Exel Composites

Extensive report

09/28/2022

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Inderes corporate customer

This report is a summary translation of the report "Kasvumahdollisuuksia globaalilla tuotantoverkostolla" published on 09/29/2022 at 08:00 am.

Growth opportunities through a global production network

Exel has been quite successful in its operational activities over the present year, but with a significantly weakened macro picture and short visibility of the business, there is still considerable uncertainty about the company's near-term performance. However, in our view, Exel's position as a truly global player in the pultrusion market provides the company with good prospects for longer-term growth, which supports a positive recommendation. Reflecting our lowered short-term estimates and increased required rate of return, we reiterate our Accumulate recommendation, but lower our target price to EUR 6.00 (was EUR 7.00).

Global composite manufacturer with a high degree of customization

Exel specializes in the design and manufacture of composite products for demanding industrial end-uses. Exel's production is mainly focused on pultrusion technology, and we understand that it has a leading market position in this niche segment of the composites market. Most of Exel's products are designed to meet detailed customer needs, resulting in a high degree of customization in the solution offering. We think this makes its value chain position reasonably good and creates continuity in customer relationships. The disadvantage of a high degree of customization can be seen in the diversity of production, which can make it difficult to optimize efficiency levels. We believe that the company's key strengths are the global structure of its manufacturing network, its diversified customer portfolio and the growth in sustainability and regulation, which underpin Exel's relative position. Risks include the cyclical nature of demand and the chronically short order backlog, especially in the current uncertain economic environment, the concentrated customer portfolio and the relatively short-term turnaround of the US unit.

Entering the weakening market environment from a relatively good position

The company's target market is forecast to grow by 3-5% in the coming years. However, the significantly weaker macro picture raises uncertainty about the company's partly investment-driven demand outlook and its chronically short order book, which could lead to a rapid deterioration of its business conditions in line with economic developments. We see the European energy crisis and its impact on the company's largest geographical target market as a particular source of uncertainty. In our view, the company's demand situation has remained reasonable so far and it should also be in a position to increase its performance level through efficiency improvements (e.g. China's factory synergies). Its global coverage also means that the company isn't entirely dependent on Europe and its diverse client portfolio gives it a comparative advantage in an uncertain environment. Against this background, we expect the company to achieve average growth of around 4% in the coming years (2022e-2025e) and operational profitability of 7.0-7.9%. However, we don't expect the company to meet its financial targets (2x market growth, adj. EBIT> 10%).

Short business visibility keeps finger off the "Buy" button despite a moderate price tag

With our estimates, Exel's earnings-based valuation multiples for the coming years are very moderate (adj. P/E 2022 and 2023: 7x and 11x and EV/EBITDA: 5x and 6x) reflecting our accepted multiple range. The other methods we use also support our view of upside in the stock and could argue for a stronger positive view on the stock. However, we believe that it's difficult to rely on a substantial rise in valuation multiples over the next 12 months due to the many uncertainties in the operating environment. In addition, due to the short visibility of Exel's business, the multiples also contain significant forecasting risk. Despite the uncertainty, we believe that the risk-adjusted expected return on the stock is clearly positive.

Recommendation

Accumulate

(previous Accumulate)

EUR 6.00

(previous EUR 7.00)

Share price:

EUR 5.30

Key figures

	2021	2022e	2023e	2024e
Revenue	134	145	141	151
growth-%	24%	8%	-3%	7%
EBIT adj.	6.0	10.5	9.9	11.5
EBIT-% adj.	4.5 %	7.2 %	7.0 %	7.6 %
Net Income	1.7	11.3	6.0	7.2
EPS (adj.)	0.29	0.74	0.51	0.60
P/E (adj.)	24.1	7.1	10.5	8.8
P/B	2.8	1.7	1.5	1.4
Dividend yield-%	2.8 %	4.2 %	4.5 %	5.1 %
EV/EBIT (adj.)	20.5	9.2	9.5	7.9
EV/EBITDA	10.3	4.7	5.7	5.0
EV/S	0.9	0.7	0.7	0.6

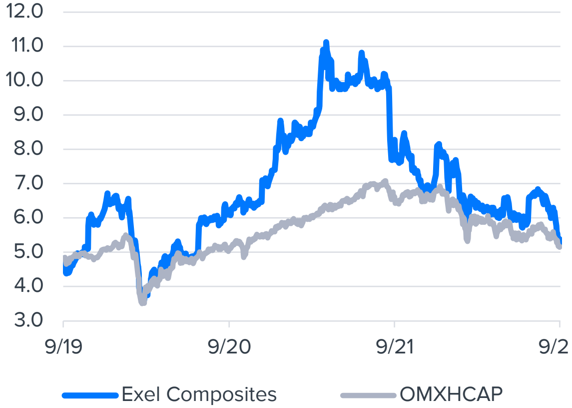
Source: Inderes

Guidance

(Unchanged)

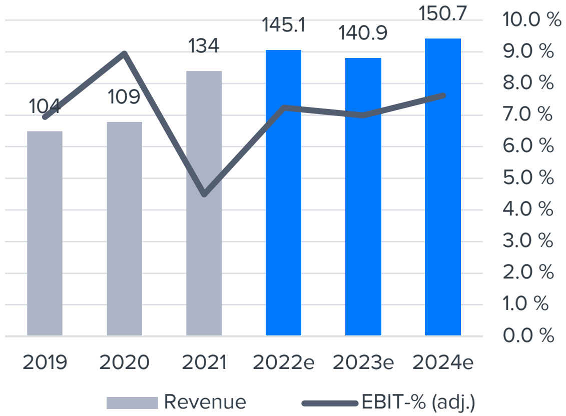
Exel Composites expects that revenue in 2021 will be at last year's level and adjusted operating profit will increase compared to 2021.

Share price



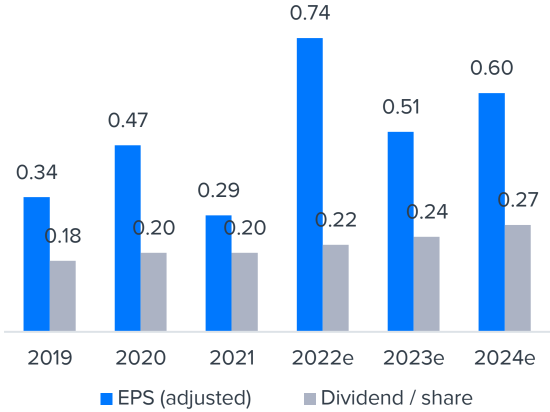
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Growing composite market creates a good basis for organic growth
- Still room for improvement in profitability relative to the full potential
- Global structure of production and relative economies of scale
- Boosting growth with acquisitions in the medium term

Risk factors

- Somewhat cyclical and volatile demand
- Relatively fixed cost structure
- Concentrated customer portfolio
- Debt in the balance sheet partially limits room for maneuver
- Marginal pressures caused by delivery chain problems and higher material costs in the short term
- Short order backlog amid economic uncertainty
- Sustainability of the US turnaround
- The European energy crisis and its impact on the company's most significant market

Valuation	2022e	2023e	2024e
Share price	5.30	5.30	5.30
Number of shares, millions	11.9	11.9	11.9
Market cap	63	63	63
EV	97	94	90
P/E (adj.)	7.1	10.5	8.8
P/E	5.6	10.5	8.8
P/FCF	8.5	9.2	8.6
P/B	1.7	1.5	1.4
P/S	0.4	0.4	0.4
EV/Sales	0.7	0.7	0.6
EV/EBITDA	4.7	5.7	5.0
EV/EBIT (adj.)	9.2	9.5	7.9
Payout ratio (%)	23.2 %	47.5 %	44.8 %
Dividend yield-%	4.2 %	4.5 %	5.1 %

Source: Inderes

Contents

Exel in brief

Exel is a company specializing in the design and manufacture of composite products and solutions for a range of demanding industrial end-uses.

1960
Year of establishment

1999
IPO

13%
Average revenue growth in 2016-2021

6.3%
Average adjusted EBIT margin in 2016-2021

MEUR 142
Revenue 2022 (TTM)

6.4 MEUR **(4.5% of revenue)**
Adjusted operating profit 2022 (TTM)

739
Personnel at end of Q2'22

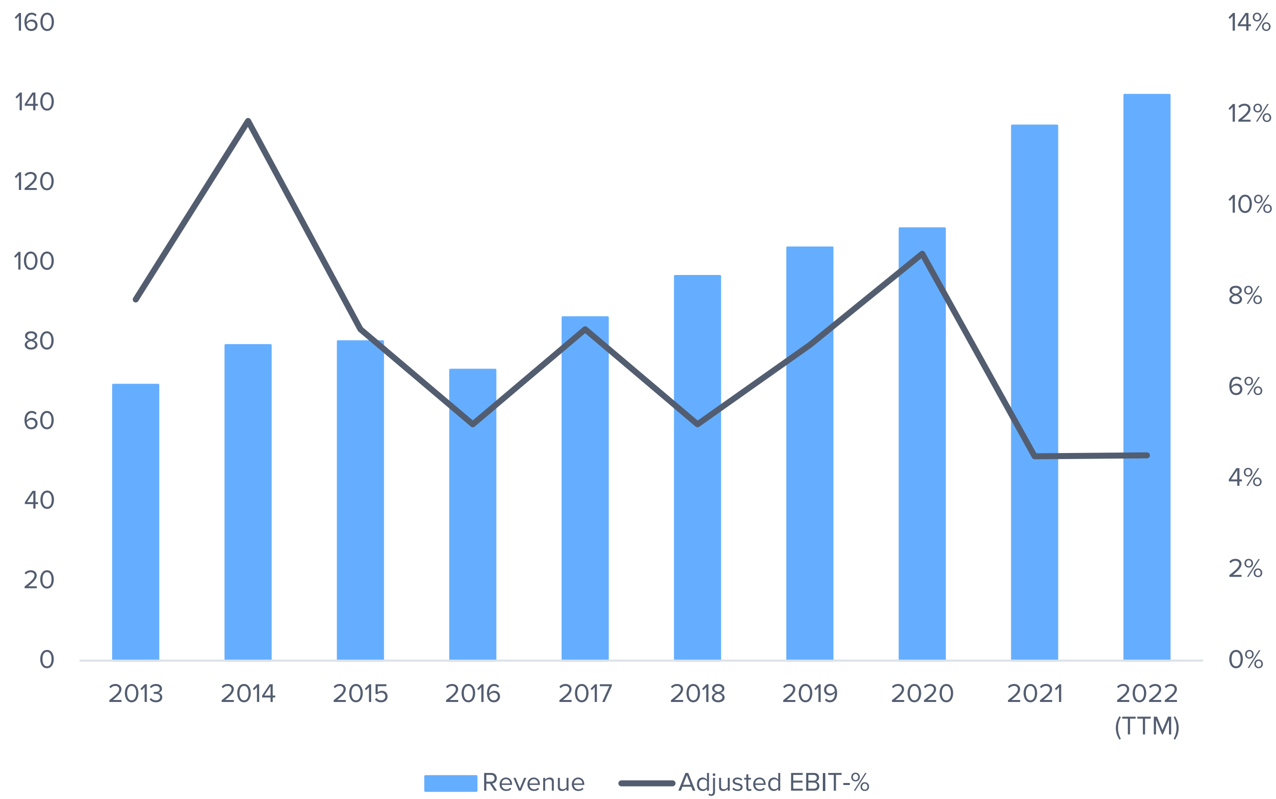
Source: Exel, Inderes

2012-2015

- In the early 2010s, macroeconomic challenges are holding back investment-driven demand
- Of the current customer industries, Telecommunications is driving revenue growth, but at the same time creates a risk concentration in the customer portfolio
- The sales mix is concentrated in the top segment of the high-margin profile

2016-2021

- Telecommunications sector faces challenges and customer risk materializes
- In line with the strategy, the geographical foothold is expanded through the acquisitions of JHFRP (China) and DSC (USA), as well as through a joint venture in India
- The problems in the US are eroding performance and achieving the full potential is being pushed forward



Company description and business model 1/4

Supplier of customized solutions

Exel is a manufacturing company specializing in the design, manufacture, sales and marketing of sophisticated composite products suitable for a wide range of industrial end-uses. Composites themselves are combinations of two or more materials. Their technical logic is to get more out of the combined whole - to create a material with better properties - than would be possible from the materials if they were separate. We estimate that Exel's composites focus on glass and carbon fiber-based solutions, reflecting their lightweight and durable properties. In terms of production, Exel is again mainly focused on pultrusion technology, and we believe that the company has a leading market position in this niche segment of the global composites market. The vast majority of products supplied by Exel are designed to meet detailed customer needs, resulting in a high degree of customization in the solution offering.

Exel is headquartered in Vantaa. The company has seven production units, located in Finland (2), China, the UK, Belgium, Austria and the USA. Exel also has a manufacturing base in India through a joint venture established last fall. At the end of H1'22, the company employed 739 people.

Europe is the driving force of business

In 2022 (TTM), Exel's revenue was EUR 142 million and adjusted operating profit was EUR 6.4 million. Europe is the most important geographic region for the company's business, accounting for roughly 54% of revenue in the previous 12 months. Of the other regions, North America and Asia are significant with contributions of around 28% and 16% respectively.

In 2021, Exel's largest customer stood for some 17% of revenue. We estimate that Exel's customer portfolio consists of hundreds of companies, but more than half of the revenue is generated by the 10-15 largest customers. Consequently, the majority of Exel's customers are relatively small in size. This, conversely, and especially in terms of performance, makes the roles of the most important customers more pronounced. Reflecting this, the loss of a key customer, a substantial reduction in market share per customer, or difficulties faced by the customer itself could hurt Exel's business. However, we understand that key customer relationships are long-lasting and strong. This combined with the customized offering (including the switching costs faced by the customer), keeps the overall customer risk quite moderate.

