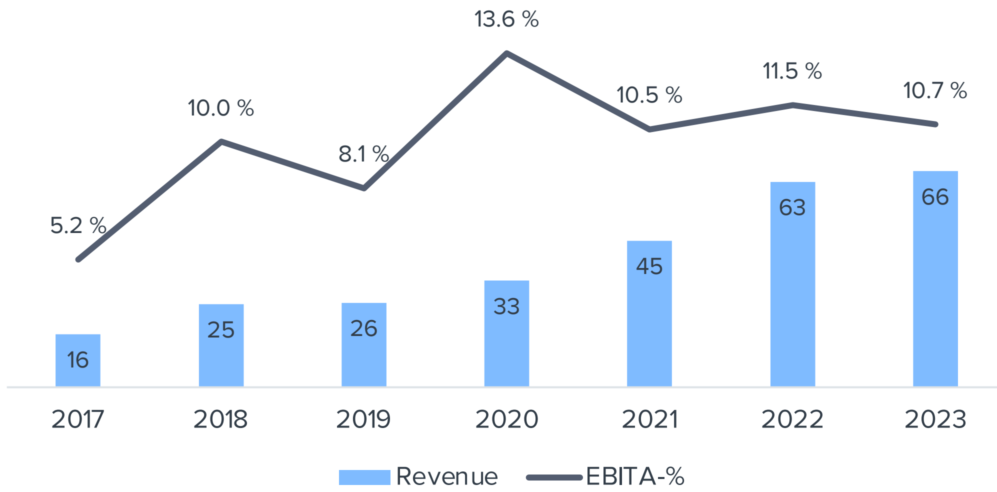
**2017**
Year of establishment

**29**
subsidiaries operating under their own name

**66.0 MEUR (+5%)**
Reported revenue 2023

**7.0 MEUR (EBITA % 10.7%)**
Reported EBITA 2023

**635**
Personnel at the end of 2023




Source: Solwers, Inderes

# Company description and business model 1/5

### A Group formed by expert companies

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

The Group acts as a platform for the companies it owns, supports their growth and stands out from conventional consulting companies by the owned companies operating in their areas of expertise under their own names and brands and the acquired companies are not integrated under the Solwers brand. The Group currently consists of 29 subsidiaries operating under their own name in Finland and Sweden.

Solwers Group's reported revenue for 2023 was EUR 66 million and the reported EBITDA adjusted for depreciation of intangible assets was EUR 7.0 million (EBITA % 10.7 %). The acquisitions made in 2024 alone will increase the Group's revenue by over 10 MEUR, and the full impact of acquisitions made during 2023 will further increase the Group's revenue.

### More business in Finland

Of the subsidiaries, 16 are domestic players and 12 operate in Sweden. Finland's weight in the company's business has been somewhat higher and Finland's share in the reported 2023 revenue was 60%, while Sweden represented the remaining 40%. However, thanks to the completed acquisitions, we suspect a roughly equal geographical distribution.

The company only reports revenue at Group level, so it is challenging to assess the more detailed structure of revenue. We believe, however, that roughly half of the Group's revenue is made up of the public sector, where infrastructure projects play a major role.

### Public infrastructure projects hold the highest weight

The Group has 13 companies specializing in infrastructure design, project management services and various industrial consultation services, of which the biggest players are Finnmap Infra operating in Finland, and Licab specialized in project management, ELE Engineering focusing on, e.g., electrical and automation solution design, and Wisegate specialized in consultation for the energy and process industries all operating in Sweden. According to our calculations, these companies accounted for good 60% of the Group's consolidated revenue in 2022.

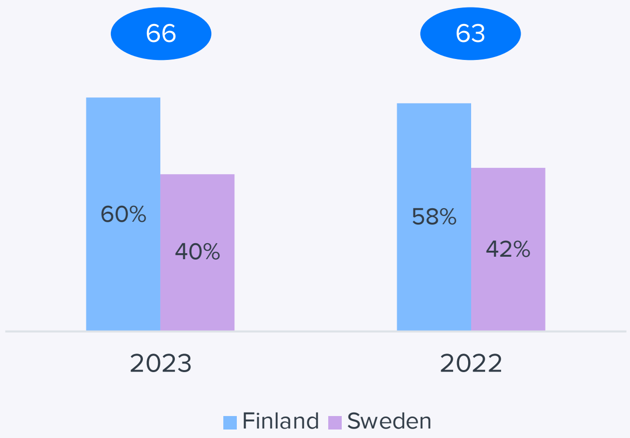
Typical projects of infrastructure design and project management companies include track layout planning, engineering structures design, geotechnical engineering and soil surveys, bridge and tunnel design, and project management services. The attractiveness of public sector infrastructure projects is increased by the stable nature of demand and lower dependence on general economic development.

SOLWERS

- Architecture
- Structural and building services engineering
- Infrastructure
- Project management and supervision
- Environmental and measurement services
- Other professional services

- 16 operational companies in Finland
- 13 operational companies in Sweden

### Revenue distribution




Source: Solwers, Inderes

# Company description and business model 2/5

### Architecture, structural engineering and HVAC design

There are four pure architects' offices in the Group companies, three of which operate in Finland and one in Sweden. The projects of these companies are typically main design of new projects, renovations, restoration design and interior design. In addition, this service entity includes two companies whose services cover not only architectural design but also underground and aboveground design and two companies specializing in structural engineering. Four Group companies carry out HVAC design, in addition to which the Swedish company Enerwex offers, e.g., HVAC design and passive house design. Correspondingly, e.g., Falk sells project management consultants to customers' project organizations. According to our calculations, the relative share of these companies of consolidated revenue was close to one-third in 2022. Projects in this service entity are typically carried out in the private sector, which increases their dependence on general economic development. However, the projects also target schools and municipal buildings, in which case the end user is the public sector.

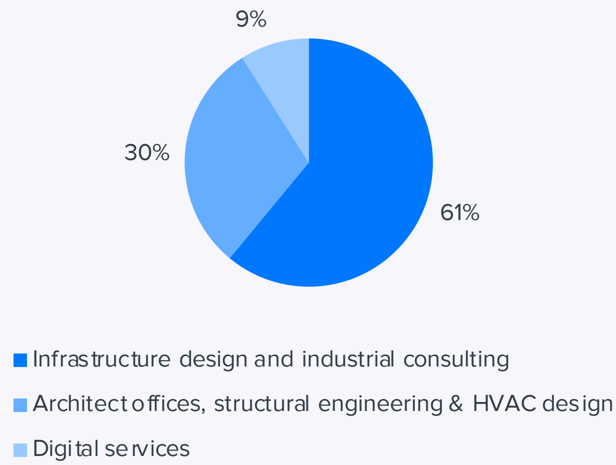
### Digital services

Digital services consist of vibration and risk analysis services, digital services for remote monitoring and environmental measurements, and financial management services. In the Group, these services are produced by three companies in Finland, and in Sweden the Group has one company specializing in financial management services. The main reason for owning financial management services is that these companies are responsible for the financial management of the Group's companies (e.g. accounts and accounting), in addition to having external customer relationships. According to our calculations, these services accounted for slightly under one-tenth of the consolidated revenue with 2023 figures.

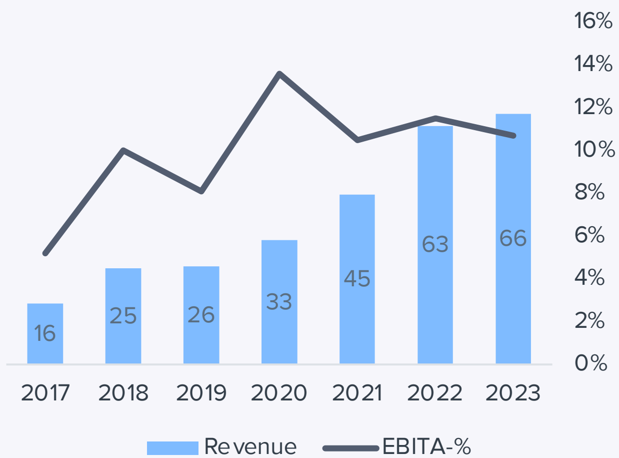
### Strong inorganic growth

Solwers Group has grown strongly, as in its first financial year in 2017 (16 months) its reported revenue was EUR 16.1 million while the reported revenue for 2023 was EUR 66 million. We assess that the growth driver has mainly been realized acquisitions, while organic growth has like market growth been roughly in line with economic growth. The business model is unique as the acquired companies are not integrated under the Solwers' brand although the Group participates in their management and control. By maintaining the own brands, the company aims to cherish the cultural elements of the companies. Thanks to the somewhat exceptional business model, the Group has also been able to maintain a rapid acquisition rate, as it does not implement integration projects that take time and resources. The Group also claims that maintaining the independence of the subsidiaries makes it a more attractive buyer for smaller, typically entrepreneurial/owner-driven acquisition targets compared to larger players.

**Relative share of service entities***




**Past development**




Source: Solwers, Inderes
NB! 2017 financial year was 16 months
* Inderes' rough estimate based on the revenue of individual companies in 2022

# Solwers companies

| End customer | Finland | Sweden |
|---|---|---|
| Public | Finnmap Infra, Lukkaroinen, Pontek Oy, Inmeco Rakennuskonsultit, Taitotekniikka | TCG Nordic, Licab, Establish Schening, North 68° |
| Private | Kalliotekniikka Consulting Engineers Oy, Insinööritoimisto Varsinais-Suomen Kalliotekniikka Oy, Contria, Accado, Polyplan, Finexplo, LVI-insinööritoimisto Plan-Air Oy, GeoUnion Oy, LVI-Insinööritoimisto Meskanen, aDT, Zenner | Falk CM Falk Construction Management, Enerwex, Demab, Dreem, Relitor Engineering, ELE Engineering, WG, KAM Redovisning AB |

Source: Solwers

# Company description and business model 3/5

## Growth has been profitable

With growth, the company's profitability has also increased from 5% (EBITA%) in 2017 to 10.7 % in 2023, which is a good level in the industry context. On average, the reported EBITA margin in 2017-2023 has been 9.9 %. It should also be noted that the company applies IFRS16 in a way that differs from conventional industry practices as it includes lease liability repayments (depreciation) in intangible items. We estimate that this raises its EBITA margin by approximately 3 pp relative to the more conventional application.

## Small minorities

The key person(s) of the companies acquired by Solwers has in history, before Solwers' listing, often kept a small holding in their own company, with which Solwers has sought to maintain common interests with the seller. Thus, part of the Group's EBIT has been attributable to minority shareholders. According to its financial statements for 2023, it owns over 90% of all subsidiaries, excluding two companies with 84% and 85% holdings.

## Revenue consists of small streams

Solwers companies had over 3,500 ongoing projects at the time of the 2023 financial statements. The majority of the projects (about 70%) are less under 10 TEUR. Similarly, individual large projects of over 1 MEUR are, in our view, few. Thus, considering Solwers' Group structure and the size class of the companies it owns we believe the Group's customer base is rather fragmented.

