

Harvia

Extensive report

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

✓ Inderes corporate customer

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Value creation in line with targets for the coming years

Harvia is a leading company in its field with clear competitive advantages. This enables good ROIC and value creation, in addition to which the company's capital allocation to acquisitions has been successful. However, the valuation level (e.g. 2025 P/E 25x) is high, so the expected return remains weak. We raise the target price to EUR 37 (was EUR 35) on the back of an increase in the medium-term forecasts and we reiterate the Sell recommendation.

The world's leading sauna and spa company

Harvia is the world's largest sauna and spa company. The company itself estimates its market share to be around 5%, which means that its share of the relevant product market for Harvia would be around 10%. The company has significantly increased its market share over the past six years (both through acquisitions and organically). Growth has come particularly from North America, which now accounts for 33% of Harvia's revenue (H1'24). After major fluctuations in recent years, the global market is returning to growth, which Harvia expects to exceed 5% per annum in the coming years.

Harvia has clear competitive advantages and low capital requirements that support strong value creation

In our opinion, Harvia has several clear competitive advantages that support the profitable growth and value creation of the company. They relate in particular to the market for wood/electric heaters and their components. These represent about 60% of Harvia's sales. We believe Harvia's competitive advantages are: 1) vertical integration and own design, 2) economies of scale (in production), 3) strong brand(s), 4) broad and long-term distribution relationships. We feel that the company has been very successful since 2014 in driving the international growth of Harvia and strengthening these competitive advantages. At the same time, we believe that Harvia has also created a competitive advantage in the complete sauna product category in the US. We also believe the company has been successful in creating value by allocating capital to acquisitions, and this year's ThermaSol deal looks promising. The competitive advantages and low capital requirements enable the company an ROIC of above 20% in the coming years.

Targets updated in spring aim to accelerate growth; we expect Harvia to meet targets

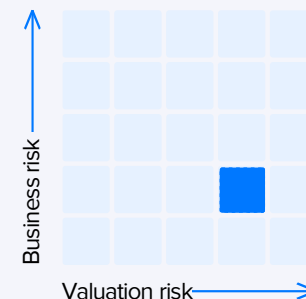
Harvia updated its financial targets last spring and now aims to achieve annual sales growth of 10% (including acquisitions) and an operating profit margin of over 20%. We believe that Harvia will achieve these targets, as the ThermaSol acquisition will lead to growth of around 15% p.a. in 2024-25, and in 2026-27 the organic growth rate alone will be close to the targeted 10%. As in recent years, growth will be driven by non-European regions, with growth in the US supported by increased expansion in steam and infrared products. We also expect Harvia to maintain profitability at an above-target level of 22-23%. However, the growth investments are reflected in the margin, which is not scaled up in our forecasts despite the growth. We only made minor adjustments to our forecast (0-1%).

Valuation is high, expected return is weak, even though the company generates good value and cash flow

We believe that Harvia's valuation level (e.g. EV/EBIT 2025 19x, P/E 25x) is high, although we believe that the company's return on capital and its ability to allocate and generate cash flow are excellent and that multiples will therefore moderate in the coming years. We believe that Harvia's capital allocation will continue to be value-creating, and thus channeling of cash into acquisitions and/or larger dividends will support the investor's expected return. We also see Harvia as a potential acquisition target, but with the current valuation, we find it quite expensive for the buyer. Overall, however, the expected return at this valuation level remains weak, especially on a 12-month horizon.

Recommendation

Sell
(was Sell)
37.00 EUR
(was 35.00 EUR)
Share price:
42.45



Key figures

	2023	2024e	2025e	2026e
Revenue	151	172	200	219
growth-%	-13%	14%	16%	9%
EBIT adj.	33.7	38.4	44.2	49.2
EBIT-% adj.	22.4 %	22.4 %	22.1 %	22.5 %
Net income	23.3	25.9	31.4	35.7
EPS (adj.)	1.28	1.46	1.71	1.93

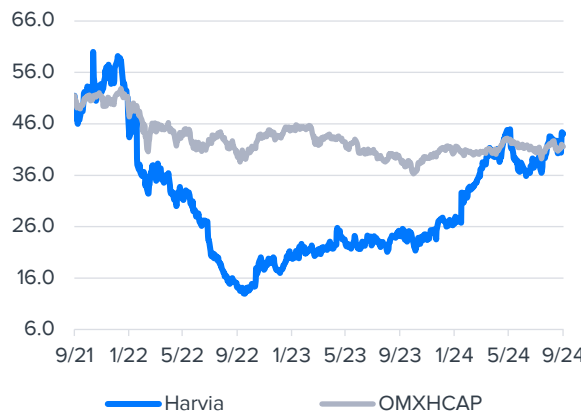
P/E (adj.)	19.8	29.1	24.8	22.0
P/B	4.4	6.6	5.7	5.0
Dividend yield-%	2.7 %	1.7 %	1.9 %	2.4 %
EV/EBIT (adj.)	15.4	22.2	18.9	16.7
EV/EBITDA	13.2	19.4	16.3	14.4
EV/S	3.4	5.0	4.2	3.7

Source: Inderes

Guidance (Unchanged)

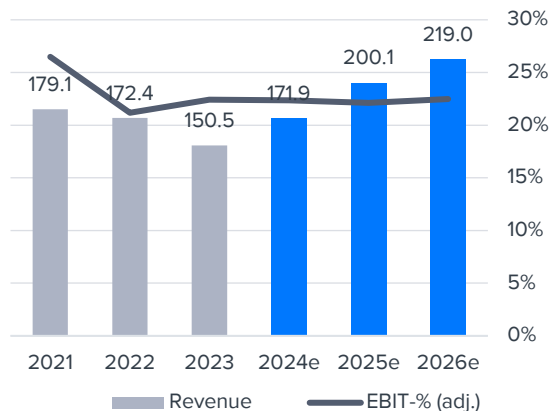
Harvia does not publish a short-term outlook.

Share price



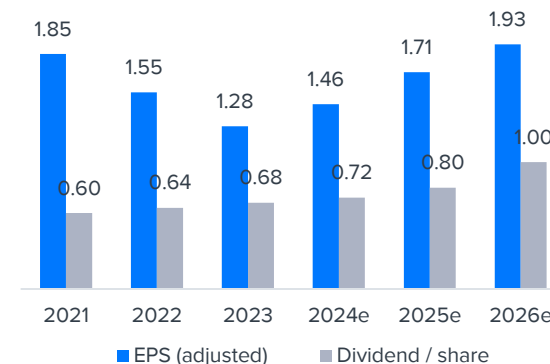
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

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



Risk factors

- Dependency on the Muurame plant
- Changes in the competitive field or position
- Economic fluctuations and fluctuations on the construction market may slow down growth
- Successful integration of acquisitions
- Weakening global demand trend for saunas

Valuation	2024e	2025e	2026e
Share price	42.5	42.5	42.5
Number of shares, millions	18.7	18.7	18.7
Market cap	792	792	792
EV	851	838	820
P/E (adj.)	29.1	24.8	22.0
P/E	30.6	25.2	22.2
P/B	6.6	5.7	5.0
P/S	4.6	4.0	3.6
EV/Sales	5.0	4.2	3.7
EV/EBITDA	19.4	16.3	14.4
EV/EBIT (adj.)	22.2	18.9	16.7
Payout ratio (%)	51.9 %	47.5 %	52.2 %
Dividend yield-%	1.7 %	1.9 %	2.4 %

Source: Inderes

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Harvia in brief

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

1950

Year of establishment

3/2018

IPO

159 MEUR

Revenue for the last 12 months (end of Q2'24)

36 MEUR (22.6% of revenue)

Adjusted EBIT for the last 12 months

#1

Market position on sauna heater and component market

#1

Market position on sauna and spa market

683

Headcount at the end of Q2'24

9

Own production plants

1950-2014

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

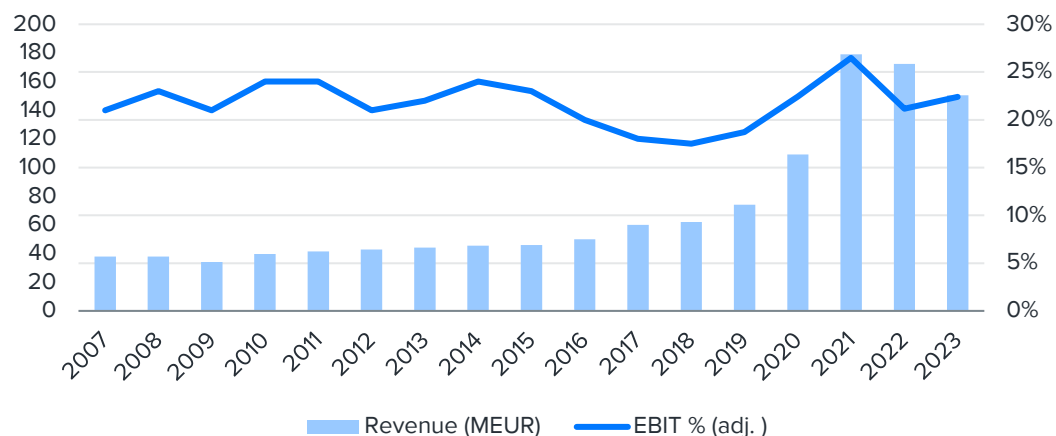
2014-2018

- CapMan acquires a majority in Harvia in 2014
- Sentiotec acquisition (Central Europe) 2016
- IPO 3/2018

2018-

- Almost Heaven Saunas acquisition (US) 12/2018
- EOS acquisition (Central Europe) 3/2020
- Kirami acquisition 8/2021
- Exit from Russia 2022
- ThermaSol acquisition (US) 7/2024

Harvia's profitability has been strong throughout the years



Source: Harvia / Inderes

* Figures for 2007-2014 are Harvia Oy's (currently Harvia Finland Oy) actual figures in accordance with FAS accounting. Figures for 2015-2023 are IFRS accordant EBIT adjusted for items that affect comparability.

Company description and business model 1/7

The world's leading sauna and spa company

Harvia, headquartered in Muurame, has become the world's leading sauna and spa company in its almost 75-year history. Harvia's long history has resulted in considerable experience and skills in the organization, which creates a competitive advantage for Harvia in the relatively small and fragmented sauna and spa industry. We also believe that a well-known brand in the industry, vertical integration of production, economies of scale from large volumes and a wide distribution network are competitive advantages for the company.

The company has estimated its market share in the global sauna and spa market to be ~5% and in the more precisely defined heater and sauna component market over 20%. Harvia has clearly gained market share in 2020-22, as in 2019 the corresponding figures were only 3% and 14%. Historically, Harvia's market position has been particularly strong on large markets that focus on conventional sauna culture (Finland and Scandinavia). Market share gains have also been driven by acquisitions. As a result of the Sentiotec acquisition in 2016 and the EOS acquisition in spring 2020, the company reached a market leader position in heaters and components also in Germany and strengthened its position in Central and Eastern Europe. With the 2018 Almost Heaven Saunas (AHS) acquisition, the company expanded its operations in North America. The acquisition of ThermaSol in the summer of 2024 will strengthen the company's position in the US and give it expertise in steam showers/saunas. However, the weak European market and the withdrawal from

Russia had a negative impact on the 2023 figures.

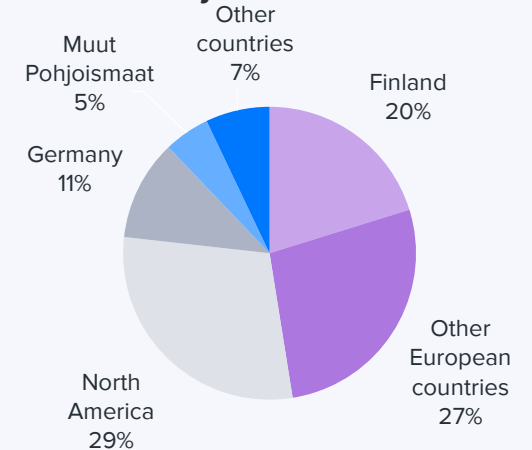
Harvia has long lasting customer relationships in all core areas of the sauna and spa market and its brands (Harvia, EOS, Almost Heaven Saunas) are among the best known in the industry. Harvia sells its products mainly through a network of distributors in about 90 countries around the world. In 2023, around 80% of revenue came from outside Finland.

Products: From heaters to a more comprehensive sauna company

Prior to its IPO (2018), Harvia was mainly known as a sauna heater manufacturer, but since then the company has become a more holistic player in the sauna and spa sector through acquisitions, new product launches and the opening of sales channels. Harvia's strongest area is traditional sauna, and with the recent acquisition it now has a stronger base in steam saunas as well. The company also makes its own infrared panels, but these have so far played a minor role. We see significant growth potential for Harvia, especially in steam and infrared saunas. On the other hand, in traditional heaters/saunas, we believe it has a proven competitive advantage and also growth potential. According to Harvia, traditional sauna accounts for more than half of the market.

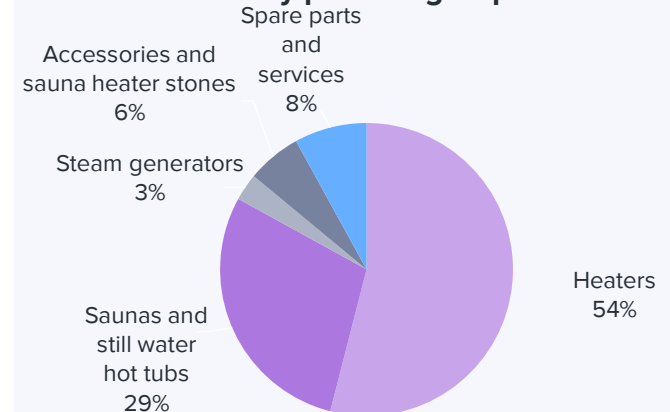
The majority of Harvia's revenue is made up of heaters (54% in 2023), but the product range also includes complete saunas, steam generators, hot tubs, accessories, spare parts and services. More details follow on the next page.

Revenue by market area 2023



Source: Harvia

Revenue by product group 2023



Source: Harvia

Company description and business model 2/7 - Product groups

Product segment	Product description	Main brands	Share of revenue in 2023	
Heaters		<ul style="list-style-type: none"> ▪ Electric and wood-burning heaters ▪ Infrared products ▪ Control units ▪ Accessories for heat include guardrails and walls, flue pipes and chimneys, etc. 	<ul style="list-style-type: none"> ▪ Harvia ▪ EOS 	54%
Saunas and still water hot tubs		<ul style="list-style-type: none"> ▪ Ready-made indoor and outdoor saunas ▪ Still water hot tubs ▪ Sauna interior 	<ul style="list-style-type: none"> ▪ Harvia ▪ Almost Heaven (saunas in the US) ▪ Kirami (still water hot tubs) 	29%
Accessories and sauna heater stones		<ul style="list-style-type: none"> ▪ Heater stones, sauna lights, water pails and ladles, textiles, thermometers and sauna fragrances 	<ul style="list-style-type: none"> ▪ Harvia 	6%
Spare parts and services		<ul style="list-style-type: none"> ▪ Heater resistors and other spare parts ▪ Sauna maintenance, installation and repair services for consumers and corporate customers 	<ul style="list-style-type: none"> ▪ Harvia 	8%
Steam generators		<ul style="list-style-type: none"> ▪ Steam generators ▪ Steam sauna accessories, e.g. nozzles and scent pumps ▪ NB! ThermaSol, acquired in 2024, is not yet included in the figures/data on this page. 	<ul style="list-style-type: none"> ▪ Harvia ▪ ThermaSol (since 7/24, US) 	3%

Company description and business model 3/7

Distribution mainly through resellers

The group's revenue mainly comes from product sales (a small share from maintenance and repair services). Harvia sells most of its products to resellers, builders of complete saunas and distributors, although direct sales to consumers are an important sales channel in the US. Harvia's largest customer relationship is based on the customer's group level framework agreement under which the individual order agreements made by the group formed some 11% of the group's revenue in 2023. Harvia's order backlog is short, typically only two to three weeks.