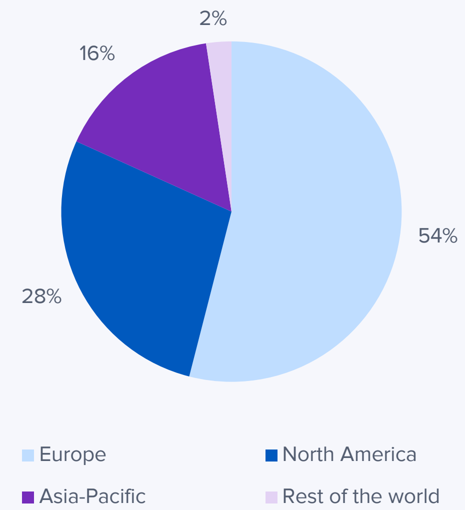
Business structure

Exel only reports its financial results at group level, but revenue is broken down into seven customer industries. These are:

exel COMPOSITES

- Over 60 years of operational history and a leading player in the pultrusion market
- Customized offering enables higher price points and better customer retention
- A truly global network of production facilities supports relative competitiveness and longer-term growth opportunities
- Customer portfolio covers a wide range of industries and thus covers different demand drivers

Revenue breakdown 2022 (TTM)



Source: Exel, Inderes

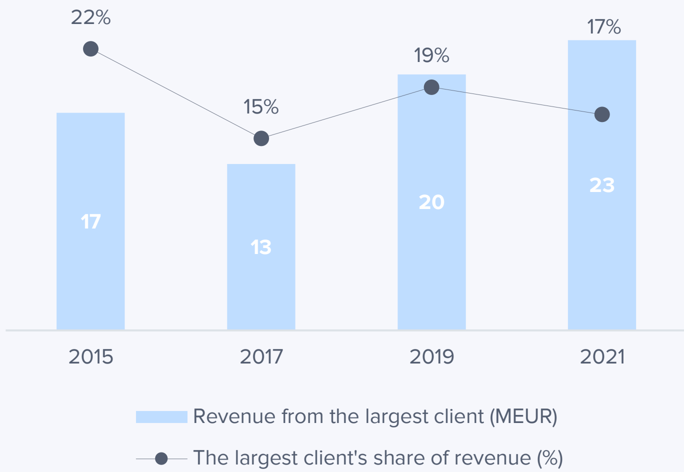
Company description and business model 2/4

1. **Buildings & Infrastructure** is Exel's largest customer industry and in 2022 (TTM) it represented ca. 23% of revenue. Typical product applications include window and door profiles, structural profiles, cable core products, cable trays and airport products. To our understanding, demand is largely a continuous flow of supply, except for cable core and airport products, which are project-specific and therefore cyclical in nature.
2. **Equipment & Other Industries** generated ca. 18% of revenue in the past year. The end-uses of this customer industry include various products for sanitation and maintenance applications, as well as products as components for various products sold to consumers (e.g. tents). Some of the products in this customer segment are quite standardized (e.g. cleaning pipes), but the main focus is on the customized products just like in the entire portfolio. In line with standardized products, part of the demand is consumer-driven.
3. **Wind Power** is the second largest customer industry, accounting for ca. 21% of revenue streams in 2022 (TTM). The largest customer also comes from this sector. Common end products of Wind Power are turbine blade reinforcements and stiffeners, and other power plant support structures such as handrails and service platforms. The growth potential of the customer industry is good, supported by renewable energy and the underlying megatrends. However, the applications produced are large in volume and lower in customization needs than the rest of the portfolio, which reduces pricing power and may also tighten the competitive situation.
4. **Machinery & Electrical** accounted for ca 14% of Exel's revenue over the past 12 months. Customer applications include components for paper and textile machinery, insulating rods and parts for robotics applications. Our assessment is that the application portfolio is concentrated in the top of the segment and the quality requirements for the products are very high. We understand that customer demand is split between more stable (e.g. various consumer-driven products) and more investment-driven end-uses (e.g. paper and pulp industry).
5. **Transportation** accounted for about 11% of revenue in 2022 (TTM). Customer applications include profiles for the transportation equipment industry. Energy efficiency and sustainable development are key demand drivers.
6. **Defense** accounted for ca. 6% of Exel's revenue in 2022 (TTM), making it the smallest customer industry in terms of volume. Product applications include camouflage netting support poles and non-magnetic mine detector handles.
7. **Telecommunications** accounted for around 7% of revenue in the last year and its most common end products are antenna radomes and various types of masts. The customer industry was previously a significant size and high-margin business for the company. The last couple of years have seen an upward trend in cyclical volumes in Telecommunication.

Potential customers*

*Based on Inderes' estimate of potential customers. Exel does not report its customers.

In 2015 to 2017, the biggest customer came from Telecommunication, in 2019-2021 from Wind Power.



Source: Exel, Inderes, companies

Company description and business model 3/4

Overall, we believe that the business structure is balanced, and the company is not particularly dependent on the direction or pace of development of any single customer industry. In addition, the customer segments are mainly in mature life cycle stages and have at least reasonable growth prospects in the longer term, which also provides Exel with a relatively stable starting position for the coming years. Of course, Exel's supply flows are automatically subject to the fluctuations typical of industrial sectors, as customer demand is by nature investment-linked. For Exel, however, this fundamental dynamic is offset by the diversity and differential timing of the hard demand drivers of underlying customer industries.

Design and production form the strong core

Exel’s business model is conventional for an industrial player as the company sells and manufactures the products it designs. The composite products supplied by Exel are individual parts in the customer’s application, like the blades of wind turbines or the production machinery of a paper mill. Thus, Exel's solutions are usually tailored to the customer's specific needs, making the overall offering highly customizable. This, in our view, makes the company's value chain position reasonably good. In addition, a customized portfolio increases switching costs for the customer, thereby creating valuable continuity in customer relationships. We understand that the components supplied by Exel usually represent a relatively low proportion of the total cost of the end-customer's investment. This combined with the above-mentioned factors gives the company concrete pricing power. However, there is no commonality in customization rates and sourcing logics between customer industries, which means that there is also inherent variation in Exel's sectoral pricing ability. In our view, one of the drawbacks of customized supply is the diversification of production, which may introduce certain frictions into the manufacturing process (e.g. increase in fixed costs) and consequently make it difficult to optimize efficiency levels.

Following the basic dynamics outlined above, we believe that Exel's core activities are design (incl. material development) and production. In terms of the earnings model functioning, the role of design work in particular is crucial as success in design creates a critical foundation for a competitive product offering— e.g., number of product applications and size of potential market—success in customer acquisition and maintenance, and through these also for longer term value creation. As an actual process, we estimate that the design work is long-term and the time interval from the first customer contact to the finished product application can be quite long (1-3 years). However, extensive design resources alone won’t drive success in these operations, and we believe that a genuine understanding of the customer's business is also an important skill. With Exel's long operational history and a client portfolio that spans multiple industries, we believe the company's design expertise is holistic and therefore of high quality.

We also believe that Exel's capabilities on the production side are good. In production, the company utilizes both pultrusion and pull-winding technologies, as well as continuous lamination manufacturing methods. Thanks to these methods, Exel has the ability to manufacture both simple rods and tubes, as well as more complicatedly shaped profiles. Thus, the company's production resources lend themselves to a wide range of applications. This together with the existing design expertise underpins the company’s overall competitiveness. However, some opportunities will inevitably remain outside these methods, making the identification and expansion of new technologies an essential part of the company's longer-term strategy.

As the operating model is quite generic, we don’t believe that it differentiates Exel from other operators or creates a clear competitive advantage. Instead, we believe that the company's key strengths stem from the robust core processes of the operating model, their linear integration and structural features such as a global factory network and a broad industry portfolio.

Order backlog structurally rather short

Exel typically receives preliminary demand forecasts from its customers for the next 6-12 months. However, these forecasts only turn into firm orders some weeks before the actual delivery. This is what makes Exel’s

Company description and business model 4/4

hard order backlog structurally short and in our estimate, only about a quarter long. Thus, the order backlog is not a particularly good indicator for the longer term, although it does give a good indication of the short-term load. However, the anatomy and logic of the order backlog is not entirely gapless, as we understand that there can be clear differences in ordering dynamics between different customer industries. Furthermore, the customer-specific characteristics also influence the actual volumes of hard orders. In addition to managing the order/supply chain, the short structure of the order backlog also reflects to some extent on cost management, as there are limited short-term flexibility points in capacity and cost structure when forecasts fail.

Scalable cost structure

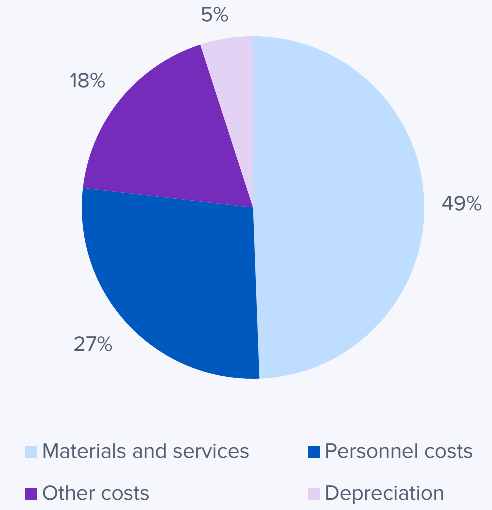
Exel's cost structure is relatively rigid, as we estimate that fixed costs account for around 25-30% of total costs. The fixed cost structure is largely explained by the engineering resources required for the business model and the global network of sales and production facilities. High fixed costs (combined with a high sales margin) create a reasonable operational leverage in Exel's operations, and in situations of idle capacity, the company can scale its fixed costs below volume growth and thus increase its operating profit at a faster rate than revenue growth. However, the operational lever also works in the other direction and as volumes fall, the company may find it difficult to defend its short-term margin levels.

Capital requirements are not huge

Exel's operations don't tie up huge amounts of capital, even though the company operates in a manufacturing industry and as mentioned above, it has a rigid cost structure. In 2021, the share of fixed assets (incl. IFRS 16) was around 26% of turnover, which is a tolerable level. In relation to the balance sheet total, the share of fixed capital was at the same level. In turn, Exel's activities have typically tied up around 15% of net working capital, a much more moderate amount than the fixed capital requirement. Working capital over time has also been partly financed by customers, as trade receivables have maintained a cycle time that is consistently faster than that of trade payables. This bolsters our view that Exel has a good value chain position and therefore at least sufficient negotiating power with both end-customers and material suppliers. In recent years, however, the company's working capital needs have increased somewhat. We estimate that this has been driven by changes in the sales mix, reflecting the strong development of the Wind Power customer industry and thus the increased relative share of customers with high negotiating power (i.e. longer than normal payment terms).

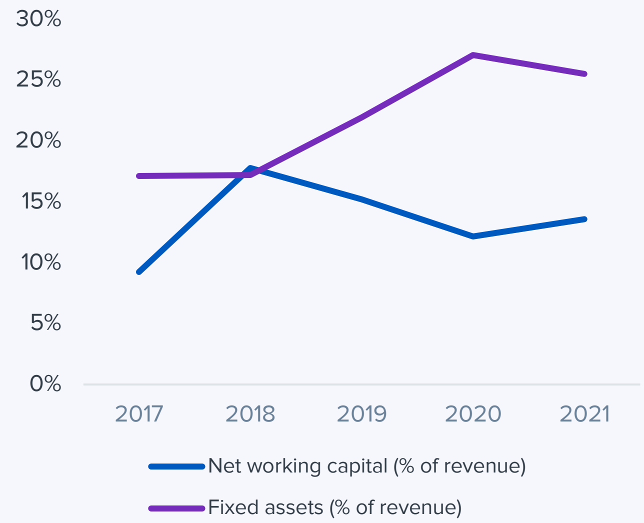
Overall, a reasonable commitment of capital is a positive factor, as the limited need for capital and its efficient use create the basis for a good return on investment and thus for the shareholder value creation. In addition, the limited capital requirement supports profitability as we estimate that the company has no investment debt.

Cost structure* 2021



*Adjusted for one-off items

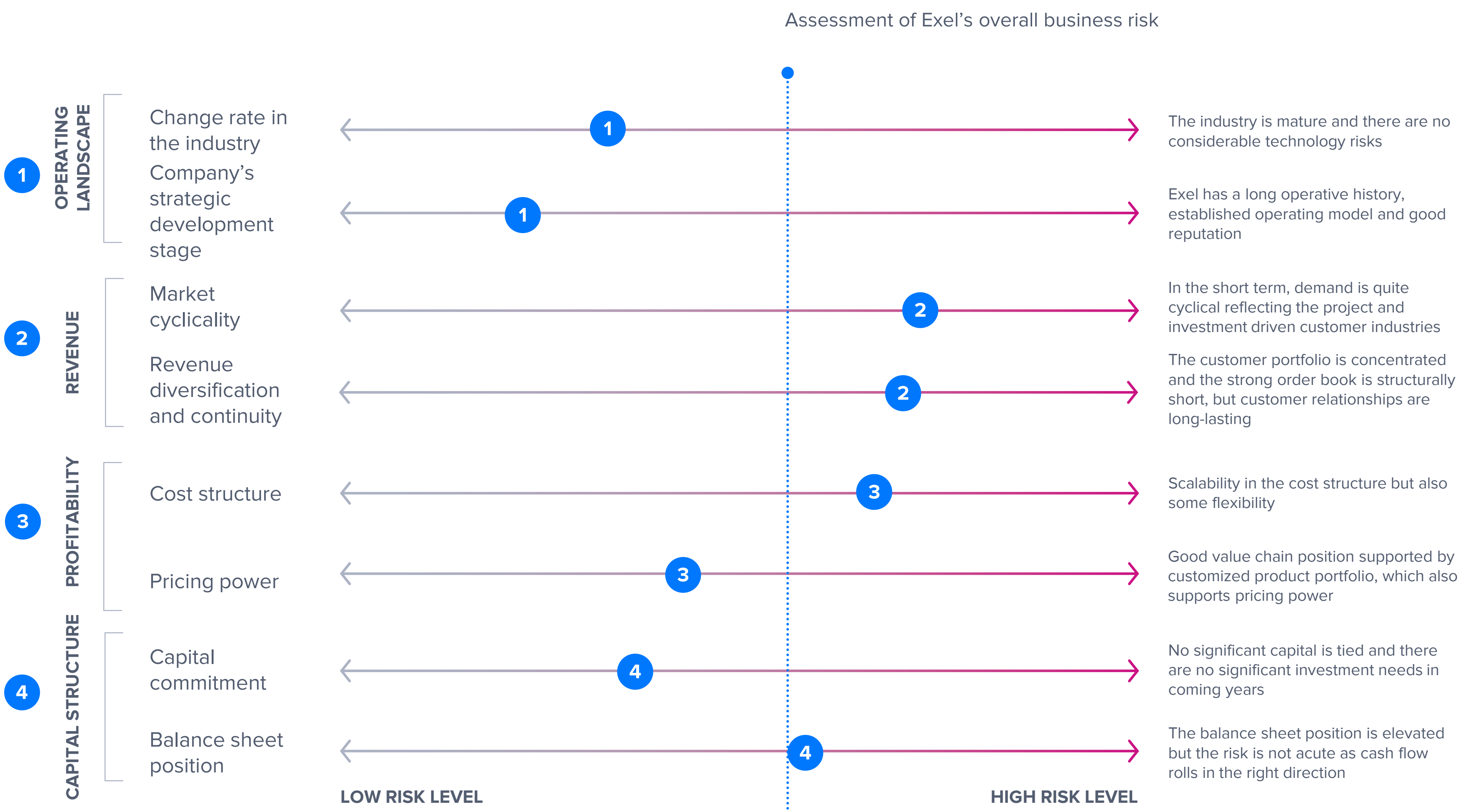
Development of capital commitment



*2017-2018 figures exclude the impact of IFRS 16

Source: Exel, Inderes

Risk profile of the business model



Source: Inderes

Industry and competitive landscape 1/5

Composites are small drops in material flows

According to various research companies, the total value of the global material market in 2021 was around USD 6,000 billion. The overall market is dominated by steel and plastic, whose combined market shares have historically been over 90%. The relative share of the actual composite market (incl. all technologies and material combinations) in the entire material market is relatively small, but with an absolute size of roughly USD 80 billion, composites still create a huge market. Pultrusion that Exel primarily utilizes in its production is, in turn, a niche technology on the composite market with a share of over USD 3 billion. Thus, actual pultrusion and the entire composite segment are extremely large when comparing to Exel's size class, and the size of the underlying market sets no limits on the company's growth in coming years.