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

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

## Project and hourly pricing

Solwers' revenue consists of both project pricing and hourly billing, which in our view plays a clearly larger role than project pricing. Typically, tendering for, e.g., infrastructure projects in Finland is done through project pricing. Similarly, in Sweden, the hourly invoicing model is, in our opinion, a more normal operating model and the largest Swedish company, Licab that offers project management services, usually offers (> 90%) hourly invoiced services.

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

## Moderate cyclical risks

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

In general terms, we believe that the demand for infrastructure construction can be expected to endure in a weaker economic climate. This is typically driven by the fact that in a weak economic environment, the public sector stimulates with infrastructure investments. This was also seen during the COVID crisis when, e.g., investments were made in transport route maintenance. Business continuity is also provided by over 100 framework agreements which means the company is in a good position to carry out public-sector projects. We estimate that Solwers' demand is not as sensitive to cyclical changes as construction as such, although some of the Group's companies are vulnerable to cyclical changes in the operating environment.

# Company description and business model 4/5

In our opinion, the above estimate is supported by the company's performance in 2023, when construction already declined significantly in its operating countries.

### Cost structure consists mainly of personnel costs

Solwers has a cost structure typical of a personnel-related service company, whose largest cost item is personnel costs. During 2019-2023, personnel costs represented 59-64 % of revenue. Solwers' operations are highly personnel-dependent expert services, which makes a high competence level among personnel a critical factor and makes personnel retention a critical function. The number of services and projects to be sold is linked to the time management and efficiency of the personnel, so the scalability of personnel costs is limited. Increasing the revenue load after a certain point requires recruitment, i.e. additional resource investments. Typically, these are front-loaded investments and may temporarily reduce profitability, because the employee is not engaged in billable work from the first day or even month, and thus a revenue generating employee.

A clearly smaller item than personnel costs is materials and services, which have been 13-17% of revenue during the corresponding five-year period. A significant share of this item is subcontracting services. The cost item is largely variable, as the company buys subcontracting services when its own resources are insufficient to carry out projects or Group companies do not have the necessary expertise to carry out the project. As a result, cost scalability for subcontracting services is low.

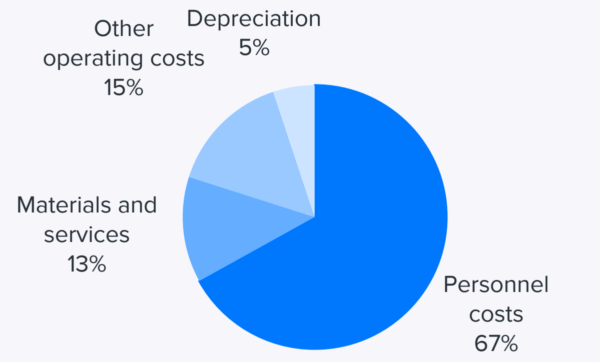
Other operating expenses consist mainly of ICT costs and usual administrative expenses. In 2019-2023, other expenses were 11-14% of revenue. For service companies, other operating expenses typically involve moderate scalability. For Solwers we estimate that this scalability is decreased by the Group structure, since companies acquired under the inorganic growth strategy are not integrated. In a big picture, the business cost structure as a whole consists of flexible costs, considering the flexibility in personnel costs from temporary layoffs.

### The business model does not tie up significant capital

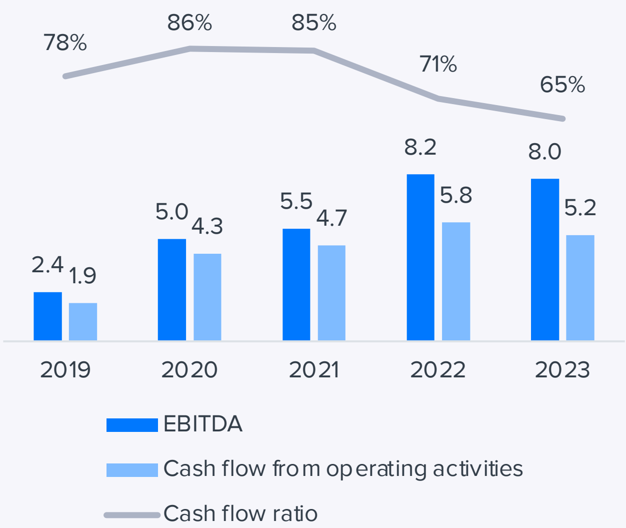
Solwers' business model does not tie up substantial working capital as the average working capital/revenue was good 1% in 2019-2023. The service operations of the company do not tie up capital in inventories and working capital consists of accounts receivable and current non-interest-bearing liabilities that have been pretty well balanced in the review period.

The business model is also, as is typical for service companies. characterized by low annual investment needs, mainly limited to system investments. We estimate that the company's annual investment need without acquisitions is only about 0.5-1 MEUR and considering lease liabilities (IFRS 16) about 3-4 MEUR. Thus, the company's main need for capital is directed at implementing the inorganic growth strategy, which also means that non-current assets in Solwers' balance sheet largely consist of goodwill from acquisitions.

Cost structure 2023




EBITDA, cash flow and cash flow ratio




Source: Solwers, Inderes

# Company description and business model 5/5

### Management of billable utilization is a critical function

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

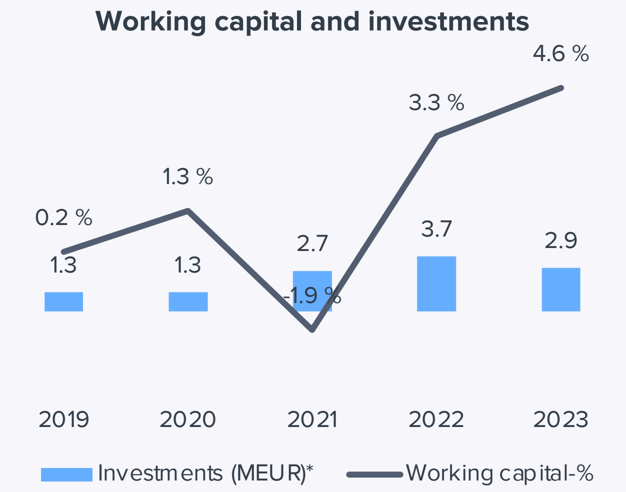
Individual factors, as well as how the company manages to win new projects for employees when previous projects end and how the company adapts to possible project delays, closure and/or cancellations are emphasized in the management of billable utilization. Failure here often results in inefficient resource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

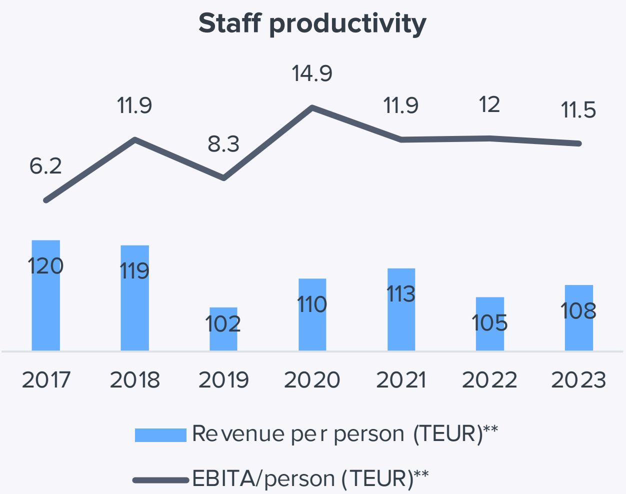
In general, 75-80% can be considered good billable utilization. With this indicator, Solwers has performed quite well in 2020-2023, when its average billable utilization was 82%. On the other hand, it should be noted that according to the company, billable utilization is not a good operational indicator for all the companies it owns, so these have been excluded when examining billable utilization.

### Staff productivity as a measure of efficiency

The development of the efficiency of Solwers' operational business can also be measured by examining revenue and operational profitability per employee. In 2017-2023, revenue per employee has varied between 102,000-120,000 per person and has averaged EUR 113,000.

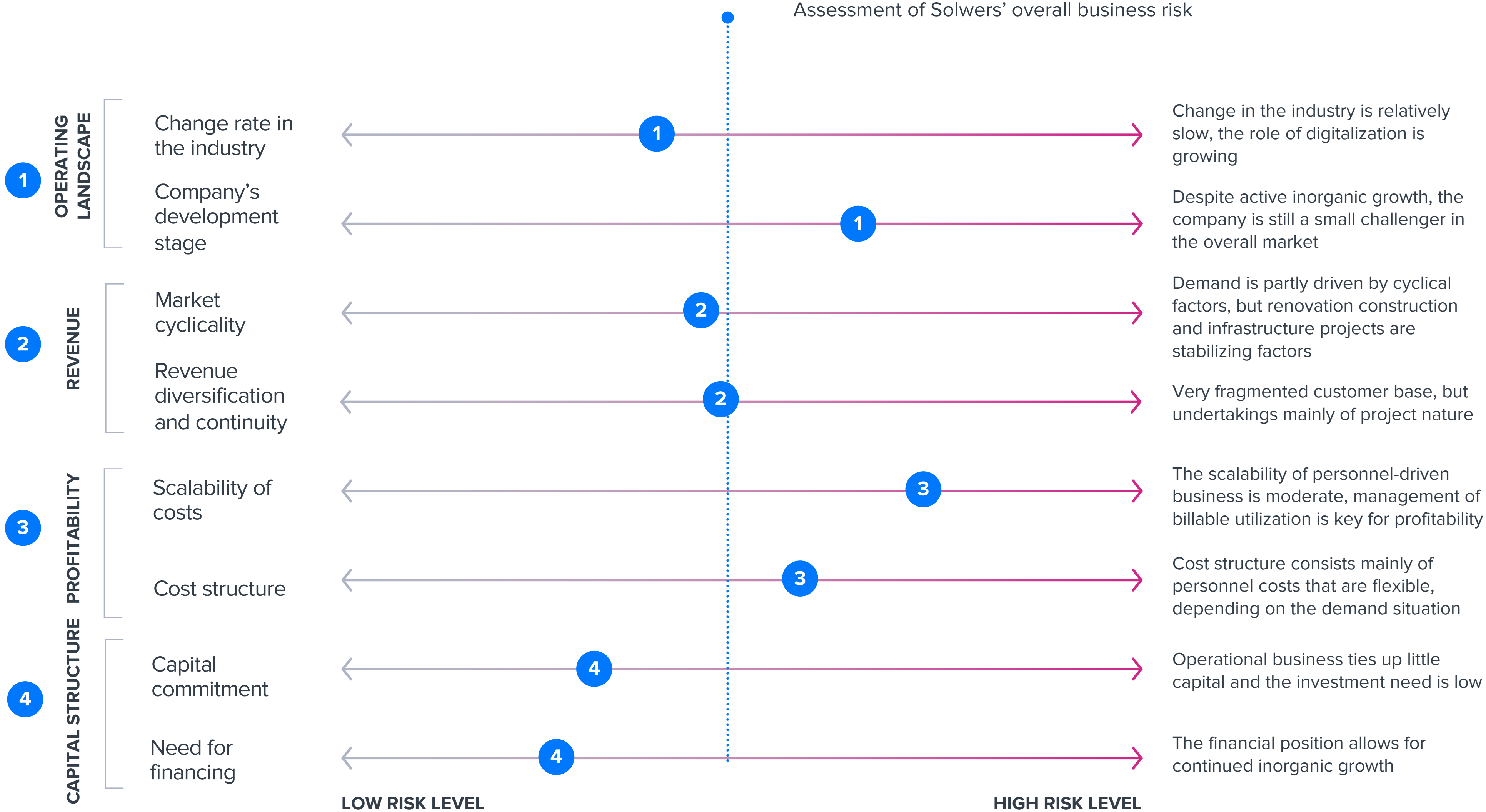
The operating result for 2017-2023, i.e., EBITA/employee, has varied between EUR 6,200-14,900 with the average being EUR 11,000. In the long term, both of the above indicators based on the number of personnel reflect operational efficiency. Thus, from an investor's point of view, an upward trend would reflect an improvement in the quality and/or efficiency of the group companies, while a decline would point to an opposite trend. On a general level, we estimate it is challenging to improve these indicators considerably on the competed markets with a service company's business model.




