MERUS POWER

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INDERES CORPORATE CUSTOMER

EXTENSIVE REPORT

On the verge of an earnings turnaround

The growth strategy, based especially on scaling the energy storage business, has progressed recently through a strong order intake. We also expect profitability to improve during 2025-26. However, we do not feel that the expected return at the current valuation becomes attractive enough unless the company can exceed the general profitability level of the industry or accelerate its growth more than our current assumptions. We reiterate our Reduce recommendation, but raise our target price to EUR 4.3, supported by recent favorable orderdevelopment (was 4.0).

Power electronics for growing market segments

Merus Power is a Finnish technology company founded in 2008 that designs and produces energy storage systems, power quality solutions and related services. The company's products are based on self-developed modular technology and software, which enable easily customizable and high-performance solutions for various applications. Energy storage is the company's strongest growing product segment driven by up to 18% annual market growth, which is particularly affected by investments in renewable electricity production. The market for power quality solutions is also growing at a brisk rate of about 7% per year. Power quality solutions are entirely based on the company's proprietary technology and the same scalable technologies are also used in energy storage systems. About half of the value of the company's energy storage production is based on proprietary technology and the rest, such as batteries, is purchased from external suppliers, which we estimate reduces the relative gross margin profile of energy storage. The company has delivered its power quality solutions to more than 70 countries through its extensive distribution network. The energy storage business is more local and the aim is to expand it from Finland to the rest of Europe through partnerships.

Profitability turnaround forecasted for 2025

Profitability has been weak in 2023-24 due to the ramp-up phase of the business, where the company's cost base has increased due to strong recruitment and other opex investments, while the delivery processes of larger energy storage systems have still been partly in the learning phase. However, we estimate the situation will change significantly in 2025-26, when our EBITDA forecast rises to 2.1-3.9 MEUR (5.0-7.2% of revenue, EBIT 1.4-4.0%). The company has a strong order backlog, based on which we forecast revenue growth of 41% for 2025. We feel the development phase of the organization has matured, and the energy storage systems developed in 2023-24 can be reproduced in a scalable manner, which should support efficiency in the coming years. The company's aim to expand energy storage system deliveries outside Finland could reduce its dependence on the Finnish market, which we believe would positively impact the predictability of growth in the long term. Also in power quality solutions, the demand outlook has clearly improved and the company has continued to strengthen its distribution channels. We raised our forecasts slightly with the recent good order intake.

Valuation multiples remain elevated for several years

The valuation of a growth company on the verge of a profitability turn such as Merus Power must be based on future cash flows. The earnings-based valuation for 2026-27 (EV/EBIT: 20x and 13x) exceeds the level of the closest peers and does not, in our opinion, offer an upside considering the risks. The success of the profitability turnaround in the coming years could give an indication of the long-term profitability level of the energy storage business and be a significant valuation driver. Our current estimates assume an EBIT margin of 4-5% for 2026-27, which roughly corresponds to the profitability levels of larger peers such as Wärtsilä and Fluence. Achieving the company's targeted 15% EBITDA margin (corresponding to an EBIT margin of some 12%) could multiply the share price, but we consider this unlikely due to the low margins in the energy storage sector.

Recommendation
Reduce
(was Reduce)

Target price:
4.30 EUR
(was 4.00 EUR)

Share price:
4.61

Business risk

Valuation risk

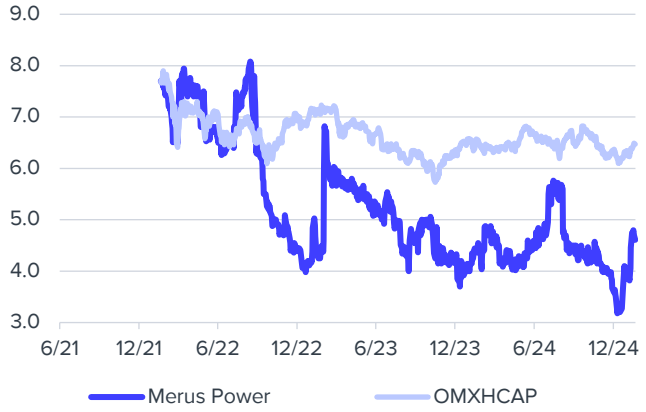
	2023	2024e	2025e	2026e
Revenue	29.0	30.2	42.6	53.2
growth-%	79%	4%	41%	25%
EBIT adj.	-0.5	-2.2	0.6	2.1
EBIT-% adj.	-1.8 %	-7.4 %	1.4 %	4.0 %
Net Income	-0.8	-2.8	0.1	1.6
EPS (adj.)	-0.10	-0.36	0.01	0.20
P/E (adj.)	neg.	neg.	>100	22.6
P/B	2.4	3.8	3.8	3.2
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	68.4	19.6
EV/EBITDA	>100	neg.	19.5	10.7
EV/S	1.1	1.3	1.0	0.8

Source: Inderes

Guidance (Unchanged)

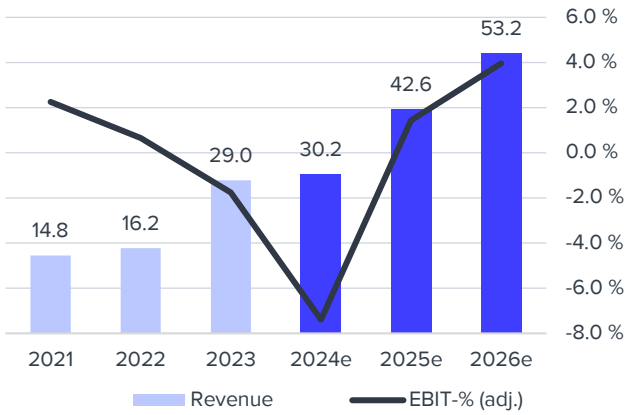
Merus Power estimates that the company's revenue in 2024 will increase compared to 2023. The EBITDA is estimated to be 0-1 MEUR in the red.

Share price



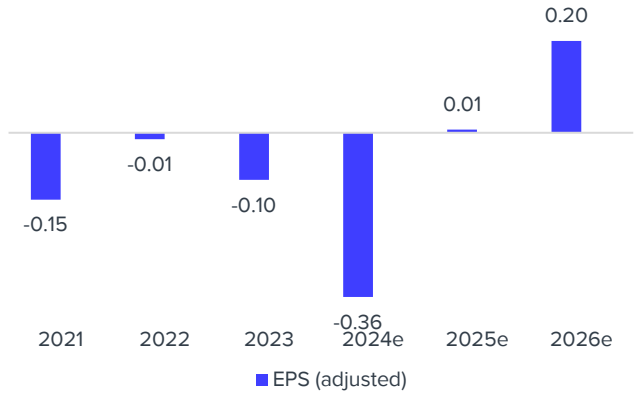
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

Earnings per share



Source: Inderes

Value drivers

- Rapidly growing end markets due to the energy system transformation
- Specialized technological expertise
- IPO has supported resources and enabled accelerated growth
- Revenue growth brings economies of scale and supports profitability in the medium term

Risk factors

- Long-term profitability levels involve uncertainty due to the development phase of the energy storage business and the market
- The project-based nature of the business brings volatility to revenue development
- Fluctuations in investment-driven demand
- Growth has burdened the balance sheet as the profitability turnaround has been delayed

Valuation	2024e	2025e	2026e
Share price	4.61	4.61	4.61
Number of shares, millions	7.64	7.64	7.64
Market cap	35	35	35
EV	39	41	41
P/E (adj.)	neg.	>100	22.6
P/E	neg.	>100	22.6
P/B	3.8	3.8	3.2
P/S	1.2	0.8	0.7
EV/Sales	1.3	1.0	0.8
EV/EBITDA	neg.	19.5	10.7
EV/EBIT (adj.)	neg.	68.4	19.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Contents

Company description and business model 1/4

The company develops power quality solutions, energy storage systems and services. The company aims for growth while contributing to the sustainable energy transition.