The main benefits of composite materials are lightness, being maintenance free, energy efficiency, long useful economic life, and as a result of these, lower life cycle costs than for more conventional material solutions. The flip side is the higher purchase price than for competing materials. Despite the higher price point, composites have, in our opinion, succeeded in winning over market shares from other materials in recent years. In our view, these wins have come both from established applications and entirely new areas. Even though the competitive advantages of composites are rather evident and the logic of a life cycle approach that drives longer term demand works, the short-term market demand and position for composites is driven primarily by the prices of competing materials. Therefore, we believe the market share development for composites will not be linear.

Market focuses on China and the United States

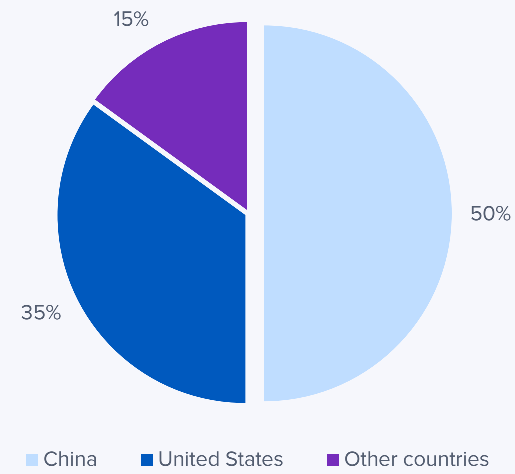
Examined geographically, the pultrusion market focuses on areas where the benefits of composites compensate for higher acquisition costs. In more price intensive areas with higher financing costs (i.e. developing economies) the foothold of overall benefits and a life cycle approach has not been as strong, which has driven demand towards competing materials and slowed down the progress of composites on these markets. An exception to this framework of developing economies is China, where demand for composites has remained strong throughout history. According to our estimates, the relatively strong development in China is explained by the country having a lot of composite production.

According to market research companies, the biggest areas for the industry is Asia-Pacific and within it, China, that is estimated to cover some 50% of the overall market. The second largest geographical area is North America, wherein the United States has been estimated to correspond with some 35% of the overall market. The market share of Europe and the rest of the world is estimated to be around 15%.

Competitive factors of composites

Strengths	Weaknesses
Lightness	Higher price
Maintenance free	
Energy efficiency	
Durability	

Breakdown of the composites market



Source: JEC, Lucintel, Inderes

Industry and competitive landscape 2/5

Different end uses and fragmentation

The pultrusion market can be divided into nine industries based on the end use of the applications; these are transport equipment, maritime, wind power, electronics and aviation industries (incl. defense), as well as pipes and tanks, construction, consumer products and other applications. There are certain differences between end-uses, such as the degree of customization of applications and thus scalability. For example, the blade reinforcers for the wind power industry are in our opinion high scalability (i.e. big underlying market) and low customization need applications, while in certain niche areas (e.g. equipment for process industry) we believe the situation is the opposite. However, except at the extremes of low customization demand, the degree of customization in end-use applications is high, which diversifies manufacturers' production operations and makes it difficult to achieve process-based economies of scale. Due to this dynamic, the structure of the industry is fragmented, as there are many small players and players that only focus on individual industries and/or product applications

According to our estimate, Exel is one of the biggest players on the pultrusion market and involved in almost all end use industries. The company positioning itself in several industrial sectors is smart in our opinion, because this way the company can get more out of wider design and production resources than if it would focus on individual activity fields. In addition to this operative angle, the positioning is also sensible in terms of risk management as the underlying industries have different and differently timed demand drivers and the balancing effect this has on demand fluctuation.

Good growth opportunities

Especially global megatrends (e.g. rise in the standard of living and sustainable development) that direct material choices towards more lightweight solutions with longer operational lives are growth drivers for the pultrusion market thats is relevant for Exel. Various market research companies have estimated that the growth rate will be around 3 to 5% in the next few years. This is slightly higher than the global GDP growth rate, and in order to reach this level, composites should snatch market shares from other materials, as we do not believe that the entire material market will grow faster than the global economy. In accordance with the structural benefits of composites and the megatrends working in the background, we believe there are good preconditions to win over market shares. Therefore, we consider the industry's growth profile to be healthy in the big picture, although in a bad scenario in the medium term, global economic uncertainty and ongoing supply chain challenges could cause some shifts in timing/temporary dents in this situation. To address supply chain challenges, Exel is of course well positioned with its comprehensive global manufacturing network (incl. local supply chains), which also improves its relative position vis-à-vis many competitors. However, this wouldn't fully protect the company from the global economic slowdown if investment levels fall. On the other hand, global coverage is beneficial for the company, as it means that it isn't entirely dependent on a specific geographical area in view of the energy crisis in Europe, for example.

Growth of the pultrusion market

Source: JEC, Lucintel, Inderes

Industry and competitive landscape 3/5

Examined geographically, growth is expected to be fastest in China where growth is expected to be at the upper end of the 3 to 5% range. In the US and Europe, growth is expected to be more moderate in light of the weaker GDP growth potential.

By end-use, growth is estimated to be strongest in wind power, transport equipment, electronics industry and construction applications. According to our estimates, the higher growth potential of these industries is based on the strong and lasting drivers of the end products (e.g. combination of renewable energy and sustainable development), and the possibilities to utilize the benefits offered by composites. We also feel Exel's position is good in view of end use specific and geographic growth profiles, considering the company's production network covering the biggest customer industries and key geographical segments.

The competitive field is concentrated at the small end

Due to the fragmented structure of the industry the competitive field is also quite fragmented. Thus, we feel Exel's competitors cannot be found at the top levels of the markets, but the company's competitive field varies depending on the fields of industry, product applications, geographical areas and the size class of customers. Against this backdrop, a majority of Exel's competitors are clearly smaller than the company itself with net sales of around EUR 5 to 10 million, primarily local and operating in a relatively narrow industry and customer portfolios. The key strengths of these companies is, in our opinion, quick decision making and agility from lighter operative structures. Competitive disadvantages in our opinion are more limited resources than among larger manufacturers, which partly dilutes the effects of the above-mentioned strengths and completely shuts the door in certain application sizes and customers. In addition, the growing importance of sustainability and tightening regulation, which is harder for operators with fewer resources and processes to meet, can also be seen as a competitive disadvantage for smaller operators.

The pultrusion manufacturers that primarily compete with Exel are unlisted companies and there is no really transparent data available on direct competitors. According to our view, Exel's main unlisted competitors are the Danish Fiberline (now part of Gurit Group), the French Epsilon Composites, and the US companies Creative Composites, Strongwell and Tecton Products. Next to the largest pultrusion manufacturers, in our opinion, the company also competes with large material manufacturers that are vertically integrated. We understand that such players include Avient Corporation, SGL Carbon and Hexcel.

According to our view, the profitability structure of the competitive field is quite polarized both into companies that generate strong profitability (EBIT margin > 10%) and companies that battle chronic profitability difficulties (EBIT margin > 5%). Due to the basic nature of the manufacturing industry (i.e. relatively fixed cost structures) and due to the diversity of production, building sustainable cost and scale-based competitive advantages is extremely challenging

Exel's selected competitors

EPSILON COMPOSITE — The alternative; STRONGWELL; CREATIVE COMPOSITES GROUP; Gurit; TECTON PRODUCTS LLC

Compete in the same technologies and industrial sectors (NB: Fiberline is currently under the Gurit Group)

Ernst Kühne Kunststoffwerk; CSI Composite Solutions & Innovations Oy; PULTECH FRP; VELLO

Small and local players focused on narrow industries

AVIENT; HEXCEL; sgl carbon

Vertically integrated large players (most relevant pultrusion industries for Exel found under Avient)

Source: companies, Inderes

Industry and competitive landscape 4/5

in our opinion. Thus, we feel the factor that drives profitability is positioning oneself in the right industries and into the right product applications and customer types within these segments.

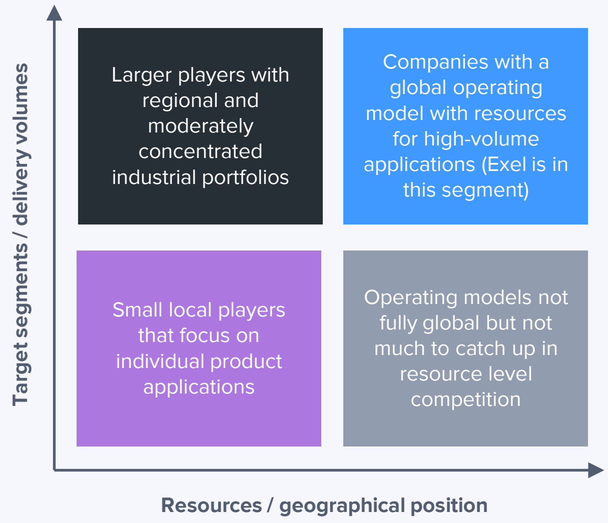
As the leading player on the pultrusion market, Exel has sufficient resources to compete on a front of large volumes and scalable product applications, but on the other hand, also sufficient flexibility and agility to efficiently compete in smaller customer industries and end uses. When you combine this with the efficiency measures carried out in recent years and, thus, the stronger operating platform, we feel Exel's overall competitiveness is good. According to our view, there are no relative weaknesses or shortcomings in the company's structures that would risk the company's current position in the longer term and eat away on the preconditions for creating shareholder value.

Structure of the industry creates more opportunities than threats

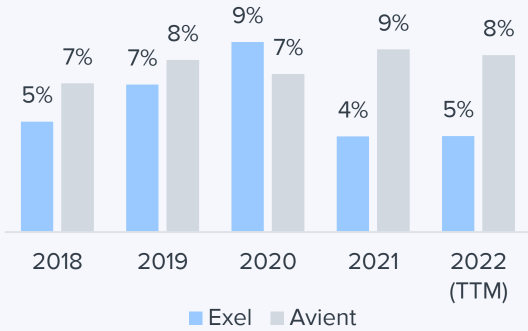
The fragmented structure of the industry and the consolidation elements it contains offer, in our view, more opportunities than threats for Exel. Due to the high number of manufacturers, a larger player like Exel has quite many options available to inorganically expand both customer and industry portfolios. By acquiring smaller players that focus on certain segments (incl. geographical areas) Exel can expand to new areas and/or strengthen its foothold on its current segments. Following the same formula, the fragmented structure also creates opportunities for expanding one's own technology expertise and, thus, to opening growth paths that go beyond pultrusion. Next to these growth motives, consolidation can, in our opinion, also be seen as a risk management tool to lower the wider operative base and the overall risk level it generates.

However, the drawback of the fragmented structure of the industry and above-mentioned opportunities is that the large number of small players can to some extent gnaw at the pricing power of the entire sector (i.e. a wide-spread offering that limits cumulative negotiation powers). In addition, the fragmented structure can also slow down the final breakthrough of composites into large volume product applications (e.g. transport equipment industry) especially in global market segments, as the number of sufficiently large and credible players is low from the end user's perspective. However, the fragmented structure can act as a small incentive towards companies operating in different parts of the value chain (e.g. equipment and raw material manufacturers). The operating life cycle of such a vertical integration could change the structure of the competitive field even considerably and create pressure on the players' own relative competitive position. At industry level, the threat of vertical integration is in our view rather small, while in application areas with higher volume and requiring lower technical expertise (e.g. wind power) this threat is more concrete. According to our view, this has to some degree materialized in pultrusion in recent years, due to carbon fiber manufacturers that have expanded heavily.

Structure of competitive field



Adj. EBIT-% development vs. Avient*



* Figures at group level, the pultrusion business represents only a small part of the Avient Group's turnover (<5%)

Source: companies, Inderes

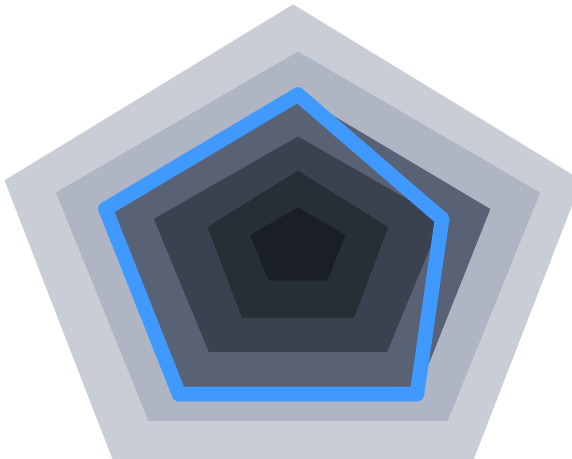
Industry and competitive landscape 5/5

Current competitive situation (moderate*)

- Large number of manufacturers at a global scale but value chain positions not too precarious
- Rigid cost structures increase price pressure and tighten competition
- Healthy long-term growth picture relieves competition

Threat of substitutes (moderate*)

- On product application level, the threat of substitutes mainly comes through the customer portfolios
- On technology level, there is a threat of competing production methods but it is not alarmingly high
- We also feel that alternate materials form a threat through relative price competitiveness



Negotiation power of product suppliers (low*)

- There are no producers or distributors with a dominant position on the supply side
- The ability to differentiate is not high on the production level, which limits the negotiation power to other levels
- Composite manufacturers typically have long supply chains, and the importance of a single supplier has not been emphasized
- Incentives for vertical integration of material manufacturers are not very high

Threat of new competitors (moderate*)

- Ramping up operations requires reasonable capital investments but the longer-term growth picture is healthy
- Vertical integration a bigger threat than new players entering the field
- Switching costs can be high in established customer relationships, which limits the enthusiasm of new players
- Reaching economies of scale is challenging and even a small player can reach good margins

Buyers' negotiation power (moderate*)

- Customers' supply chains are usually quite long and the dependency on individual suppliers does not become excessive
- Customized product portfolio (i.e. high level of differentiation) increases the costs of switching suppliers and weakens the buyer's negotiation power
- The threat of vertical integration among OEM companies is low and it does not leverage the customers' negotiation power much
- The share of composite components in the total costs of the end application is moderate and the decision making of OEM companies is not primarily price-driven

Source: Inderes

*Inderes' view of the threats caused by wind power for Exel on the scale no threat, minor, low, moderate, significant and high.

Strategy and financial objectives 1/4

Value proposition: solution-oriented, customized and secure total offering

According to our estimate, the value proposition from Exel to its customers is built around solution-oriented, customized and secure (incl. short response times) total offering. This way, Exel tries to enter the most optimal segments of the customers' value chains, establish their own position in these and create value added for both. We feel that Exel has been somewhat successful in this, as proven by its long operational history and multiannual customer relationships, good reputation and leading position on the pultrusion market.

Strategy implementation is based on cornerstones

Exel's strategy is to exploit the opportunities offered by its target markets and to grow its business in a value-creating way. In our view, the company is well placed internally to do this, as Exel has no significant operational bottlenecks or ongoing development projects that significantly constrain the execution of its strategy. The cornerstones of Exel's growth strategy are:

1. Strengthening key customer relationships and increasing the absolute number (incl. historically successful products).
2. Reaching a leading position in China and strengthening a true global foothold
3. Breaking into new production technologies
4. Expanding into new and growing product applications.

Key customers and successful products at the forefront of growth

We believe that Exel's customer relationships with its key customers are long-lasting and the company's position in these customer relationships is solid. In addition, we believe the key customers are strong and competitive enough players in their respective industries, which makes growth with these customers quite attractive. In light of Exel's own abilities and the opportunities from a global product portfolio (e.g. cross-selling paths and historically successful products), we believe the company has healthy preconditions for winning over customer and industry-specific market shares.