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

# Risk profile of the business model




Source: Inderes

# Markets and competitive landscape 1/3

### Target markets in Finland and Sweden

Solwers' target market consists mainly of the Swedish and Finnish technical consulting and design markets, which are part of a huge overall construction market worth tens of billions of euros. In its latest statistics, the Finnish Association of Consulting Firms (SKOL), estimates the revenue of operators in the sector to be around 6.2 billion in Finland. This estimate is supported by industry player Sweco's estimate that the Finnish market is around 6 billion (2023). Based on data from an estimate of the Swedish trade association (Innovationsföreningen) at the time of Solwers' listing, the corresponding market in Sweden was SEK 97.2 billion (EUR ~9.6 billion) in 2020. This estimate is also supported by Sweco's estimate of a market of 10 billion in Sweden.

The size of the total market is affected by the included sub-sectors, in particular whether large industrial design is included in the overall market assessment. For example, according to an assessment (2021) ordered from an international consultancy firm by Sitowise active in the same industry, the total market for technical consulting and design in Finland was about 1.5-1.7 BNEUR, consisting of around 1-1.1 BNEUR residential construction market and 0.5-0.6 BNEUR infrastructure construction market. Similarly, according to this assessment, the size of the Swedish technical consulting and design market is estimated to be around EUR 3.1 billion.

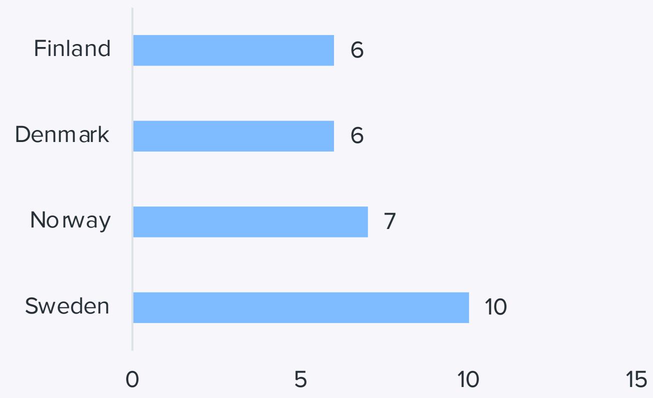
Another reasonable yardstick of the overall market is the revenue statistics of SKOL's members from 2022. According to it, the total revenue of 61 operators in residential construction was approximately one billion in 2022. Similarly, according to the same statistics, the revenue of Community industry (infrastructure construction) was some EUR 580 million. All industry operators are not members of the trade association and we estimate that many, especially smaller operators, are excluded from this assessment. Therefore, we feel SKOL's statistics should be viewed as an indicative estimate.

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

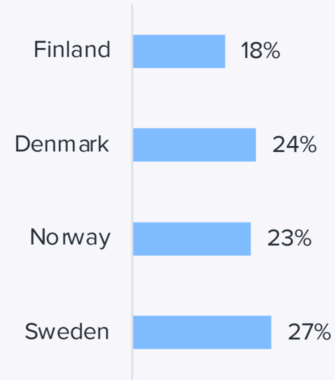
### Familiar trends drive growth

We estimate that the growth outlook of the target market is slightly better than overall economic growth, as growth is, in addition to economic growth, affected by construction industry trends and structural factors. We, therefore, estimate that the growth of Solwers' target market will exceed GDP growth slightly in the medium term and that the market's growth potential is roughly 0-3 % over time. We believe the increase in the relative share of consulting is supported by, e.g., the increase in technology, growth in dense construction, increase in infrastructure construction requirements, sustainable development, and digitalization.

**Market sizes in the Nordic countries (billion)**




**Market share of the five largest players (2022)**




Source: Solwers, Sweco and Inderes

# Markets and competitive landscape 2/3

The megatrends and/or structural factors affecting the growth rate of the target market include, for example:

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

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

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

### The industry is fragmented

Solwers' industry is fragmented, as according to Statistics Finland, there are over 2,000 companies offering architectural activities,  nearly 1,000 companies providing town and city planning, civil engineering, and some 660 companies offering technical design for HVAC in Finland alone, We believe that the number of players on the Swedish market is clearly bigger, reflecting the size of its economy. This is also illustrated by the fact that, according to a market survey commissioned by Sitowise, there were over 9,000 operators in the residential building and infrastructure construction industry in Sweden in 2019.

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

### Competitive landscape for technical consulting and design

The largest design and consulting companies in Finland include Sweco Finland, Ramboll Finland, AFRY Finland, Sitowise, Granlund and A-Insinöörit. In Sweden, the competitive environment is composed of the same large players as in Finland, and there are also large and purely local players (e.g. Tyréns, Projektengagemang).

**Growth drivers and market trends**

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

Source: Solwers, Inderes

# Markets and competitive landscape 3/3

We feel, the fragmentation of the market is illustrated by the fact that according to Sweco the market share of the five largest is close on one-fifth of the Finnish market (p. 13). In the other Nordic countries, Sweco says the market share of the five largest is roughly about a quarter of the total market.

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

### Differences between the average profitability of operators in the sector are moderate

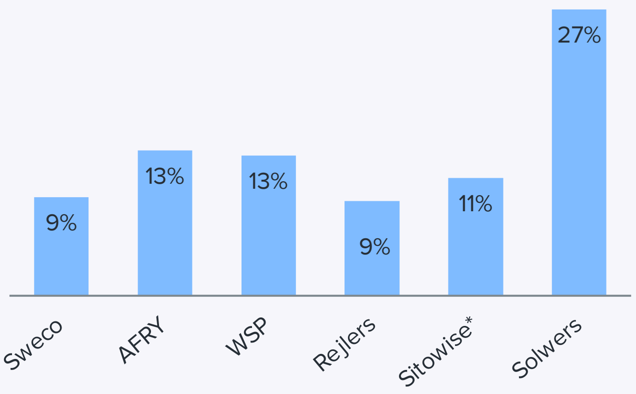
There are differences in the growth rates of listed companies operating in this sector in recent years, which we believe reflects their inorganic growth. Due to the different size classes, the relative growth of smaller companies is typically faster, and, thus, we do not consider comparing the reported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

Competitors' profitability (EBITA %) has averaged around 5-10 % over the last seven years. Solwers' average profitability has been close on 8 % over the same period. We note that IFRS 16 lease costs have not been deducted from the EBITA profitability reported by the company, because the company includes them as intangible items (A). However, in this comparison, we have deducted depreciation under IFRS 16 to improve the comparability of Solwers' EBITA.

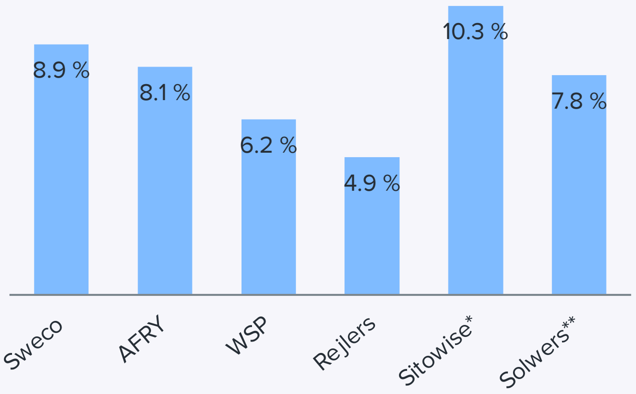
Individual companies that stand out in the competitive field include especially Rejlers and WSP to some extent. In particular, Rejlers' average profitability is depressed by the profitability challenges in the early years of the review period, but especially in recent years, the profitability of the players has been quite in line with each other. For example, in 2023 the EBITA % of all players fell within a narrow range of 7.1-8.9%. We believe this reflects the quite similar business models and the cost structure defined by the personnel dependency of the business.

It should be noted that the slight difference in profitability can be explained by various sectoral diversifications and reporting methods, but we believe that the rather identical profitabilities describe the longer-term profitability and value creation opportunities of the industry and business model well.

**Revenue growth CAGR % (2017-023)**




**Average EBITA % (2017-2023)**




Source: Companies, Inderes
* Figures for 2018-2023
**IFRS16 depreciation deducted from EBITA for 2019-2023

# Strategy and financial targets 1/3

### Acquisitions at the core of the strategy

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

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

### Financial targets

Solwers' financial objectives are

> 20% revenue growth

> 12% EBITA margin

> 40% equity ratio

### Growth target requires continued M&A transactions

The growth target clearly exceeds the organic growth rate of the market and thus achieving the growth target requires continued inorganic growth in line with the strategy. In a fragmented industry, we estimate that the company has the potential to continue inorganic growth, but as the size class grows, maintaining the relative growth rate requires more and/or larger acquisitions.

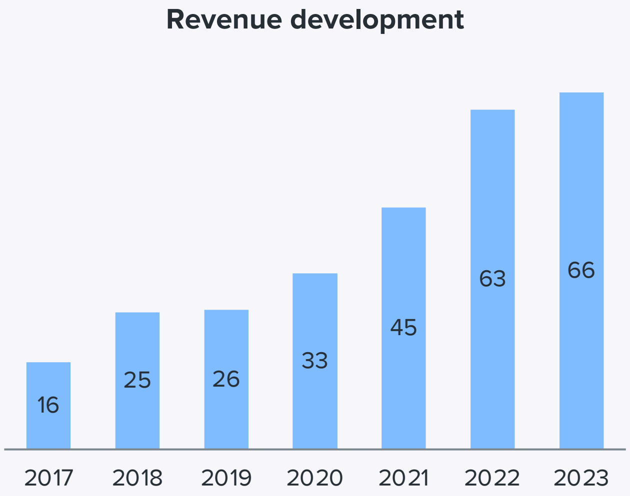
### In the industry context the profitability target is ambitious

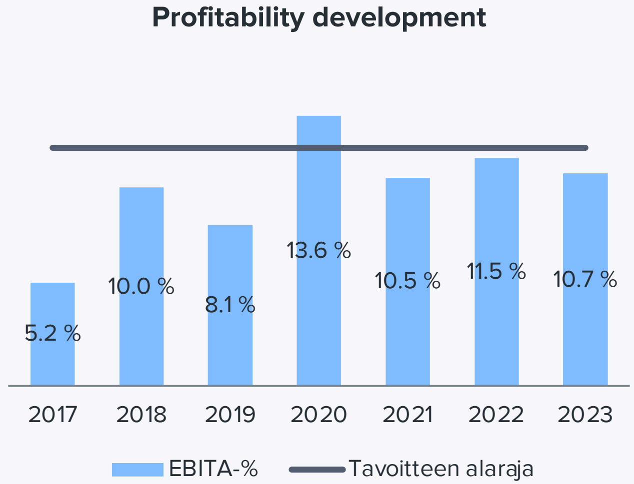
Relative to the industry we find the profitability target demanding This is illustrated by the fact that in the past five years only one of the company's competitors has reached an EBITA margin of over 12% in one year. In 2020, Solwers did, however, achieve an EBITA margin of 13.6%. It should be noted, however, that the company includes IFRS 16 depreciation of leased premises in intangible items, which improves its EBITA % relative to its competitors and usual practice. When depreciation in accordance with IFRS 16 (in 2023: 2.4 MEUR) are readjusted to the EBITA margin, it has on average a negative 3 percentage point effect on the 2019-2023 margin. Examined this way we also feel the profitability and target level is more comparable to other players in the industry.