2008

Year of establisment

2021

Listing of the First North list of Nasdaq Helsinki

29.0 MEUR

Revenue 2023 (growth 79 % y/y)

0.2 MEUR

Adjusted EBITDA 2023

46.8 MEUR

Order book H1'24:

113

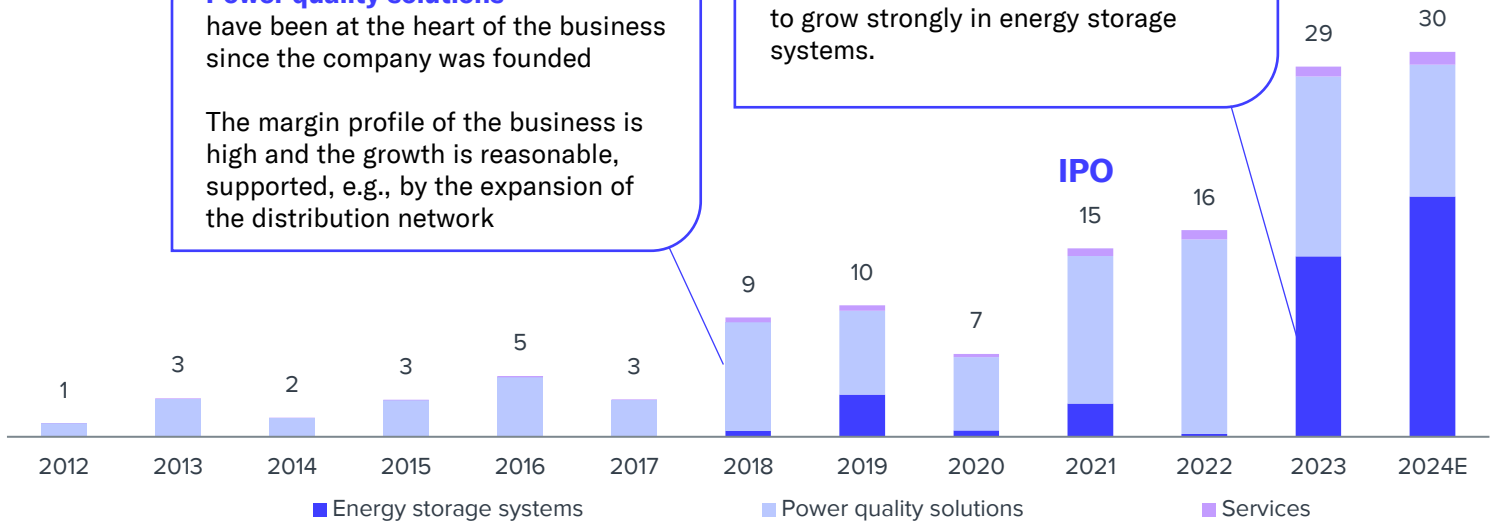
Average number of personnel in H1’24

Energy storage systems
are a rapidly growing segment, but with a relatively lower margin profile than power quality solutions.

The IPO in 2021 enabled Merus Power to grow strongly in energy storage systems.

Power quality solutions
have been at the heart of the business since the company was founded

The margin profile of the business is high and the growth is reasonable, supported, e.g., by the expansion of the distribution network



Revenue development (MEUR)
The segment division and 2024 forecast are based on Inderes’ estimate

Profitability
Historically, EBIT has fluctuated around zero. So far, the company’s strong growth investments have depressed profitability.

Company description and business model 2/4

Merus Power in brief
Merus Power is a Finnish technology company that develops and produces energy storage systems, power quality solutions and services. Power quality solutions are sold to a wide global customer base, but sales of energy storage systems have so far been concentrated in Finland. The company has its own sales organization in Finland and sales offices in Germany, the Middle East and South America, but otherwise the company's extensive network of distribution partners and OEM manufacturers are utilized in the export market.

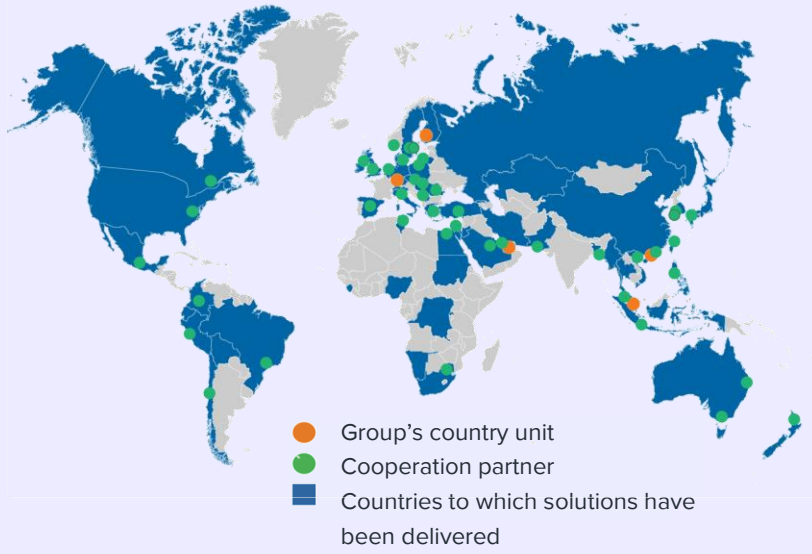
The company was established in 2008 by its current management. Merus Power piloted its first power quality-related delivery in the fall of 2010, after which it has continued to develop its product portfolio and has already sold its solutions to more than 70 different countries. In 2023, the company's revenue was 29.0 MEUR, which corresponded to a growth of as much as 79%, aided by a large energy storage delivery. The EBITDA was 0.2 MEUR and EBIT -0.5 MEUR. The number of personnel has also grown strongly after the listing, and in H1'24, the company already employed an average of 113 people.

Market transformation offers growth opportunities
The transformation of energy production and the electrification of societies increases demand for Merus Power's solutions in both of the company's segments.

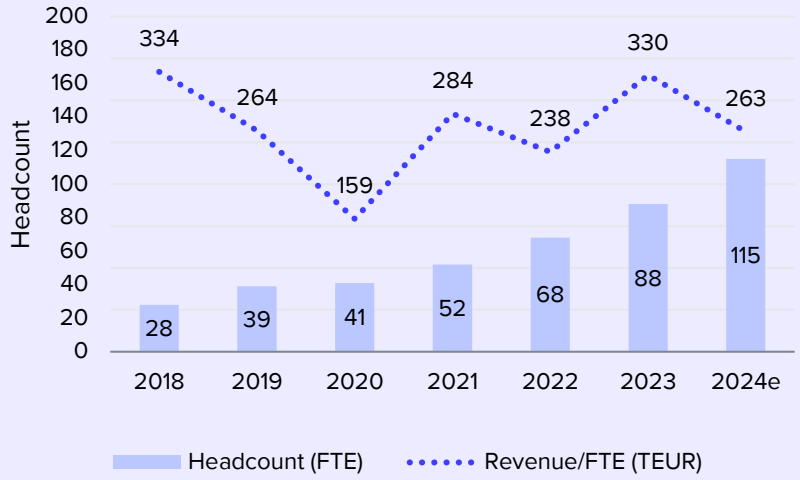
The annual revenue of the energy storage market is expected to more than double in Europe from 2025 to 2030, which would correspond to an annual growth rate of approximately 18%. The power quality solutions market is expected to grow at an annual rate of around 7% in 2025-30 [1].

The IPO provided resources for growth
Merus Power raised net proceeds of some 12 MEUR in its IPO in 2021, with the key objective of growing into a significant player in the rapidly developing energy storage market. Since the listing, the company has multiplied its personnel and expanded into larger energy storage projects. The company aims to multiply its revenue to 80 MEUR by 2026, mainly organically. The majority of the growth target relies on energy storage systems and renewable energy integrations, which are targeted to account for 70% of revenue in line with financial targets. In the early part of the strategy period, the company's profitability has been low, but Merus Power aims for an average EBITDA margin of over 15%. We estimate that the scaling of implemented growth investments will improve profitability in the coming years to a clearly higher level than presently, but we consider the targeted profitability level to be quite ambitious.

Merus Power on the map



Development of the number of personnel



1) Mordor Intelligence

Company description and business model 3/4

Energy storage systems and power quality solutions are built around the same technology
Prior to the listing, Merus Power's revenue was mainly generated from the power quality solutions segment, for which the company has developed several solutions based partly on the same core technology throughout its history. The power electronics of energy storage systems also utilize similar technology to power quality solutions, which partly supports the strategic logic of why Merus Power has wanted to expand its business into the growing energy storage segment.

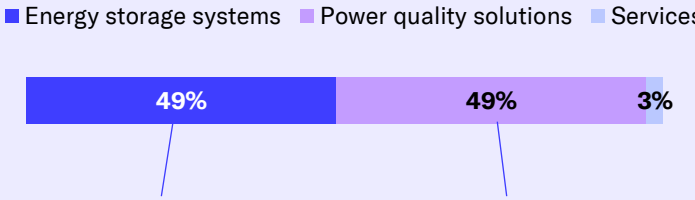
The nature of the energy storage business differs somewhat from the power quality business, especially in terms of average order size. In the energy storage business, individual orders are quite large (up to 20 MEUR) and their delivery can tie up significant working capital because delivery times are typically long and customer payments are weighted towards the end of deliveries. In power quality solutions, the business also includes quite large project-like deliveries (up to 5 MEUR), but typically at least half of the revenue comes from smaller entities, some of which are small projects and some product sales that can be delivered quickly. Thus, revenue in power quality solutions is clearly more dispersed across orders, customers and geography.

The position in the value chain differs between product segments
In the power quality solutions product segment, Merus Power's position in the value chain is to act as a solution supplier to the actual system suppliers. In the energy storage product segment, Merus Power aims to profile itself as a complete system supplier, so the added value created by the integration of different elements would remain with the company, and it can enter into continuous service agreements with its customers. At the same time, the company also assumes the risk associated with project management.