Increasing the number of key customers is, in addition to growth paths, also justified from a risk management angle, as new customers of considerable size (annual revenue EUR >2 million) automatically expand Exel's rather concentrated customer portfolio. In new customer acquisition, we believe that the company's interest lies in pockets with attractive growth potential like segments in the energy and transport equipment industries. Within these medium segments (i.e. lower price point than in the upper segment but higher volume potential), we believe focus lies on high-volume applications that are scalable. We also feel this is a sensible choice from an operational viewpoint, as the company should be able to grow the basic load of its production portfolio through the higher volume potential and reach certain economies of scale in manufacturing compared to a portfolio with smaller and more complicated production batches.

Concerning new key customers, one should note that due to the high degree of customization of the offering in general, the path from the first customer contact to design and actual production is typically very time consuming so reaching order flows that support growth takes quite a lot of time. In addition, new customer acquisition can in established end uses be slowed down by the fact that the costs of switching can be high for the OEM company. However, in some high-volume applications, OEM companies can manage their risks and ramp up new suppliers quickly, which means new volumes can reach considerable levels for Exel quickly. Successes in customer acquisition will become more clearly visible in the longer term.

Focusing on China can generate results on a more extensive scale

The second cornerstone of Exel's growth strategy is reaching a leading market position in China and strengthening a true global foothold. The absolute size of China's pultrusion market is massive, its growth potential is good, and we believe the structure is very fragmented similar to the industry's global template. In our view, Exel's local competitive position and capacity is already reasonable at present. We understand that the company has local business, particularly in transport,

Strategy and financial objectives 2/4

telecoms and wind power, broken down by customer industry. Thus, consolidating the market position and realizing the growth paths enabled by the above factors shouldn't require significant operational changes. Next to direct market share gains, success in the China angle of the strategy can, in our view, generate more far-reaching business opportunities for Exel. The best example of such an opportunity, in our view, would be the acquisition of a customer in China that would provide Exel with international expansion opportunities beyond China.

Strengthening the local position in China would naturally also widen the global foothold and support the preconditions for breaking into entirely new areas. Expanding into new segments would decrease Exel's overall risk level as it would decrease the dependency on the European economic area. However, entering new areas is not risk-free and, in some segments, it can prove challenging due to differences related to business dynamics (e.g. structure of the competitive field). Thus, unsuccessful breakthroughs into new areas could end up hurting the result rows in the short term. Currently, the company has a new regional foothold in the fast-growing Indian composites market through a joint venture. We believe this offers a significant long-term growth opportunity for the company if new customer acquisition is successful and if the company's existing customers expand more strongly in the growing Indian market.

New production technologies are being identified

The third wave of Exel's growth strategy is expanding into new production methods. The company's production is currently heavily pultrusion-driven, and by increasing its technology base, Exel can both broaden its potential customer and application base and improve its competitiveness compared to players that are purely stuck with a single production method. However, expansion into new production technologies is a gradual and reasonably time-consuming process (incl. the accumulation of know-how and volume), which means that organic results won't materialize until the medium term at the earliest.

In addition to actual new production methods, we believe Exel will also seek opportunities to increase the degree of vertical integration. According to our estimate, considering the company's current size, these opportunities arise especially from further processing of product applications as we do not believe that the company is in any form interested in expanding into raw material segments with lower value added that are clearly more controlled by economies of scale. The commercial motive for strengthening the ability of further processing is highly sensible because it enables Exel to deliver more complete (e.g. machined or coated) product solutions. This, in turn, creates differentiation and pricing power compared to players who do not have corresponding ability for further processing.

Expanding into new and growing product applications ties the strategy together

The fourth cornerstone of the company's growth strategy is

Cornerstones of the strategy 1/2

Strengthening key customer relationships and increasing their number

- Exel has good competitiveness and the ability to offer turnkey services
- Focus on segments with healthy growth drivers and high volume potential
- New key customers would lower the overall risk level
- Value-based thinking crucial (i.e. not aiming at being the cheapest supplier)
- New customer acquisition does not necessarily generate results in the short term
- Acquisitions one tool for implementation

Reaching a leading position in China and strengthening a true global foothold

- Already a good position in China and the market offers a lot of growth opportunities
- Focus on local customers with global potential
- Combining production plants in China strengthens competitiveness
- Exel the only pultrusion manufacturer with a truly global footprint (presence in India through a joint venture)
- Expanding the global foothold decreases the economic area risk

Source: Exel, Inderes

Strategy and financial objectives 3/4

expanding into new and growing product applications. In our view, this ties the growth strategy together in a coherent way, as we believe the company will seek to find new product applications in the businesses of existing key and new customers, in key geographies and in entirely new segments, as well as through existing production methods, expansion of the technology base and/or increasing the degree of vertical integration. Overall, we believe that the focus areas of Exel's growth strategy make sense in relation to both its own capabilities and the structural framework of the industry (e.g. competitive landscape and segment growth profiles). Despite the harmonies between the focus areas, the basic nature of the strategy is quite ambitious, and it directs the company to new market and application areas and to new technologies. In a bad scenario, this can lead to too aggressive business decisions and drifting outside the company's own core competence areas. However, the threat of such a strategic/tactical risk materializing is not particularly significant in light of the company's long operational history, well-established operating model and sound core operations.

Acquisitions as complementary elements

Exel tries to boost organic growth through acquisitions as well. In this area, the company has also been reasonably active in recent years, reflecting the acquisitions of the Chinese JHFRP (70% in 2017 and remaining 30% in 2020) and the US DSC (in 2018) and the Indian joint venture. In our view, both transactions were strategically justifiable moves, although from the point of view of capital value creation and the challenges faced, the acquisition of the US business can't be counted as a success, at least not yet.

While the wisdom of future M&A is always case-by-case, influenced by factors such as the price paid and the nature of the business being acquired, we are sympathetic to the idea of considering inorganic growth. Our view is supported by the following factors:

1. **The cash flow profile of an acquisition** is usually positive right away and generates faster results than organic investments
2. **An acquisition expands the customer/technology basis** automatically and also opens up new market areas and/or industry areas
3. **Affordable acquisitions** (i.e. static ROIC > WACC) create shareholder value already in the short term, which also makes the longer-term value creation potential attractive
4. **The industry structure is fragmented**, which offers enough potential mass for carrying out an acquisition-driven strategy

Given these factors and Exel's growth orientation, we believe that in the longer-term M&A is a likely choice. In the short to medium term, however, we believe the company's primary focus will be on digesting the increased debt levels resulting from the restructuring already completed, increasing financial flexibility and securing a turnaround in the US unit.

Cornerstones of the strategy 2/2

Breaking into new production technologies

- Expanding into new production technologies automatically expands the potential customer portfolio
- Expanding the technology base improves competitiveness
- The degree of vertical integration can be raised gradually (i.e. increase the ability and capacity for further processing)
- The risk is drifting too far from one's own area of expertise

Expanding into new and growing product applications

- The element that ties the growth strategy together
- Focus on medium segment scalable applications and application with higher volume potential
- Doors can be opened to totally new customer industries through new applications
- Acquisitions are a useful tool in expanding into new product applications

Source: Exel, Inderes

Strategy and financial objectives 4/4

Growth target: twice the market rate

Exel's growth target is to grow over the cycle by at least double the rate of the market. The objective is ambitious on paper as in light of various market sources this would mean an annual growth rate of around 7-8%. Our view of the ambition of the target is supported by the fact that at this growth rate Exel's absolute size would double in about 10 years and its relative market share would also increase significantly. The average growth rate over the last five years is above the target level, but of course this includes two acquisitions. As we don't expect any M&A in the near future, achieving the growth target will require the company to achieve strong success in the organic execution of its strategy. However, a sound basis for achieving the growth target is provided by the company's positioning in customer sectors with attractive growth profiles and, within these, customer segments that are at least reasonably competitive.

To profitability and efficiency targets through growth

In terms of profitability, Exel aims for over 10% adjusted EBIT margin. Historically, the company has reached clearly higher levels and even though the business structure has changed since the peak margin levels (i.e. dependency on high-margin telecommunication sector has decreased considerably) we see no structural barriers for reaching the target level. However, reaching and maintaining this target will require sustaining the benefits of past savings and efficiency measures, organic growth and a sustainable resolution of US problems. In line with the company's capital requirements, meeting the profitability target would also bring the return on capital employed very close to the target level of 20%.

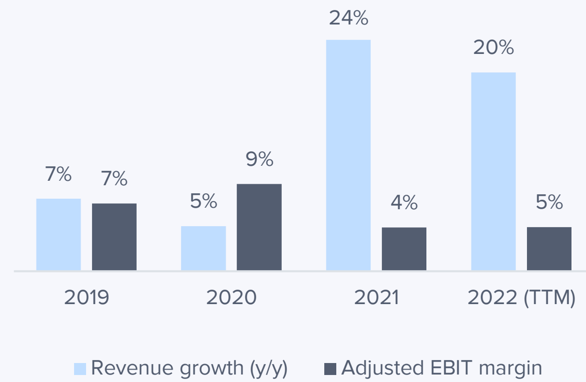
Still a few steps away from the balance sheet targets

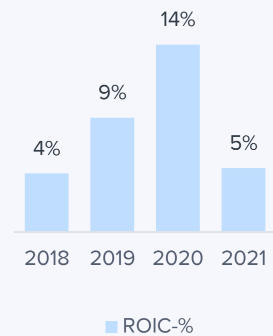
In terms of the balance sheet, Exel tries to maintain net gearing (incl. IFRS 16) at around 80% or below (end of Q2'22: 119%). In our view, the investment-driven demand for composites supports maintaining a reasonably strong balance sheet position. However, the moderate capital requirements and cash flow profile make the structural debt capacity good. Against this background, we believe that the target level set by the company is in a reasonable ballpark, especially considering that the price of borrowed money has been low for the company so far.

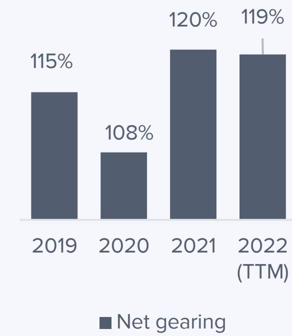
Exel has committed to a dividend policy of at least 40% of net profit, which is a very generous level in terms of growth potential and structural return on capital. Realized payout ratios have also been clearly higher than this minimum level. A generous dividend policy is not only positive in our opinion as its shrinks the possibilities for capital allocation. This combined with the current balance sheet position may limit the ability to seize some growth opportunities and thus allocating cash flows (i.e. value creation) back to operational activities.

Financial objectives

- **Growth**: Revenue growth at least twice the rate of market growth
- **Profitability**: Adjusted operating profit margin over 10%
- **Effective use of capital**: ROIC over 20%
- **Financial position**: Net gearing around 80% or below
- **Dividend policy**: Try to pay at least 40% of net income







Source: companies, Inderes

Cost structure and financial situation 1/3

High gross margin

The largest single item in Exel's cost structure is materials and services, which has historically accounted for around 42-49% of total costs. By their very nature, materials and services are almost entirely variable and therefore non-scalable. Relative to revenue, the share of materials and services has fluctuated between 39% and 47% in recent years. As a result, the sales margin, which gives a concrete indication of the company's pricing power, has remained between 53-61%. This is a stable level, especially given the circumstances of the past year. This is a good performance for a manufacturing company and supports our view of both the pricing power of the customized offering and an excellent value chain position.

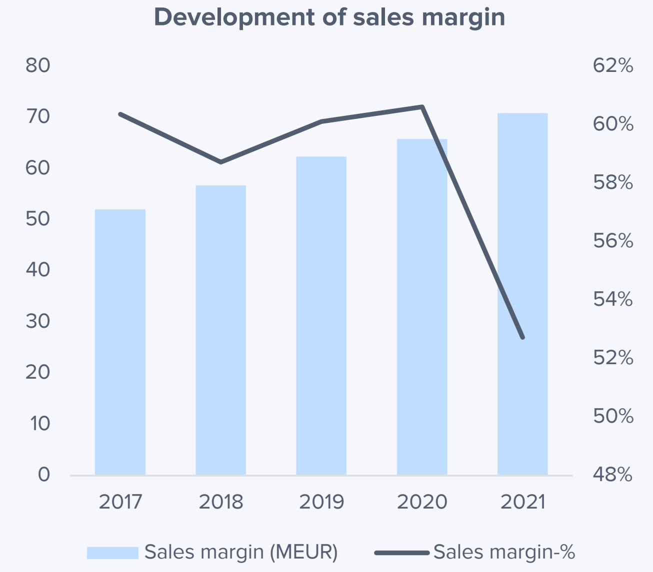
Productivity is a key indicator

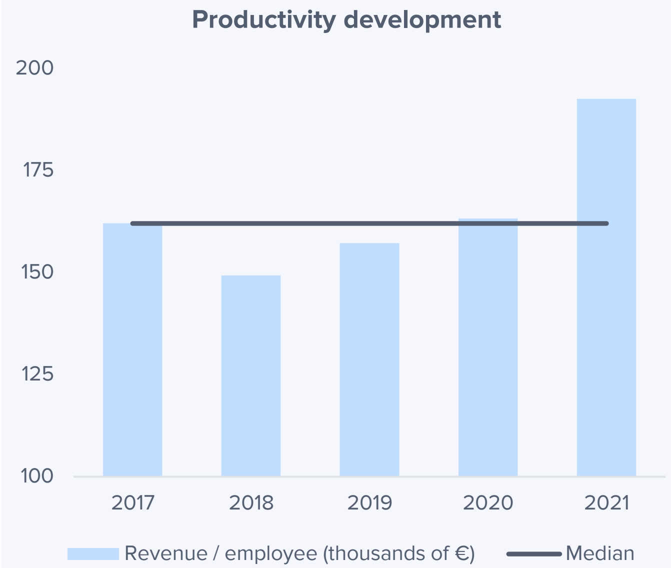
The second largest cost item in Exel's cost structure is personnel costs as the company's operating model is quite personnel intense reflecting the design and sales resources, as well as the stages of the production process that requires many hand-pairs. Driven by the first components of this trio, we estimate that the company's personnel costs include quite a lot of fixed components. Thus, they can be scaled to a certain point relatively well, and we believe that the pursuit of organic growth shouldn't currently require significant additional efforts to increase design or sales power. At the production level, however, the cost dynamics (i.e. personnel costs are largely variable) are somewhat different and meeting growing demand often required hiring additional staff. As it always takes time to raise the productivity level of new employees, exceptionally fast growth in demand may also lead to temporary profit pressures in the form of excess costs (e.g. the US unit's development last year). On the other hand, the short-term flexibility of staff costs is reasonable after a certain delay, which provides the company with the flexibility to adjust costs according to the volume level.

In 2021, Exel's personnel costs were 27% of overall costs and relative to revenue their share was 26%. Revenue per employee, which is a good indicator of the company's productivity, has historically been EUR 162,000, while in 2021 revenue per employee was EUR 179,000. In line with the staffing needs and scalability of personnel costs, we consider continuous optimization of productivity levels to be an essential part of Exel's day-to-day operations. However, we believe that the actual productivity improvements will have to come mainly from organic growth and efficiency measures (e.g. reducing material wastage), as the strategy will inevitably reduce the conditions for sustainable growth in production value, i.e. sales margin, as the company moves more strongly towards a mid-segment sales mix.