We do not find the target impossible considering the company's reporting practice and the average reported EBIT % of the subsidiaries in the previous four years (2018-2021: 9.8 %). It should also be noted that achieving the target also depends on what type of acquisitions the company makes.

### Balance sheet structure and profit distribution

At the end of 2024, Solwers' equity ratio was 46 % and thus in line with the target. In general, we consider the > 40% level to be a good long-term goal.




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

# Strategy and financial targets 2/3

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

### Acquisition strategy

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

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

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

We believe that the profitability target has largely been achieved in acquisitions made in recent years However, the company has acquired some targets with a profitability level clearly below the target. Thus, the margin target is not fully set in stone.

### SWOT analysis of the acquisition strategy

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

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

### SWOT analysis of the acquisition strategy

**Strengths**

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

**Weaknesses**

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

**Opportunities**

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

**Threats**

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

Source: Inderes

# Strategy and financial targets 3/3

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

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

### Assessment of inorganic growth

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

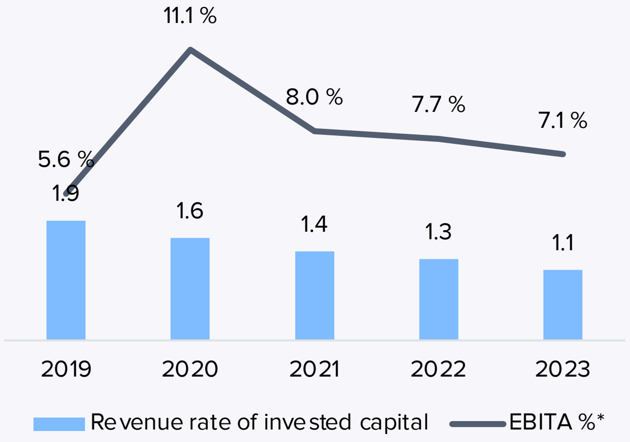
We calculate that the targeted valuation multiples have not always been achieved in the acquisitions in recent years, although we believe that the valuation multiples of the acquired targets have not been high in general.

### Assessment of the acquisition strategy

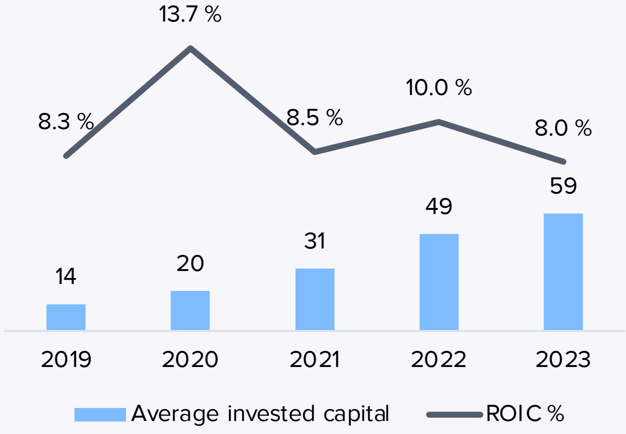
We believe that the Group's acquisition strategy should be examined especially through ROCE. Over the past five years, the company's ROCE has been on average 9.7%, i.e. above the required return we apply. However, in the last year of 2023, the level was only 8%, which is below our required return. The declining trend in capital employed is driven by the fact that both components of ROCE, i.e. the turnover rate and profitability of capital employed, have decreased. In particular, the turnover of capital employed has been affected by the hefty cash assets in the last three years, which has resulted in a significant amount of unproductive capital in the balance sheet. In our view, the company should be able to improve the efficiency of capital use in the balance sheet either by reducing invested capital by repaying debts or by increasing the activity rate of inorganic growth if high-quality acquisition targets are found.

In our view, an effective acquisition strategy based on modest valuation levels provides good preconditions for value creation in the long run. We also estimate that the company can improve ROCE from the current level by strengthening its capital efficiency. We believe that the potential for strengthening ROCE through profitability is limited considering the industry and business model.

Capital and operational efficiency




ROIC




Source: Inderes

*IFRS 16 depreciation adjusted from the reported EBITA, ROIC % = Nopat/invested capital

# Inorganic growth strategy


### Actualized

- Increasing the number of operational companies to 29 from 19 at the time of listing
- The acquired businesses cover a wide range of project life cycle stages in the industry
- 16 operational companies in Finland and 13 in Sweden
- Acquisition targets are small in size
- Country-specific diversification has improved as the relative share of Sweden has increased
- Acquisitions have also expanded industry diversification

### Medium and long term

- Extending geographical coverage in the Nordic countries and possibly in Eastern Europe
- Strengthening the service offering in service areas with a smaller relative share like infrastructure design in Sweden and smaller niches in Finland
- The potential for increasing capital efficiency and the cash flow generated by income financing enable maintaining a steady rate of acquisitions

Source: Solwers and Inderes

# Financial position

## Balance sheet assets

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

At the end of 2023, 43 MEUR (49% of the assets) of the 87 MEUR balance sheet assets consisted of intangible assets. Part of this consists of goodwill generated in acquisitions (42 MEUR) and the rest of other intangible asset items. Non-current assets included only 7.3 MEUR of tangible assets. The company had current assets of 33.5 MEUR, where the largest items were receivables of 16.6 MEUR and cash assets of 16 MEUR.

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

## Capital structure

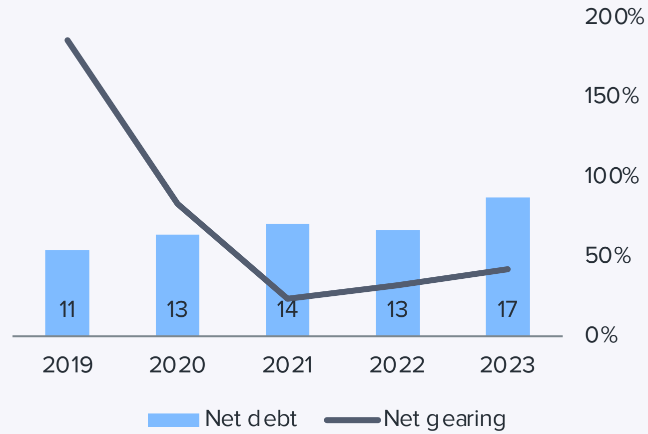
Solwers' equity at the end of 2023 amounted to 40.4 MEUR, including a small non-controlling interest of 0.6 MEUR. Correspondingly, the equity ratio of the company was 46%, which exceeded the company's own target level of 40% and the minimum amount of 35% (covenant) defined in the financing agreement with the company's main financing bank.

The amount of debt in the balance sheet amounted to 46.6 MEUR. Of this, long-term interest-bearing debt amounted to 21.5 MEUR, the short-term interest-bearing debt to 4.7 MEUR, while 7.1 MEUR was contingent consideration liabilities.

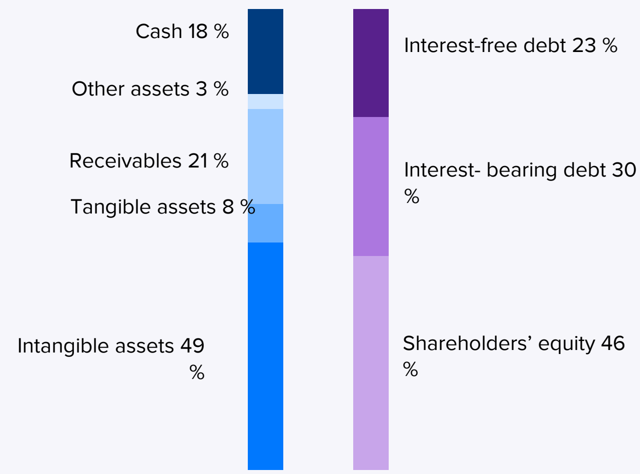
Thus, net gearing for the review period was 42%, which is a fairly reasonable level. Net debt relative to EBIT for the previous 12 months was 2.2x. It should be noted that in this method of calculating gearing, the amount of net debt includes contingent consideration liabilities, although the fulfillment of their terms is uncertain. We consider it justified to include them in net debt, because if the payment terms are met, they will be reflected in net debt through a decrease in cash assets. At the same time, however, it should be noted that our revenue and earnings forecasts do not contain actual assumptions about the fulfillment of the terms of contingent considerations, as it is practically impossible to estimate and model them at the level of numerous subsidiaries. It is also possible that some of the contingent considerations will be unwound from the balance sheet if the underlying conditions are not fulfilled. This would reduce net debt and gearing.

Non-interest-bearing liabilities in the balance sheet amount to 20.4 MEUR which we assume consist of customary accounts payable, accrued expenses, deferred income, and other liabilities.

### Net debt and gearing




### Balance sheet 2023 (87 MEUR)




Source: Solwers, Inderes

# Estimates 1/3

## Estimate model

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

## Economic growth outlook in target markets

The Finnish economy fell into recession in 2023 and, according to Statistics Finland, GDP contracted by 1% The same is expected from 2024 in Finland, as Bloomberg's forecasts predict economic growth of -0.1% in 2024 before turning to a brisker growth of 1.9% in 2025. Forecasts suggest that the Swedish economy was virtually stagnate in 2023, while it is expected to grow by 0.3% and 1.9% in the coming years. Reacting to the sharp rise in inflation, central banks have raised interest rates considerably, which has, as hoped, dampened economic development and, consequently, brought inflation down. With inflation falling clearly, the next step in interest rates in the big picture is downward, which we suspect should strengthen the economy. Even in the best-case scenario, the fall in interest rates will begin to strengthen the economy only in the second half of 2024, and, on the other hand, considering certain delays, this will only be more strongly reflected in investments and construction in 2025. Considering this, the technical design and consulting market will not receive any push from the general economic development in 2024.