In energy storage systems, Merus Power focuses on smaller and medium-sized projects (approximately 1-20 MEUR), where value is created through technological specialization. The company's strengths do not extend to the largest projects, where global companies compete on procurement efficiency.

Merus Power's competitiveness is based on the company's self-developed technology, which it can utilize in a scalable way in its products. The mechanical part of the company's technology is specifically based on the serial assembly of power electronics modules, which are used in all of the company's products and can be connected as needed, incorporating application-specific needs. In addition, control and software solutions developed by the company play a key role. We believe that the technical specifications, such as speed and power density, are competitive in Merus Power's solutions. However, the technology must be continuously developed to maintain competitiveness.

Revenue distribution



Energy storage systems
- Large turnkey deliveries
- Strong growth
- Lower material margin
- Deliveries have concentrated in Finland so far

Power quality solutions
- Product sales and projects
- Stable growth phase
- High material margin
- Global distribution

Common nuclear technologies and scalable production

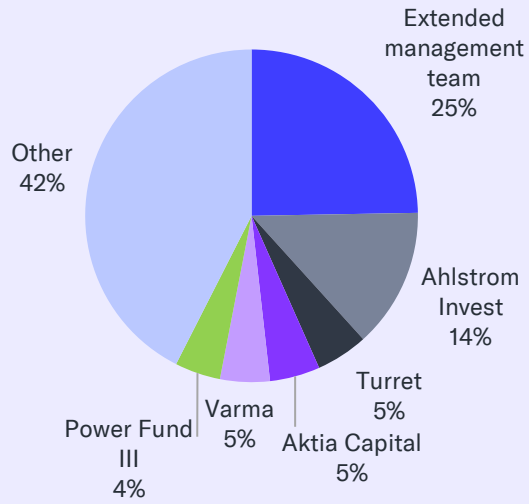
Company description and business model 4/4

Production consists of assembly and testing, projects also involve subcontracted construction
Merus Power's power electronics and control units are manufactured at the plant in Ylöjärvi. The assembly line assembles the products from purchased components, after which the products are thoroughly tested before delivery to their destination. In project deliveries, shipped products are installed in cabinets at the destination and connected to the control unit. Installation is typically an outsourced service. After installation, Merus Power's employees perform a commissioning inspection and the product can be handed over to the customer. In turnkey energy storage projects, Merus Power also commissions the necessary construction work and project management mainly through subcontractors. Production operations at the factory are mainly predictable and efficient. Component availability and potential surprises in the delivery of new types of solutions may occasionally affect operational efficiency. The company's first large turnkey energy storage system was delayed and caused additional costs for 2024, but we expect operations will become more efficient with repetition.

The company moved to new modern premises in 2023
The company moved to a modern 4,700 square meter facility in Ylöjärvi in the fall of 2023. The premises are almost three times larger compared to the previous premises in Nokia, where the company had operated since its establishment. The company also has office premises elsewhere in Finland, which are used, e.g., by the company's salespersons and product development. The new facilities enable more efficient organization of production and multiplication of revenue to at least the company's target level of 80 MEUR. Merus Power's production mainly consists of module assembly and testing, which does not require large investments in production equipment. However, product development and testing processes require specialized laboratory facilities.

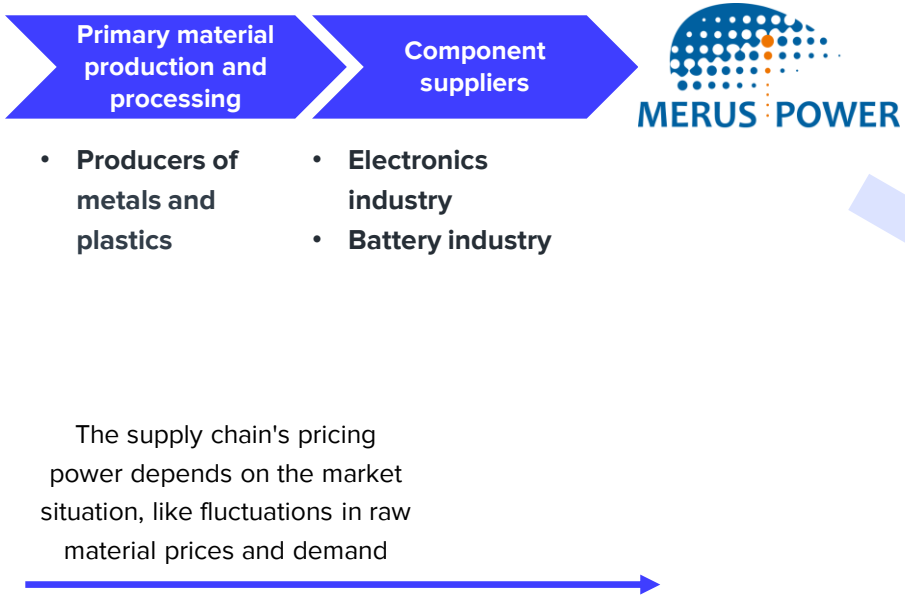
The owners include management, institutions and private investors
Merus Power's CEO and one of the founders Kari Tuomala is also the company's largest shareholder with a 19.5% holding. Prior to the listing, the largest owners included private equity funds such as Power Fund III and Inventure Fund, but they have reduced or abandoned their holdings since the listing. Instead, a wide group of institutional investors investing in listed shares has emerged, the largest of which are currently Ahlstrom Invest, Turret, Aktia Capital and Varma. At the end of June 2024, the company had 4,929 shareholders.

Shareholders[1]



1) 12/31/2024

The role of the company in the value chain



Power quality solutions

Distribution mainly through partners

- **Resellers**
- **Integrators**
- **OEMs**
- **Own direct sales in Finland**
- **Establishing sales in Germany**

- Solution supplier
- Key competitive factors are technological performance and cost efficiency
- Customers are technically sophisticated
- Distribution partners and integrators receive a share of the added value

Energy storage systems

Direct sales or cooperation model

- **Own direct sales in Finland and the Nordic countries**
- **A local partner is required for projects in Europe**

- System supplier
- Ability to compete with technological expertise and life cycle costs
- Customers want turn-key delivery and maintenance services
- Increased value creation potential, but also risks related to project management

Energy storage systems 1/5

Energy storage systems have become Merus Power's largest product segment measured by revenue as a result of the strategic change following the IPO. We estimate that the energy storage business generated revenue of approximately 19 MEUR in 2024. Strong market demand development and the strengthening of Merus Power's capabilities have accelerated the growth of the order backlog, which should enable continued revenue growth in the coming years. The longer-term market growth outlook is also favorable.

The company's core technology plays an important role in energy storage systems

The most important technology in energy storage systems consists of grid inverters, control, protection and trading software developed and manufactured by Merus Power. In addition, energy storage requires energy-saving technology, typically a lithium-ion battery that Merus Power purchases through subcontracting. The company's internally developed technologies enable, e.g., very fast response, microgrid re-electrification and ensuring power quality. The company's solutions can meet various customer needs in terms of capacity and output, but the competitiveness of the company's products is best highlighted in energy storage systems where the discharge rate is relatively high compared to the battery capacity. The domestic content of the company's energy storage systems is approximately 40–60%. Container solutions, grid inverters and control systems are manufactured in Nokia mainly from Finnish and European components. Batteries typically come from Asia or France.

Revenue mainly consists of large projects

The size of the electricity storage units produced by Merus Power varies from one megawatt to tens of megawatts, and the value of deliveries ranges from 1 to 20 MEUR. The project size targeted by the company can be considered small or medium-sized in the industry, but when viewed relative to the company's size, the scale of individual projects is large. Revenue is thus more concentrated, and annual development is more dependent on the timing of individual projects compared to, e.g., product sales of power quality solutions. At the same time, large projects enable rapid growth in revenue and power electronics production volumes.

Merus Power's energy storage deliveries include both deliveries focusing on energy storage technology and larger turnkey solutions. The company has identified and reserved plots suitable for energy storage facilities in Finland along power grid connections to offer potential customers ready-made and advanced investment opportunities.

- Growing strongly
- Large-scale project deliveries
- Initially focused on Finland

Merus Power integrates both its own and subcontracted technology into energy storage systems[1]

1) The image is indicative. Energy storage systems can be built in different types of buildings or containers based on customer needs.

Energy storage systems 2/5

Merus Power faced implementation challenges with its first major 20 MEUR project delivery in 2024, but we believe overcoming these delays caused by design flaws is fairly straightforward for future projects. We estimate that repetition and learning will improve business profitability in the future. However, the margin level for electricity storage systems is likely to be significantly lower than for power quality solutions, as batteries account for a significant proportion of the value of deliveries and this technology is not developed by Merus Power.