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

Own component design gives a competitive advantage

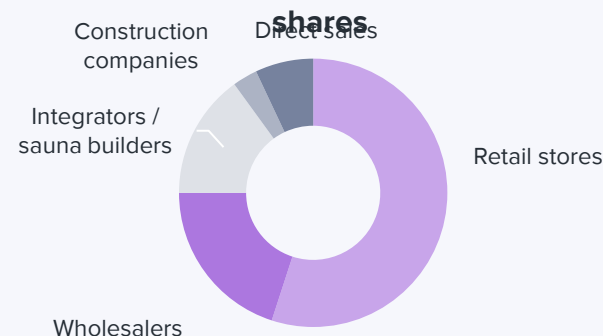
Harvia designs and manufactures almost all the products it sells, as well as most of the components itself, i.e. the company is vertically more integrated than a typical competitor. We believe this is one of Harvia's important competitive advantages, since broader supply chain management gives Harvia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

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

Cost structure provides operational leverage

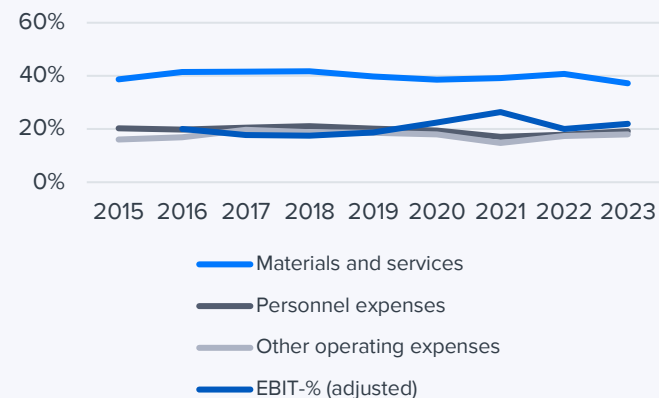
Just under 40% of Harvia's costs (relative to revenue) goes to materials and services, i.e. mainly metal, wood and electrical/electronic components. Personnel costs and other expenses have both historically been about 20% of revenue, slightly less in recent years. In 2023, just over 60% of the workforce were production workers and the rest white-collar workers. Production workers, particularly in Finland and China, are paid on a piecework pay basis, so it can be assumed that around 40% of personnel costs vary according to production volume. Thus, around 60% of the costs would be variable and the rest fixed. A reasonably high proportion of fixed costs causes operational leverage, which means that as volumes grow the margin should improve and when they decrease the margin should go down. This is seen in 2020-22, although the overall margin remained surprisingly stable and high in 2022 and improved in 2023 despite a drop in revenue.

Distribution channels, estimated



Source: Inderes

Harvia's cost structure



Source: Harvia

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

Distribution channel	Nature of the distribution channel	% share of revenue*	Example customers
Retail stores	<ul style="list-style-type: none"> Retailers are typically construction material stores, especially in Finland and Sweden. This group also includes online shops. In Central Europe, also, e.g., stores specialized in saunas Also an important distribution channel in the US Typical decision maker: end user or seller 	~55 %	
Wholesalers	<ul style="list-style-type: none"> Wholesalers are typically electricity, HVAC or bathroom equipment wholesalers Important channel especially in Finland and Sweden Typical decision maker: seller or electrician 	~15 %	
Integrators / sauna builders	<ul style="list-style-type: none"> An important channel on markets that focus on ready-made sauna solutions like Central Europe and North America. Sauna builders carry out the construction for the end user Typical decision maker: seller or architect 	~15 %	
Construction companies	<ul style="list-style-type: none"> In the Nordic countries, the company's products are also sold to construction firms that install saunas in new residential buildings Construction firms purchase either individual sauna components or whole saunas Typical decision maker; architect 	<5%	
Direct sales (mainly directly to consumers)	<ul style="list-style-type: none"> Almost Heaven Saunas (USA) makes a significant proportion of its sales direct to consumers The company selectively targets direct sales to end customers, such as hotels and gym chains Typical decision maker: consumer, end user or architect 	~10 %	

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

Harvia's largest customer relationship is based on the customer's group level framework agreement under which the individual order agreements made by the group formed some 11% of the group's revenue in 2023 (2022: 10%).

Company description and business model 5/7

Production in nine own plants

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

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

A well-known brand supports market positions

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

home markets in the US.

Strong operational cash flow and low investment need

Harvia's operational cash flow is typically very strong. The company's EBIT margin has historically remained at an excellent level of around 20%, and due to the structure of the production, the annual investment need is relatively low. For example, in 2015-2019 and 2022-23, the company invested only 2.0-2.5% of revenue. The company has modern production facilities and capacity was raised to meet the demand of the COVID era. Investments in 2021 were very high compared to the normal level of the company. We believe that this capacity, especially in heater production will be sufficient well into the future when volumes start to grow again. On the sauna production, steam and infrared side, new investment needs may come more quickly.

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

Seasonal variation quite moderate

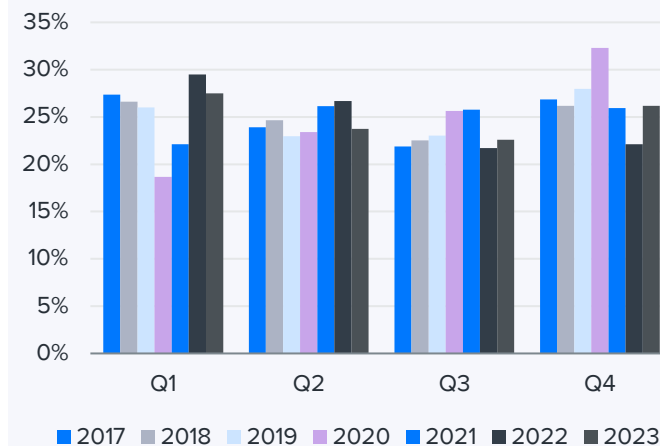
The seasonal variation in Harvia's business is rather moderate. A majority of orders in the distribution chains typically focus on Q1 and Q4, which have historically been the best quarters. Q3 tends to be the weakest quarter of the year. After the COVID years, the company seems to have returned to this pattern. A majority of orders from Northern Europe are typically made in the first quarter, while the order activity of Central Europe and North America focuses on the end of the year.

Investments



Source: Harvia, Inderes

Seasonality of revenue 2017-23



Source: Harvia, Inderes

Company description and business model 6/7– Production facilities

Muurame, Finland

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

Driedorf, Germany

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

Round Rock, Texas, US

- ThermaSol headquarters and production facility
- Main products: Steam showers, saunas and components
- Acquired by Harvia in 2024

Lewisburg, West Virginia, US

- Almost Heaven Saunas production plant, built in 2021 and replacing the plant acquired in the 2018 acquisition
- Main products: Saunas (barrel saunas and sauna rooms)



Luvia, Finland

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

Sastamala, Finland

- Main product: Still water hot tubs and outdoor saunas (Kirami)
- Transferred to Harvia in the Kirami acquisition in 2021

Tartu, Estonia

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

Gheorgheni, Romania

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

Guangzhou, China

- Main products: cheaper electric heater models and steam generators

Company description and business model 7/7

Fragmented ownership structure

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

However, the overall ownership of Harvia is fragmented. In addition to Onvest, the top 10 registered shareholders include three members of the Harvia family and Finnish institutional investors. Foreign ownership is currently about 48%. Before the COVID era at the end of 2019, foreign ownership was 50%, and it has subsequently varied in the range of 40-50%.

The chairman of Harvia's Board of Directors changed in the spring and is now Heiner Olbrich, who has a background in Adidas and Miele and is also chair of the Swedish Björn Borg. Olli Liitola, who joined the Board in 2014 as CapMan's representative and was chairman for a long time, is still a Board member. The composition of the Board of Directors, with the exception of Liitola, has changed in recent years, as other members have started working for the Board of Directors in or after 2021. At the same time, the Board of Directors has become international (2/6 foreigners), which we see as a positive.

In principle, fragmented ownership offers an opportunity for someone to make a bid for Harvia when there is no strong anchor owner nor an owner who alone could prevent the purchase (i.e. over 10%

holding). However, as Harvia is the largest company in the industry, there is no natural buyer among competitors. We find it possible that Harvia could again end up in the hands of a venture capital company, as its strong cash flow and consolidation possibilities in the industry could still make it an interesting asset for a venture capitalist. A larger company that wants to enter the sector could also be a potential buyer, just as the US company Masco bought Harvia's competitor Sauna 360 and Kohler Klafs.

Significant shareholdings in the Management Team

Matias Järnefelt, who joined Harvia as CEO in June 2023, has a background in management positions at Hilti and Nokia, among others. CFO Ari Vesterinen has worked at Harvia since 2014 and prior to that he worked for several years in management positions at Harvia's competitor the TylöHelo Group. Vesterinen has a significant stake in the company (around 150,000 shares / 0.8%), but Järnefelt has no stake at all.

Of the eight other members of the management team, three own more than 100,000 shares, two own tens of thousands and two who joined the company this year still own zero. We understand that most of the holdings were acquired in 2014 as part of a change of ownership or as part of acquisitions, and that when people change, the holdings are clearly smaller than these.

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

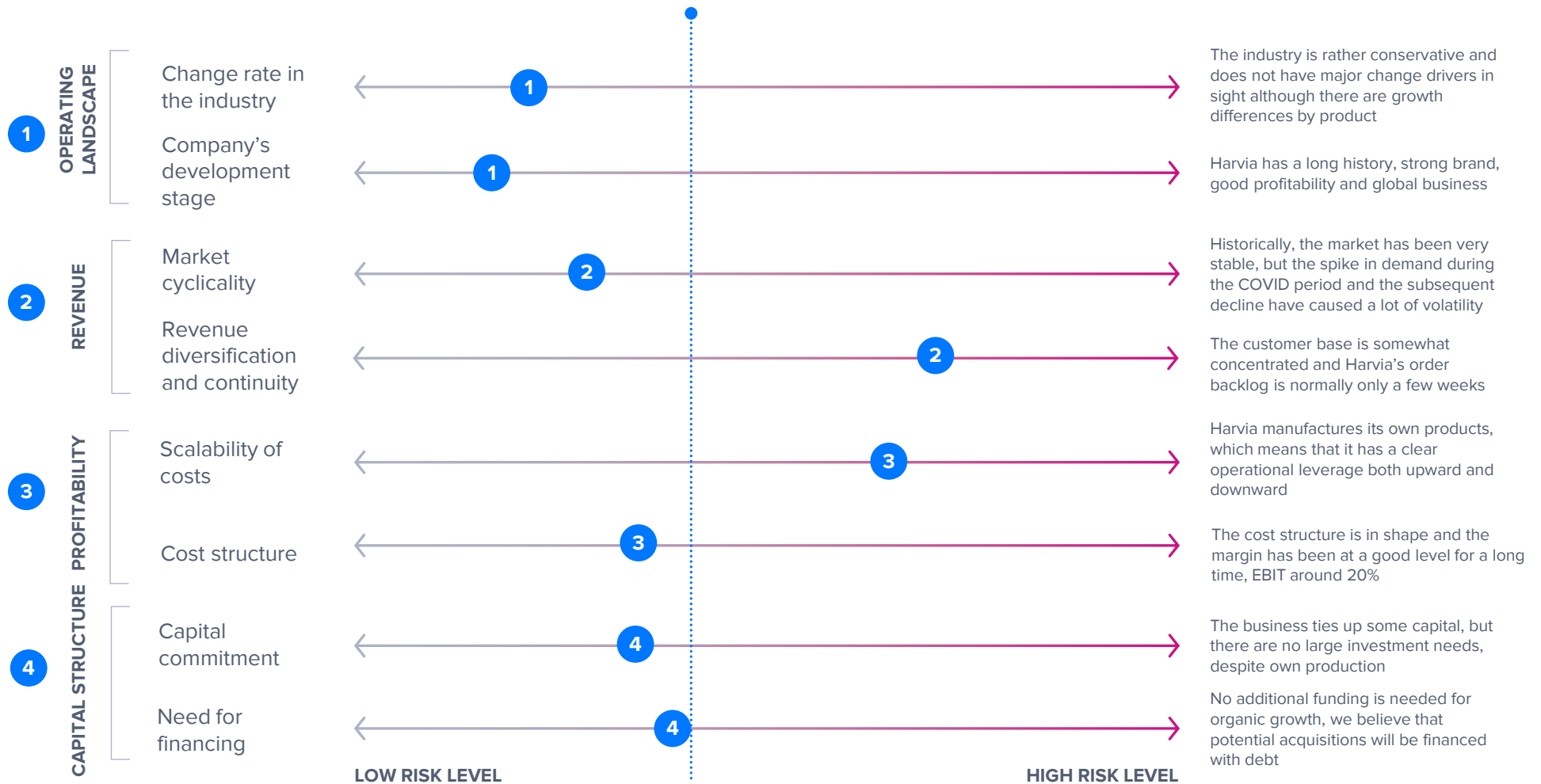
Largest shareholders on 8/31/2024

	Holding
Onvest	4.4%
WestStar	3.1%
Evli Finnish Small Cap fund	2.9%
Nordea Nordic Small Cap	2.7%
Tiipeti Oy	2.1%
Ilmarinen	1.9%
Evli Finnish Select fund	1.7%
Elo	1.4%
KTR-Invest O	1.3%
Mantereenniemi Oy	1.2%

Source: Harvia

Risk profile of the business model

Assessment of Harvia's overall business risk



Investment profile 1/2 – Harvia's competitive advantages

Harvia has clear competitive advantages

In our opinion, Harvia has several clear competitive advantages that support the profitable growth and value creation of the company. We also discuss these elsewhere in the report but give a summary of them here. The company's competitive advantages are of great importance for long-term success and thus crucial for share development. Regarding competitive advantages, we note that they are slightly different for Harvia's traditional product areas of wood/electric heaters and their components (around 65% of Harvia's sales) than for complete saunas.

Vertical integration and own design

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

We do not believe that Harvia has such an advantage in selling complete saunas, although sauna construction can be seen as a continuation of vertical integration. Harvia has also clearly brought its

own industrial expertise to Almost Heaven Saunas (acquired in the US in 2018), which has supported production efficiency.

Economies of scale

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

In the US, Harvia has a relatively large number of saunas compared to its competitors and a new, efficient production plant. In addition, some competitors import products from abroad, in which case Harvia is supported by the domestic manufacturer's label. In other words, Harvia has a certain competitive advantage in the US, at least for the time being. In other areas, we believe the scale of saunas is not currently ahead of competitors.