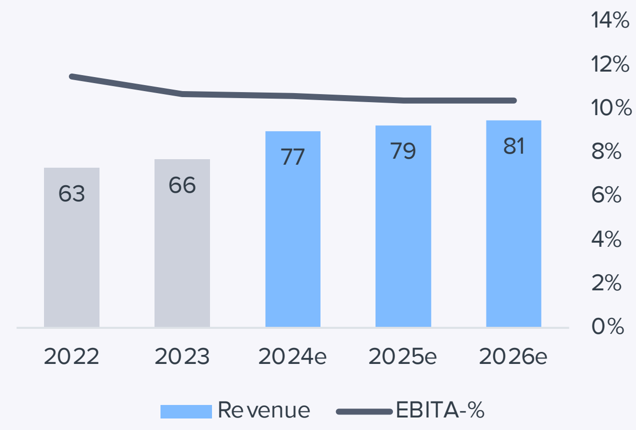
## Estimates for 2024

As usual, Solwers has not provided numerical guidance for 2024 In its outlook, however, the company estimates that it has a good order backlog in public sector and infrastructure projects. In addition, the company expects the business environment to improve toward the end of 2024, and acquisitions will aso lcontinue this year.

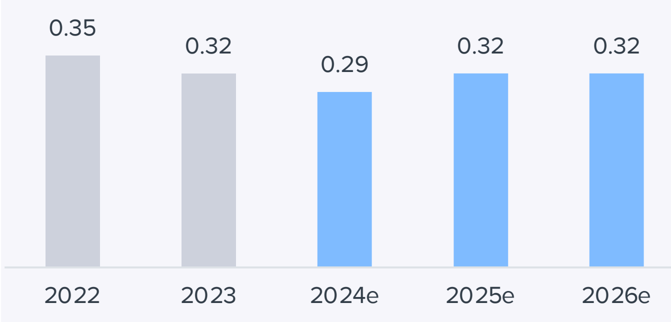
In our forecasts, we expect Solwers' revenue for the current year to decline organically by 2%, reflecting in particular the slight decrease in workload we expected for the beginning of the year, in line with economic development, the reduced project portfolio and tight pricing environment. The brake on growth caused by, among other things, the weakened SEK last year should in turn ease with the current price, and we do not currently expect a headwind from EUR/SEK in our forecasts. However, the full-year reported revenue is expected to grow by almost 17% to just over 77 MEUR, reflecting the sizeable inorganic growth. This is based on several recent acquisitions, of which Wisegate and Relitor will have the biggest impact on the current year's revenue growth.

With this revenue load, we expect the company's EBITA to be 7.9 MEUR in 2024. This corresponds to a slightly lower EBITA margin of 10.2% compared to the comparison period. We expect a slight decline in organic revenue that depresses profitability

### Revenue and profitability development




### EPS (reported)




Source: Inderes

# Estimates 2/3

in the early part of the year, in addition to which the revenue structure has changed slightly as a result of acquisitions. We expect the lower profitability of the acquired operations will weaken profitability slightly. However, we estimate that the reported EBIT will exceed the level of the comparison period only slightly due to increased depreciation.

We forecast that the company's financing costs will continue to rise slightly this year, although the biggest impact from interest rate hikes has already been seen last year. We expect the tax rate for the whole year to be at its normal level. Thus, we expect reported EPS for 2024 to be EUR 0.29 per share. From this we expect the company to distribute an increasing dividend from last year of EUR 0.075 per share reflecting its moderate profit distribution policy.

As typical for the business model, we expect working capital commitment to be limited and organic investment to be modest. However, completed acquisitions and repayments of lease liabilities turn the full-year free cash flow negative in our forecasts. Despite this, the company's financial position remains good in our forecasts.

## Estimates for 2025-2026

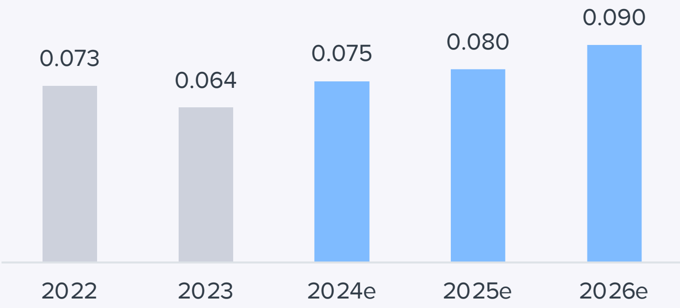
In our 2025 forecasts, we expect the strengthening economic activity to turn organic growth to 3%, reflecting the improvement in investment activity, especially in the private sector. Thus, we expect that 2025 revenue will increase to good 79 MEUR.

As inflation calms down, we do not expect the rise in the cost structure to deviate substantially from normal wage inflation. Thus, we expect the company to be able to maintain a fairly stable EBITA profitability and at a good level of 10.6 % also in 2025. This corresponds to an EBITA of 8.4 MEUR.

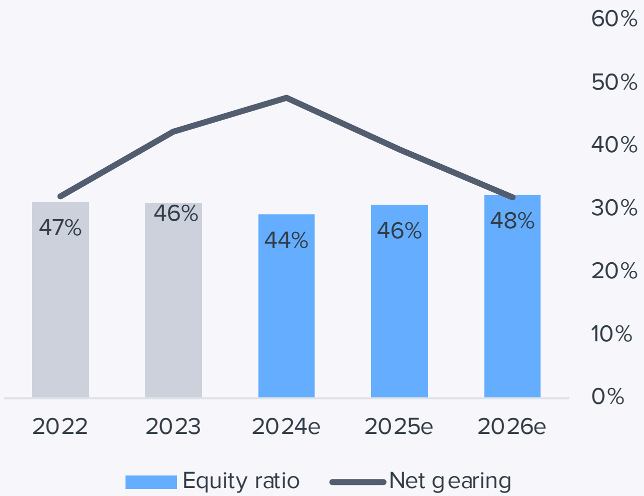
We expect the increased interest rate level to continue to be reflected in net financial costs in 2025 and, therefore, expect net financial costs and tax rates to remain stable next year. Reflecting this, we expect 2025 EPS to rise to EUR 0.32, in line with the small operational earnings growth. From this, we expect the company to distribute a slightly rising dividend of EUR 0.08 per share.

In line with the reasonable economic growth picture, we expect 2026 revenue to grow organically by 2.5 % to good 81 MEUR. Still in line with the somewhat stable profitability trend, we expect the 2026 EBITA margin to be 10.4%, equivalent to an EBITA of 8.5 MEUR. It should be noted that the company's usual transaction mechanism in acquisition includes possible additional trading mechanisms that are normally linked to the growth and profitability of the acquired businesses. Our forecasts for the next few years do not rely on the realization of these. In line with the relatively stable operational earnings development and normal net financial expenses and taxes, we expect the 2026 EPS to remain stable at EUR 0.32, for which we expect the company to pay 0.09 dividend per share.

### Dividend per share




### Development of balance sheet position




Source: Inderes
* Calculated with the number of shares after the IPO

# Estimates 3/3

Our estimates do not include inorganic growth, because it is practically impossible to estimate it with reasonable accuracy. Thus, in our estimates, the company's balance sheet and financial position continue to strengthen in line with earnings development and cash flow accumulation in 2025 and 2026. We believe one can expect continued inorganic growth from the company in the short- and medium-term, which means the actual revenue and earnings growth will probably differ from the estimated growth.

### Long-term estimates

Our medium- and long-term estimates expect the company's revenue to grow slightly more rapidly than the economy, as our revenue growth estimates for 2027-2033 are 2.0-2.5%. Correspondingly, our medium- and long-term EBITA profitability estimates are 11% on average, reflecting our assessment of the longer-term profitability potential of the business model and are roughly in line with the general profitability level of the industry.

### Estimate revisions

We have not made any substantial changes to our forecasts in connection with the report. In practice, the forecast changes in the coming years (see table) reflect the marginal cuts in our cost structure forecasts and the small changes to our depreciation forecasts.

| Estimate revisions | 2024e | 2024e | Change | 2025e | 2025e | Change | 2026e | 2026e | Change |
|---|---|---|---|---|---|---|---|---|---|
| MEUR / EUR | Old | New | % | Old | New | % | Old | New | % |
| Revenue | 77.1 | 77.1 | 0% | 79.4 | 79.4 | 0% | 81.4 | 81.4 | 0% |
| EBITDA | 8.4 | 8.5 | 0% | 9.0 | 9.0 | 1% | 9.0 | 9.0 | 0% |
| EBIT (exc. NRIs) | 4.9 | 4.9 | 0% | 5.3 | 5.2 | 0% | 5.3 | 5.3 | 0% |
| EBIT | 4.9 | 4.9 | 0% | 5.3 | 5.2 | 0% | 5.3 | 5.3 | 0% |
| PTP | 3.7 | 3.7 | 0% | 4.1 | 4.0 | 0% | 4.2 | 4.2 | -1% |
| EPS (excl. NRIs) | 0.29 | 0.29 | 0% | 0.32 | 0.32 | 0% | 0.33 | 0.32 | -1% |
| DPS | 0.075 | 0.075 | 0% | 0.08 | 0.08 | 0% | 0.09 | 0.09 | 0% |

Source: Inderes

# Estimates

| Income statement | 2022 | H1'23 | H2'23 | 2023 | H1'24e | H2'24e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **62.8** | **33.2** | **32.8** | **66.0** | **38.1** | **39.0** | **77.1** | **79.4** | **81.4** | **83.0** |
| Group | 62.8 | 33.2 | 32.8 | 66.0 | 38.1 | 39.0 | 77.1 | 79.4 | 81.4 | 83.0 |
| **EBITDA** | **8.2** | **4.0** | **3.9** | **8.0** | **3.9** | **4.6** | **8.5** | **9.0** | **9.0** | **8.9** |
| Depreciation | -3.1 | -1.5 | -1.6 | -3.1 | -1.8 | -1.8 | -3.6 | -3.8 | -3.7 | -3.5 |
| **EBIT** | **5.1** | **2.5** | **2.4** | **4.8** | **2.1** | **2.8** | **4.9** | **5.2** | **5.3** | **5.4** |
| **EBITA** | **7.2** | **3.5** | **3.5** | **7.0** | **3.6** | **4.3** | **7.9** | **8.4** | **8.5** | **8.6** |
| Net financial items | -0.5 | -0.5 | -0.5 | -1.0 | -0.6 | -0.6 | -1.2 | -1.2 | -1.1 | -0.9 |
| **PTP** | **4.6** | **2.0** | **1.9** | **3.9** | **1.5** | **2.2** | **3.7** | **4.0** | **4.2** | **4.5** |
| Taxes | -1.0 | -0.5 | -0.2 | -0.7 | -0.3 | -0.5 | -0.8 | -0.9 | -0.9 | -1.0 |
| Minority interest | -0.2 | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net earnings** | **3.4** | **1.5** | **1.7** | **3.2** | **1.2** | **1.7** | **2.9** | **3.2** | **3.2** | **3.5** |
| **EPS (adj.)** | **0.35** | **0.15** | **0.17** | **0.32** | **0.12** | **0.17** | **0.29** | **0.32** | **0.32** | **0.35** |
| **EPS (rep.)** | **0.35** | **0.15** | **0.17** | **0.32** | **0.12** | **0.17** | **0.29** | **0.32** | **0.32** | **0.35** |

| Key figures | 2022 | H1'23 | H2'23 | 2023 | H1'24e | H2'24e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth-%** | 40.6 % | 1.9 % | 8.5 % | 5.1 % | 14.7 % | 18.9 % | 16.8 % | 3.0 % | 2.5 % | 2.0 % |
| **EBITDA-%** | 13.0 % | 12.1 % | 12.0 % | 12.1 % | 10.2 % | 11.8 % | 11.0 % | 11.4 % | 11.1 % | 10.7 % |
| **EBITA-%** | 11.5 % | 10.7 % | 10.7 % | 10.7 % | 9.6 % | 11.1 % | 10.2 % | 10.6 % | 10.4 % | 10.4 % |
| **Net earnings-%** | 5.4 % | 4.5 % | 5.0 % | 4.8 % | 3.1 % | 4.4 % | 3.7 % | 4.0 % | 4.0 % | 4.2 % |

Source: Inderes

# Valuation 1/2

## Basis of the valuation

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

## Absolute valuation multiples are moderate for the coming years

Solwers' adjusted P/E ratios for 2024 and 2025 according to our estimates are 13x and 12x. Corresponding adjusted EV/EBIT ratios that consider the balance sheet structure are 12x and 11x. In our opinion, these earnings-based valuation multiples for the coming years are, as a whole, moderate, especially considering the assets in the balance sheet that can be allocated to inorganic and thus earnings growth. We feel there is clear upside in the share's valuation.