Services and software are an important part of the whole

During the life cycle of the energy storage, Merus Power offers its customers maintenance and support services, as well as trading software and analytics. Services complement the company’s comprehensive offering, providing customers with ease and clarity through a one-stop shop model. In addition to the trading software it has developed, the company has a team in Helsinki focusing on electricity market analytics, which supports customers in, e.g., participating in the frequency reserve market as profitably as possible.

Operations started in Finland, expansion abroad soon topical

In the early stages of the energy storage business, all of Merus Power's deliveries have been to Finland. However, the company aims to expand its deliveries to other parts of Europe in the next few years. We estimate that sales work and negotiations for new countries are already underway. As deliveries are targeted outside of Finland, Merus Power needs a local partner who can handle regulatory and construction-related matters and possibly also act as a fully responsible supplier in the customer interface. In this case, Merus Power's role would be that of a technical solution supplier, which would limit the risks.

Energy storage has several applications, but the frequency reserve market has been the most prominent so far

The company's customers acquire energy storage for many reasons, the most important in recent years being participation in the frequency reserve market. In addition, electricity storage can be used, e.g., for energy trading, back-up power procurement, power consumption optimization in a microgrid, and enabling and integrating renewable energy production into the grid. The company’s three largest energy storage orders so far have come from customers who want to participate in Fingrid’s frequency reserve market. Two of these are backed by a private equity investor (Taaleri and Ardian) and the third by a global energy company, Alpiq.

In the past, Merus Power has delivered several small-scale energy storage systems, partly due to customers' desire to test the viability of energy storage for certain new types of applications.

Announced energy storage customers

Customer	Implementation	Battery capacity MWh	Power MW
LEMENE	2019	1.3	1.6
TuuliWatti	2019	6.0	6.0
Lidl	2019	1.6	2.6
S-Group	2021	2.0	2.0
Elenia	2023-24e	1.2	1.2
Helen	2023-24e	0.25	0.25
Taaleri Energy	2024	36	30
Sallila Energia	2024e	1.7	1.7
Herrfors	2025e	7.0	7.0
eNordic[1]	2025e	40	38
Alpiq	2025e	36	30
Enertia	2025e	9.8	9.9

1) eNordic Oy is a joint venture between the Finnish subsidiary of the international private equity investor Ardian and Lappeenrannan Energia

Energy storage systems 3/5

For example, a pilot solution has been implemented with Elenia, where an energy storage is used to secure electricity distribution in sparsely populated areas. Helen, in turn, has ordered a small energy storage system from Merus Power to explore the possibility of strengthening the regulating power of hydropower plants in frequency support amid tightening technical requirements.

The energy storage market is growing strongly

Demand for energy storage systems has grown strongly in recent years, and the industry is expected to grow rapidly in the long term as well. Bloomberg New Energy Finance estimates that there will be around 21 GW of energy storage capacity in Europe by the end of 2024, and the installed capacity is expected to grow to 121 GW by 2030, i.e. by an average of some 34% per year. Mordor Intelligence predicts that the European energy storage market will grow by an average of 18% per year in 2025-30. The growth in installation volumes supports the market size, but the fall in battery technology prices, in turn, decreases the revenue generated from supplying energy storage per installed capacity.

The key driver for growing energy storage demand is related to the transformation of the energy markets, where traditional stable but polluting energy production forms are replaced by clean technologies with variable production volumes, such as wind and solar power. The transformation of the energy market has been initiated by political will and support measures, but by the 2020s, the production costs of wind and solar power have been pushed to a level where they are cheaper and thus very competitive compared to conventional forms of energy production. The development and lower costs of energy storage and other flexible technologies also support investments in renewable energy.

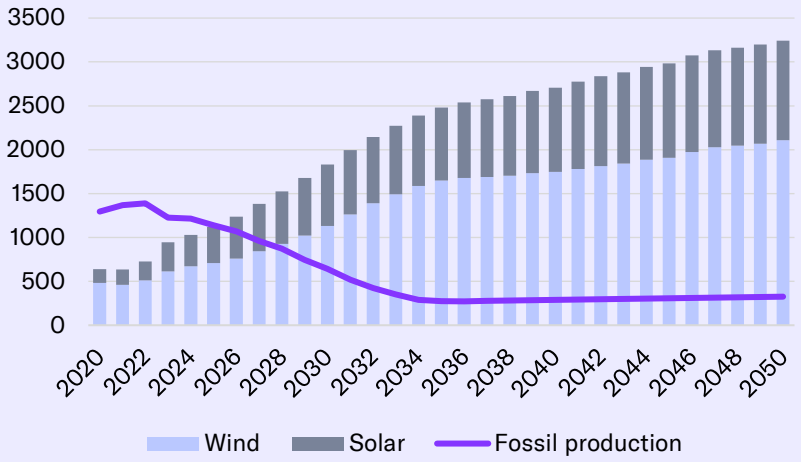
Market-specific differences in earning models for energy storage

There is great variation within Europe in the typical earning models for energy storage systems. Different earning models can be partly utilized in parallel, which helps the owners of energy storage systems maximize their returns.

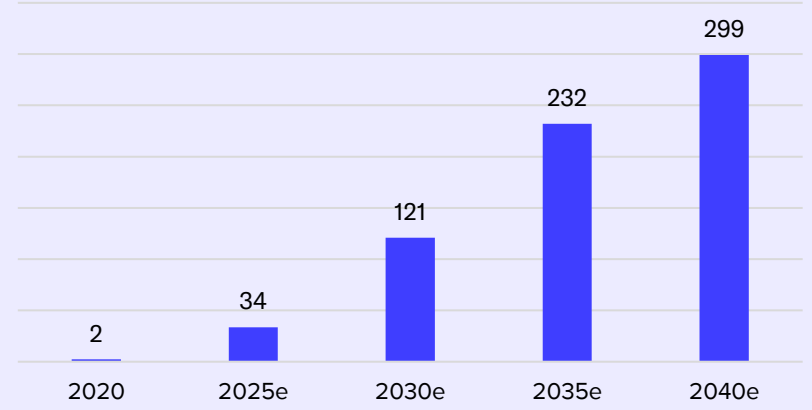
For example, in many Northern European countries, the most important earnings model for industrial-scale energy storage is participation in market mechanisms that balance the electricity grid, such as Fingrid's frequency reserve market in Finland. In these market mechanisms, pricing varies continuously, and buyers of suitable energy storage systems can offer capacity to the mechanisms on a daily basis. In the frequency reserve market, energy storage systems participate in stabilizing the grid frequency when imbalances occur in electricity consumption and production.

Capacity payments are another widely available earnings model for energy storage owners. In these cases, government bodies pay the constructor of the energy storage system based on long-term contracts, for example, 15 years. Capacity payments are typically tendered through an auction process.

Electricity production in Europe



Energy storage capacity in Europe (GW)



Source: Bloomberg New Energy Finance

Energy storage systems 4/5

Trading on the electricity market is the third significant earnings model for energy storage owners. The intensified price fluctuations in the electricity market offer more opportunities for profit-seeking through arbitrage trading than before. This type of trading can also be carried out alongside other short-term market-driven earning models, such as participation in the frequency reserve market.

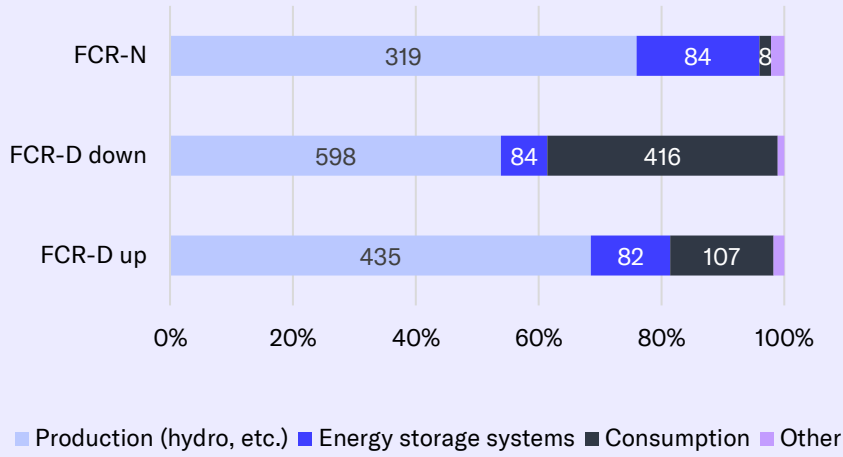
The frequency reserve market drives energy storage investments in Finland

In Finland, the frequency reserve market has so far been the most important earnings model for energy storage systems ordered from Merus Power, and also the most significant earnings model for large-scale energy storage systems in general. Fingrid's reserve markets have several different market sub-segments, of which FCR-D and FCR-N, which require a rapid response, are the most relevant for energy storage. According to Fingrid, the certified energy storage capacity suitable for these markets in Finland was approximately 84 MW (10/8/2024), which corresponded to 8-20% of all certified reserve capacity for these markets. Hydropower is the largest competing reserve technology, but with tightening technical requirements, hydropower's ability to participate in rapid reserve markets is weakening, and no new hydropower is being built in Finland to any significant extent. Industrial demand-side flexibility is the second largest competing reserve technology, which is expected to grow in the coming years alongside energy storage. Although the long-term market growth outlook for energy storage is positive in the big picture, we see the possible saturation of the Finnish frequency reserve market as a potential risk, which, if realized, could at least temporarily weaken demand for new energy storage systems. Although the need for frequency reserve increases, we estimate that the growth rate is slower compared to the strong growth in energy storage capacity.