Strong brands

The Harvia brand is well known, especially in the traditional and larger sauna markets, both among consumers and among professionals in general. Because the decision-maker is often someone other than the end user/consumer, brand awareness is important among professionals (wholesalers, electricians, architects, etc.). Harvia's long history and strong position especially in electric and wood-burning heaters directed at consumer use, guarantee its brand's reputation. Acquired brands such as EOS and Sentiotec are strong in the professional heater segment, ThermaSol in the US steam product market

and Almost Heaven Saunas in the US consumer market.

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

Extensive and long-term distribution relationships

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

We also see, e.g., the quality of the company's management, acquisitions and the strategy and its implementation as good things, but we do not include them in this list, as we believe competitive advantages should be more permanent and long-term issues related to the company. We will discuss the success of acquisitions separately later.

Investment profile 2/2

1. **Strong market position and well-known brands**
2. **Vertical integration and long experience support high profitability**
3. **Low investment need supports creation of strong free cash flow**
4. **The company's ROIC is high and well above the required return, i.e. the company creates value**
5. **Expansion into new product categories**
6. **A well-growing market**

Potential



- **Continued growth in the US**, supported by market growth and the recent acquisition of ThermaSol
- **Expanding the product range** more strongly to steam and infrared products
- **Complementing acquisitions** on the fragmented global sauna and spa market have already generated shareholder value and we believe Harvia will continue making complementing acquisitions if suitable targets are found.

Risks



- **Demand recovery after the current weaker period** Demand in Europe remains sluggish following the strong demand during the COVID period and the subsequent decline, which was partly due to weakening purchasing power
- **Dependence on the Muurame plant** is one of the biggest risks associated with the continuity of Harvia's operations, although more extensive production resulting from the acquisitions has stabilized this risk
- **Acquisition risks:** Price paid in possible future acquisitions and integration of operations generate their own operational risk
- **Weakening of the global "sauna trend"**. The use of and demand for saunas is currently on a clear upward trend worldwide. A slowdown or reversal of this trend would have a negative impact on Harvia's demand prospects.

Industry and market overview 1/4

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

Global sauna and spa market

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

Harvia estimates that the global sauna and spa market in 2023 will be around 3.5 BNEUR, the same as in 2022, but about 15% higher than in 2019. Excluding Russia (where Harvia no longer operates), the market is about 3 BNEUR. This market assessment refers to the size of the final market, i.e. the number of products sold out from Harvia's distributors. Harvia's demand in each year may, therefore, also be affected by distributors' inventory changes, which were negative, e.g., in 2022, which means the demand/sell-in to distributors by Harvia is smaller than this market figure. Over a period of several years, this inventory effect should level off.

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

A rough estimate of the total market is that about half of the market consists of installation, maintenance

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

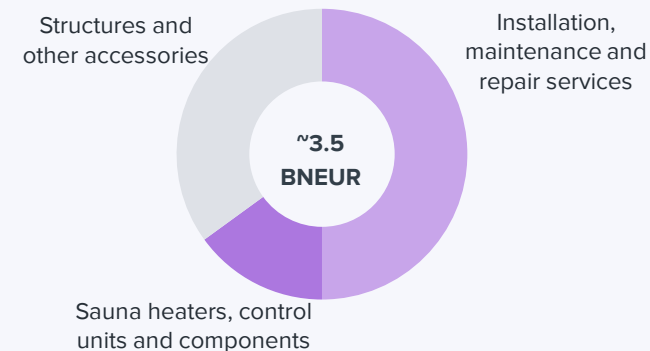
It is estimated that there are more than 18 million saunas in the world, of which around 95% are used by households. Of these, approximately 6 million are in Russia, which means that the market is clearly smaller without Russia. In addition to households, saunas are in commercial use in, e.g. hotels, spas, gyms and swimming pools.

Harvia's target market approximately 1.5 BNEUR

Harvia's target market covers three sauna types: traditional saunas, steam saunas and infrared saunas. Traditional saunas (electric and wood-burning) are the most common type of sauna and are estimated to account for about 2/3 of the sauna stock and, according to the company, more than half of the market value. Especially in Finland, saunas are largely traditional saunas. Steam saunas represent a good 20% of the sauna stock and it is the most popular sauna type especially in Southern Europe and the Middle East. Around 10% of saunas are infrared saunas. Infrared sauna is best known in Central Europe and North America.

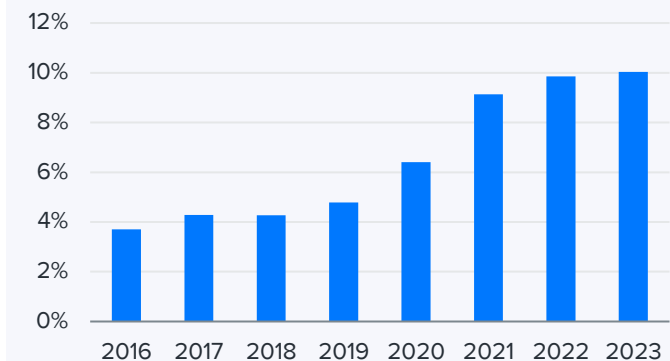
Harvia's target markets consist of sauna heaters and sauna components, incl. steam generators and infrared regulators, sauna rooms, control units and other accessories. As installation, repair and maintenance are not part of Harvia's core business, we estimate Harvia's target market to be around 1.5 BNEUR.

Global sauna and spa market



Source: Harvia's estimate of the overall market in 2023, study by an international management consultancy company for Harvia (2017) on the relative shares of the various segments

Harvia's market share of the target market



Source: Inderes estimate *2023 Market excluding Russia, where Harvia no longer operates

Industry and market overview 2/4

Harvia does not pursue a labor-intensive service market, as the company is more focused on manufacturing and selling products and, in our opinion, would not have clear competitive advantages in services. Installation is performed by customers or cooperation partners. In our opinion, some sort of expansion in maintenance services could be possible, e.g., through cooperation partners. We believe, this could be a value-creating business for Harvia, because even if the margin would be relatively small, the business would not tie up capital from Harvia's point of view and the company would not bear much risk. On the other hand, it could utilize its strong brand to sell the service.

According to Harvia's estimate it has a market share of about 5% of the entire sauna and spa market and over 20% of the heater market. Taking into account that Harvia does not provide installation services, we estimate its share of the relevant half of the sauna & spa market to be around 10%.

Historically cycle-resilient market

The sauna and spa market has historically been extremely cyclically stable with a large installed base of saunas and, in particular, heater replacements providing steady demand. In the company's experience, especially in Finland and other traditional sauna markets, when a heater or other sauna component ages, it is repaired or replaced regardless of the economic situation, although major and/or non-compulsory renovations may be postponed. The market has not historically been dependent on/correlated with, among other things, the construction market. This is well reflected, e.g., during the financial crisis, when the market grew slightly in 2009 and in 2010 the entire sauna and spa market only decreased by 2%, while the heater

market remained slightly positive (1%). In 2022-23, however, demand fell sharply, partly because of the exceptionally high demand that preceded it, but also because of weakening consumer purchasing power and economic conditions.

Large replacement market supports demand

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

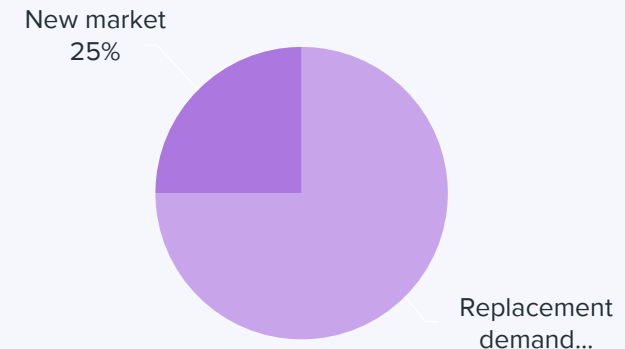
Replacing sauna heaters and other sauna components is relatively cheaper than renewing entire saunas and they are renewed more often. According to Harvia's management, a sauna heater is renewed or replaced in two to five years in commercial used and in some 10-20 years in household use. Management estimates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

Demand for sauna and spa markets



Source: Harvia, management estimates

Demand for sauna heaters



Source: Harvia, management estimates

Industry and market overview 3/4

Growth drivers for the market

During 2010-2019, the sauna and spa market grew by about 5% annually and the new market grew somewhat faster than replacement demand. In 2020-21, the market grew much faster whereas in 2022 it declined. Harvia's management expects the market to grow by more than 5% in the coming years as strong growth continues outside Europe (especially in the US) and Europe recovers from its current sluggish level. If there is no significant change in the current trend of increasing sauna popularity, we consider the growth expectations to be realistic. Growth drivers include:

Sauna is becoming more known: Awareness of saunas varies by region and is expected to grow in many emerging sauna and spa markets. Factors that affect how well sauna is known are, e.g. increasing awareness of the health benefits related to saunas and people focusing more on wellbeing.

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

Breakdown of the sauna and spa market

Europe continues to dominate the sauna market, accounting for about 50% of the global sauna market, even if Russia is excluded. According to Harvia, the largest European markets are Finland,

Germany and Sweden. Russia alone accounts for around 15% of the global sauna market. North America accounts for 20-25% of the global market and the rest of the world accounts for ~15%.

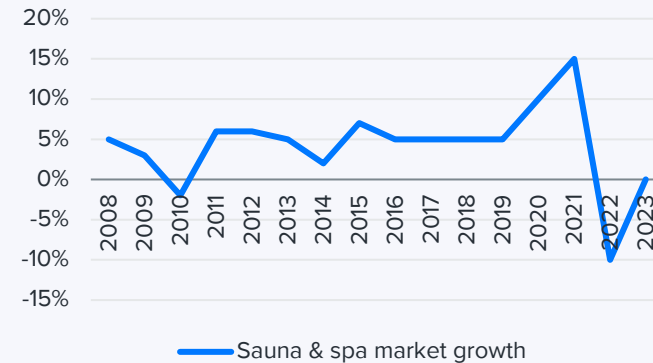
Northern Europe accounts for about 15% of the global market and has about 4 million saunas, of which about 2.5 million in Finland and over 0.5 million in Sweden. Harvia is the market leader in Finland and second in Sweden after Tylöhelo (Sauna 360/Masco). The market consists almost exclusively of traditional saunas. Due to the large number of existing saunas, the share of the new market is low.

Central Europe accounts for 30-35% and has 5-6 million saunas, almost half of them in Germany. Harvia is Germany's largest manufacturer of sauna heaters and components. Compared to Northern Europe, the share of professional and complete solutions is much higher, and there is also a significant market for infrared and steam baths in the region.

North America (US & Canada) has grown strongly (~15% per annum in 2019-23) and now accounts for 20-25% of the global market. There are an estimated 1-1.5 million saunas in the region, the majority of which are for private use (~65% of the market). Steam saunas account for about 20% of the market, infrared for 35-40% and traditional saunas for 40-45%. Harvia is an industry leader. The share of the new market is high because the sauna stock is small and sales are often of complete solutions.

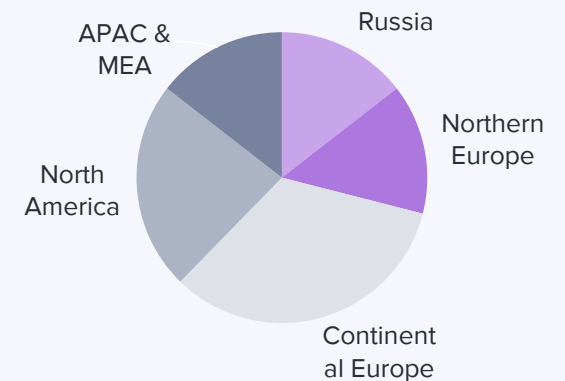
Rest of World, i.e. Asia, the Middle East and Africa, accounts for about 15% of the market and has 1-2 million saunas. The most important single market for Harvia is Japan. Demand in these areas is heavily weighted toward professional solutions.

Estimated market growth



Source: Estimate by Harvia's management, Inderes

Breakdown of sauna and spa market (total 3.5 BNEUR)



Source: Harvia

Industry and market overview 4/4

Harvia has taken significant market share in North America, but there is still potential

According to Harvia, the North American market was worth around 800 MUSD in 2023 and had grown by around 15% per year compared to 2019. This means that the market was only around 450 MUSD in 2019. Harvia's operations in North America at the end of 2018 were rather small and focused on heater exports, with revenue of only 3 MEUR. However, the acquisition of sauna manufacturer Almost Heaven Saunas at the end of 2018 significantly changed Harvia's position in the region, especially in the US, and Harvia has grown strongly since then. Average annual growth in 2019-23 is 38%, and has been fairly steady (in absolute euros, although the growth rate has declined) both during and after the pandemic years. Last year, North America was Harvia's largest region, accounting for almost 30% of revenue, and this year the growth has continued to be strong.

Based on the market figures provided by Harvia, it can be estimated that the company's share of the total North American market has increased from just over 2% in 2019 to 5% in 2023. Until now, Harvia has only been present in traditional saunas, which account for less than half of the total market. As a result, its share of the traditional sauna market would be around 12% in 2023. Again, we believe there is room for improvement, although the kind of relative improvement (i.e., doubling of market share) seen in recent years will be difficult to repeat.

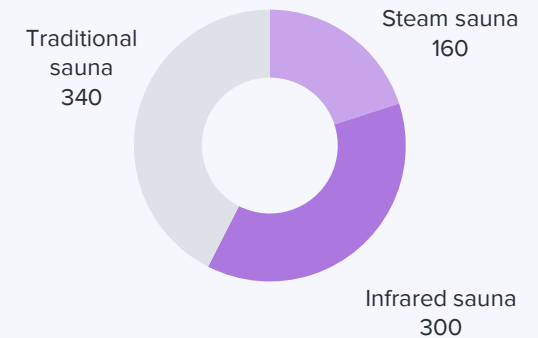
ThermaSol, which Harvia acquired in July, will take the company into a completely new segment in North America, namely steam rooms. This market segment last year amounted to about 160 MUSD, while ThermaSol's revenue was about 13 MUSD.

ThermaSol thus has a market share of around 8%. Combined with Harvia's figures, Harvia's "pro forma market share" last year would have been about 6.6%, or just over 10% of the traditional sauna and steam room market. Harvia's goal is to use ThermaSol's expertise to bring products to lower price points on the steam side, where the company has not been before. We therefore see good potential to further increase market share in Harvia's current segments.

In addition, Harvia has the potential to grow in infrared saunas, where it does not yet have a significant presence. This will be pursued both organically and possibly through acquisitions.

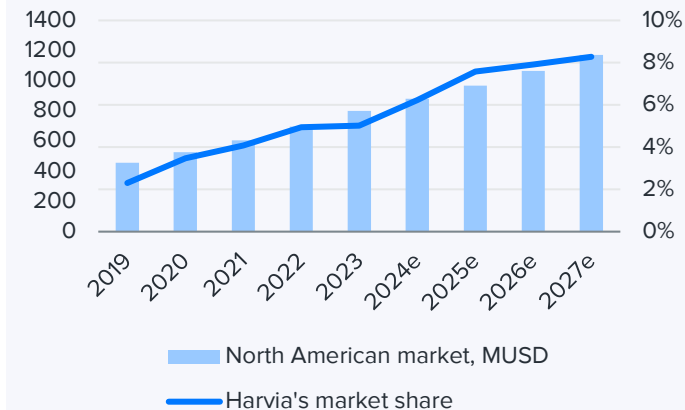
Assuming that the North American market will grow by 10% p.a. for the next 4 years, the market would be around 1.2 BNUSD in 2027. Harvia has not commented on the growth of the overall market, but the steam side is expected to grow by 5% per year until 2028. However, in this example we assume the same 10% increase for all sauna types. If Harvia were to continuously improve its position in all product groups, e.g., so that in 2027 the market share in traditional saunas is 15%, in steam saunas 10% and in infrared saunas 5%, the sales would be just over 100 MUSD. This is slightly above our current forecast, but in our view a realistic scenario that can be boosted by acquisition(s), especially in infrared.