There's scalability in other costs too

The share of other costs in Exel's revenue has typically been around 19 to 22%. Other costs are mainly fixed, although there are also some costs that can be classified as variable. The share of other costs is still reasonably high, even though the company managed to reduce its fixed cost level in the framework of the savings program implemented during 2018-2020. Against this background





Source: Exel, Inderes

Cost structure and financial situation 2/3

we believe that there should still be room for both small efficiency gains and clearer scaling up of other costs. We believe that the company will be able to keep the growth in other expenses lower than revenue growth in the future.

Leverage in the balance sheet

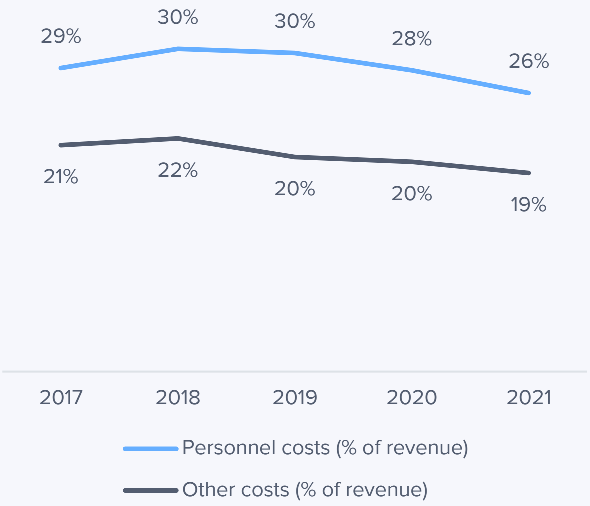
Exel has plenty of leverage on its balance sheet, with an equity ratio of 28% and a net gearing of 119% at the end of Q2'22. However, as mentioned above, we don't see the high absolute and above-target level of debt on the balance sheet as a problem if there is no significant tightening of financial conditions and the company's earnings and cash flow develop in line with our expectations. Thanks to cash flow developing in the right direction and working financing channels (e.g. free credit limits), we don't believe the company will face any problems in terms of working capital either. Despite these factors together with the improving debt capacity through the sale of the closed factory property in Nanjing, China (2022e net gearing: 85 %, net debt/adjusted EBITDA: 2.0x), the current balance sheet position doesn't offer the company full room for maneuver, especially for the most aggressive corners of its growth strategy, such as larger M&A deals, without new (equity) financing arrangements or the use of stock as a means of payment. As such, we don't believe that access to finance will be a challenge for the company. Overall, however, we expect the focus of balance sheet management in the short and to some extent even in the medium term to be on deleveraging and thereby increasing economic room for man oeuvre.

At the end of Q2'22, the largest single item of Exel's liabilities was short-term interest-bearing debt, which totaled EUR 38 million. The majority of this (31 MEUR) was short-term commercial papers used for working capital management (i.e. not repayments of long-term financial loans). Balance sheet total at the end of Q2'22 was EUR 119 million.

Cash flow potential is adequate

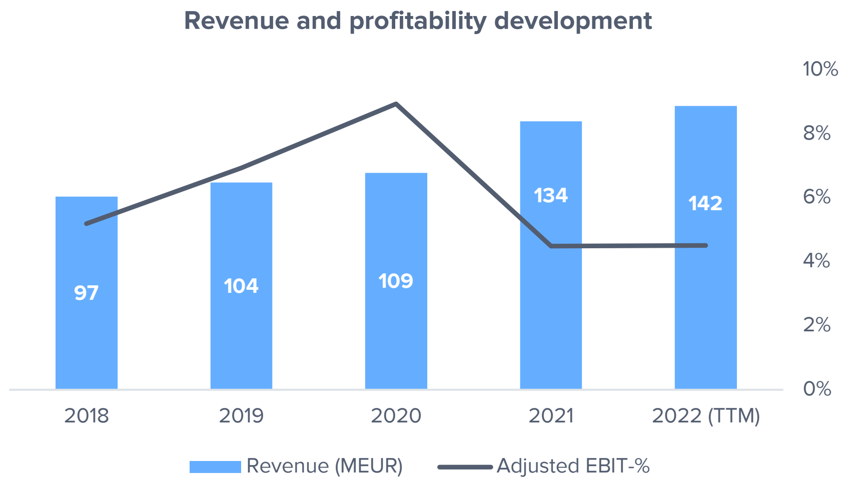
After the normal working capital requirements tied to organic growth and the maintenance investments needed for the production plant network, we estimate that Exel has the potential to achieve a cash flow ratio (free cash flow / EBITDA) of over 40%. This could be considered a very good level for a manufacturing company. Over the past five years, Exel has made significant investments for a company of its size (e.g. the new Austrian plant and two acquisitions). With these investments and the joint venture in India, we estimate that the company should have the capacity to produce higher volumes without significant additional fixed investments. This together with improving profitability should in turn provide the company with a solid starting point for generating solid free cash flow in absolute terms and, at the same time, for gradually achieving the cash flow potential we have estimated. Looking further ahead, the above will allow a reasonably rapid improvement in the balance sheet position, which will increase the financial headroom and thus the financing options and resources for both the implementation of the growth strategy and the allocation of capital to create shareholder value. The dividend payout potential is also naturally enhanced by the strengthening free cash flow.

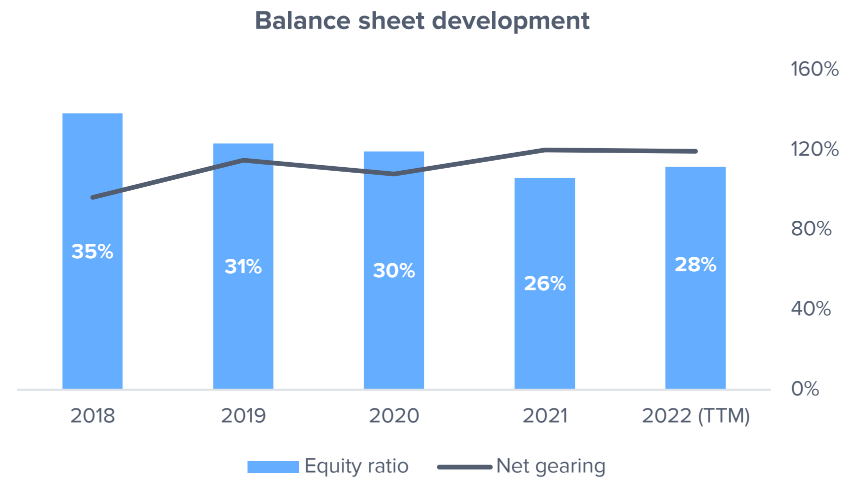
Personnel and other costs

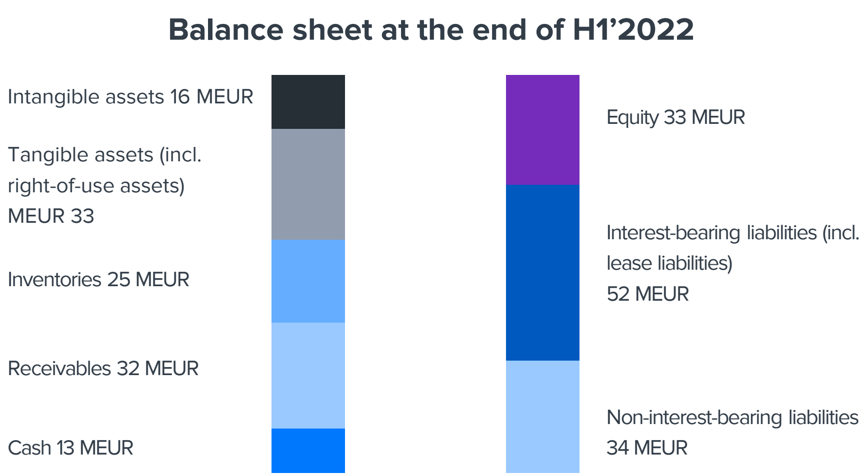


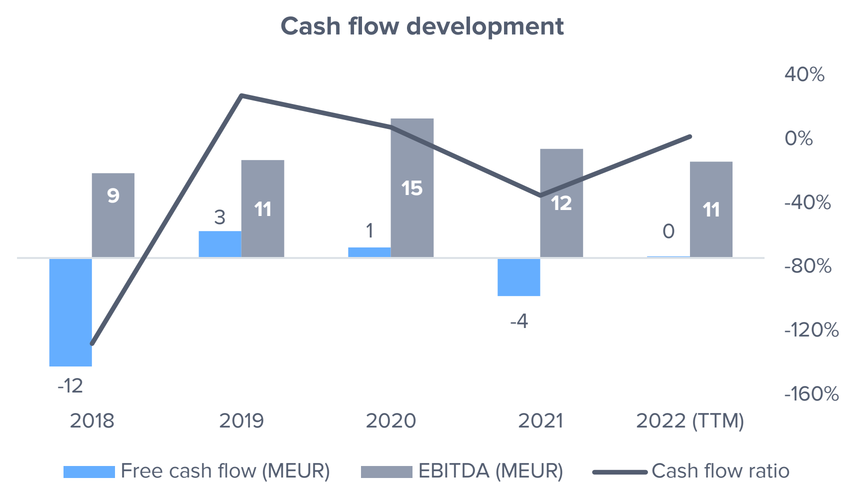
Source: Exel, Inderes

Cost structure and financial situation 3/3









Source: Exel, Inderes

Estimates 1/3

Estimate model

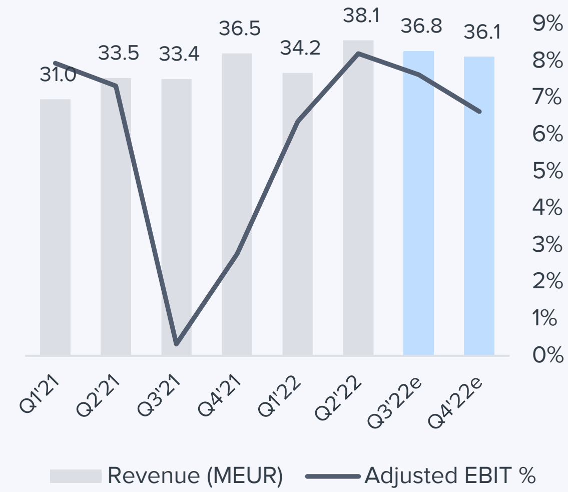
We forecast the development of Exel's revenue in the short and medium term mainly through the orders received, the size of the order backlog, the estimated developments in the underlying customer industries and the company's own relative competitiveness and position. However, in the current short term, developments are also significantly affected by global economic uncertainties (e.g. inflation, availability of materials, energy crisis in Europe). Our longer-term estimates are largely based on a combination of strong macro drivers of demand for composites and the structural characteristics of the company. In assessing short- and medium-term profitability, we focus on the quartet of expected growth, its benefits (incl. the alleviation of challenges faced last year), efficiency levels and fixed costs. In the longer term, we assess profitability using Exel's historical profitability levels and the profitability potential we estimate for the company. In our estimates, we haven't taken into account possible mergers and acquisitions in the longer term, as these are virtually impossible to predict.

Next level in 2022

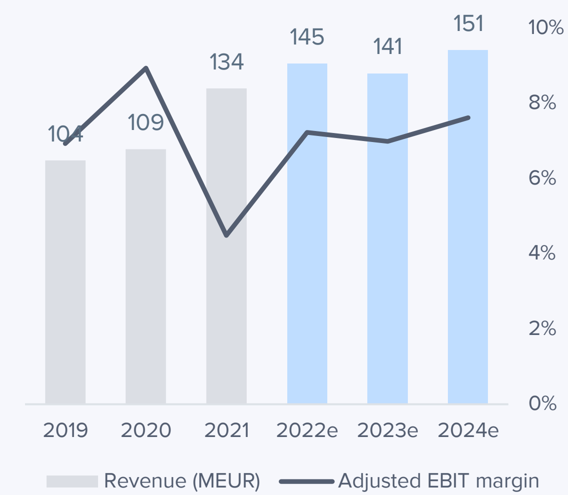
For the current year, Exel expects in its guidance that revenue is at the previous year's level (2021: 134 MEUR) and adjusted operating profit will improve from 2021 (2021: 6.0 MEUR). After H1'22, the company has accumulated EUR 72 million in revenue (cf. H1'21: 64 MEUR) and EUR 5.3 million for adjusted operating profit (cf. H1'21: 4.9 MEUR). The company also entered the end of the year from a good position, with Exel's order backlog at a solid level of EUR 44 million at the end of Q2. In Q2, the company referred to good momentum in both revenue and earnings, and comments on the current demand situation didn't raise major concerns. Therefore, we believe that the company should be well placed to raise its guidance during the remainder of the year, barring any major setbacks in the demand situation or the US unit turnaround (cf. H2'21), although macroeconomic developments have been below expectations in recent months. However, we see this more as a risk for 2023.

Given Exel's chronically short order backlog structure (~3 months) and the investment-driven nature of the final demand, short-term business opportunities may deteriorate relatively quickly in the wake of increasing and/or faltering global economic uncertainty. Currently, the main sources of uncertainty and risks of a deteriorating demand environment are high inflation, challenges in the availability of materials, rising interest rates and the European energy crisis that is causing uncertainty, especially in the company's largest geographical target market. There are also question marks, and therefore risks, over the sustainability of the normalization in operational performance, although the measures taken in the US unit at the end of last year and the beginning of this year (e.g. production volume management) have been reassuring successes. However, considering the above factors, as well as the company's own structural characteristics and the application portfolio spread across different industries and demand drivers, we see Exel's position for the rest of the year to be at least adequate.

Revenue and EBIT % (adj.)



Revenue and EBIT development



Source: Exel, Inderes

Estimates 2/3

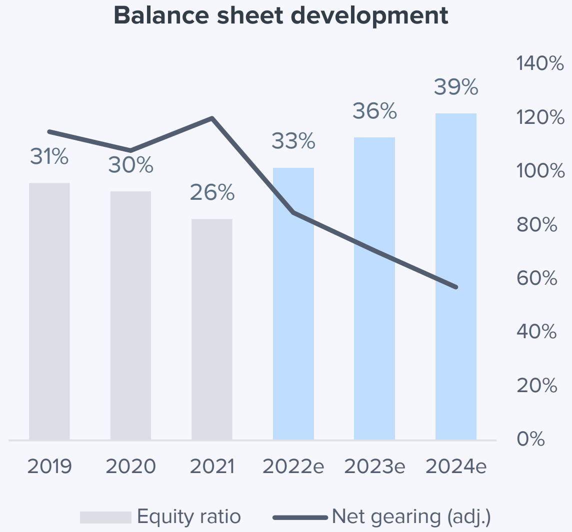
We have not made any major revisions to our operational estimates for 2022 since our last update. In line with this, we expect Exel's full-year revenue to increase by 8% to EUR 145 million this year. In our view, the main revenue drivers are steadily developing deliveries to the main customer industries, successful price increases and the continued gradual recovery of the regions most affected by the pandemic years (e.g. Transportation and the new aviation application launched on the North American market in Q2).