Investments based on electricity trading could play a significant role

In the long term, we estimate that the focus of the revenue model of energy storage systems will shift increasingly towards electricity price-based arbitrage, the attractiveness of which is particularly affected by short-term fluctuations in the market price of electricity. Energy storage systems can relatively efficiently balance the highest intraday price fluctuations. In practice, trading-driven investments have historically been limited by, e.g., financiers' reluctance to participate in what is seen as a high-risk business model. In its review, Goldman Sachs[1] estimates that the financial environment has recently developed favorably from the perspective of such operating models. According to the company, however, the business models and technologies related to energy storage are still somewhat unfamiliar to many financial market participants, which for the time being limits the available financing base for energy storage projects.

Verified capacity in Fingrid's fast frequency reserve market[2]



1) Goldman Sachs: European energy storage: a new multi-billion-dollar asset class (11/7/2024)

2) Fingrid (10/8/2024).

Energy storage systems 5/5

Competitive landscape in energy storage systems
The energy storage market includes both large multinational corporations and smaller medium-sized and small players that focus specifically on energy storage and electricity grid solutions. Large multinational companies include, e.g., ABB, Nidec, Toshiba, Tesla, Fluence Energy, Huawei, and Saft Group. They have focused on producing standardized energy storage solutions for capital-intensive, large-scale projects, where integrators generally compete with their brand, total delivery, procurement organization, and price.

Merus Power is one of the smaller players, which also include European companies such as Alfen, Intilion and Leclanche. The competitiveness of companies of this size is based on technological specialization and the ability and willingness to consider the specific requirements of the projects. This includes companies utilizing their own technology and customizing the solutions for the customers instead of trying to integrate large standardized solutions from the technologies available in the market

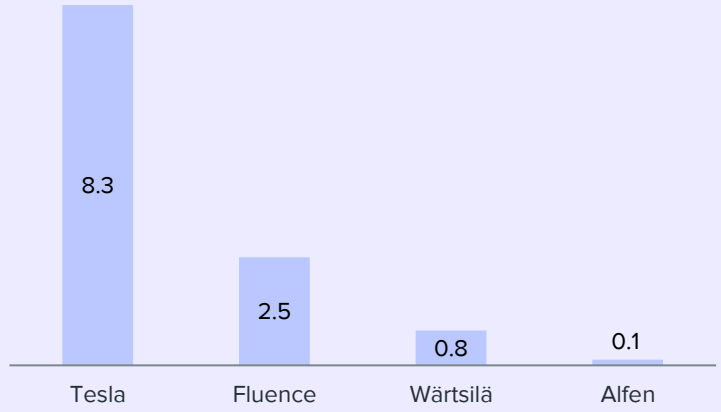
In our view, Merus Power's competitiveness in energy storage systems is supported by its technological expertise in power electronics and control systems. Its ability to combine energy storage systems and power quality solutions into a single package improves product compatibility and reduces potential operational disturbances, e.g., in terms of power supply. Merus Power's competitiveness is at its best in projects where the power-to-capacity ratio is high (in the company's deliveries, the ratio is typically around 1:1).

Merus Power's technology can also be scaled up to large projects, meaning that the same technology could, in principle, be used in larger projects. We believe, however, it is difficult for Merus Power as a small company to achieve sufficient scale (and thus cost competitiveness) in procurements to be competitive in large-scale (>50 MWh) energy storage systems. Also, working capital financing would be a bottleneck in the company's current situation. The company's brand and distribution organization for energy storage systems are not yet on par with larger competitors outside Finland. As the energy storage market is still in its early stages, we consider it entirely possible that Merus Power can develop the aforementioned weaknesses and improve its global competitiveness in the energy storage market in the medium term.

Focus from mere growth towards profitable growth
Companies operating in the energy storage market were still focused on rapid growth in 2021-23, but during 2024, many companies have already turned profitable. For example, Fluence and Wärtsilä have reported positive operating results (1-4% of revenue). In our view, the shift towards profitability reduces price competition and also supports Merus Power's chances of a profitability turnaround.

Competitive landscape in the energy storage business

Revenue from the energy storage business (BNEUR, 2024e)[1]



1) Inderes' estimate

Power quality solutions 1/6

Power quality solutions have been at the core of Merus Power's business since the company was founded, so the development phase of the business is further along than in energy storage systems. We estimate that the segment generated just over 10 MEUR in revenue in 2024, which is a clear decrease from previous years due to the cyclical nature of the industry and the timing of project orders. However, the order backlog has strengthened again in 2024. We estimate the business segment's medium-term growth profile is favorable, which is especially supported by the strengthening of distribution channels in new markets and the growth of the target market as societies become increasingly electrified.

What are power quality solutions?
Merus Power's power quality solutions consist of active filters and compensators that can meet different customer needs. The purpose of power quality solutions is to improve power quality, reduce disruptions, and improve process reliability. Active filters and compensators filter disruptions in the electrical networks, such as harmonic overcurrents caused by non-linear loads in electrical grids. Power disturbances jeopardize the stability of the grid and cause, e.g., damage to electrical devices, increased downtime and production losses. Merus Power's power quality solutions measure disturbances in the grid and eliminate them by feeding a pulse with the opposite phase into the power grid in real time. The solutions correct customers' power quality to meet the required power quality standards.

Product sales consist mainly of active filters
A significant part of the revenue from power quality solutions comes from high-margin product sales, which include many small orders that can be delivered in just a few weeks. In the long term, we estimate product sales to account for 40-50% of the total revenue of power quality solutions. Economic cycles also affect product sales, but we still believe that in terms of demand, it is more stable sales compared to larger project-based deliveries. The majority of product sales consist of A2 active filters, and the company also offers a more basic 4Drives active filter and HPQ hybrid compensator.

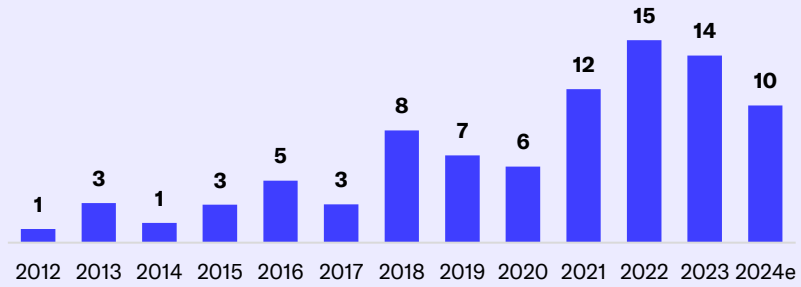
Active filters are used, e.g., in data centers, various properties and industries where processes are particularly sensitive to disturbances in power quality. Disturbances in power quality are often caused by frequency inverters that can control electric motors steplessly. The use of frequency converters is increasing, e.g., with the increasing use of HVAC pumps for both heating and cooling purposes. The use of water pumps in water and waste treatment plants also causes problems, for which active filters are a solution. Merus Power is focusing its growth investments especially on these growing segments.

Global business

Product sales and projects

In a stable growth phase

Revenue, power quality solutions (MEUR)[1]



Revenue distribution (2022-24e)[1]

1) Based on Inderes' estimate

Power quality solutions 2/6

Project deliveries for heavy industry
Typically, slightly over half of the power quality solutions' revenue comes from the delivery of STATCOM and SVC systems to heavy industry. These deliveries are often worth some millions of euros (<5 MEUR) with delivery times of about 12-18 months. We estimate that the margin levels of these larger systems are lower than product sales, which is affected by, e.g., the subcontracted sub-assemblies included in the solutions. STATCOM and SVC compensators developed by Merus Power are mainly used in the metal and mining industries. The systems ensure, e.g., efficient and uninterrupted operation of electric-arc furnaces. STATCOM and SVC orders are typically part of the customer's broader investment package, so demand varies according to investment trends in the metal industry. Merus Power also implements solutions for modernization projects, so demand is not only based on new factory projects.

A buyer of a large-scale industrial power quality system is often a system integrator, responsible for the overall investment package ordered by the end customer. The integrator's tasks typically include the construction of a large entity (e.g., a steel mill production line) by combining the system integrator's own and third-party deliveries.