North American sauna market (2023), MUSD



Source: Harvia

Harvia's market share is increasing in North America



Source: Harvia, Inderes' assumptions and estimates

Competitive landscape

Harvia is the industry leader

The global sauna and spa market is relatively fragmented. Venture capitalists are also active in the sector. Therefore, we believe that the consolidation of the market will continue. We see Harvia continuing to complement its own portfolio through acquisitions.

Harvia's competition field consists primarily of two types of companies: 1) heater and component manufacturers, and 2) sauna builders and integrators. The operating models of these two groups differ from each other so that the latter usually do not manufacture the heaters and components they use but purchase them from manufacturers like Harvia.

We believe that measured by revenue Harvia's biggest competitor is the German **Klafs** that supplies sauna solutions for both consumers and commercial use. Sauna and spa solutions delivered by Klafs can be found, e.g., in many hotels, gyms and spas. Klafs offers a range of sauna solutions, heaters and control units for home use as well as, e.g., swimming pools. Klafs was sold at the turn of the year 23/24 to Kohler, a US company specializing in HVAC products such as bathrooms. Harvia's approach to the industry is very different than that of Klafs. Harvia's revenue mainly consists of various products (sauna heaters, sauna components, control units, sauna rooms, steam generators, spare parts, etc.), which the company distributes through different sales channels.

Other major players in the global sauna and spa market are the Chinese integrator **SaunaKing** and Harvia's most direct competitor, the heater and component manufacturer **Sauna 360**, which was acquired by the US listed company Masco in the

summer of 2023. Like Harvia, Sauna360 is more focused on manufacturing products than on building or maintaining saunas. Its brands include Tylö, Helo, Kastor, Finnleo and Amerec. The company lost market share and sales in previous years, but managed to grow to a revenue level of more than 80 MEUR in 2021-22, compared to around 50 MEUR in previous years. The growth has come in particular from the US, where we believe it has grown especially in steam and infrared products (Amerec and Finnleo brands). We believe the company is still the market leader in Sweden but Harvia has become a stronger contender even there. Sauna360's profitability has been well below Harvia's, but on an upward trend in recent years. Since Masco bought the company in 2023, its figures are no longer publicly available. Masco is a company the size of Kohler that specializes in bathrooms, swimming pools and other interior and building products.

In the company's view, the largest infrared sauna dealers, such as **Golden Designs**, **Sunlighten** and **Sauna Works / Clearlight**, are included in the same size category. However, as Harvia's infrared sales are relatively small, they do not currently compete directly with Harvia to any significant extent.

There are also several local companies operating on the sauna and spa market, e.g. **Lang** (a German competitor of EOS in the premium segment), **Mr. Steam**, **Steamist**, also owned by Masco (manufacturer of steam rooms and generators, both customers of Harvia), **Effegibi** (traditional saunas and steam rooms) and **Physiotherm** (infrared saunas).

Harvia has a particularly strong market position on the developed sauna and spa markets (Finland, Sweden and Germany) and the company is the

biggest or second biggest player on all of these markets. Harvia has significantly strengthened its position in the North American market through acquisitions and growth and is also a leading player there. On the APAC market, Harvia belongs to the top 5 to 10 players.

Smaller traditional sauna heater manufacturers include Narvi (revenue just under 11 MEUR in 2023), which is strong in Finland, especially in the wood-burning stove market. Narvi was taken over by a venture capitalist in 2022. The Estonian **Huum** that manufactures design heaters has reached the same size class. Other sauna manufacturers on the Finnish market are **Iki-Kiuas Oy**, the **Mondex brand**, which is part of Protec Oy and **Misa Oy**, whose revenues are, in our opinion, under 5 MEUR.

Harvia's profitability is the best in the industry

Harvia's profitability is the best among its competitors and its EBIT margin has been around 20% for the past 10 years. Competitors for which public figures are available typically have margins of 5-10%. Competitors' performance also reflects the headwinds of the pandemic period and the challenges of the post-COVID period for the industry as a whole, with some operators posting losses in recent years. We believe Harvia's strong profitability is due at least to 1) its own component design and production, 2) a strong brand and 3) economies of scale from large volumes.

Strategy 1/2

Harvia's strategic focus areas (announced in May 2024)



Delivering the full sauna experience

- Increasing sales of end-to-end systems and solutions
- Being a leader in all sauna types by increasing the share of steam and infrared saunas
- Bringing new innovations to market, including design, user experience, and digital solutions

Winning in strategically important markets

- Market-specific targets:
- In North America, continued growth across all price points, product groups and channels;
 - Strengthening its position in Europe and growth in the short term as the market recovers;
 - APAC & MEA market development in 'high potential countries'
 - Harvia also wants to be an active consolidator

Leading in key channels

- "the right product in the right channel"
- For resellers (B2B), the best long-term partner
- Strengthening the direct consumer channel
- Supporting end-users over the product life cycle

Best-in-class operations and great people

- Automation of operations and strong capacity growth in fast-growing markets
- Enhancing group integration to support productivity and growth
- Developing employees' abilities and supporting their well-being
- Continuous improvement of sustainability in operations and supply chains

Strategy 2/2

Inderes' comments on the strategy

We see Harvia's strategic priorities as a very logical development from the past and as reasonable and realistic for the company's situation and potential. They also clearly support the achievement of the company's financial objectives. We'll go through each area below.

Expansion beyond traditional products will continue

Delivering the full sauna experience has somewhat replaced the previous objective of increasing the average purchase, which remains as an element, i.e., increasing sales of complete solutions - this is still a logical goal, and Harvia has shown that it can also achieve a good margin on complete saunas, for example. The idea behind both objectives is to further expand Harvia's product portfolio in the sauna & spa market.

In order to increase the share of steam saunas, Harvia has already made an acquisition, which we see as a very good strategic move. Adding more steam and infrared to the company's portfolio will significantly increase its growth potential and is, in our view, a very sensible direction to take. Bringing innovations to market is a normal part of any company's business. In Harvia's market, products change rather slowly, so we do not see the introduction of major innovations as critical for Harvia.

Geographical focus on expanding into key markets

Winning in strategically important markets replaced the previous "geographic expansion" objective, and the company has clearly said that geographic coverage is already sufficient and that the focus

should now be on those markets where the potential is significant.

In recent years, Harvia's growth has come from outside Europe, and there is clearly more potential for growth in this market, which the company's targets refer to and build on. We believe that the company's strong brand and good products also support expansion opportunities in newer sauna markets. We believe that the development of cross-selling through acquisitions can support sales growth, e.g., in steam and professional products.

Harvia has already been active in acquisitions this year. However, there are a limited number of good targets, so even if we continue to see takeovers, they may be few and far between.

Direct consumer sales are particularly important in the US

Leadership in key channels is a new objective for the company and highlights the slightly changed distribution channel structure. To our understanding, the strengthening of the direct-to-consumer channel is at this stage mainly related to the US market, where it already represents a significant part (about one third) of the company's sales. Also in APAC & MEA, we believe there is potential to take more control of the channel, while in Europe the structure has historically been reseller-led and is unlikely to change significantly in the short to medium term.

In some product groups, such as traditional sauna heaters, Harvia has a very broad product range, while in others there are clear gaps in the market. Clarifying the product range and targeting the right markets and channels sounds like a good way to develop the range without having to increase it

significantly.

Operational efficiency is already at a good level

The three previously mentioned objectives are "based on" the *best-in-class operations and great people*, which in the previous objectives was called "productivity improvement". The efficiency of Harvia's production and other operations is already at an excellent level, but we see further room for improvement in this area, for example by better integrating the production and operations of previously acquired companies.

Continuously improving efficiency and taking care of employees is part of the normal business of any company. We believe that the company will continue to expand its capacity, especially in the fast-growing North American market, while the Muurame factory (traditional heaters and saunas), for example, will be able to produce significantly higher volumes with the current equipment, i.e., only by increasing the number of shifts.

Financial targets



Financial targets (updated in May 2024, previously issued at the time of the IPO in 2018)

Annual organic revenue growth on average 10%

- Increased from previous target of "above 5%", but now includes impact of acquisitions
- However, Harvia expects the market to grow by more than 5% in the coming years and the company will continue to gain market share, which should bring organic growth close to 10%.
- Supported by the ThermaSol acquisition, we expect Harvia to exceed the target with an average growth rate of 12% (CAGR) in 2023-27.

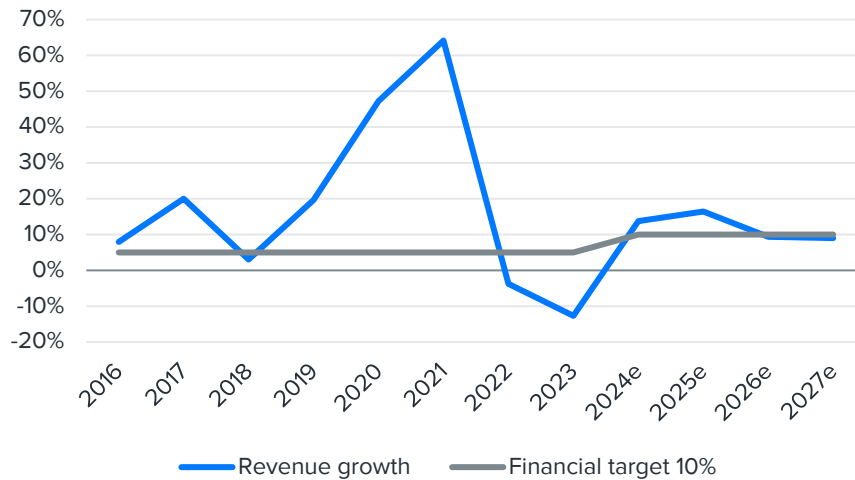
Adjusted EBIT margin over 20%

- The target remained unchanged
- Harvia's profitability has historically been on both sides of the target, and in recent years above the target. We believe that Harvia will continue to be able to achieve the targeted margin level
- Growth supports profitability through operational leverage, but on the other hand, the investments required for growth (increase in fixed costs) and the potential negative impact of acquisitions limit the margin increase

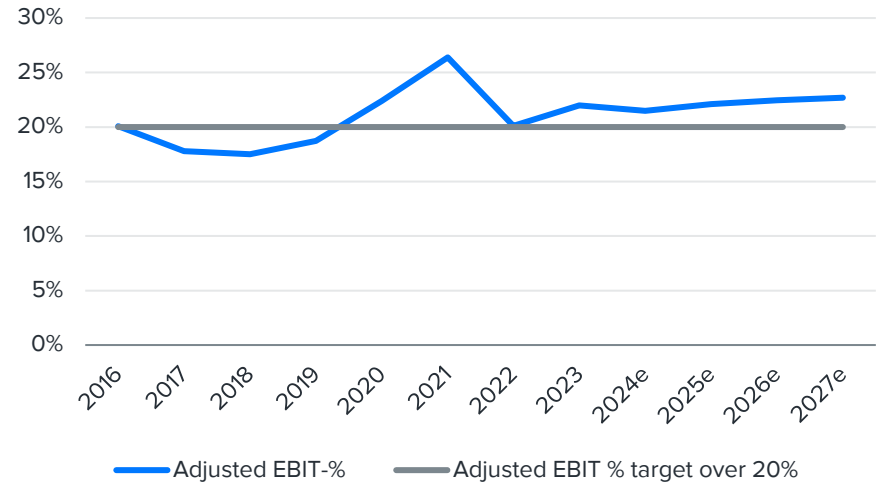
Net debt/adjusted EBITDA <2.5x

- The previous lower limit of 1.5x, which was practically irrelevant, was removed from the target.
- Harvia's cash flow is strong and its investment needs are low, which means that the company can easily repay its debt under normal circumstances, and the ratio will increase mainly due to potential acquisitions.
- Including the ThermaSol acquisition, the level was 1.4x at the end of Q2'24, and we expect Harvia to remain on target in the future.

Revenue growth target



EBIT % target



Harvia's key acquisitions



Revenue	7.4 MEUR (2015)	~8 MEUR (2017)	17.3 MEUR (2019)	14.4 MUSD (2023)
Profitability	Weaker than Harvia's at time of acquisition (EBITDA <10%)	EBITDA neg. (2017)	Adjusted EBIT %: 16.5% (2019)	Adjusted EBITDA %: 17.2% (2023)
Deal price	4.5 MEUR	4 MEUR (EV/S ~0.5x)	19.7 MEUR (EV/EBITDA ~8x) + second tranche purchase price 19 MEUR (7/22) with same multiple from last 12 months	30.4 MUSD (EV/EBITDA ~12X)
Share of ownership	100%	100%	78.6% of German and 80% of Russian businesses (the remainder of German business acquired in 7/22, Russian operations divested in 3/23)	100%
Headcount	73	Around 40	Around 150	Around 40
Main markets	Central Europe	US	Central and Eastern Europe, Russia	US
Brands			 	
Product range	Higher price class sauna heaters, control units, sauna rooms and accessories	Lower price class outdoor and indoor saunas (e.g. barrel saunas)	Professional class sauna heaters and steam generators (EOS), gas heaters (Kusatek), control units and electronics (Spatronic)	Steam saunas and showers and their components

Past development

Revenue growth has been strong

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

In 2016 to 2018, Harvia's organic growth was slightly slower than that of the global sauna and spa market being 3 to 4% annually. We estimate that this was caused by the company's heavy exposure to the more slowly growing traditional sauna markets (Finland, Scandinavia and Russia), which in 2018 still generated one-half of the company's revenue. Harvia's strong area, the heater market, also typically grows slightly slower than the market as a whole. Thanks to acquisitions, new product launches, and new distribution channels, the company has, however, been able to expand sales geographically and an increasing share of its revenue now comes from more rapidly growing sauna markets. This was also the strategy created by CapMan, who took ownership in 2014, and the management team at the time, and it worked well.

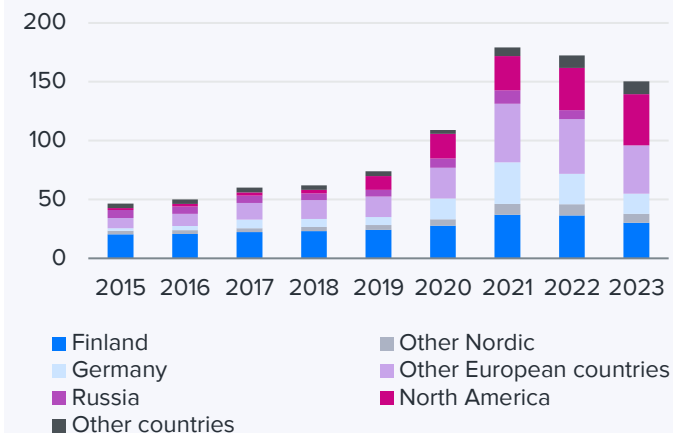
However, supported by acquisitions the growth rate was approximately 20% in both 2017 and 2019, after which COVID blew off the top of demand and, partly supported by acquisitions, growth was 47% and 64% in 2020 and 2021. The pace remained strong in Q1'22, but fell 4% overall in 2022 as demand weakened as the pandemic-driven stay-at-home boom faded and consumer purchasing power weakened as inflation rose. In 2023, the decline is 13%, or 9% excluding the impact of the withdrawal from Russia.