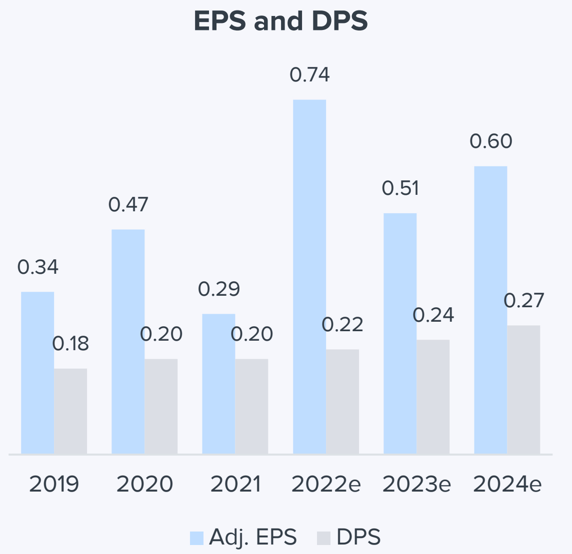
In turn, we expect the operating result to increase to EUR 10.5 million, driven by Exel's own pricing actions that have worked well so far, a healthy volume level, the continued turnaround of the US unit and improving overall efficiency towards the end of the year (incl. benefits from China's plant synergies). Although our earnings growth estimates look wild in both absolute and relative terms, we don't believe that they are too challenging if the demand remains strong and the US turnaround is sustainable. This is also underlined by the adjusted operating margin estimate of 7.2%. This is also reflected in the fact that in 2020, the company achieved an operating profit of almost EUR 10 million, with revenue almost EUR 30 million lower than we estimate for this year. To our understanding, this was achieved with a production mix more or less similar to the current one (i.e. no significant differences in the relative shares of the customer industries). In turn, we estimate that the reported operating profit will be boosted by the sale of the closed factory in Nanjing, China. We estimate that the company will record a profit of around EUR 5.2 million for Q4 and thus the net positive impact of the plant closure for the full year reported operating profit will be EUR 2.9 million.

On the bottom rows of the income statement, we expect net financial expenses to support the current year's result, e.g., with currency exchange rate movements with no cash flow effects on intercompany loans recorded in Q2. In turn, we expect taxes to be around their normal levels. In light of this, we expect the company's adjusted earnings per share to rise to EUR 0.74 (vs. reported EUR 0.95). Despite the earnings growth supported by the sale of the factory property, we expect the company to pay a dividend of EUR 0.22 per share (payout ratio 23%) and use the funds to strengthen its balance sheet. We expect the company to generate free cash flow of EUR 7.4 million. Against this background, we also expect the company's balance sheet position to strengthen significantly, but still slightly missing the target (2022e: net gearing of 85%).

Estimates for 2023-2024

In our view, Exel's growth next year is currently subject to considerable uncertainty related to global economic developments. In particular, the European energy crisis and its potential impact on the company's largest geographic market and on Central European industry could be significant in the worst-case scenario. On the other hand, we expect the company to be well placed to improve its own performance (incl. better realization the benefits of the Austrian factory investment, moving forward with the Indian joint venture, China's factory synergies, sharpening the basic operations





Source: Exel, Inderes

Estimates 3/3

e.g., through maintaining the profitability of the US unit and improving production yields). The global structure also means that the company isn't solely reliant on Europe. The Indian joint venture has also expanded Exel's geographic reach, making its production structure more global and, in our view, strengthening its already strong relative position.

Against this rather uncertain and multidimensional picture, we forecast the company's revenue to decline by 3% to EUR 141 million next year. We expect uncertainty to be reflected in customer decision-making, especially in the early part of the year (especially among European customers) and to return to normal towards the end of the year. On one hand, we expect the company to continue its successful track record in its own pricing actions, but on the other, volume developments will create headwinds. However, in 2024, we expect the company's demand situation to strengthen again, offering attractive opportunities for the company to grow with its largest customers and win new customers. We expect the company's revenue to return to growth in 2024, rising by 7% to EUR 151 million. Growth in the coming years could also be boosted by the brisk progress of the Indian joint venture. However, on current data we don't expect its contribution to be significant.

Given the uncertainties related to the coming year (incl. fluctuations in demand and production) and our estimate of lower sales, we expect the operating result to decrease to EUR 9.9 million. This, in turn, corresponds to a rather moderate margin level of 7.0% in relation to the company's profitability potential and financial targets. In 2024, with the market environment normalizing and the company's efficiency improving, we expect the operating margin to rise to 7.6%. Thus, at this point, we don't expect the company to reach its own financial target in the coming years.

At the lower rows, we expect financing costs to be slightly above normal (cf. positive net financing costs in 2022) and the tax rate to remain around current levels. Based on this, we forecast earnings per share for 2023-2024 to be in the range of EUR 0.51-0.60. Reflecting the earnings development, we expect the dividends paid by the company to increase to EUR 0.24-0.27 in line with its dividend policy (dividend payout ratio 2023e-2024e: 45-47%).

We estimate that the earnings development in line with our forecasts and a good level of operating cash flow will strengthen the company's balance sheet and also bring net gearing below the target level (net gearing 2024e: 57%). This in turn would also give Exel financial flexibility for even bigger strategic acquisitions. However, we don't expect the company to reach its ROIC target in the medium term (ROIC 2022e-2024e: 10-14%), primarily due to the below-target profitability we forecast for the company.

Long term estimates

In our longer-term estimate, we expect Exel to continue to grow, driven by trends supporting demand for composites, as well as its own relative competitiveness and that sustaining. Against this background, we expect the company's revenue to grow by 2-4% in the long term, in line with the expected growth of both the global economy and the pultrusion market. However, this is a relatively conservative level, given the company's broad application portfolio and extensive global presence, and the still relatively moderate volume levels, especially in North America and China. Moreover, in the longer term, we believe the company has the opportunity to accelerate growth through M&A that are being explored as part of the strategy.

In the long term, we expect the EBIT margin to be around 7 to 8%, which is still below the 10% margin level targeted by the company. In our view, the current structure of the business doesn't pose clear obstacles to achieving the profitability target. However, the production mix moving towards the mid-segment doesn't provide significant leverage for future margin improvements through increased sales margins. Thus, achieving the profitability target relies particularly on maintaining a sufficiently high volume level and achieving efficiency gains (however, we estimate that a 10% margin should be achievable at the current revenue level). The latter component is almost entirely in the company's own hands, while the current state of demand and changes in it (incl. the product mix) are, of course, outside Exel's control.

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**	**31.0**	**33.5**	**33.4**	**36.5**	**134**	**34.2**	**38.1**	**36.8**	**36.1**	**145**	**141**	**151**	**157**
Group	109	31.0	33.5	33.4	36.5	134	34.2	38.1	36.8	36.1	145	141	151	157
Adjustment items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**15.3**	**4.0**	**3.9**	**1.7**	**2.3**	**11.9**	**1.8**	**4.8**	**4.5**	**9.3**	**20.4**	**16.3**	**18.1**	**19.2**
Depreciation	-5.9	-1.6	-1.6	-3.3	-1.7	-8.2	-1.7	-1.8	-1.7	-1.7	-6.9	-6.5	-6.6	-6.7
EBIT (excl. NRI)	**9.7**	**2.5**	**2.5**	**0.1**	**1.0**	**6.0**	**2.2**	**3.1**	**2.8**	**2.4**	**10.5**	**9.9**	**11.5**	**12.5**
EBIT	**9.4**	**2.4**	**2.4**	**-1.7**	**0.6**	**3.7**	**0.0**	**3.0**	**2.8**	**7.6**	**13.4**	**9.9**	**11.5**	**12.5**
Adjustment items	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-2.3	0.5	-0.5	0.3	0.1	0.4	0.5	1.9	-0.4	-0.4	1.7	-1.5	-1.4	-1.2
PTP	**7.1**	**2.9**	**1.9**	**-1.4**	**0.7**	**4.2**	**0.5**	**4.9**	**2.5**	**7.2**	**15.1**	**8.4**	**10.1**	**11.3**
Taxes	-1.8	-1.0	-0.4	-0.8	-0.3	-2.5	-0.6	-0.9	-0.6	-1.8	-4.0	-2.3	-2.7	-3.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.1	-0.2	-0.3
Net earnings	**5.4**	**2.0**	**1.5**	**-2.2**	**0.4**	**1.7**	**0.0**	**4.0**	**1.8**	**5.4**	**11.3**	**6.0**	**7.2**	**7.9**
EPS (adj.)	**0.47**	**0.17**	**0.13**	**-0.06**	**0.06**	**0.29**	**0.13**	**0.35**	**0.15**	**0.11**	**0.74**	**0.51**	**0.60**	**0.67**
EPS (rep.)	**0.45**	**0.17**	**0.12**	**-0.19**	**0.04**	**0.14**	**0.00**	**0.34**	**0.15**	**0.46**	**0.95**	**0.51**	**0.60**	**0.67**

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-%	4.6 %	11.3 %	23.1 %	28.2 %	32.7 %	23.7 %	10.3 %	13.5 %	10.1 %	-1.1 %	8.0 %	-2.9 %	7.0 %	4.0 %
Adjusted EBIT growth-%	34.9 %	17.0 %	-15.0 %	-94.6 %	-62.9 %	-37.8 %	-11.7 %	27.1 %	2497.7 %	136.2 %	73.8 %	-6.1 %	16.6 %	8.4 %
EBITDA-%	14.1 %	12.9 %	11.7 %	5.0 %	6.4 %	8.9 %	5.2 %	12.5 %	12.3 %	25.7 %	14.0 %	11.6 %	12.0 %	12.2 %
Adjusted EBIT-%	8.9 %	7.9 %	7.3 %	0.3 %	2.8 %	4.5 %	6.4 %	8.2 %	7.6 %	6.6 %	7.2 %	7.0 %	7.6 %	7.9 %
Net earnings-%	4.9 %	6.4 %	4.4 %	-6.6 %	1.2 %	1.2 %	-0.1 %	10.6 %	5.0 %	15.0 %	7.8 %	4.3 %	4.8 %	5.1 %

Source: Inderes

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	143	145	1%	146	141	-4%	154	151	-2%
EBITDA	16.3	20.4	25%	17.1	16.3	-4%	18.9	18.1	-4%
EBIT (exc. NRIs)	10.3	10.5	1%	10.7	9.9	-8%	12.3	11.5	-7%
EBIT	10.5	13.4	28%	10.7	9.9	-8%	12.3	11.5	-7%
PTP	12.2	15.1	24%	9.4	8.4	-11%	11.1	10.1	-9%
EPS (excl. NRIs)	0.74	0.74	0%	0.58	0.51	-13%	0.68	0.60	-12%
DPS	0.22	0.22	0%	0.24	0.24	0%	0.27	0.27	0%

Source: Inderes

Investment profile 1/2

Exel is a growth company

With its positioning and healthy long-term growth prospects in its target markets and key customer industries, we believe Exel profile is very clearly that of a growth company. Our view is further supported by the fact that the company's strategy is growth-oriented from several angles. From a longer-term value creation perspective, investing in growth is a rational choice, given the scalability of the cost structure, the structural return on capital and the limited potential for value creation from efficiency measures alone. In principle, Exel's growth with the current structure won't tie up huge amounts of capital, which in our view puts the company in a good position to pay a steadily growing dividend. However, given the existing growth opportunities, the full potential of the company and the laws of value creation (RONIC > WACC), we see the dividend only as a side stream supporting total expected returns, even though the company has historically been a very generous dividend payer.

Strengths and value drivers

In our view, Exel's main strengths and value drivers are:

Organic growth: The demand for composite materials, and thus for operational areas relevant to Exel, is largely driven by global trends that can be considered strong, such as rising living standards, sustainability, awareness of life cycle costs and urbanization. In line with these drivers, we believe Exel should be able to achieve at least a few percent organic growth per year on average, which should be scaled to the earnings level given the company's cost structure and operating logic. Exel has a global network of manufacturing facilities and, as a leader in pultrusion technology, we believe it also has relative economies of scale. Together, we believe that these factors make the company's relative competitiveness sharp and provide the necessary tools for (customer-specific) market share gains.

Achieving the earnings potential: Historically, Exel has achieved a much higher margin than last year and in previous years. The structure of the company's business has changed somewhat since the peak years of profitability. However, we believe that the company has every opportunity with its current sales mix and in a world after the supposedly temporary challenges faced in the US to sustainably exceed the higher margins of recent years. However, realizing the full potential and raising the operating result above the 10% target level requires good efficiency levels and their maintenance, a genuinely sustainable turnaround of the US unit and at least a reasonable operating environment with an adequate base load. We do not see any real structural obstacles / relative competitive disadvantages to raising the profitability level and/or reaching the target level.

Inorganic possibilities: The composites market is highly fragmented, and we believe that the consolidation that has progressed in the industry in recent years will continue in the future. We believe that this offers an established and mature player like Exel interesting inorganic opportunities to expand into new geographies, customer segments and production technologies. Reflecting Exel's acquisitions over the past five years and a slightly higher debt level than the balance sheet target, we don't consider it the most likely choice for the company to pursue primarily inorganic routes to value creation in the short term unless market conditions offer very attractive opportunities.

Weaknesses and risk factors

According to our view, Exel's main weaknesses and risks are:

Demand fluctuations: The lion's share of Exel's revenue comes from investment and project-driven industrial sectors, where demand is subject to cyclical fluctuations. Consequently, sudden changes in demand can have a negative impact on the company's revenue and operating profit. This is partly underlined by the structural shortness of the hard order backlog. However, despite the fixed nature of its cost structure, Exel has decent short-term flexibility points, as evidenced by the fact that the company hasn't made an operating loss, even in the face of severe external shocks (e.g. the financial crisis, the euro crisis and the COVID pandemic). A portfolio of customers across several industries and thus across different demand drivers and at different times of the cycle also provides a valuable counterweight to demand fluctuations,

Investment profile 2/2

although it doesn't completely eliminate the cyclical profile.

Relative competitiveness of composites: While we believe that long-term demand drivers for composite materials are sustainable, composite manufacturers don't operate in a vacuum. Thus, prices changes of competing/substitute materials (e.g. aluminum and steel) or their raw materials may also have a negative impact on the relative position and competitiveness of composites. However, we believe that the structural competitive advantages of composites (such as lightness and lower life cycle costs) provide a legitimate buffer against the loss of relative competitiveness. In the long term, ever-evolving material development may also bring completely new materials suitable for industrial end-uses to the competitive field.

Loss of a key customer: In 2021, the biggest customer represented around 17% of Exel's revenue, in addition to which we estimate a few customers with a 5 to 10% share. Reflecting this, the total loss of a single significant customer would have a visible impact on the company's volume levels and, by extension, profitability. In addition to losing customers, Exel naturally also bears the risk that the competitiveness of a customer or a customer's customer (i.e. the buyer of the investment good) will be reduced or that business opportunities will shrink. We believe that the relationships with the largest customers are long-standing and that these customers are well-positioned in their own businesses. To our understanding, the company has also managed to capture small customer-specific market share gains, creating a basis for overall customer risk management.