Solutions are delivered around the world
Power quality solutions, both products and projects, are delivered internationally mainly through an extensive distribution network. The company's approximately 40 resellers have established local contact networks with industrial, real estate and infrastructure customers, as well as expertise in local electrical requirements. Merus Power continuously aims to develop its distribution network and offers training and technical support to distributors through its own regional offices and, e.g., international webinars. The company has its own sales organization in Finland, and sales offices were also opened in Germany and the United Arab Emirates at the end of 2022. The company has also strengthened its presence in South America during 2024, although a local country organization has not yet been established.

In the past, a significant portion of the growth in power quality solutions has come from developing markets such as Asia and the Middle East. Winning market shares in the more competitive Western market is more challenging and requires long-term work. Since the IPO, the company has increased its presence in, e.g., German-speaking Europe and the US, where it did not yet have significant business before the listing. These efforts have gradually generated results, e.g., in the form of US orders. Sales efforts in the US are also important because many data center projects relevant to Merus Power being built around the world are commissioned and managed by US companies.

Key customer segments

Annnounced orders 2022-24[1]

Announced	Delivery target	Solution	Revenue
01/03/2022	Metal industry, USA	STATCOM	4.0
02/04/2022	Steel industry, Colombia	STATCOM	3.0
05/23/2022	Data center, USA	A2	0.4
06/02/20222	Steel mill, Tornio	STATCOM	1.5
07/19/20222	Steel mill, Asia	STATCOM	2.5
08/09/20222	Steel mill, Egypt	SVC	2.0
08/18/20222	Data center, Europe	A2	1.0
10/14/20222	Shopping centers, Mexico	A2	1.0
12/30/20222	Wind turbines, South Africa		0.5
01/12/2023	Data center, USA	A2	0.9
10/02/2023	Steel mill, Imatra	SVC	1.0
11/22/2023	Steel mill, Poland	SVC	1.0
07/08/2024	Green stell mill, Europe	STATCOM	5.5
07/25/2024	Metal industry, Saudi Arabia	STATCOM	3.8
08/01/2024	Rail transport, Estonia	STATCOM	1.0

1) Revenue is partly based on Inderes' estimate. A2 active filters are sold in large quantities in small deliveries, so orders are not reported separately.

Power quality solutions 3/6

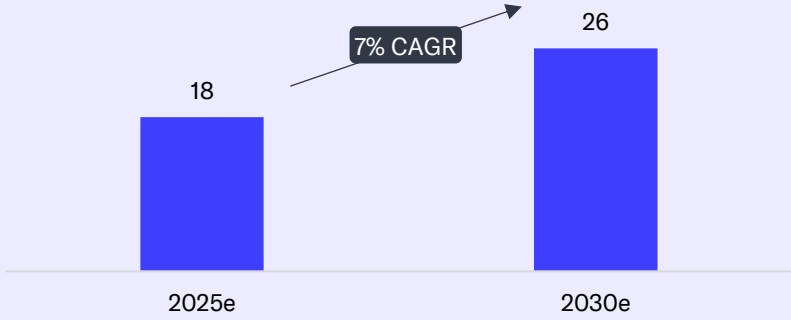
A small part of Merus Power's production is manufactured for OEM manufacturers, who in turn resell the products under their own brands. The company's main brand partner is Nokia Capacitors Shanghai (NCS), who sells A2 active filters manufactured by Merus Power with the NCS logo on the Chinese market. In addition to NCS, Merus Power also has another small-scale brand partnership, and the company is negotiating cooperation with new brand partners.

The market is growing as the energy system becomes more electrified

The size of the power quality solutions market is estimated to be some 18 BNUSD globally in 2025[1]. The market is expected to continue to grow by an average of around 7% p.a. and reach around 26 BNUSD by 2030. The key market areas for Merus Power's business in power quality solutions are static synchronous compensators (SVC), active filters and static var compensators (STATCOM), the combined market size of which is just under 3 BNUSD, which is only a small part of the entire power quality market. We estimate that the growth rate of the aforementioned segments, which are key to Merus Power, is close to the growth rate estimated for the entire market (7% p.a.).

The market growth of power quality solutions is driven by several factors related to, e.g., the electrification of the energy system and the increase in the share of renewable energy. Electrification increases the demand for metals, which, in turn, increases the investment needs of the metal industry, which often also include power quality solutions. Properties are increasingly using frequency converter-controlled electric motor-operated pumps and fans for heating and cooling, which cause disturbances in power quality. The same applies to data centers, which are increasingly invested in, e.g., to increase cloud server space and AI computing power. The affordability of renewable energy makes electrification viable. Wind and solar power generation also cause power quality problems in themselves, the compensation of which calls for solutions, especially in countries with high power quality requirements.

Annual revenue of the power quality market BNUSD[1]



Drivers for market growth

- Electrification of societies and development of electrical infrastructure
- Increase in renewable energy production
- Frequency-controlled electric motors becoming more common
- Investments in data centers

1) Mordor Intelligence: Power Quality Equipment Market Analysis (2025-2030)

Power quality solutions 4/6

Competitive landscape in power quality solutions
The power quality market includes large international players (e.g. ABB, Siemens, Eaton, Schneider Electric, Hitachi and Danfoss). These types of companies produce standardized solutions, especially for large capital-intensive projects, where suppliers mainly compete with extensive delivery packages and the ability to supply a wide range of components and products.

Merus Power is among the smaller-sized specialized operators. We believe the company has found a niche segment in the market where its technological solution is competitive. Other smaller specialized players include, e.g., Comsys, Sinexcel Electric and Schaffner. Competition with specialized players is mainly focused on product quality and the ability to deliver solutions that incorporate the customer's specific needs. Even in this segment, price competition from Asian companies is noticeable, which, in turn, challenges Merus Power.

In our view, the company's ability to compete in power quality solutions is based on strong technological expertise, high-performance products and the ability to adapt solutions to specific customer needs. These capabilities are based on the company's business focus on specific power quality segments and long-term product development.

Competitiveness factors

Large integrators
- Cost-effective procurement
- Recognition
- Economies of scale in the service business
- Distribution

Specialized smaller players
- Specialized own technologies
- Adapting solutions to customer needs

Power quality solutions 5/6

Product sales of power quality solutions: A2, 4Drives ja HPQ

Merus™ A2 – active harmonic filter

- The A2 filter, launched in 2017, replaced Merus Power's previous active filter model. The majority of Merus Power's product sales are based on the A2 product.
- The product is generally designed for industrial, infrastructure and building use.
- Reacts to power outages in real time by feeding an opposing electrical wave into the system.
- Very fast response time and high power density.
- The modular structure enables scalability for different sized solutions.
- Can be customized with software for different voltages and uses.
- The same modular solution can also be used as a part of power electronics in energy storage systems.

- Flexible universal solution for power quality management
- Performance, versatility and scalability are the key competitive factors
- An important part of Merus Power's other more specialized solutions, such as the HPQ product and energy storage systems

Merus™ 4Drives – active harmonic filter for frequency converters

- The product is optimized to filter power quality disturbances caused by frequency converters
- Typical applications include water treatment plants, buildings, data centers, HVAC solutions
- Specifically sold to OEM manufacturers and system integrators of frequency converters
- Technically, the solution is based on the A2 filter, but it has been stripped of extra features and made optimal for a specific customer base
- Launched in 2023

- Cost-optimized solution for power quality disturbances caused by frequency converters

Merus™ HPQ – hybrid compensator (Hybrid Power Quality)

- Combines the modern active filtering technology of the A2 module with traditional capacitor technology, enabling a cost-effective solution for many customer needs.
- Merus Power is responsible for the active technology used in the product, system design, control and software solutions.
- Passive capacitors come from external suppliers or customers.

- A cost-effective solution for many power quality challenges
- The solution enables upgrading old capacitor systems to more modern ones

Power quality solutions 6/6

Power quality solutions for heavy industry needs: Merus™ STATCOM and SVC

Merus™ STATCOM – active reactive power compensator

- Merus Power's STATCOM technology is based on a modular, scalable structure, similar to A2 modules, but on a larger scale.
- Merus™ STATCOM has an additional feature of filtering harmonic currents, which can save the customer from having to purchase a separate filter.
- The system improves the power quality of heavy industry customers, reduces disturbances and increases the reliability of processes.
- Ultra-fast response time – only 0.6 milliseconds with high power density.