Profitability among the best in the industry

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

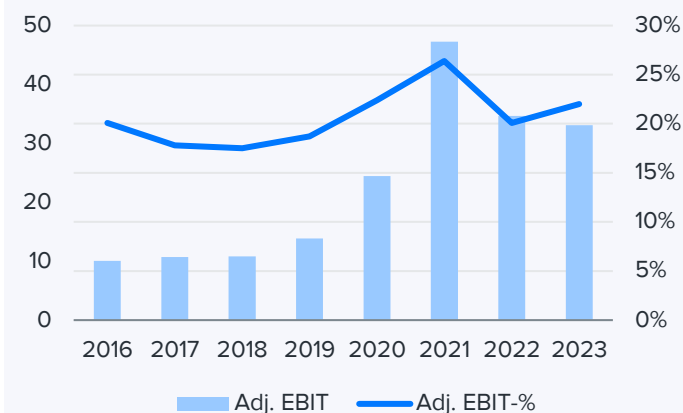
Despite the fact that the companies acquired by Harvia have partly been less profitable than its traditional operations, the profitability trend during 2020-21 has been clearly upward. This was naturally supported by a huge sales increase, which has allowed the company to enjoy positive operational leverage and, according to our assessment, also good pricing when product demand has been high. Harvia also improved the efficiency and expanded the operations of the acquired companies, increasing their margin. The adjusted EBIT margin rose well above the 20% target in 2021 to 26%. Despite the drop in revenue, the margin remained above 20% in 2022 and rose to 22% in 2023.

Revenue by market (MEUR)



Source: Harvia

Adjusted EBIT (MEUR)



Source: Harvia

Financial position

Apart from goodwill, the balance sheet is rather light

Harvia's balance sheet has been on a strong level since the IPO in 2018 when the company used the collected capital nearly fully to repay shareholder loans. The company's equity ratio has been at a good level of 40-50% in recent years.

The main item on the assets side of Harvia's balance sheet is goodwill resulting from structural arrangements and acquisitions, representing one-third of the balance sheet. Given the company's strong profitability, we see no realistic write-down risk in the near future. As indicated above, Harvia's production structure is rather light and only good 10% of the balance sheet is committed to tangible assets. Significant items include working capital reserves (slightly below 20%) and trade receivables (just above 10%). Harvia also had a lot of cash at the end of Q2'24, which was partly used for the ThermaSol deal in Q3.

On the liabilities side, the company's balance sheet is fairly straightforward. Share capital represents around half, i.e., the equity ratio is strong, while the majority of the other half is non-current interest-bearing debt. Trade payables are slightly above 10%, i.e., about 15% of the balance sheet total is net working capital or 20-25% relative to revenue.

Capital turnover is good

Thanks to the light balance sheet, the company's capital turnover is relatively good, especially if goodwill is removed from capital. This in practice translates to the productivity of the company's operating assets. Thanks to this and a good margin level, the company achieves a value-creating return

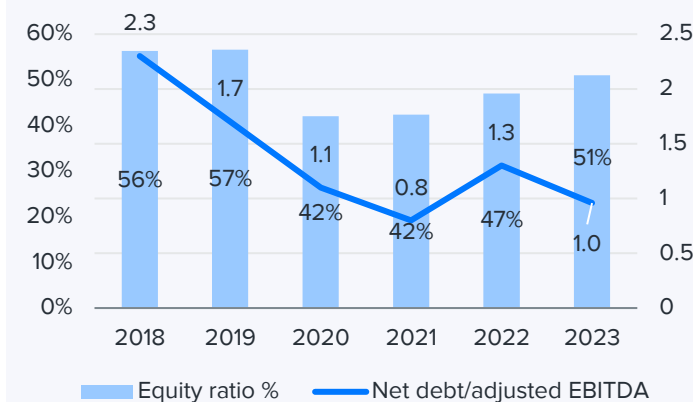
on capital (ROIC ~20%). In the coming years, the company will be able to grow without significant investments in production capacity (although this will happen, at least in the US), which should make growth very profitable in terms of return on capital and cash flow.

Balance sheet clearly stronger than target and allows acquisitions to continue

The company's financial leverage target is to maintain a ratio of net debt to adjusted EBITDA below 2.5x. Throughout the company's stock market history, Harvia has succeeded in this goal and the ratio has mostly been on a downward trend. At the end of Q2'24, the ratio was already below 1x, but including the acquisition in July, it would have been around 1.4x.

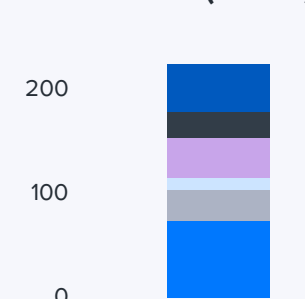
The company wants to keep room on the balance sheet for acquisitions, and we believe that leverage will increase when an acquisition is completed and otherwise decrease with earnings growth and cash flow. As acquisitions are an important part of Harvia's strategy, we believe that the company will accept a strengthening of the balance sheet to net debt-free before a significant increase in the profit distribution. Even after the ThermaSol takeover, Harvia could take on additional debt of around 50 MEUR within its balance sheet target. Looking back, and according to our estimates, the size of potential acquisitions fits well into this figure. Harvia may also temporarily exceed the target level in connection with an acquisition.

Balance sheet position



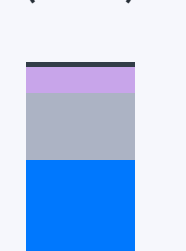
Source: Harvia

Balance sheet assets at the end of Q2'24 (MEUR)



- Cash
- Receivables
- Inventories
- Other non-current
- Tangible
- Goodwill

Balance sheet liabilities at the end of Q2'24 (MEUR)



- Other liabilities
- Trade payables
- Current
- Non-current
- Equity

Source: Harvia

Estimates 1/4

We expect organic development

We model Harvia based on the revenue of its geographical segments and group level gross margin, expenses and, hence, operating profit. Harvia changed its segment structure at the beginning of this year, and due to the lack of comparison figures we will continue to forecast based on the old segment structure for the time being, but from next year we will switch to the current segment structure. We do not include potential future acquisitions in our estimates so they are based on organic development.

The company does not publish a guidance or short-term outlook

Harvia does not publish a short-term outlook, and thus no earnings or revenue guidance. As previously stated, the company has set long-term targets of 10% average annual revenue growth and an adjusted EBIT margin in excess of 20%. The company has stressed that the margin target is valid also during weaker demand, although individual quarters may sometimes fall short of the target. The company has largely been able to do this in recent years.

Revenue has turned to an upward trend

Harvia's revenue made a downturn in Q2'22, as demand from the COVID era subsided, and, on the other hand, accelerating inflation and uncertainty caused by the Russian invasion of Ukraine began to affect consumer demand more widely, particularly in Europe. Revenue declined until Q3'23, then turned slightly upward, and Q2'24 saw an astounding

increase of over 20%. Growth was driven by North America and APAC & MEA, while Europe remained sluggish.

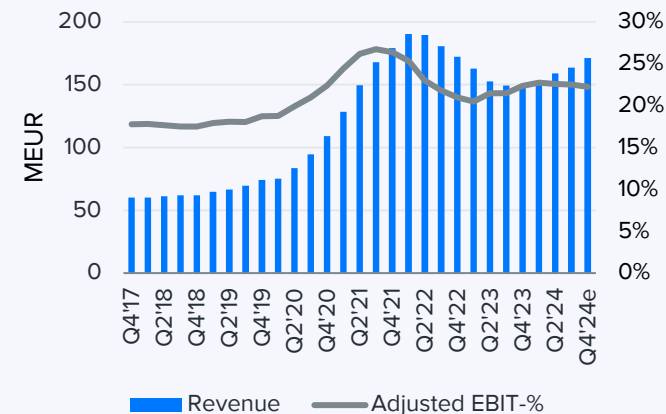
We expect revenue to continue its upward trend, supported by the July acquisition of ThermaSol, which will boost growth figures in North America. We expect organic growth in Q3 to be slightly lower than in the first half (around 11%), but to accelerate to 10% in Q4. As in previous years, organic growth will be driven by North America and APAC & MEA, where market growth and Harvia's potential are still significantly higher than in Europe. In Europe, we expect modest growth in H2 (3-5%).

For the full year 2024, this represents a 14% increase in revenue, or around 10% in organic terms. We expect revenue in Northern Europe to be even lower than last year and slightly higher in Central Europe. In North America, we expect growth of nearly 40%, driven by the acquisition, and in APAC & MEA, we expect organic growth of more than 30%. In growth areas, we believe that Harvia will continue to gain market share from competitors, supported by the competitive advantages mentioned earlier in the report.

Years of strong growth ahead

In 2025-27, we expect the market to return to trend growth of around 5% or more, as Harvia itself expects. We also believe that Harvia will continue to gain market share, especially in the US, where the acquisition will enable it to have a stronger position in steam products and also try to bring more infrared products to the market.

LTM rolling revenue and EBIT-%



Source: Harvia, Inderes estimates

Annual revenue development



Source: Harvia, Inderes estimates

Estimates 2/4

Supported by the ThermaSol acquisition, we expect Harvia to exceed the average growth target of 10% in the coming years and to grow organically at around 10%.

Our projected growth of 16% (12% organic) in 2025 will continue to be driven by the North America and Rest of World segments with organic growth of around 20%, supported by growth in the steam business in North America. Next year, we also expect the European market to recover from the weak levels of recent years and grow by around 5%. In the Rest of World segment, Japan is already important for Harvia, and we believe that the joint venture with our distribution partner Bergman will continue to support growth in the coming years. The company has previously stated that it is looking to Japan to replace Russian sales (pre-pandemic level of around 6 MEUR/year and over 10 MEUR at best).

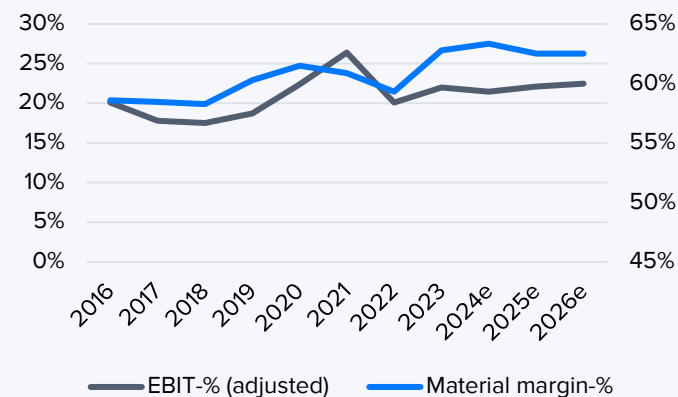
For 2026-27, we estimate 9% revenue growth, which is still a good pace. As usual, this is driven by the double-digit growth of the North America and APAC & MEA segments, with growth in the European market stabilizing at just under 5%. This growth rate also means that we expect Harvia to grow slightly faster than the market. We expect this to happen mainly through the expansion of Harvia's product range to include steam and infrared saunas/products, where the company's supply has been limited in the past.

EBIT margin remain at the target level of above 20%

Harvia's material margin in 2019-21 was slightly above the historical level of over 60%, which we believe was supported by favorable pricing due to high demand and production running at full efficiency. However, last year the company was able to increase its material margin to an all-time high of well over 63%, and at the beginning of this year it was over 64.5%. This is supported by Harvia's growth outside Europe, where product prices and material/gross margins are typically higher than in Europe, especially in Finland. At the EBIT income level, we believe the margin difference between regions is smaller. The material margin improvement was also supported by improved manufacturing efficiencies and flattening raw material costs, which we believe also provided some temporary support.

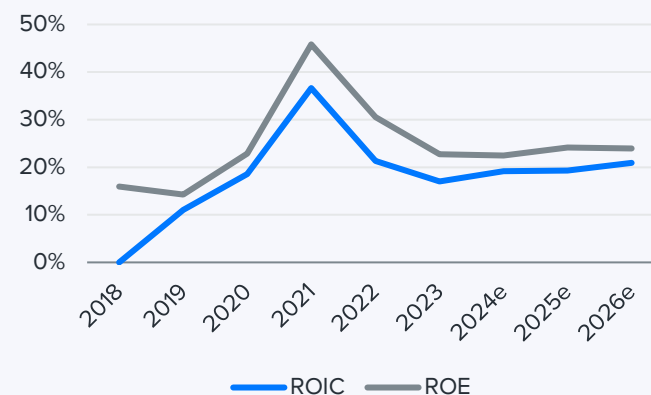
For the full year, we expect a material margin of over 63%, supported by the high level already achieved in the first half. We do not believe that the peak levels will be maintained in the future, but the company should still be able to reach a historically good level of around 62.5% in 2025-26. We expect this to be somewhat negatively impacted by the ThermaSol deal (where we believe margins will be weaker for at least the next few years), while strong organic growth outside Europe will support the material margin. According to Harvia, there is no major price pressure in the market and there is no need to lower prices. Price decreases would probably not create much additional demand, so we feel it would almost directly come out of the company's profitability and thus be a clear negative.

Material margin and EBIT %



Source: Harvia, Inderes estimates

Good return on capital levels



Source: Inderes

Estimates 3/4

Although Harvia has been able to maintain a high EBIT margin, fixed costs as a percentage of revenue (fixed costs in this case are all personnel costs + other operating costs) have increased in recent years. This was due to both lower revenue and, more recently, the company's investments in growth, such as hiring new employees. We expect this trend to turn next year, and revenue growth will provide operational leverage and support for profitability. On the other hand, Harvia will continue to support growth, so a significant reduction in the ratio of fixed costs to revenue is not expected. In terms of production, personnel costs are, to some extent, flexible upwards, as mentioned earlier.

For the full year, we forecast an adjusted EBIT margin of 21.5%, slightly lower than the H1 level, mainly due to the negative impact of ThermaSol. For next year, we expect a slightly lower material margin, but with a lower fixed costs/revenue ratio, we expect the margin to remain almost unchanged. As synergies from the ThermaSol deal materialize and growth continues, we expect margins to increase slightly to 22-23% in 2026-27.

EPS and dividend

Even after the ThermaSol acquisition, Harvia's gearing is relatively moderate, which means that its financing costs are relatively low. For this year and next year, we forecast financing costs of around 3 MEUR and then decreasing financing costs as debt is reduced. We expect the tax rate to be at the upper end of the range of recent years, around 24% in 2024-26. The tax rate is slightly higher due to a higher proportion of earnings in higher tax

jurisdictions.

We forecast comparable EPS growth of just over 10% in 2024, over 15% in 2025, and 12% in 2026. This would result in the highest ever EPS in 2026 (EUR 1.93 vs. 1.85 in 2021.)