## Relative valuation picture is also moderate

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

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

The median P/E ratios for the peer group for 2024-2025 are 17x and 13x and corresponding EV/EBITDA ratios are 9x and 8x. We apply the EBITDA ratio in the peer group valuation because different depreciation practices can distort EBIT-based multiples. With earnings-based valuation multiples Solwers is valued at a discount of around 20% to its peers. Also based on the volume-based EV/S ratio

| Valuation | 2024e | 2025e | 2026e |
|---|---|---|---|
| Share price | 3.70 | 3.70 | 3.70 |
| Number of shares, millions | 10 | 10 | 10 |
| Market cap | 37 | 37 | 37 |
| EV | 58 | 55 | 52 |
| P/E (adj.) | 12.9 | 11.7 | 11.4 |
| P/E | 12.9 | 11.7 | 11.4 |
| P/B | 0.9 | 0.8 | 0.8 |
| P/S | 0.5 | 0.5 | 0.5 |
| EV/Sales | 0.7 | 0.7 | 0.6 |
| EV/EBITDA | 6.8 | 6.1 | 5.8 |
| EV/EBIT (adj.) | 11.8 | 10.5 | 9.9 |
| Payout ratio (%) | 26.1 % | 25.4 % | 27.7 % |
| Dividend yield-% | 2.0 % | 2.2 % | 2.4 % |

Source: Inderes

# Valuation 2/2

the relative valuation is at a discount of around 30%, although the profitability levels and potentials of the companies are fairly similar.

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

### DCF model

In our view, the DCF model is well suited for the valuation of Solwers' business operations although it should be noted that it does not consider potential value creation through inorganic growth. Our DCF model is based on our medium- and long-term estimates, the terminal revenue growth estimate is 2% and the corresponding EBIT margin estimate is 8.5%. In our DCF model, the cost of equity is 9.7 % while the average cost of capital (WACC-%) is 8.5%. With these assumptions, the value of the share indicated by our DCF model is EUR 50 million or EUR 5.0 per share. 60% of the value of the model consists of the terminal, which we consider an acceptable level.

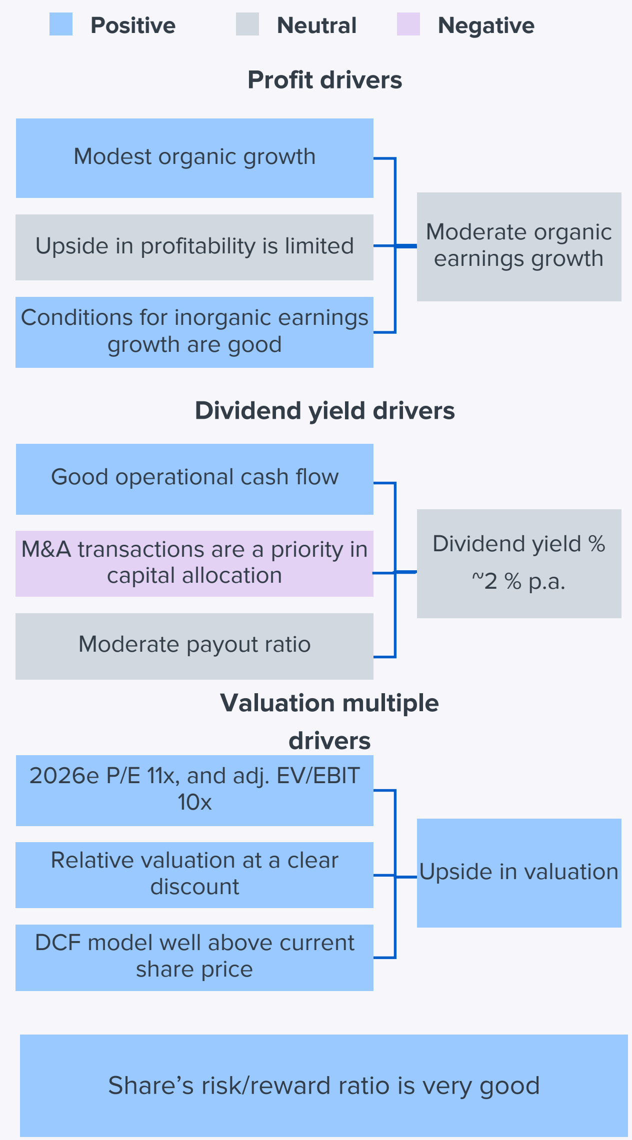
### Expected return in the next few years

Based on our organic revenue growth and profitability estimates, we have gauged the expected return for the next few years. Based on our estimates, organic earnings growth in 2023-2026 will be low, as we expect market growth to be sluggish in the next few years and do not believe there is much upside in profitability. The expected return receives some support from the average dividend yield of around 2% in our estimates for the next couple of years. However, we believe that the upside in the valuation is the biggest driver of the expected return by far. In line with the company's business model, we expect that the acquisitions we find likely in the next few years and already in the next 12 months will largely control investors' expected return. In our view, the company's current financial position provides good conditions for creating value through M&A transactions To investors, this should appear as more efficient use of balance sheet capital and higher ROCE.

### Summary

Based on different valuation methods, we consider the current valuation of Solwers' stock rather moderate and see a clear upside. Based on these methods, the fair value range for Solwers' stock is EUR 4.5-5.5 per share.

## TSR drivers 2023-2026e

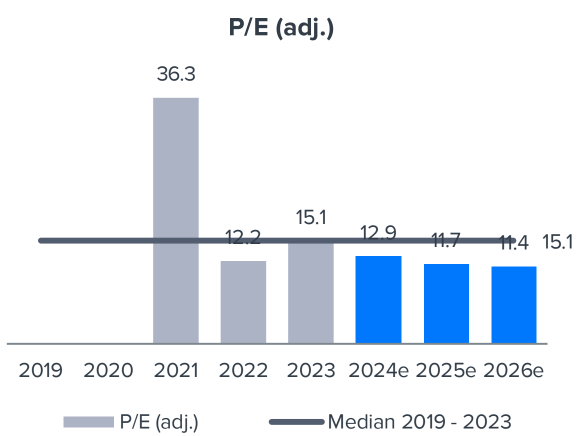


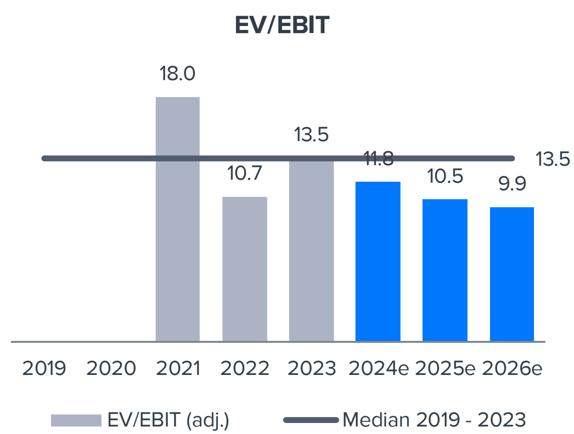

Source: Inderes

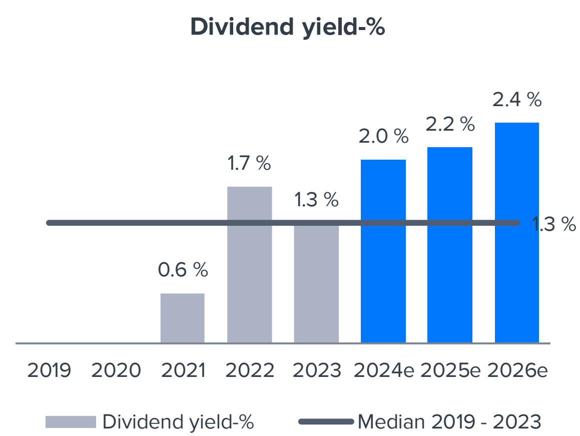
# Valuation table

| Valuation | 2019 | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|---|---|
| Share price | | | 7.20 | 4.22 | 4.82 | **3.70** | **3.70** | **3.70** | **3.70** |
| Number of shares, millions | | | 7.24 | 9.83 | 9.9 | **10** | **10** | **10** | **10** |
| Market cap | | | 52 | 41 | 48 | **37.0** | **37.0** | **37.0** | **37.0** |
| EV | | | 61 | 54 | 66 | **57.5** | **55.0** | **52.4** | **49.9** |
| P/E (adj.) | | | 36.3 | 12.2 | 15.1 | **12.9** | **11.7** | **11.4** | **10.6** |
| P/E | | | 36.3 | 12.2 | 15.1 | **12.9** | **11.7** | **11.4** | **10.6** |
| P/B | | | 1.7 | 1.1 | 1.2 | **0.9** | **0.8** | **0.8** | **0.8** |
| P/S | | | 1.2 | 0.7 | 0.7 | **0.5** | **0.5** | **0.5** | **0.4** |
| EV/Sales | | | 1.4 | 0.9 | 1.0 | **0.7** | **0.7** | **0.6** | **0.6** |
| EV/EBITDA | | | 11.0 | 6.7 | 8.2 | **6.8** | **6.1** | **5.8** | **5.6** |
| EV/EBIT (adj.) | | | 18.0 | 10.7 | 13.5 | **11.8** | **10.5** | **9.9** | **9.2** |
| Payout ratio (%) | | | 20.2 % | 21.1 % | 20.1 % | **26.1 %** | **25.4 %** | **27.7 %** | **28.5 %** |
| Dividend yield-% | | | 0.6 % | 1.7 % | 1.3 % | **2.0 %** | **2.2 %** | **2.4 %** | **2.7 %** |

Source: Inderes



# Investment profile

## Growth company with good profitability

Based on its investment profile, Solwers is a growth company because although we expect the total market to grow slightly faster than the economy, the company's growth target is well above the expected market growth. Thus, the company can be expected to continue its brisk growth through a combination of market growth and inorganic growth in particular. With its financial position and cash flow from operating activities, we believe the company is well placed to continue implementing its inorganic growth strategy.