General information about STATCOM technology

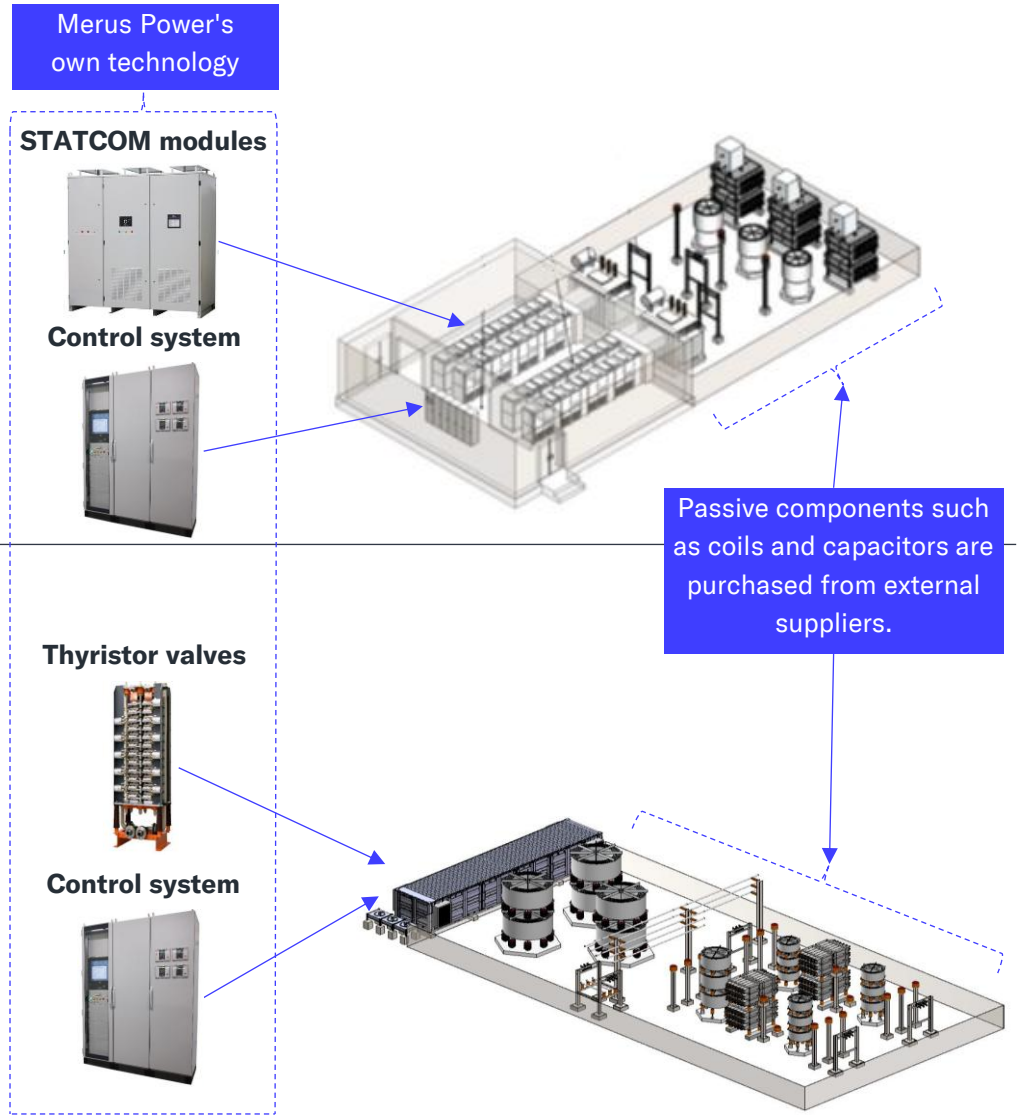
- The equipment is used, e.g., in the steel industry and mines.
- STATCOM technology became more common in industrial use in the 2000s and has partially replaced the use of SVC systems due to its better performance.

Merus™ SVC – adjustable reactive power compensator

- Merus Power also offers its customers an SVC system, as it enables a more cost-effective solution for certain large-scale electrical engineering problems than the STATCOM system.
- The system improves the power quality of heavy industry customers, reduces disturbances and increases the reliability of processes.
- Response time 20 milliseconds.

General information about SVC technology

- Serves the same purposes as STATCOM but has a lower performance.
- The technology was introduced in industry in the 1970s.
- In addition to industry, SVC technology is also used in infrastructure, such as substations. The scale of infrastructure projects is larger than that of industrial solutions and, for the time being, outside Merus Power’s focus.



Strategy and financial targets 1/2

In line with the strategy stated in connection with the listing, Merus Power's goal is to increase the company's recognition, sales and profitability, and strengthen its market position in the sustainable energy revolution. Merus Power is aiming for strong growth, especially in the energy storage market and aims to grow faster than the market in the global power quality solutions market.

The company has listed five themes that form the cornerstone of its growth strategy:

Scalable product portfolio
The inverters, control units and software developed by Merus Power can be used both in power quality solutions and energy storage systems. The scalability and modularity of the product portfolio support efficient production, also enabling customized solutions for customer needs. The development of larger and more diverse energy storage systems has required significant financial investments from the company, but the development work can be leveraged in new deliveries over a long period of time.

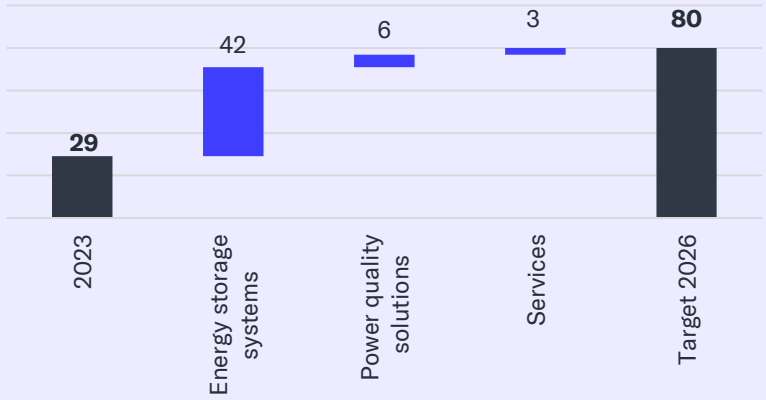
Multi-channel sales strategy
The company's sales are based on several channels, including direct sales, a resale network, system integrators, and OEM manufacturers. Distribution has been increased and developed after the listing by, e.g., opening new regional offices and strengthening the distributor network, also in new geographical markets.

Energy storage systems: Improving profitability and expanding the customer base
With the listing, Merus Power aimed to expand its energy storage business to a larger delivery size category, and in our view, it has succeeded in this. Next, the company's key objectives include improving the profitability of the energy storage business and expanding operations outside Finland to grow and diversify the customer base and target market.

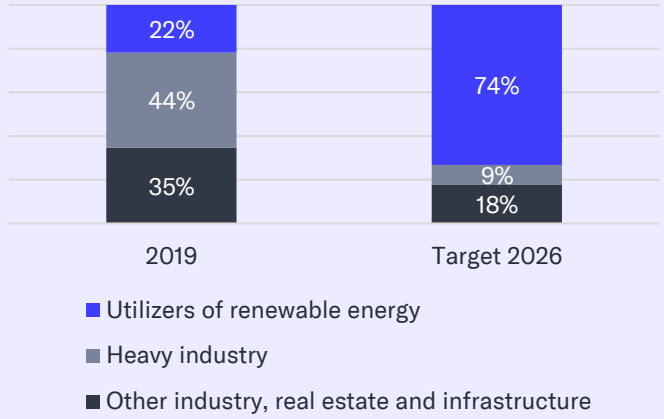
Power quality solutions: Developing distribution and strengthening the position in growth segments
The profitability of the power quality solutions business is already on a relatively stable footing. The company continues to aim for long-term revenue growth by developing its distribution network and strengthening its position in growth segments such as data centers and green steel projects.

Increasing the share of services
The company's service business has traditionally consisted of maintenance services, the growth of which is supported by new energy storage deliveries and related service agreements. The company is developing its global maintenance operations by training its cooperation network and introducing various remote support services. In addition, developing energy storage trading software and analytics services enable new revenue sources. However, we estimate that the relative share of these services will remain quite low in total revenue.

Distribution of the revenue growth target (MEUR)[1]



Development of the customer base



1) The segment-specific breakdown of the baseline (2021) is based on Inderes' estimate
Sources: Merus Power and Inderes

Strategy and financial targets 2/2

Financial targets

- Revenue growth to 80 MEUR by 2026, mainly organically.
- EBITDA on average over 15%.
- Equity ratio over 35%
- Dividend payments are a possible option in the medium term, but for now the company aims to use its funds to achieve its growth targets.

The strategy aligns with market trends, but the predictability of operations is not optimal

The energy storage-driven growth strategy is very well aligned with the global energy transition, as investments in renewable energy and energy storage have grown strongly in recent years and the trend is expected to continue. The company already possessed some of the technical capabilities required by the strategy at the time of Ithe PO, but some had to be developed separately, which has depressed profitability thus far. From an investor's perspective, visibility into the profitability of operations and continued revenue growth is still limited, but we believe the company is aware of the challenges and is actively working to address them. Dependence on market investment cycles and the project-based nature of the energy storage business cannot be fully eliminated but revenue can be diversified by expanding the customer base to new countries with the support of local partners.