Harvia has traditionally distributed a relatively large proportion of its profits as dividends. In connection with the 2021 dividend decision, the company removed the previous target of 'at least 60% of net profit' from its dividend policy and now seeks 'only' growing dividend. Supported by this, the company sensibly decreased the payout ratio clearly for 2021, but nonetheless increased its absolute dividend. As a result, we believe that Harvia has been able to continue increasing the dividend despite the weaker performance in recent years. Last year's payout ratio was a healthy 55%, and we expect the company to maintain a similar payout ratio (50-60%) in the coming years. Even with this payout ratio, the company's strong cash flow will significantly reduce its debt and allow for new acquisitions.

Balance sheet remains strong also in estimates

Harvia's net debt/EBITDA margin is around 1x in 2024-25 and then falls to zero in our projections by the end of 2027. In other words, there is plenty of room for the new acquisitions that Harvia is pursuing. If no acquisition targets are found or if the acquisitions are smallish, Harvia could also optimize its balance sheet structure with an extra dividend. However, the company seems to have a clear target for further acquisitions and thus a significant increase in dividend payout in the coming years seems unlikely.

High ROE creates value

The return on capital we expect (ROIC and return on equity, ROE, see image on previous page) for the next few years is around 20-25% for Harvia. As the company's growth requires little capital, capital recycling and return have risen as earnings have grown. We expect the growth trend to continue from 2024 onwards and ROE to remain high, which creates value for owners. In this respect, we see the only clear risk that Harvia would commit its capital to a costly acquisition that would also be reflected in lower return on capital.

In relative terms, the strengthening of the balance sheet will have some negative impact on return on equity in the coming years. For example, by using assets for successful acquisitions and/or larger dividends, the ROE could be further improved.

Estimates 4/4

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue	46	50	60	62	74	109	179	172	151	172	200	219
Materials and services	-19	-20	-25	-26	-29	-42	-70	-70	-56	-63	-75	-82
<i>Materials and services (% of revenue)</i>	<i>-38.7%</i>	<i>-41.4%</i>	<i>-41.5%</i>	<i>-41.7%</i>	<i>-39.7%</i>	<i>-38.5%</i>	<i>-39.1%</i>	<i>-40.7%</i>	<i>-37.2%</i>	<i>-36.6%</i>	<i>-37.5%</i>	<i>-37.5%</i>
Material margin	28	29	35	36	45	67	109	102	94	109	125	137
<i>Material margin-%</i>	<i>61.3%</i>	<i>58.6%</i>	<i>58.5%</i>	<i>58.3%</i>	<i>60.3%</i>	<i>61.5%</i>	<i>60.9%</i>	<i>59.3%</i>	<i>62.8%</i>	<i>63.4%</i>	<i>62.5%</i>	<i>62.5%</i>
Other operating income	0.6	0.4	0.2	0.2	0.5	0.4	0.5	0.7	1	0.4	0.5	0.5
Personnel expenses	-9	-10	-12	-13	-15	-21	-31	-31	-29	-33	-38	-41
<i>Personnel costs (% of revenue)</i>	<i>-20.2%</i>	<i>-19.8%</i>	<i>-20.5%</i>	<i>-21.1%</i>	<i>-20.1%</i>	<i>-19.4%</i>	<i>-17.1%</i>	<i>-17.9%</i>	<i>-19.2%</i>	<i>-19.4%</i>	<i>-18.8%</i>	<i>-18.6%</i>
Other operating expenses	-7	-8	-12	-12	-14	-20	-26	-30	-27	-32	-36	-39
<i>Other operating expenses (% of revenue)</i>	<i>-16.0%</i>	<i>-16.9%</i>	<i>-19.7%</i>	<i>-18.9%</i>	<i>-18.6%</i>	<i>-17.9%</i>	<i>-14.8%</i>	<i>-17.4%</i>	<i>-18.0%</i>	<i>-18.7%</i>	<i>-18.0%</i>	<i>-18.0%</i>
EBITDA	12	11	11	12	16	27	52	42	39	44	52	57
EBITDA %	26.4%	22.6%	18.6%	18.6%	22.2%	24.5%	29.3%	24.4%	26.1%	25.6%	25.9%	26.1%
Depreciation and amortization	-1.6	-1.6	-1.9	-2.2	-3.1	-4.3	-5.8	-7.5	-6.1	-6.9	-7.7	-8.0
Adjusted EBIT		10	11	11	14	24	47	34.6	33	37	44.2	49.2
<i>EBIT-% (adjusted)</i>		<i>20.1%</i>	<i>17.8%</i>	<i>17.5%</i>	<i>18.7%</i>	<i>22.4%</i>	<i>26.4%</i>	<i>20.1%</i>	<i>22.0%</i>	<i>21.6%</i>	<i>22.1%</i>	<i>22.5%</i>
Items affecting comparability		-0.4	-1.4	-1.5	-0.5	-2.1	-0.6	-1.5	-0.6	-1	-0.5	-0.3
Operating profit (EBIT)	10.6	9.7	9.3	9.4	13.3	22.4	46.6	36.1	33.1	37.1	43.7	48.9
EBIT-%	22.9%	19.4%	15.4%	15.1%	18.0%	20.5%	26.0%	21.0%	22.0%	21.6%	21.9%	22.3%

Estimate revisions	2024e		Change	2025e		Change	2026e		Change
	Old	Act.		Old	New		Old	New	
MEUR / EUR			%			%			%
Revenue	171	172	0%	199	200	0%	218	219	0%
EBITDA	43.6	44.0	1%	51.2	51.4	0%	56.7	56.9	0%
EBIT (exc. NRIs)	38.1	38.4	1%	44.0	44.2	0%	49.0	49.2	0%
EBIT	36.8	37.1	1%	43.5	43.7	0%	48.7	48.9	0%
EPS (excl. NRIs)	1.45	1.46	1%	1.70	1.71	0%	1.92	1.93	0%
DPS	0.72	0.72	0%	0.80	0.80	0%	1.00	1.00	0%

Source: Inderes

Valuation 1/4

Traditional valuation methods work well

Harvia is a growing and well-performing quality company. This enables the use of both the DCF model and earnings-based valuation, and also makes dividend yield more predictable. The rapid growth during the COVID era and the decline in earnings in 2022-23 still poses some challenges to valuation. However, the situation is becoming clearer and the revenue trend has turned upward again. Our expected return looks at the profit and cash flow levels and their growth, dividends and possible changes in valuation multiples for the next few years.

A strong medium-term outlook is priced into the stock

We expect Harvia to deliver good annual growth from this year well into the 2030s, and the company has proven its quality and margin resilience even in the challenging years 2022-23. Although we find Harvia's multiples high for the next few years, we note that we expect the company's earnings growth and good cash flow to push multiples down over the years. However, the high valuation keeps the expected return weak in our view.

From a valuation perspective, we think our projected P/E of around 30x and EV/EBIT of 22x for 2024 are high. P/E will remain above 20x in 2025-26, while EV/EBIT will fall to 17x in 2026. The multiples are also well above the average of the peer group, although we do not consider the peer group to be directly comparable with Harvia.

Outlined in terms of earnings growth and dividend (i.e. assuming the current valuation is maintained), we

arrive at an expected return of 10-15%. It is also worth noting that our projections keep Harvia's net debt/EBITDA low (below 1.5x), while the target is below 2.5x. This will allow the company to either distribute more profits or make acquisitions, which we believe will support expected returns. Harvia will likely seek to make acquisitions in the future.

As a sum of different valuation methods, we estimate the fair value range for Harvia to be around EUR 30-40, with the lower range representing acceptable multiples for this year's earnings and the upper range representing the DCF value plus successful acquisitions.

DCF model value below current share price

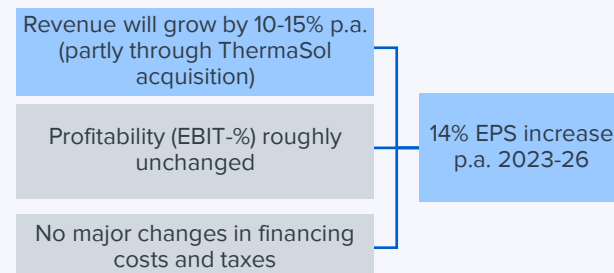
With a stable industry, steady profitability and a fairly predictable business, we believe that the DCF model is a relevant valuation method for Harvia. After the more detailed forecast years described above, we forecast a gradual slowdown in the company's revenue growth from 9% to 2.5% (EBIT margin around 22.5%) from 2027 to 2032, which is our terminal growth assumption.

We expect the level of investments to remain moderate, as Harvia has made significant investments in 2021 that will allow the company to grow. However, growth investments will be needed in the near future, especially in the US. The company's capital requirement is generally low and the return on capital is high, which enables strong cash flow and growth. Our medium-term assumption for the company's capex/revenue ratio is around 3%, which also allows for growth, with maintenance capex closer to 2% in our view.

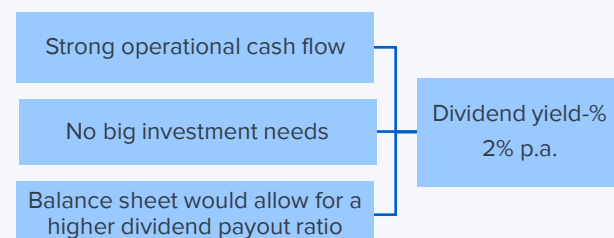
TSR drivers 2023-2026

■ Positive ■ Neutral ■ Negative

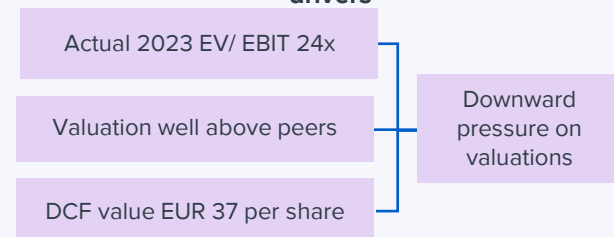
Profit drivers



Dividend yield drivers



Valuation multiple drivers



Share's expected total return 0-5% p.a.

Valuation 2/4

As the required return (WACC) we use 8.7%. A large proportion (about 65%) of cash flows will only be generated after 2033, i.e. during the terminal period. Our DCF model gives Harvia a debt-free value of about 750 MEUR, which means that the share capital is worth about 700 MEUR, or about EUR 37 per share. At 10% growth throughout the forecast period (2032), the DCF value would be around 41 EUR. On the other hand, if growth in 2028-32 were only 5% per year, the DCF value would fall to around EUR 33.

Earnings-based valuation is high

Harvia's EV/EBIT valuation at 2024 earnings is over 20x. This figure does not include more than half of the results of ThermaSol, which was acquired this year, but the impact on the ratio is quite small and the valuation level is high in any case. The 2025 EV/EBIT is 19x, which is still high. Harvia's historical valuation has fluctuated wildly, as the company did not have such a clear growth profile in the early years of its stock market history, and on the other hand, with the rapid growth of the pandemic era, the multiples rose very high in 2020-21. Even considering the company's 20%+ return on capital, the valuation is high. On the other hand, the growth outlook for the coming years is strong and the rapidly strengthening balance sheet provides opportunities for acquisitions. We see an acceptable EV/EBIT level for Harvia at 15-16x, which the company will reach in 2026-27.

On a P/E basis, Harvia is priced at around 30x 2024 earnings, implying an earnings yield of just above

3% - even by this measure the stock is quite expensive. As an acceptable level, we see around 20x the level Harvia will reach in 2027. At the current share price and a dividend payout ratio of 40-50%, Harvia offers a dividend yield of around 2%.

We estimate that Harvia's free cash flow will be EUR 30-35 million in the next few years, which at the current share price offers a cash-flow rate of approximately 4%. Because we believe that Harvia can achieve an earnings growth of over 10% in the coming years, the expected return is around 15% p.a. However, the high valuation partially prices in the earnings growth outlook for the next few years. With a current free cash flow of around 30 MEUR, we estimate that the stock is currently priced for a steady (earnings) growth rate of around 5% in perpetuity. Although our projections clearly exceed this growth rate in the coming years, we believe that this assumption is difficult to achieve over the long term and certainly does not leave any upside potential in the valuation.

If we assume that the P/E ratio of 20x, which we consider to be an acceptable level, would be the right valuation level for the company in three years' time, and that an investor would want a 10% annual return on the stock, then the EPS should be around EUR 2.9 at that time. Assuming relatively stable profitability, this would require annual revenue growth of above 20% from the 2023 pro forma level (including ThermaSol).

Valuation	2024e	2025e	2026e
Share price	42.5	42.5	42.5
Number of shares, millions	18.7	18.7	18.7
Market cap	792	792	792
EV	851	838	820
P/E (adj.)	29.1	24.8	22.0
P/E	30.6	25.2	22.2
P/B	6.6	5.7	5.0
P/S	4.6	4.0	3.6
EV/Sales	5.0	4.2	3.7
EV/EBITDA	19.4	16.3	14.4
EV/EBIT (adj.)	22.2	18.9	16.7
Payout ratio (%)	51.9 %	47.5 %	52.2 %
Dividend yield-%	1.7 %	1.9 %	2.4 %

Source: Inderes

Valuation 3/4

High valuation compared to the peer group

It is difficult to find comparable listed peer companies for Harvia, as there are practically no relevant sauna/spa benchmark companies. We have used international listed companies in the peer group that each in their own characteristics are somehow similar to Harvia. Common features can be found in the same geographical business area, similar production and distribution strategy, growth and profitability profiles, etc.

As Finnish peers among consumer product companies we have chosen Nokian Tyres, Rapala and Tulikivi, which also sells heaters.

As Swedish peers we have chosen, e.g., Thule that manufactures roof racks, Dometic that manufactures air conditioning and electronic equipment, Electrolux that manufactures appliances and Nibe that manufactures heat pumps. Other peer companies include, e.g., home ware manufacturer De'Longhi and exercise equipment manufacturer Technogym.

The median EV/EBIT of the peer group for 2024 is 15.5x and the P/E is around 21x. In both 2024 and 2025, Harvia's valuation is significantly higher than the peer group and the company's valuation is among the highest in the peer group. Due to the differences in the peer group, we do not believe that its valuation is directly applicable to Harvia, but it supports the picture of a relatively high valuation.

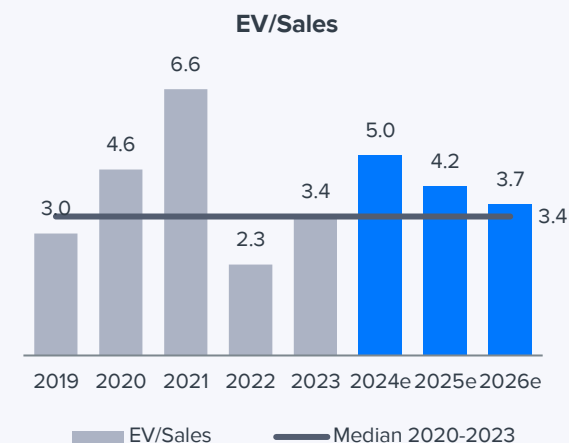
The sale of Harvia's unlisted competitor Sauna 360 to US Masco in July 2023 offers one approach to

the valuation. The EV/S ratio for 2022 was 1.5x and the EV/EBIT ratio about 14x, while the corresponding figures for Harvia (for 2024) are 5.0x and 22x. Harvia's clearly higher EV/S ratio is due to better profitability. Even on an EV/EBIT basis, the company's valuation is significantly lower than Harvia's current valuation.