Balance sheet position: As a result of acquisitions over the last five years (and US unit hiccups), the factory investment in Austria and a fair dividend distribution, the company's debt has increased and was still well above the target level (end of Q2'22 net gearing: 119% vs. target < 80%). We don't see debt levels above the balance sheet target as a particular concern, as long as operational cash flow remains on track and both liquidity and working capital availability remain good. Our view is further supported by the fact that the company has been able to borrow money cheaply, at least so far. However, the tightening of financial conditions may of course change this. However, within its current balance sheet position, we don't believe that the company has full strategic room for maneuver, for example in terms of larger M&A deals (EV > 15 MEUR) without equity financing (or the use of own share). As a result, we see the balance sheet position as a slight upside to the risk level, although we don't expect the company to face significant challenges in accessing financing.

Raw material price risk: Exel purchases the main raw materials it needs, such as glass and carbon fibers and resins, at prevailing market prices. Consequently, rapid changes in raw material prices can put pressure on profitability, as it's not possible to pass them on to own prices at the same pace. Historically, however, Exel's annual sales margin has remained fairly stable thanks to its own pricing power.

SWOT analysis

Strengths

- Strong design and material expertise
- Competitive production plant network (global and local at the same time)
- Customized products create pricing power and customer retention
- Long operational history and good reputation

Weaknesses

- Order backlog and visibility to business structurally short
- Customer portfolio is rather concentrated
- Dependency on one production technology is high
- Customized products complicates production and makes efficiency optimization difficult

Opportunities

- Long-term business growth drivers are healthy
- Expanding into newest technologies/applications
- Strengthening growth potential through acquisitions
- Full utilization of earnings potential

Threats

- Loss of a major customer / challenges faced by the customer themselves
- Unfavorable changes in production technology
- Competing materials/weakening of the relative competitiveness of composites
- Failure of the US turnaround

Source: Inderes

Valuation 1/4

Earnings-based approach to valuation

We prefer earnings-based multiples when reviewing Exel's valuation. In our view, the most useful valuation multiples for the company are the net P/E ratio and the EV/EBITDA and EV/EBIT multiples that take into account the balance sheet structure. As absolute levels, we have used our estimated neutral multiples based on our view of the company's growth, profitability (incl. capital efficiency) and risk profile and the related sustainable elements. To some extent, we also apply Exel's historical pricing levels to determine the neutral multiple range. However, we don't use relative valuation to determine an acceptable valuation because there is no peer group of sufficient size and quality for the company.

The focus of our valuation is especially on 2020 and 2021 multiples, as visibility into Exel's business is structurally very short. As a result, estimates looking several years ahead contain substantial uncertainty, which in turn limits the usefulness of the valuation multiples based on them. For the same reason, the total return estimate for the coming years and the DCF model based on our long-term forecasts are largely in a supportive role in the valuation.

In addition to valuation multiples, the pricing of a manufacturing company like Exel can be viewed through the P/B ratio and dividend yield, although Exel's business is of course clearly more capital-intensive than companies operating in the more traditional process industries which are better suited for the use of the P/B ratio. However, the balance sheet valuation and the dividend yield can be used as a kind of safety net, as typically a low balance sheet valuation and a high dividend yield relative to the required return have provided a reasonable support level for the stock against operational disappointments and/or changes in capital market sentiment. Conversely, the above logic provides signals of high earnings expectations, elevated valuation and, as risks materialize, a more pronounced downside risk.

Factors to be considered in valuation

We believe that the following factors influence Exel's pricing:

- **The operational earnings growth potential for the coming years** is reasonable, thanks to moderate revenue growth and the efficiency improvements that will be implemented. However, we don't expect the company to reach its full profitability potential or target in the coming years.
- **The cash flow profile of the business** is quite good and the fixed annual investment needs are not huge. This combination creates stable conditions for both a reduction in the risk level (i.e. a lower level of debt) and an allocation of capital that creates shareholder value.
- **Customized offering and customer switching costs** make Exel's value chain position good. The same factors also give the company pricing power and thus a hedge against material inflation.

Valuation	2022e	2023e	2024e
Share price	5.30	5.30	5.30
Number of shares, millions	11.9	11.9	11.9
Market cap	63	63	63
EV	97	94	90
P/E (adj.)	7.1	10.5	8.8
P/E	5.6	10.5	8.8
P/FCF	8.5	9.2	8.6
P/B	1.7	1.5	1.4
P/S	0.4	0.4	0.4
EV/Sales	0.7	0.7	0.6
EV/EBITDA	4.7	5.7	5.0
EV/EBIT (adj.)	9.2	9.5	7.9
Payout ratio (%)	23.2 %	47.5 %	44.8 %
Dividend yield-%	4.2 %	4.5 %	5.1 %

Source: Inderes

Source: Inderes

Valuation 2/4

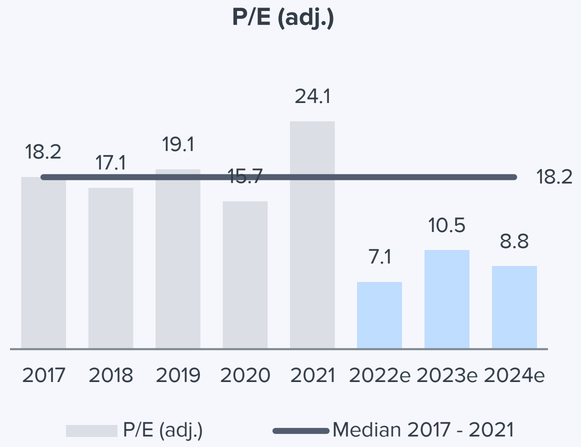
- **In the longer term** and as the balance sheet position improves, acquisitions are a likely option. If successful (i.e. RONIC > WACC), acquisitions are a good way to both create value and lower the overall risk level.
- **Business demand drivers are investment-driven**, which exposes Exel to cyclical fluctuations in the economy. However, the client portfolio includes companies from a wide range of industries. This automatically brings a degree of stability to the supply flows and at the same time cyclic resilience, although it doesn't completely eliminate the cyclic profile.
- **Historical result disappointments** and occasional lapses in performance have been unfortunate setbacks. In our assessment, these factors have been reflected in pricing by shifting the focus from longer-term structural potential and opportunities to shorter-term issues.

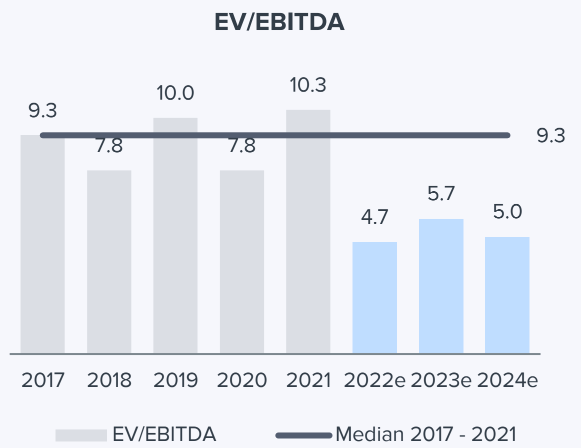
Based on these factors we feel a P/E ratio of 12x to 16x (was 13x-16x).and an EV/EBITDA multiple of 6x to 9x (was 7x-9x) are acceptable for Exel within the framework of a normal performance capacity . We have lowered the lower end of both in line with the slightly higher rising interest rates and expectations. The levels are based on the valuation levels accepted by the market in recent years, the company's own operational fundamentals (e.g. return on capital) and the current risk profile. In absolute terms, the levels are in line with the longer-term medians of Nasdaq Helsinki (P/E 14x-15x and EV/EBITDA 9x-10x). However, as a matter of principle, we don't benchmark Exel's pricing against the market.

Exel's performance over the past two years has been mixed, with strong revenue growth not converting into operating profit like was hoped. In our view, however, the challenges, which we classify as temporary, have not undermined the structural characteristics of the company and thus the elements that contribute to its relative competitiveness. Therefore, we believe that the longer-term absolute value creation potential hasn't changed materially. The final resolution of the issues that caused the earnings decline, the consistent delivery of profitable half-years and the approaching of the profitability potential (incl. return on capital) would, in our view, lead to Exel being priced closer to the upper rather than the lower end of the acceptable multiples range. In the short term, however, we don't consider such a move to be justified, given the variables related to the recovery in performance and the significant rise in interest rates and expectations.

Absolute multiples

We forecast Exel's P/E ratios for 2022 and 2023 to be 7x and 11x, while the corresponding EV/EBITDA ratios are 5x and 6x. As for the P/E ratio for the current year, it's worth noting that the non-cash financial income in Q2 brings it down in our estimates. However, the multiples are weighted below or at the lower end of both the historical levels and the neutral ranges we have previously estimated for the company. While there is uncertainty about Exel's investment-driven demand outlook, volume growth, cost inflation and, through the sustainability of the US unit turnaround, the performance of the group as a whole, we don't consider the earnings-based pricing





Source: Inderes

Valuation 3/4

to currently be a demanding one. In the big picture, despite the challenges faced in the US in 2021, we believe Exel is a better company than it was a few years ago thanks to the diversified sales mix/application portfolio and the joint venture in India with longer-term growth opportunities also looking more attractive. Against this background, we believe that the current earnings-based valuation is moderate.

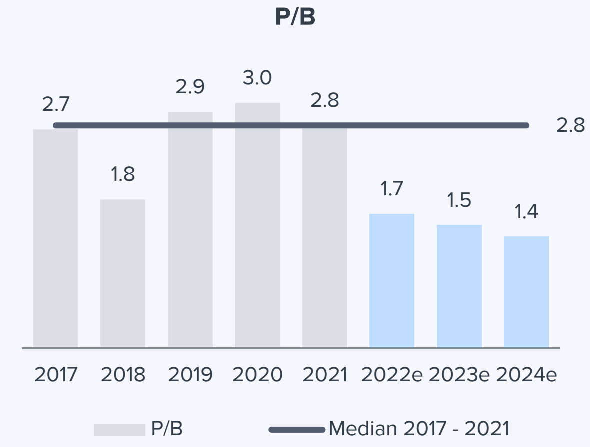
Our view on the reasonableness of earnings-based multiples is supported by the fact that the P/E ratio of 11x for the actual 2020 result, which we believe gives a useful indication of Exel's potential performance, is below the range we accept. However, should the US unit turnaround take a major setback and H2'22 results be zero (cf. H2'21), the 2022 P/E figure would also be 11x in this case. Similarly, based on the average actual earnings over the last five years, the P/E ratio at the current share price is around 16x. The overall valuation picture is a good indication of the upside potential of the stock if the operational development continues on the path we expect. However, if earnings expectations were to fall and revert to the medium-term average, there would be a slight downside to the valuation in the current market environment, although even in this scenario the multiples wouldn't be outrageous. In our view, the current share price already partly incorporates the short-term risk factors we discussed earlier.

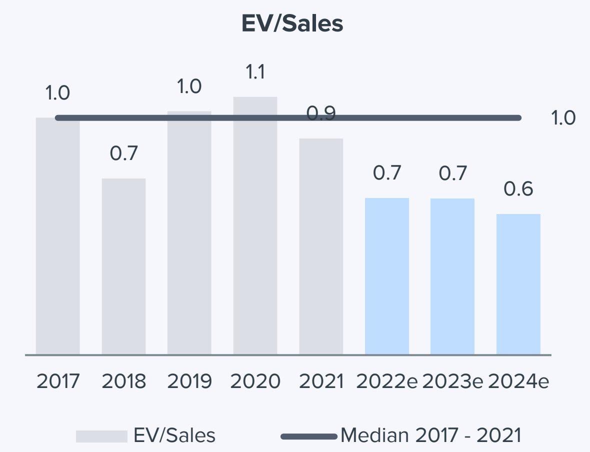
Total expected return on the share in the coming years

Simplifying the investor's expected return using an acceptable valuation (P/E ratio of 14x at the end of 2024) and our 2024 earnings forecasts, we arrive at an expected return of around 23% p.a. at the current price level of EUR 5.3. On top of this, we expect the investor to receive a dividend yield of 4-5%. Thus, the expected annual total return rises to a very attractive level of around 27-28%, well above the 9.7% cost of equity we use, by a clear margin. However, given the structurally short visibility of Exel's business, which we highlighted earlier, we don't rely heavily on total expected returns for the coming years. However, we believe it reflects the stock's return potential if our estimates come true. We also believe that our estimates aren't unreasonably demanding once the market environment normalizes, and the company's operational performance stabilizes (cf. the company's profitability target level).

The balance sheet and volume-based valuation offer support if the estimates are realized

Exel's P/B ratio (2022e: 1.7x) is below historical levels. However, for Exel, which operates in the basic industry, the balance sheet valuation cannot be considered particularly low, despite the relatively capital-intensive nature of the business and the good ROIC potential. Our view is supported by the fact that from a static return perspective, the company would need to achieve a sustainable return on equity of around 16% in order for the current balance sheet valuation to reflect the cost of equity under normal circumstances. Achieving such a rate of return





Source: Inderes

Valuation 4/4

should be possible given the company's business profile, the targeted balance sheet utilization (i.e. a debt leverage in the comfort zone) and we expect the return on equity to be at this level in the coming years (2023e-2025e average ROE: 16.1%).

Our projected Exel EV/S multiple is around 0.7x for the coming years and also below historical levels. In turn, the dividend yields of around 4-5% for the coming years that we estimate are reasonable in relation to the return on equity. However, we believe that concrete support levels for the stock would remain thin in the short term from a balance sheet and volume valuation perspective if our earnings expectations turn out to be too demanding. This naturally raises the overall risk level, as in the event of a bad scenario (a bump in earnings growth or a deterioration in performance), the stock would have downside potential due to these factors.

Cash flow based valuation

We also give partial weight to the cash flow-based model (DCF) in our valuation, even though it is very sensitive to terminal period variables. However, we have used what we consider to be sufficiently conservative estimates of the terminal period parameters in our DCF model, which we see as providing sufficiently relevant support for the other methods we use, and particularly for the longer-term potential analysis.

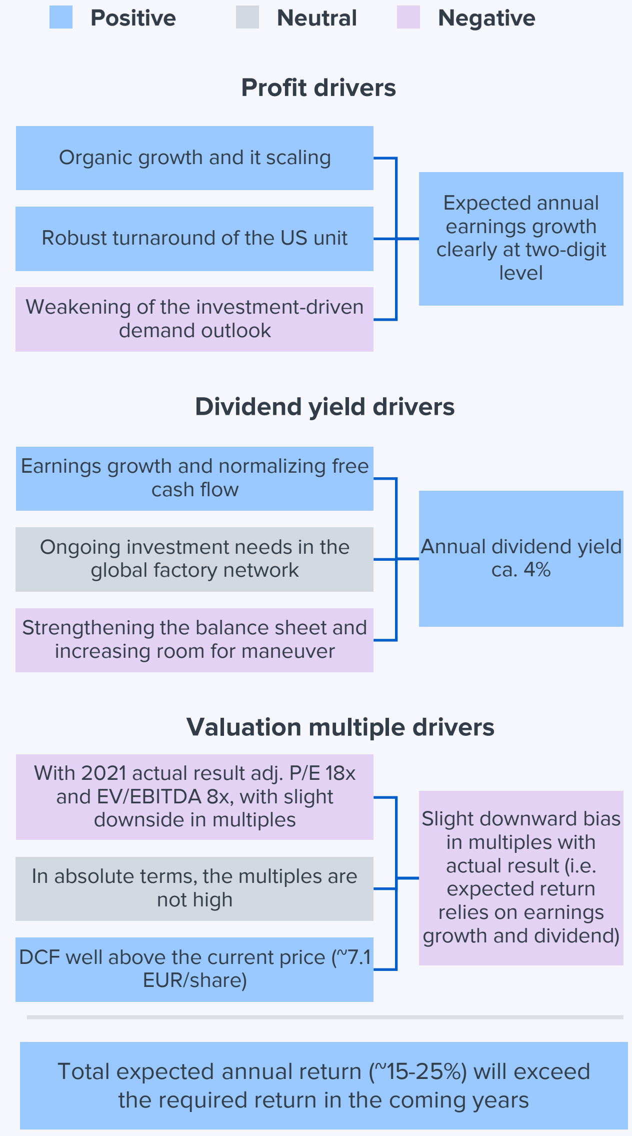
Our DCF model values the stock at EUR 7.1, which confirms the potential of the stock as indicated by other methods. In our model, the company's growth is expected to level off at 2-4% over the long term, as previously noted, in line with global economic growth and the estimated pace of the pultrusion market, while adjusted EBIT is expected to stabilize at 7-8%. In our view, the weighting of the terminal phase in the DCF is at a reasonable level of 54%. We raised our weighted average cost of capital (WACC) to 8.4% (was 7.9%) and cost of equity to 9.7% (was 9.3%), reflecting the general increase in interest rates and expectations and the tightening financial policy.