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

## Value drivers and strengths

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

**Thanks to the good financial position** and **an efficient acquisition process** , the company is well positioned to continue growing. In its acquisitions the company also typically focuses on established companies with several years of history that have proven their profitability, which is why we feel the acquisition strategy does not jeopardize the profitability target albeit individual transactions must always be assessed on a case-by-case basis. Acquisitions in this sector also have good value creation conditions if the company succeeds in continuing to purchase smaller targets with moderate valuation multiples (i.e. high return on investment).

With their small **size class**, Solwers companies have established local customer relationships and good knowledge of the market. At the end of 2023, Solwers companies had 3,500 ongoing orders, so the orders consist of small projects. In our view, the level of risk associated with the large and diversified **number of projects** is more moderate than for a concentrated portfolio.

The business model is capital-light, as it does not require material investments in fixed assets and does not tie up substantially net working capital. This provides a good basis for higher return on investment than the required return (i.e. value creation) and also provides conditions for allocating cash flow from operating activities to inorganic growth.

## Risks

We believe Solwers' main weaknesses and risks are:

**The cyclical nature of the target market and volatility of demand** are a risk for implementing the growth strategy and for earnings growth. Key drivers of demand are investments and construction, which are cyclical. However, the impact is balanced by renovation and infrastructure construction, which are less susceptible to economic cycles and demand fluctuations.

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

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

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

# Investment profile

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

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

3. **The low capital requirement of the business provides prerequisites for value creation organically and inorganically**

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

5. **Managing billable utilization is key**

## Potential

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

## Risks

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

Source: Inderes

# Peer group valuation

| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | EV/S | | P/E | | Dividend yield-% | | P/B |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **MEUR** | **MEUR** | **2024e** | **2025e** | **2024e** | **2025e** | **2024e** | **2025e** | **2024e** | **2025e** | **2024e** | **2025e** | **2024e** |
| Sitowise | 104 | 187 | 24.9 | 11.3 | 7.6 | 6.8 | 0.9 | 0.9 | 16.5 | 11.3 | 2.3 | 3.3 | 0.8 |
| Sweco AB | 3895 | 4369 | 17.9 | 15.9 | 13.0 | 11.9 | 1.7 | 1.6 | 21.8 | 19.0 | 2.4 | 2.7 | 4.0 |
| Afry AB | 1801 | 2376 | 13.7 | 11.9 | 9.3 | 8.4 | 1.0 | 1.0 | 15.5 | 12.8 | 3.4 | 3.8 | 1.6 |
| Rejlers AB | 288 | 337 | 13.4 | 11.9 | 7.9 | 7.2 | 0.9 | 0.9 | 14.6 | 12.7 | 3.2 | 3.8 | 1.8 |
| WSP Global | 18564 | 21350 | 31.3 | 24.5 | 14.8 | 13.5 | 2.7 | 2.5 | 27.6 | 24.4 | 0.7 | 0.7 | 4.0 |
| Etteplan | 345 | 416 | 18.4 | 12.0 | 8.3 | 7.5 | 1.1 | 1.0 | 15.1 | 13.2 | 2.9 | 3.6 | 2.7 |
| Arcadis NV | 5494 | 6357 | 15.7 | 13.6 | 11.6 | 10.3 | 1.4 | 1.3 | 19.8 | 16.6 | 1.7 | 2.0 | 4.2 |
| **Solwers (Inderes)** | **37** | **58** | **11.8** | **10.5** | **6.8** | **6.1** | **0.7** | **0.7** | **12.9** | **11.7** | **2.0** | **2.2** | **0.9** |
| **Average** | | | **19.3** | **14.4** | **10.4** | **9.4** | **1.4** | **1.3** | **18.7** | **15.7** | **2.4** | **2.8** | **2.7** |
| **Median** | | | **17.9** | **12.0** | **9.3** | **8.4** | **1.1** | **1.0** | **16.5** | **13.2** | **2.4** | **3.3** | **2.7** |
| ***Diff-% to median*** | | | ***-34%*** | ***-13%*** | ***-27%*** | ***-28%*** | ***-30%*** | ***-33%*** | ***-22%*** | ***-11%*** | ***-16%*** | ***-34%*** | ***-67%*** |

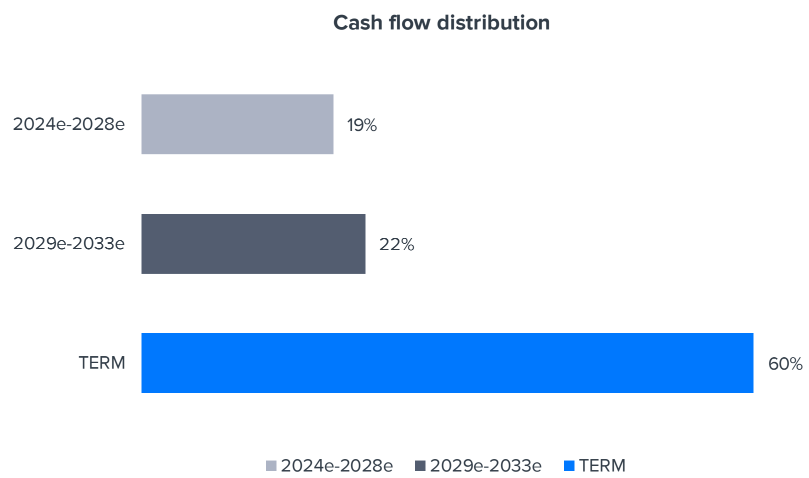
Source: Refinitiv / Inderes

# DCF calculation

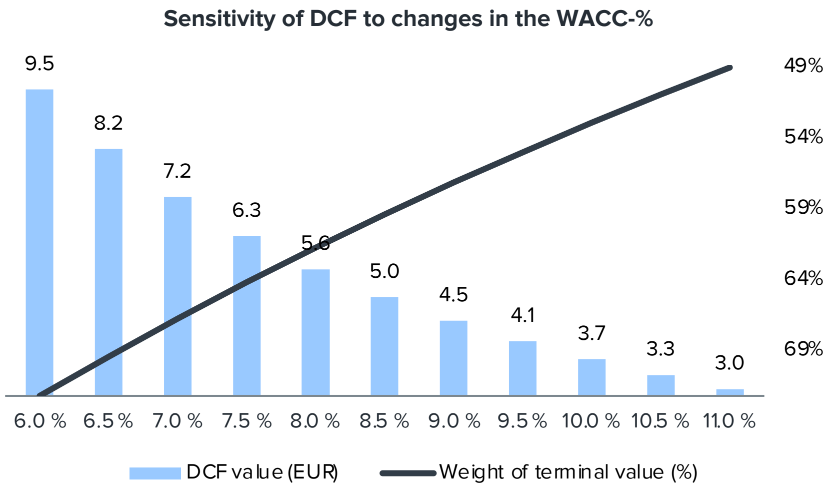
| DCF model | 2023 | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | 2033e | TERM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue growth-% | 5.1 % | 16.8 % | 3.0 % | 2.5 % | 2.0 % | 2.5 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % |
| EBIT-% | 7.3 % | 6.3 % | 6.6 % | 6.5 % | 6.5 % | 7.5 % | 8.5 % | 8.5 % | 8.5 % | 8.5 % | 8.5 % | 8.5 % |
| **EBIT (operating profit)** | **4.8** | **4.9** | **5.2** | **5.3** | **5.4** | **6.4** | **7.4** | **7.5** | **7.7** | **7.8** | **8.0** | |
| + Depreciation | 3.1 | 3.6 | 3.8 | 3.7 | 3.5 | 3.4 | 3.5 | 3.5 | 3.7 | 3.6 | 3.7 | |
| - Paid taxes | -0.9 | 0.4 | -0.9 | -0.9 | -1.0 | -1.2 | -1.5 | -1.5 | -1.6 | -1.6 | -1.6 | |
| - Tax, financial expenses | -0.2 | -0.3 | -0.3 | -0.2 | -0.2 | -0.2 | -0.2 | -0.1 | -0.1 | -0.1 | -0.1 | |
| + Tax, financial income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Change in working capital | -1.0 | -6.4 | -0.5 | -0.4 | -0.3 | -0.4 | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 | |
| **Operating cash flow** | **5.9** | **2.2** | **7.4** | **7.5** | **7.4** | **7.9** | **8.9** | **9.1** | **9.3** | **9.4** | **9.5** | |
| + Change in other long-term liabilities | -0.5 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Gross CAPEX | -8.5 | -5.5 | -3.2 | -3.2 | -3.3 | -3.5 | -3.6 | -3.7 | -3.7 | -3.8 | -3.8 | |
| **Free operating cash flow** | **-3.1** | **-0.5** | **4.2** | **4.3** | **4.0** | **4.4** | **5.3** | **5.4** | **5.6** | **5.6** | **5.7** | |
| +/- Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FCFF | -3.1 | -0.5 | 4.2 | 4.3 | 4.0 | 4.4 | 5.3 | 5.4 | 5.6 | 5.6 | 5.7 | 89.0 |
| **Discounted FCFF** | | **-0.5** | **3.7** | **3.4** | **3.0** | **3.0** | **3.3** | **3.1** | **3.0** | **2.7** | **2.6** | **40.4** |
| Sum of FCFF present value | | 67.8 | 68.3 | 64.6 | 61.2 | 58.2 | 55.2 | 51.8 | 48.7 | 45.7 | 43.0 | 40.4 |
| **Enterprise value DCF** | | **67.8** | | | | | | | | | | |
| - Interest bearing debt | | -33 | | | | | | | | | | |
| + Cash and cash equivalents | | 16.0 | | | | | | | | | | |
| -Minorities | | -0.5 | | | | | | | | | | |
| -Dividend/capital return | | 0.0 | | | | | | | | | | |
| **Equity value DCF** | | **50** | | | | | | | | | | |
| **Equity value DCF per share** | | **5.0** | | | | | | | | | | |