At the turn of 23/24, there was also another transaction in the industry when Kohler, a US-based company, acquired Harvia's rival Klafs. However, the figures for this transaction have not been published. We also believe that Harvia is a potential acquisition target for large players such as Masco and Kohler, but the current valuation already sets the price very high considering a possible bid.

Previous acquisitions seem successful

Harvia has been relatively active in acquisitions and will continue to pursue them in the future. The company has also clearly succeeded in developing them and been able to improve the profitability of the acquired targets. For example, Sentiotec and Almost Heaven Saunas acquired years ago have been brought to a much better profitability level by bringing Harvia's know-how of different processes to the acquired companies and by utilizing the organization of the acquired companies to sell Harvia's products. With AHS, Harvia's US business started to grow very strongly. Since the purchase prices of these acquisitions were only 4-5 MEUR, it is safe to say that they have been value-creating ones in the case of AHS.



Valuation 4/4

In the case of the EOS and Kirami acquisitions, the boom in demand brought about by the pandemic period obscures their own contribution to the improvement in performance. Despite this, if we estimate that EOS will be able to generate at least EUR 20 million in revenue (17 MEUR reported in 2019) and Harvia's typical profitability of 20%, the EV/EBIT multiple on the deal price would be 10x. This is despite the fact that Harvia had to pay a relatively high price for the minority stake compared to the original purchase price. For Kiram, the timing of the deal at the peak of COVID demand was clearly not optimal, and the company's revenues and earnings have weakened significantly in 2022-23, while remaining in the black. On the other hand, the acquisition price was very low compared to Kiram's strong performance in the pandemic era, so we believe the transaction is still financially reasonable, but not yet value creating.

It is obviously too early to assess the latest ThermaSol transaction, but given the price and the strategic fit of the company, we believe that this is also a value-creating acquisition for Harvia.

We see acquisitions as an opportunity

As a whole, we see that Harvia's acquisitions have been successful and thus the company will continue to have an opportunity to create value with them. As we mentioned earlier, product category additions, particularly on the infrared side, would be the most logical targets for potential acquisitions in our view. Of course, a

stronger integration of the sauna manufacturing side in the style of the Almost Heaven Saunas store would also be logical for Harvia's strategy.

In infrared saunas, most of the major players have outsourced sauna production, making it difficult to stand out/increase efficiency on that side. The sales arguments for infrared saunas and the use of the products are also somewhat different from Harvia's current product portfolio. On the other hand, Harvia already has its own infrared expertise within the company. In terms of infrared, we believe that direct synergies/efficiency improvement possibilities are smaller than in, e.g., the Sentiotec or Almost Heaven Saunas acquisitions. In these, Harvia brought its own expertise to the acquired companies and, on the other hand, gained a stronger foothold in the markets of these companies, which resulted in a clear improvement in the acquired companies. Harvia has significantly increased its own production capacity in recent years(), so in this respect we feel it has no needs (particularly in Europe) that could be met with acquisitions.

We can roughly estimate the impact of potential future acquisitions, although it is virtually impossible to estimate the timing, size and price of deals. With the current high valuation multiples, it is easy for Harvia to make value-creating transactions, provided that the market values the acquired companies as part of Harvia at the same multiples as Harvia's share is currently valued. A more fundamental way is to include acquisitions in our DCF model. In this scenario, we assume that

at the end of 2026, 2028 and 2030, Harvia would make acquisitions worth around 50 MEUR, generate 20 MEUR in revenue (EV/S 2.5x) and reach Harvia's average profitability (for simplicity, from the beginning, which is unlikely to happen in practice). Under these assumptions, our DCF value would increase by approximately EUR 2 per share. If organic growth were to accelerate by a further 1 percentage point per year between 2028-32, this would add a further EUR 2 per share to the DCF.

Reasonable expected return in the longer term

We expect that Harvia will continue to grow by 5-10% well into the 2030s, as predicted by our DCF model. The company's target for the next few years is 10% growth including acquisitions, which we do not include in our model, so in organic terms the forecast is broadly in line with the company's target. We believe that the EBIT margin target of over 20% remains achievable, although not at the peak level of over 25%. The margin will therefore remain relatively unchanged, and the medium-term profit growth expectation will be in line with revenue growth, i.e. 5-10% per year. Add in a dividend yield of about 2%, and the total return is about 10%, slightly above our required return. Longer-term returns are therefore reasonably good, even if short-term valuation multiples are elevated.

Climate target and taxonomy

Harvia's business is largely outside the taxonomy

Harvia's business is the manufacture and sale of consumer products (mainly sauna heaters and saunas), which at this stage does not in principle fall within the scope of the taxonomy. We believe that this is because taxonomy initially identified sectors that have the most significant impact on climate change, which does not include consumer products.

However, Harvia has small parts of its operations that the company considers to be taxonomically aligned or eligible. The taxonomic activities included in revenue are related to the manufacture of energy efficiency equipment and, more specifically, to the automation of sauna control. In addition, the sale of spare parts is estimated to be taxonomy eligible for the circular economy objective. The company's capital expenditures (capex) also include some taxonomy-like/eligible activities related to energy efficiency improvements, such as the purchase of electric forklifts. In principle, the company's products consume energy when used (sauna heating), so from this perspective the products have a rather negative impact on the environment.

We feel taxonomy has no impact on the business

As Harvia's operations are currently not significantly covered by the taxonomy, we do not believe that the current taxonomy will have any impact on Harvia's business and thus, for example, on its financial situation or financial expenses.

Climate target related to emissions from own activities

One of Harvia's four sustainability targets is to minimize its environmental footprint, or more specifically, to make its operations carbon neutral by 2030. This will be achieved, among other things, by switching to zero-emission electricity. The share of zero-emission electricity was 68% in 2020 and 75% in 2023.

Harvia's emissions (Scope 1 & 2) increased significantly in 2020-21 as strong demand increased production volumes and the company also expanded through acquisitions. However, Harvia's historical reported figures are not comparable due to changes in the calculation method. Compared to 2021, emissions decreased significantly in 2022 and by more than 10% in 2023. However, this was affected by a significant reduction in production, so the figures do not give a picture of the evolution of emission efficiency, nor do they reflect emissions/revenue very well, as the company made significant price increases in 2021-22. Harvia has also not been very specific about how it will achieve carbon neutrality, nor have the targets or means been validated by an external party. However, we believe that the target is realistic. Last year, Scope 1 emissions were slightly higher than Scope 2 emissions. Scope 3 emissions have not been reported by Harvia.

Taxonomy eligibility	2022	2023
Revenue	1%	4%
OPEX	0%	1%
CAPEX	2%	6%

Taxonomy alignment	2022	2023
Revenue	2%	4%
OPEX	0%	0%
CAPEX	5%	1%

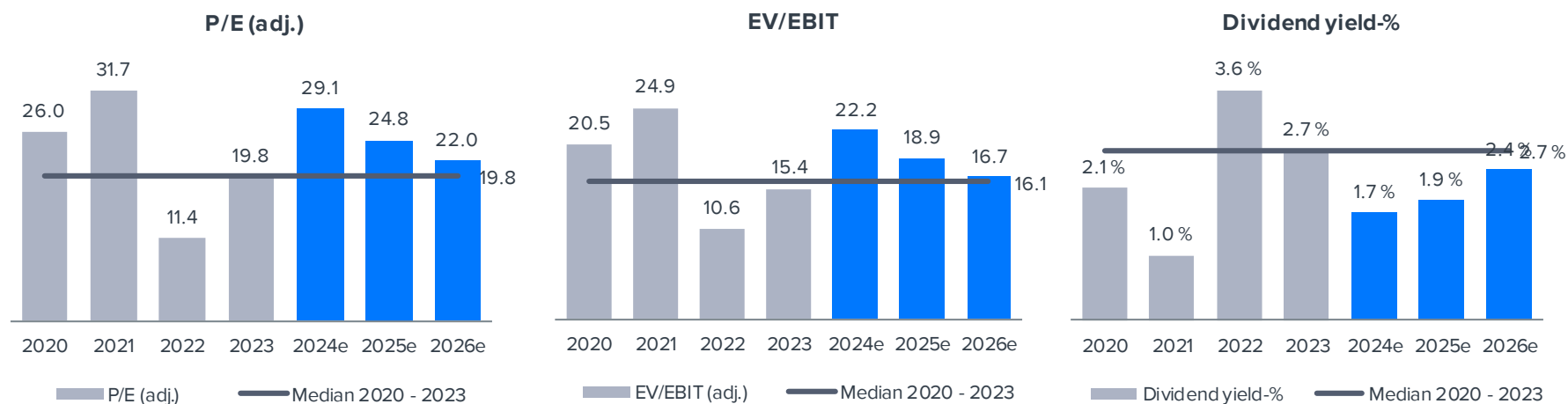
Climate

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

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	10.6	24.5	58.7	17.7	25.5	42.5	42.5	42.5	42.5
Number of shares, millions	18.7	18.6	18.6	18.7	18.7	18.7	18.7	18.7	18.7
Market cap	198	457	1091	330	476	792	792	792	792
EV	224	503	1181	388	518	851	838	820	801
P/E (adj.)	19.5	26.0	31.7	11.4	19.8	29.1	24.8	22.0	19.6
P/E	20.6	29.5	32.4	12.2	20.4	30.6	25.2	22.2	19.6
P/B	2.9	6.9	13.5	3.4	4.4	6.6	5.7	5.0	4.4
P/S	2.7	4.2	6.1	1.9	3.2	4.6	4.0	3.6	3.3
EV/Sales	3.0	4.6	6.6	2.3	3.4	5.0	4.2	3.7	3.4
EV/EBITDA	13.6	18.8	22.5	9.2	13.2	19.4	16.3	14.4	12.8
EV/EBIT (adj.)	16.1	20.5	24.9	10.6	15.4	22.2	18.9	16.7	14.8
Payout ratio (%)	74%	61%	33%	44%	55%	52%	48%	52%	60%
Dividend yield-%	3.6 %	2.1 %	1.0 %	3.6 %	2.7 %	1.7 %	1.9 %	2.4 %	3.1 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Thule Group AB	2694	2850	19.9	16.8	17.0	14.7	3.4	3.2	25.5	21.4	3.3	3.6	4.2
Nobia AB	315	690		22.3	10.1	6.2	0.7	0.7		58.9			0.6
Dometic Group AB	1626	2874	13.3	10.9	9.1	7.9	1.3	1.3	15.1	11.0	3.2	4.0	0.7
Nokian Tyres plc	1184	1785	25.0	14.9	9.0	6.6	1.4	1.2	29.9	14.0	6.4	6.3	0.9
Rapala VMC Oyj	97	188	14.4	10.7	7.5	6.1	0.8	0.8	498.0	17.2	1.4	1.2	0.6
Husqvarna AB	3390	4524	13.8	10.9	7.8	6.7	1.1	1.0	17.5	12.4	4.6	4.8	1.6
Inwido AB	948	1111	15.5	12.8	10.8	9.3	1.5	1.4	20.3	15.4	3.3	3.6	2.2
Nibe Industrier AB	8630	10520	46.0	22.8	23.8	16.5	2.9	2.7	92.2	28.0	0.8	1.2	3.3
Technogym SpA	1865	1780	15.5	13.4	10.5	9.5	2.0	1.9	21.6	18.7	3.1	3.5	3.0
Rockwool A/S	8818	8579	13.1	12.9	9.3	9.2	2.3	2.2	17.5	17.3	1.7	1.8	2.9
Kingspan Group PLC	15303	17149	19.8	17.8	15.4	14.0	2.0	1.9	23.1	20.8	0.7	0.7	3.5
Electrolux AB	2386	4936	25.6	9.7	6.7	4.7	0.4	0.4		8.0		5.8	2.3
De' Longhi SpA	4042	3750	9.3	8.5	7.2	6.6	1.1	1.1	13.8	12.8	2.9	3.2	2.0
Tulikivi	26	34	8.5	11.3	16.9	5.6	0.9	0.9	11.4	11.4	4.4	4.4	1.4
Harvia (Inderes)	792	851	22.2	18.9	19.4	16.3	5.0	4.2	29.1	24.8	1.7	1.9	6.6
Average			18.4	14.0	11.5	8.8	1.6	1.5	65.5	19.1	3.0	3.4	2.1
Median			15.5	12.8	9.7	7.3	1.3	1.2	20.9	16.3	3.2	3.6	2.1
Diff-% to median			43%	47%	99%	124%	274%	245%	39%	53%	-46%	-47%	209%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	172	41.4	35.8	33.9	39.4	151	42.4	43.2	39.3	47.0	172	200	219	239
EBITDA	42.2	10.8	9.3	8.3	10.9	39.3	11.5	10.5	9.7	12.3	44.0	51.4	56.9	62.4
Depreciation	-7.5	-1.6	-1.5	-1.5	-1.7	-6.3	-1.6	-1.6	-1.8	-1.9	-6.9	-7.7	-8.0	-8.2
EBIT (excl. NRI)	36.5	9.3	8.0	6.8	9.6	33.7	10.1	9.4	8.2	10.7	38.4	44.2	49.2	54.2
EBIT	34.7	9.2	7.8	6.8	9.2	33.0	9.9	8.9	7.9	10.4	37.1	43.7	48.9	54.2
Net financial items	2.1	-0.9	-0.9	-0.7	-1.0	-3.5	-0.1	-1.1	-1.0	-1.0	-3.2	-3.0	-2.5	-1.7
PTP	36.8	8.3	6.9	6.1	8.2	29.5	9.8	7.8	6.9	9.4	33.9	40.8	46.4	52.5
Taxes	-8.7	-2.0	-1.7	-1.6	-1.0	-6.3	-2.3	-1.9	-1.6	-2.2	-8.0	-9.4	-10.7	-12.1
Minority interest	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	27.1	6.3	5.3	4.5	7.2	23.3	7.5	5.9	5.3	7.2	26.0	31.4	35.7	40.5
EPS (adj.)	1.55	0.34	0.29	0.24	0.41	1.28	0.41	0.34	0.30	0.40	1.46	1.71	1.93	2.17
EPS (rep.)	1.45	0.34	0.28	0.24	0.39	1.25	0.40	0.32	0.29	0.39	1.39	1.68	1.91	2.17
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	-3.8 %	-18.6 %	-22.2 %	-9.3 %	3.4 %	-12.7 %	2.4 %	20.7 %	15.7 %	19.3 %	14.2 %	16.4 %	9.4 %	9.1 %
Adjusted EBIT growth-%	-23.1 %	-22.9 %	-7.5 %	-12.0 %	19.5 %	-7.6 %	8.4 %	18.0 %	20.1 %	11.5 %	13.9 %	15.2 %	11.2 %	10.2 %
EBITDA-%	24.5 %	26.0 %	26.0 %	24.5 %	27.5 %	26.1 %	27.2 %	24.2 %	24.7 %	26.2 %	25.6 %	25.7 %	26.0 %	26.1 %
Adjusted EBIT-%	21.2 %	22.5 %	22.2 %	20.1 %	24.4 %	22.4 %	23.8 %	21.7 %	20.9 %	22.8 %	22.4 %	22.1 %	22.5 %	22.7 %
Net earnings-%	15.7 %	15.3 %	14.7 %	13.2 %	18.3 %	15.5 %	17.7 %	13.6 %	13.5 %	15.4 %	15.1 %	15.7 %	16.3 %	16.9 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	118	115	140	139	138
Goodwill	73.4	73.4	91.4	91.4	91.4
Intangible assets	10.5	8.7	8.9	9.1	9.3
Tangible assets	29.2	29.4	36.6	34.9	34.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	3.9	2.4	2.4	2.4	2.4
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	1.4	1.0	1.0	1.0	1.0
Current assets	90.3	99.4	109	94.6	103
Inventories	45.3	35.5	39.5	46.0	50.4
Other current assets	1.0	4.6	4.6	4.6	4.6
Receivables	18.7	18.7	22.3	26.0	28.5
Cash and equivalents	25.3	40.6	43.0	18.0	19.7
Balance sheet total	209	214	250	233	241