Recommendation and target price

In our view, the earnings-based valuation level of the stock is moderate for 2022 and 2023, compared to the acceptable valuation we have determined. The other methods we use also support our view of moderate pricing for the stock, and many of the measures could support a stronger positive view. However, we believe that it is difficult to rely on a material increase in valuation multiples over the next 12 months due to uncertainties in the operating environment (e.g. inflation, rising interest rates, the European energy crisis and its impact on demand and profitability, and the durability of the US unit turnaround). Due to the chronically short visibility of Exel's business, the multiples also contain significant forecast risk.

Despite these factors, we believe the risk-adjusted expected return on the stock rises to an attractive level for the next 12 months, supported by a dividend yield of around 4%. Thus, we reiterate our Accumulate recommendation on the stock, but revise our target price to EUR 6.00 due to the lower estimates and the increased required return.

TSR drivers 2021-2024e



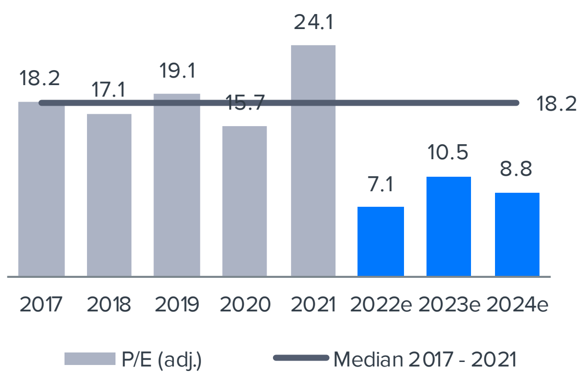
Source: Inderes

Valuation table

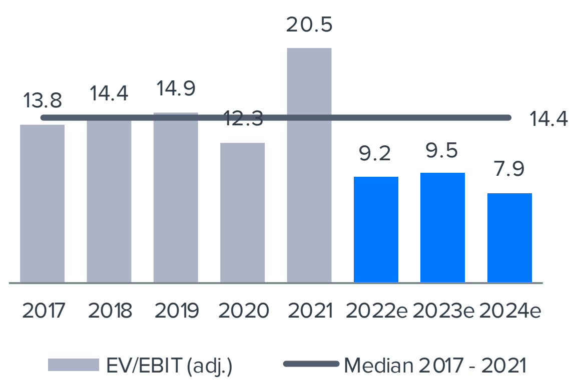
Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	6.57	4.00	6.48	7.38	7.10	**5.30**	**5.30**	**5.30**	**5.30**
Number of shares, millions	11.9	11.9	11.9	11.9	11.9	**11.9**	**11.9**	**11.9**	**11.9**
Market cap	78	48	77	88	84	**63**	**63**	**63**	**63**
EV	87	72	107	119	124	**97**	**94**	**90**	**86**
P/E (adj.)	18.2	17.1	19.1	15.7	24.1	**7.1**	**10.5**	**8.8**	**8.0**
P/E	18.4	>100	32.0	16.4	50.9	**5.6**	**10.5**	**8.8**	**8.0**
P/FCF	neg.	neg.	20.1	24.2	neg.	**8.5**	**9.2**	**8.6**	**7.5**
P/B	2.7	1.8	2.9	3.0	2.8	**1.7**	**1.5**	**1.4**	**1.3**
P/S	0.9	0.5	0.7	0.8	0.6	**0.4**	**0.4**	**0.4**	**0.4**
EV/Sales	1.0	0.7	1.0	1.1	0.9	**0.7**	**0.7**	**0.6**	**0.5**
EV/EBITDA	9.3	7.8	10.0	7.8	10.3	**4.7**	**5.7**	**5.0**	**4.5**
EV/EBIT (adj.)	13.8	14.4	14.9	12.3	20.5	**9.2**	**9.5**	**7.9**	**6.9**
Payout ratio (%)	84.1 %	554.7 %	88.8 %	44.3 %	143.3 %	**23.2 %**	**47.5 %**	**44.8 %**	**50.0 %**
Dividend yield-%	4.6 %	4.5 %	2.8 %	2.7 %	2.8 %	**4.2 %**	**4.5 %**	**5.1 %**	**6.3 %**

Source: Inderes

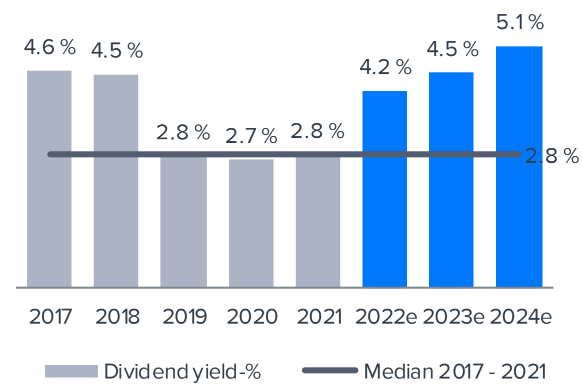
P/E (adj.)



EV/EBIT



Dividend yield-%

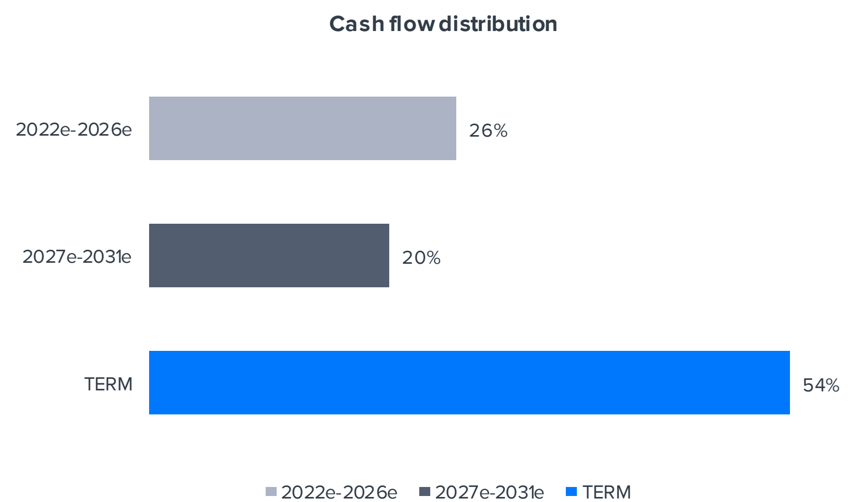


DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	23.7 %	8.0 %	-2.9 %	7.0 %	4.0 %	3.5 %	3.0 %	2.5 %	2.5 %	2.0 %	2.0 %	2.0 %
EBIT-%	2.8 %	9.3 %	7.0 %	7.6 %	7.9 %	8.0 %	7.8 %	7.5 %	7.2 %	7.0 %	7.0 %	7.0 %
EBIT (operating profit)	**3.7**	**13.4**	**9.9**	**11.5**	**12.5**	**13.0**	**13.0**	**12.8**	**12.6**	**12.5**	**12.8**	
+ Depreciation	8.2	6.9	6.5	6.6	6.7	6.9	7.0	7.0	7.0	7.0	7.0	
- Paid taxes	-2.3	-4.0	-2.3	-2.7	-3.0	-3.2	-3.1	-3.1	-3.0	-3.0	-3.1	
- Tax, financial expenses	0.1	0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	
+ 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	-4.8	-3.1	0.6	-0.7	-0.4	-0.4	-0.3	-0.4	-0.2	-0.5	-0.5	
Operating cash flow	**4.8**	**13.8**	**14.3**	**14.3**	**15.4**	**16.0**	**16.3**	**16.1**	**16.1**	**15.8**	**16.0**	
+ Change in other long-term liabilities	0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-12.2	-5.9	-7.5	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1	-7.2	-7.1	
Free operating cash flow	**-7.2**	**7.4**	**6.8**	**7.3**	**8.4**	**8.9**	**9.2**	**9.0**	**9.1**	**8.6**	**8.9**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-7.2	7.4	6.8	7.3	8.4	8.9	9.2	9.0	9.1	8.6	8.9	142
Discounted FCFF		**7.2**	**6.2**	**6.1**	**6.4**	**6.3**	**6.0**	**5.5**	**5.0**	**4.4**	**4.2**	**67.3**
Sum of FCFF present value		125	118	111	105	98.8	92.5	86.4	81.0	75.9	71.5	67.3
Enterprise value DCF		**125**										
- Interesting bearing debt		-53.0										
+ Cash and cash equivalents		15.6										
-Minorities		-1.0										
-Dividend/capital return		-2.4										
Equity value DCF		**84.0**										
Equity value DCF per share		**7.1**										

Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E)	25.0 %
Cost of debt	6.0 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.0 %
Cost of equity	**9.7 %**
Weighted average cost of capital (WACC)	**8.4 %**

Source: Inderes



Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**47.8**	**51.9**	**50.8**	**51.8**	**52.2**
Goodwill	12.6	12.8	12.8	12.8	12.8
Intangible assets	3.9	2.8	2.9	2.9	3.0
Tangible assets	29.4	34.3	33.2	34.1	34.4
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.1	0.1	0.1
Deferred tax assets	1.7	1.9	1.9	1.9	1.9
Current assets	**49.0**	**65.8**	**67.0**	**63.7**	**65.9**
Inventories	16.2	23.9	23.2	22.5	23.4
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	20.9	26.3	27.9	27.0	28.9
Cash and equivalents	12.0	15.6	16.0	14.1	13.6
Balance sheet total	**96.8**	**118**	**118**	**115**	**118**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**28.9**	**31.2**	**38.5**	**41.9**	**46.2**
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	22.2	21.9	30.7	34.1	38.4
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	4.5	6.6	5.0	5.0	5.0
Minorities	0.0	0.6	0.6	0.6	0.6
Non-current liabilities	**14.1**	**17.1**	**18.1**	**14.5**	**15.5**
Deferred tax liabilities	0.2	0.5	0.5	0.5	0.5
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	12.9	15.6	17.1	13.5	14.5
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.9	1.0	0.5	0.5	0.5
Current liabilities	**53.9**	**69.4**	**61.3**	**59.1**	**56.4**
Short term debt	30.3	37.4	31.5	30.2	25.5
Payables	23.6	32.0	29.7	28.9	30.9
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**96.8**	**118**	**118**	**115**	**118**

Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	103.8	108.6	134.4	**145.1**	**140.9**
EBITDA	10.7	15.3	11.9	**20.4**	**16.3**
EBIT	5.1	9.4	3.7	**13.4**	**9.9**
PTP	3.9	7.1	4.2	**15.1**	**8.4**
Net Income	2.4	5.4	1.7	**11.3**	**6.0**
Extraordinary items	-2.1	-0.3	-2.3	**2.9**	**0.0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	85.4	96.8	117.7	**117.8**	**115.5**
Equity capital	26.3	28.9	31.2	**38.5**	**41.9**
Goodwill	13.0	12.6	12.8	**12.8**	**12.8**
Net debt	30.2	31.2	37.4	**32.6**	**29.6**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	10.7	15.3	11.9	**20.4**	**16.3**
Change in working capital	1.9	2.4	-4.8	**-3.1**	**0.6**
Operating cash flow	9.9	14.9	4.8	**13.8**	**14.3**
CAPEX	-6.1	-11.7	-12.2	**-5.9**	**-7.5**
Free cash flow	3.8	3.6	-7.2	**7.4**	**6.8**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	1.0	1.1	0.9	**0.7**	**0.7**
EV/EBITDA (adj.)	10.0	7.8	10.3	**4.7**	**5.7**
EV/EBIT (adj.)	14.9	12.3	20.5	**9.2**	**9.5**
P/E (adj.)	19.1	15.7	24.1	**7.1**	**10.5**
P/E	2.9	3.0	2.8	**1.7**	**1.5**
Dividend-%	2.8 %	2.7 %	2.8 %	**4.2 %**	**4.5 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	0.20	0.45	0.14	**0.95**	**0.51**
EPS (adj.)	0.34	0.47	0.29	**0.74**	**0.51**
OCF / share	0.83	1.26	0.41	**1.16**	**1.20**
FCF / share	0.32	0.30	-0.61	**0.62**	**0.57**
Book value / share	2.21	2.43	2.57	**3.18**	**3.47**
Dividend / share	0.18	0.20	0.20	**0.22**	**0.24**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	7%	5%	24%	**8%**	**-3%**
EBITDA growth-%	15%	43%	-22%	**71%**	**-20%**
EBIT (adj.) growth-%	44%	35%	-38%	**74%**	**-6%**
EPS (adj.) growth-%	45%	38%	-38%	**152%**	**-32%**
EBITDA-%	10.3 %	14.1 %	8.9 %	**14.0 %**	**11.6 %**
EBIT (adj.)-%	6.9 %	8.9 %	4.5 %	**7.2 %**	**7.0 %**
EBIT-%	4.9 %	8.7 %	2.8 %	**9.3 %**	**7.0 %**
ROE-%	9.3 %	19.5 %	5.6 %	**32.9 %**	**15.2 %**
ROI-%	8.6 %	13.9 %	4.8 %	**15.7 %**	**11.4 %**
Equity ratio	30.8 %	29.8 %	26.5 %	**32.7 %**	**36.3 %**
Gearing	114.9 %	107.9 %	119.9 %	**84.8 %**	**70.7 %**

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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
11/2/2020	Accumulate	6.80 €	6.40 €
12/8/2020	Accumulate	7.00 €	6.50 €
2/19/2021	Accumulate	9.20 €	8.76 €
5/2/2021	Accumulate	11.50 €	10.88 €
7/21/2021	Accumulate	11.50 €	10.32 €
9/2/2021	Accumulate	11.50 €	9.95 €
9/17/2021	Accumulate	9.50 €	8.59 €
11/5/2021	Accumulate	8.40 €	7.52 €
2/16/2022	Reduce	7.50 €	7.15 €
5/2/2022	Accumulate	7.00 €	6.30 €
Change of analyst			
7/21/2022	Accumulate	7.00 €	6.58 €
9/28/2022	Accumulate	6.00 €	5.30 €

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