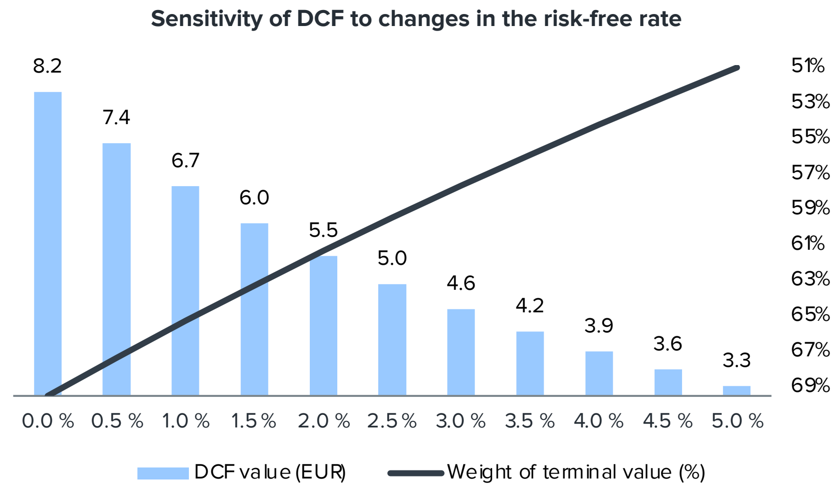
| WACC | |
|---|---|
| Tax-% (WACC) | 22.0 % |
| Target debt ratio (D/(D+E)) | 20.0 % |
| Cost of debt | 5.0 % |
| Equity Beta | 1.20 |
| Market risk premium | 4.75% |
| Liquidity premium | 1.50% |
| Risk free interest rate | 2.5 % |
| **Cost of equity** | **9.7 %** |
| **Weighted average cost of capital (WACC)** | **8.5 %** |

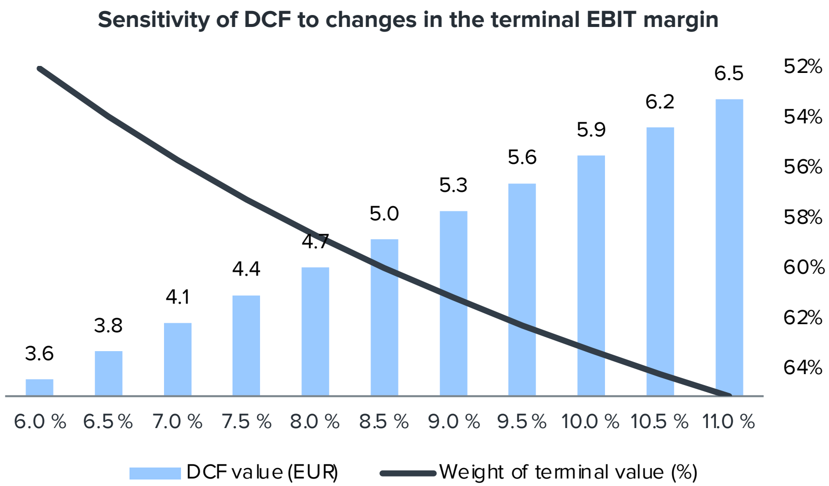
Source: Inderes

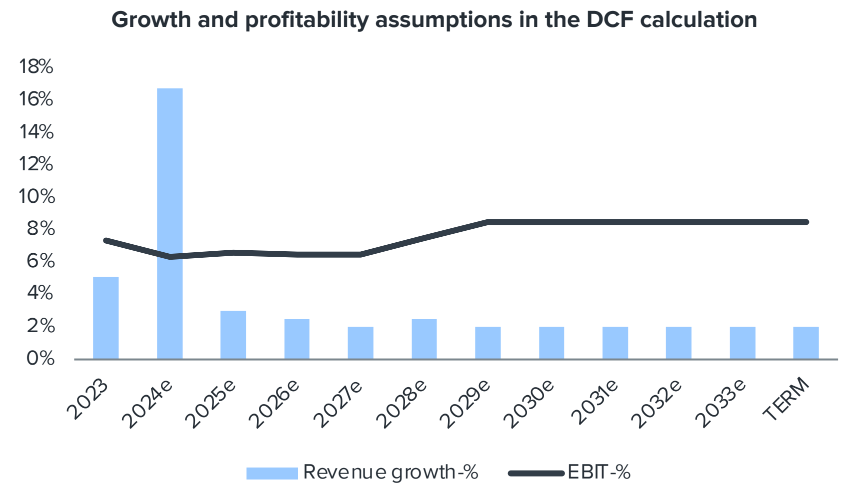


# DCF sensitivity calculations and key assumptions in graphs




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

# Balance sheet

| Assets | 2022 | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|
| **Non-current assets** | **49** | **55** | **55** | **55** | **54** |
| Goodwill | 37.8 | 42.0 | 42.2 | 42.2 | 42.2 |
| Intangible assets | 1.3 | 1.0 | 3.4 | 3.4 | 3.5 |
| Tangible assets | 5.7 | 7.3 | 6.5 | 5.9 | 5.3 |
| Associated companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Other non-current assets | 1.5 | 1.3 | 1.4 | 1.4 | 1.4 |
| Deferred tax assets | 0.9 | 1.2 | 0.0 | 0.0 | 0.0 |
| **Current assets** | **33** | **32** | **40** | **41** | **42** |
| Inventories | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 |
| Other current assets | 4.7 | 5.3 | 5.3 | 5.3 | 5.3 |
| Receivables | 9.3 | 10.9 | 19.3 | 19.8 | 20.3 |
| Cash and equivalents | 18.5 | 16.0 | 15.4 | 15.9 | 16.3 |
| **Balance sheet total** | **82** | **87** | **96** | **96** | **96** |

Source: Inderes

| Liabilities & equity | 2022 | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|
| **Equity** | **38** | **40** | **42** | **44** | **47** |
| Share capital | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Retained earnings | 0.6 | 2.4 | 4.6 | 7.0 | 9.5 |
| Hybrid bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | 35.9 | 36.5 | 36 | 36 | 36 |
| Minorities | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 |
| **Non-current liabilities** | **28** | **29** | **28** | **27** | **23** |
| Deferred tax liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest bearing debt | 27.2 | 28.3 | 25.0 | 24.0 | 20.0 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 0.8 | 0.3 | 3.0 | 3.0 | 3.0 |
| **Current liabilities** | **16** | **18** | **26** | **25** | **27** |
| Interest bearing debt | 3.4 | 4.7 | 10.4 | 9.3 | 11.1 |
| Payables | 1.9 | 1.9 | 3.9 | 4.0 | 4.1 |
| Other current liabilities | 10.2 | 11.4 | 11.4 | 11.4 | 11.4 |
| **Balance sheet total** | **82** | **87** | **96** | **96** | **96** |

# Summary

| Income statement | 2021 | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|---|
| Revenue | 44.7 | 62.8 | 66.0 | **77.1** | **79.4** |
| EBITDA | 5.5 | 8.2 | 8.0 | **8.5** | **9.0** |
| EBIT | 3.4 | 5.1 | 4.8 | **4.9** | **5.2** |
| PTP | 2.1 | 4.6 | 3.9 | **3.7** | **4.0** |
| Net Income | 1.4 | 3.4 | 3.2 | **2.9** | **3.2** |
| Extraordinary items | 0.0 | 0.0 | 0.0 | **0.0** | **0.0** |

| Per share data | 2021 | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|---|
| EPS (reported) | 0.20 | 0.35 | 0.32 | **0.29** | **0.32** |
| EPS (adj.) | 0.20 | 0.35 | 0.32 | **0.29** | **0.32** |
| OCF / share | 0.76 | 0.39 | 0.59 | **0.22** | **0.74** |
| FCF / share | -1.85 | -0.71 | -0.32 | **-0.05** | **0.42** |
| Book value / share | 4.32 | 3.81 | 4.02 | **4.12** | **4.36** |
| Dividend / share |  | 0.07 | 0.06 | **0.08** | **0.08** |

| Balance sheet | 2021 | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|---|
| Balance sheet total | 70.3 | 81.7 | 87.0 | **95.5** | **96.0** |
| Equity capital | 31.9 | 38.1 | 40.4 | **41.8** | **44.2** |
| Goodwill | 16.6 | 37.8 | 42.0 | **42.2** | **42.2** |
| Net debt | 7.5 | 12.2 | 17.1 | **20.0** | **17.5** |

| Growth and profitability | 2021 | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|---|
| Revenue growth-% | 37% | 41% | 5% | **17%** | **3%** |
| EBITDA growth-% | 11% | 48% | -2% | **7%** | **6%** |
| EBIT (adj.) growth-% | -5% | 51% | -5% | **1%** | **7%** |
| EPS (adj.) growth-% | -98% | 74% | -8% | **-10%** | **10%** |
| EBITDA-% | 12.3 % | 13.0 % | 12.1 % | **11.0 %** | **11.4 %** |
| EBIT (adj.)-% | 7.5 % | 8.1 % | 7.3 % | **6.3 %** | **6.6 %** |
| EBIT-% | 7.5 % | 8.1 % | 7.3 % | **6.3 %** | **6.6 %** |
| ROE-% | 6.9 % | 9.9 % | 8.2 % | **7.1 %** | **7.4 %** |
| ROI-% | 8.3 % | 8.4 % | 6.8 % | **6.5 %** | **6.8 %** |
| Equity ratio | 45.4 % | 46.6 % | 46.4 % | **43.8 %** | **46.1 %** |
| Gearing | 23.6 % | 32.0 % | 42.3 % | **47.7 %** | **39.5 %** |

| Cash flow | 2021 | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|---|
| EBITDA | 5.5 | 8.2 | 8.0 | **8.5** | **9.0** |
| Change in working capital | 1.3 | -2.9 | -1.0 | **-6.4** | **-0.5** |
| Operating cash flow | 5.5 | 3.8 | 5.9 | **2.2** | **7.4** |
| CAPEX | -21.8 | -7.6 | -8.5 | **-5.5** | **-3.2** |
| Free cash flow | -13.4 | -7.0 | -3.1 | **-0.5** | **4.2** |

| Valuation multiples | 2021 | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|---|
| EV/S | 1.4 | 0.9 | 1.0 | **0.7** | **0.7** |
| EV/EBITDA (adj.) | 11.0 | 6.7 | 8.2 | **6.8** | **6.1** |
| EV/EBIT (adj.) | 18.0 | 10.7 | 13.5 | **11.8** | **10.5** |
| P/E (adj.) | 36.3 | 12.2 | 15.1 | **12.9** | **11.7** |
| P/B | 1.7 | 1.1 | 1.2 | **0.9** | **0.8** |
| Dividend-% | 0.6 % | 1.7 % | 1.3 % | **2.0 %** | **2.2 %** |

Source: Inderes

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Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

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

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## Recommendation history (>12 mo)

| Date | Recommendation | Target | Share price |
|---|---|---|---|
| 6/21/2021 | Reduce | 8.20 € | 8.35 € |
| 9/16/2021 | Accumulate | 8.20 € | 7.40 € |
| 11/3/2021 | Accumulate | 8.60 € | 7.34 € |
| 12/1/2021 | Accumulate | 9.00 € | 7.90 € |
| 3/9/2022 | Accumulate | 8.00 € | 7.20 € |
| 3/16/2022 | Reduce | 7.00 € | 6.97 € |
| 9/16/2022 | Reduce | 5.50 € | 5.34 € |
| 1/25/2023 | Buy | 5.50 € | 4.39 € |
| 3/1/2023 | Accumulate | 6.00 € | 5.36 € |
| 9/1/2023 | Accumulate | 5.00 € | 4.32 € |
| 9/15/2023 | Buy | 5.00 € | 4.06 € |
| 1/30/2024 | Accumulate | 5.00 € | 4.60 € |
| 3/11/2024 | Accumulate | 5.00 € | 4.24 € |
| 5/14/2024 | Buy | 5.00 € | 3.70 € |

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