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	98.4	109	122	140	161
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	63.8	75.1	88.3	106	127
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	33.4	32.4	32.4	32.4	32.4
Minorities	1.1	1.1	1.1	1.1	1.1
Non-current liabilities	84.6	80.8	98.4	58.6	44.0
Deferred tax liabilities	1.7	1.2	1.2	1.2	1.2
Provisions	2.0	2.0	2.0	2.0	2.0
Interest bearing debt	77.3	77.4	95.0	55.2	40.6
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	3.6	0.2	0.2	0.2	0.2
Current liabilities	25.8	24.7	29.4	35.0	36.5
Interest bearing debt	2.6	0.8	0.0	2.1	1.0
Payables	18.7	18.0	24.1	28.0	30.7
Other current liabilities	4.5	5.9	5.4	4.9	4.9
Balance sheet total	209	214	250	233	241

DCF calculation

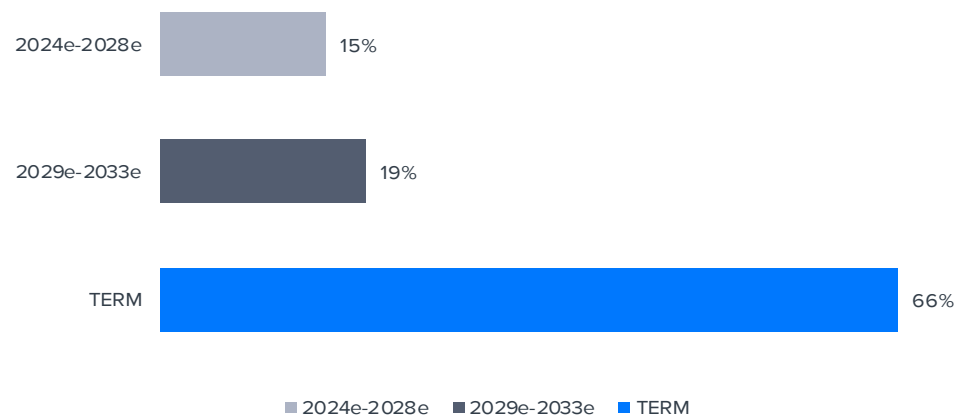
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-12.7 %	14.2 %	16.4 %	9.4 %	9.1 %	9.0 %	8.5 %	8.0 %	7.5 %	7.0 %	2.5 %	2.5 %
EBIT-%	21.9 %	21.6 %	21.9 %	22.3 %	22.7 %	22.5 %	22.5 %	22.5 %	22.5 %	22.5 %	22.5 %	22.5 %
EBIT (operating profit)	33.0	37.1	43.7	48.9	54.2	58.6	63.5	68.6	73.8	78.9	80.9	
+ Depreciation	6.3	6.9	7.7	8.0	8.2	8.2	8.1	8.2	8.5	8.1	8.8	
- Paid taxes	-6.4	-8.1	-9.4	-10.7	-12.1	-13.3	-14.6	-15.8	-17.0	-18.2	-18.6	
- Tax, financial expenses	-0.7	-0.8	-0.7	-0.6	-0.4	-0.2	-0.1	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	6.9	-2.2	-6.7	-4.2	-4.4	-4.7	-4.9	-5.0	-5.0	-5.0	-1.9	
Operating cash flow	39.1	33.0	34.7	41.5	45.5	48.6	52.2	56.1	60.2	63.8	69.1	
+ Change in other long-term liabilities	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-3.2	-32.2	-6.2	-7.3	-7.4	-8.0	-8.7	-9.4	-10.0	-11.2	-11.2	
Free operating cash flow	32.5	0.8	28.5	34.2	38.2	40.6	43.5	46.7	50.2	52.6	57.9	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	32.5	0.8	28.5	34.2	38.2	40.6	43.5	46.7	50.2	52.6	57.9	1041
Discounted FCFF		0.8	25.7	28.6	29.5	29.0	28.7	28.5	28.3	27.4	27.9	501
Sum of FCFF present value		755	755	729	700	671	642	613	585	556	529	501
Enterprise value DCF		755										
- Interest bearing debt		-78										
+ Cash and cash equivalents		41										
-Minorities		-7										
-Dividend/capital return		-13										
Equity value DCF		698										
Equity value DCF per share		37.4										

WACC

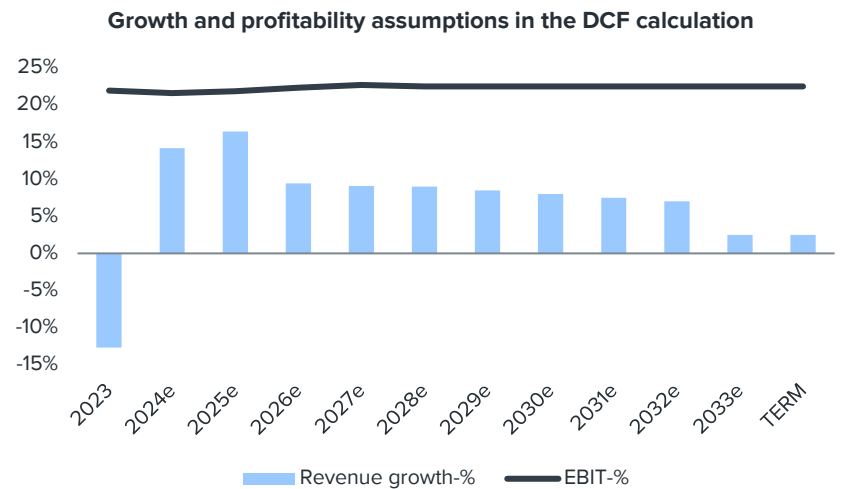
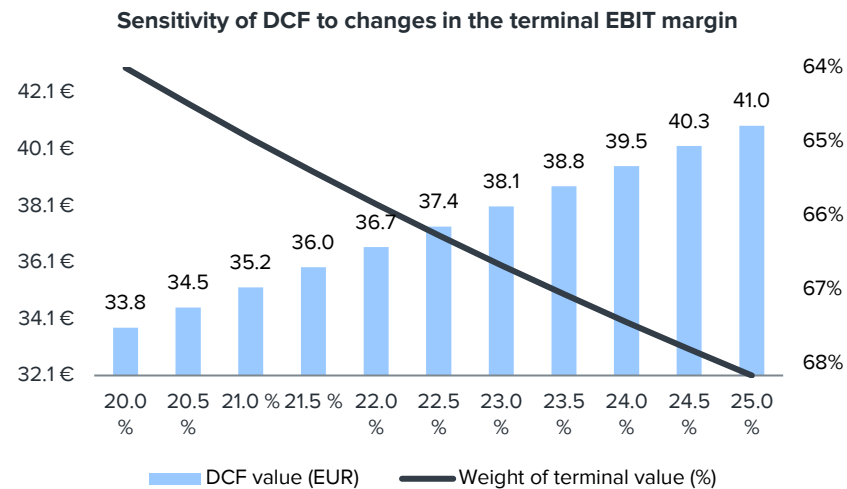
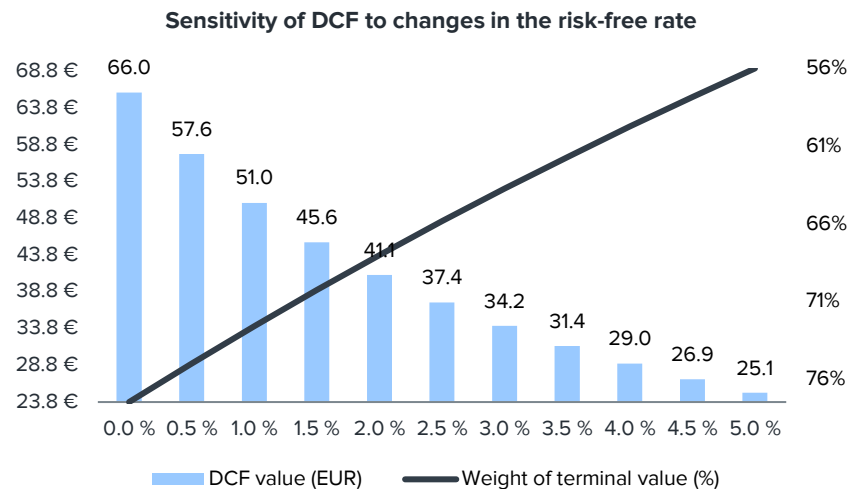
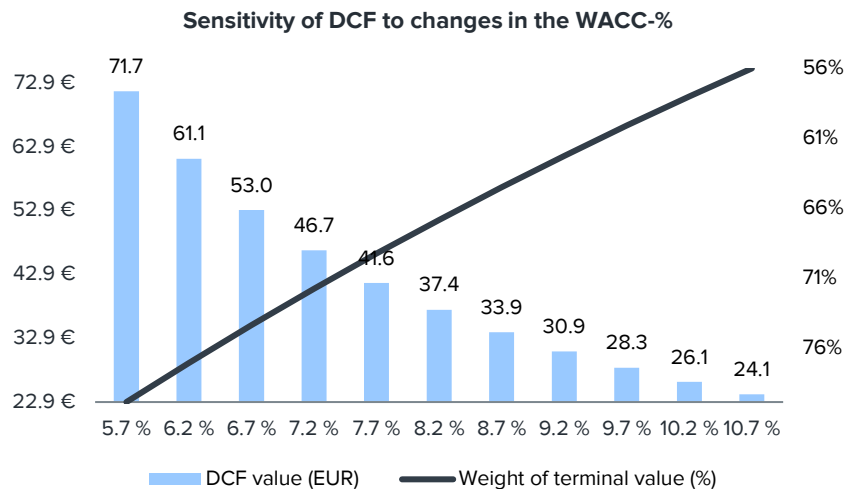
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.3
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	8.2 %

Source: Inderes

Cash flow distribution



DCF sensitivity calculations and key assumptions in graphs



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

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	179.1	172.4	150.5	171.9	200.1	EPS (reported)	1.81	1.45	1.25	1.39	1.68
EBITDA	52.5	42.2	39.3	44.0	51.4	EPS (adj.)	1.85	1.55	1.28	1.46	1.71
EBIT	46.6	34.7	33.0	37.1	43.7	OCF / share	1.14	1.39	2.09	1.77	1.86
PTP	45.2	36.8	29.5	34.0	40.8	FCF / share	0.51	-0.32	1.74	0.04	1.52
Net Income	33.7	27.1	23.3	25.9	31.4	Book value / share	4.33	5.21	5.76	6.47	7.43
Extraordinary items	-0.8	-1.8	-0.7	-1.3	-0.5	Dividend / share	0.60	0.64	0.68	0.72	0.80
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	201.5	208.7	214.3	249.7	233.4	Revenue growth-%	64%	-4%	-13%	14%	16%
Equity capital	84.1	98.4	108.7	121.9	139.9	EBITDA growth-%	97%	-20%	-7%	12%	17%
Goodwill	73.7	73.4	73.4	91.4	91.4	EBIT (adj.) growth-%	94%	-23%	-8%	14%	15%
Net debt	40.9	54.6	37.6	52.0	39.3	EPS (adj.) growth-%	97%	-16%	-17%	13%	17%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	29.3 %	24.5 %	26.1 %	25.6 %	25.7 %
EBITDA	52.5	42.2	39.3	44.0	51.4	EBIT (adj.)-%	26.5 %	21.2 %	22.4 %	22.4 %	22.1 %
Change in working capital	-21.3	-7.5	6.9	-2.2	-6.7	EBIT-%	26.0 %	20.1 %	21.9 %	21.6 %	21.9 %
Operating cash flow	21.1	26.0	39.1	33.0	34.7	ROE-%	45.8 %	30.5 %	22.7 %	22.7 %	24.2 %
CAPEX	-21.9	-7.4	-3.2	-32.2	-6.2	ROI-%	35.2 %	21.8 %	18.1 %	18.4 %	21.1 %
Free cash flow	9.4	-6.0	32.5	0.8	28.5	Equity ratio	41.8 %	47.1 %	50.7 %	48.8 %	59.9 %
						Gearing	48.7 %	55.5 %	34.6 %	42.7 %	28.1 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	6.6	2.3	3.4	5.0	4.2						
EV/EBITDA	22.5	9.2	13.2	19.4	16.3						
EV/EBIT (adj.)	24.9	10.6	15.4	22.2	18.9						
P/E (adj.)	31.7	11.4	19.8	29.1	24.8						
P/B	13.5	3.4	4.4	6.6	5.7						
Dividend-%	1.0 %	3.6 %	2.7 %	1.7 %	1.9 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
11/26/2020	Buy	22.00 €	19.10 €
2/12/2021	Accumulate	33.00 €	30.00 €
4/18/2021	Buy	45.00 €	33.65 €
5/6/2021	Accumulate	47.00 €	42.25 €
5/31/2021	Accumulate	52.00 €	46.05 €
7/17/2021	Accumulate	62.00 €	58.20 €
8/12/2021	Accumulate	64.00 €	59.00 €
9/2/2021	Buy	64.00 €	53.30 €
11/5/2021	Accumulate	65.00 €	60.00 €
<i>Analyst changed</i>			
1/27/2022	Buy	57.00 €	44.20 €
2/10/2022	Buy	51.00 €	39.20 €
3/11/2022	Buy	42.00 €	34.15 €
5/5/2022	Buy	42.00 €	32.22 €
7/20/2022	Accumulate	27.00 €	24.00 €
<i>Analyst changed</i>			
8/12/2022	Accumulate	22.00 €	19.93 €
9/9/2022	Buy	20.00 €	15.23 €
11/4/2022	Buy	20.00 €	15.46 €
12/19/2022	Accumulate	21.00 €	18.33 €
2/10/2023	Reduce	22.00 €	22.10 €
5/5/2023	Reduce	24.00 €	25.06 €
5/29/2023	Accumulate	24.00 €	22.14 €
8/11/2023	Accumulate	24.00 €	22.00 €
9/13/2023	Accumulate	25.50 €	24.00 €
11/3/2023	Accumulate	25.00 €	23.50 €
12/11/2023	Reduce	25.00 €	25.48 €
2/9/2024	Sell	28.00 €	32.60 €
5/6/2024	Sell	30.00 €	38.60 €
8/6/2024	Sell	32.00 €	36.50 €
8/9/2024	Sell	35.00 €	40.40 €
9/24/2024	Sell	37.00 €	42.45 €



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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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