Short-term growth prospects are good, and increasing operational efficiency through repetition, together with cost scalability, should also strengthen profitability. Of the 80 MEUR revenue target for 2026, as much as 56 MEUR is planned to come from energy storage, which is still a way off despite the recent strong order intake. Individual deliveries can be quite large, so in a positive scenario, growth could be even faster.

In power quality solutions, the company's growth has progressed well, excluding 2024 that was hit by the recission. The expansion of distribution and the customer base has progressed, which should continue to support growth in the future. 20 MEUR of the revenue target is expected to come from power quality solutions, which we consider a rather challenging target but achievable when the economic cycle improves.

The profitability target seems challenging

We find the company's 15% profitability target challenging, as we estimate that gross margins in the energy storage business are clearly lower than in power quality solutions. Historically, an EBITDA margin of 10% has been achievable in power quality solutions alone. Assessing the profitability of energy storage is still very challenging at this stage. The company's energy storage business must prove more competitive than its rivals, or the market as a whole should become more profitability-oriented, for the company to come close to achieving its profitability target.

Starting points for financial targets

Revenue (MEUR)

EBITDA margin

2016	2017	2018	2019	2020	2021	2022	2023	Target
9.8%	-9.8%	8.1%	5.7%	0.6%	5.6%	3.6%	0.7%	**>15%**

Equity ratio (%)

2017	2018	2019	2020	2021	2022	2023	Target
42%	32%	32%	32%	64%	53%	57%	**>35%**

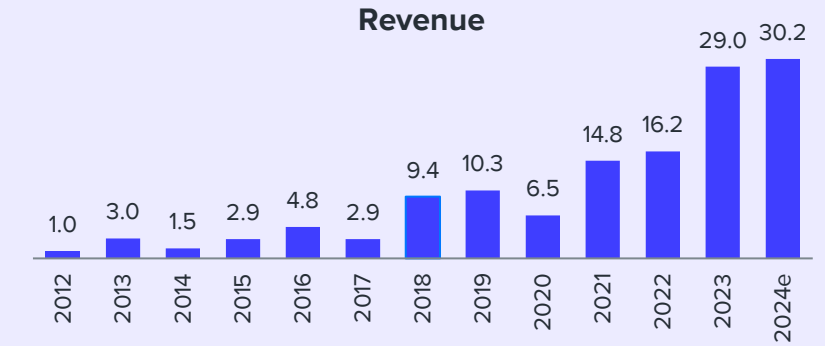
Source: Merus Power

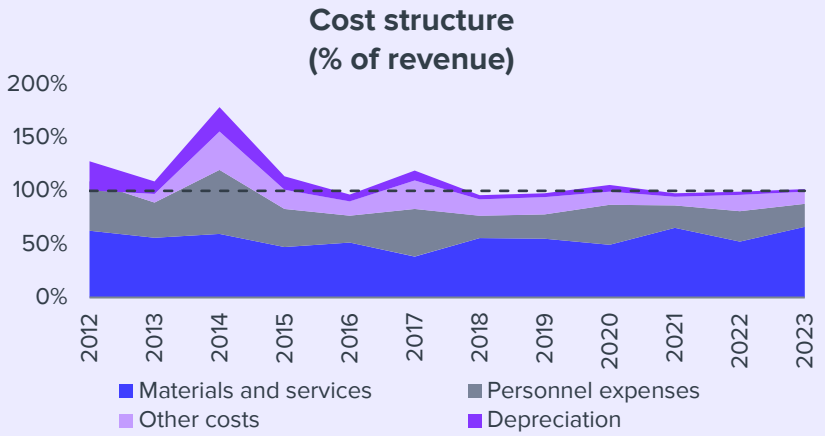
Historical development and financial position 1/2

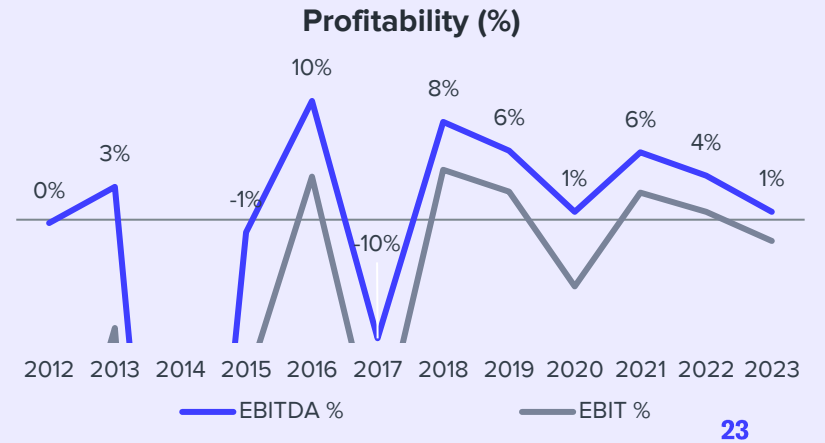
The company has grown to a new level
Merus Power's revenue was 29 MEUR in 2023 and the company has guided that its revenue will grow in 2024. In the long term, the company's revenue has been on a clear growth trend. Both business segments generate growth, but in energy storage, growth is stronger and stems from larger individual orders. On an annual basis, revenue has not always developed steadily. The timing of large project deliveries explains the variation in revenue (like in 2017 and 2020). Large projects spanning more than one year or with a value of at least 0.5 MEUR are recognized using the percentage-of-completion method. We estimate that the share of projects accounted for using the percentage-of-completion method is about 70-80% of total revenue. We estimate that 2022 revenue did not include significant energy storage sales, while in 2023, the share of energy storage systems rose to almost 50%, which explains the steep growth spurt. In 2024, revenue has suffered from the weak industrial cycle in power quality solutions, which is compensated by the rapid growth in energy storage.

The lower margin level of energy storage is reflected in the cost structure
Materials and services account for the majority of Merus Power's operating costs. In 2012-17, material and service costs accounted for 53% of the company's revenue on average, as the business consisted of power quality solutions, where the material margin is relatively high. In 2023, the share of materials and services increased to 78%, which was affected by the thinner margin profile of the energy storage business and the negative effects of the component shortage on the margins of large power quality projects. The material margin can vary considerably between years, along with revenue distribution. So far, we have only seen early glimpses of the margin profile of the energy storage business, and in the long term, the profitability could improve driven by, e.g., improved operational efficiency and changes in the competitive landscape.

The benefits of the growth investments made have not yet been fully realized
The proportion of personnel costs and other operating expenses in annual revenue has fluctuated (2023: 33%), but has been trending downwards in the big picture as the business has grown. However, the company has made large growth investments since its listing in 2021, the impact of which we feel has not yet been fully realized in revenue. The number of personnel has more than doubled in the three years following the listing (H1'24: 113). Other operating expenses include, e.g., costs related to premises and IT resources. Depreciation and impairment amounted to 0.7 MEUR in 2023. The sum mainly consisted of depreciation according to plan of intangible assets, including capitalized R&D investments and other intangible items. The company complies with Finnish Accounting Standards (FAS) in its reporting, as a result of which, e.g., lease agreements are not capitalized on the balance sheet nor depreciated annually.







Historical development and financial position 2/2

Earnings have been low due to growth efforts
The company's profitability has historically varied considerably between years and has been at a low level on average. During 2018-2023, the company's average EBITDA margin was about 4% and EBIT margin about 0%. The weak margin level is broadly related to the company's small size and, on the other hand, front-loaded growth investments, such as expanding product development and the sales organization.

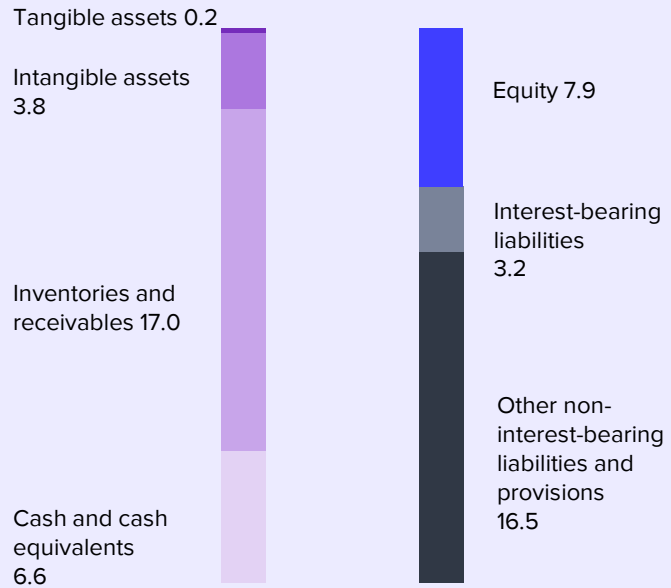
The company's net financial expenses have so far been fairly low (2022-23: 0.2-0.3 MEUR). The company has been able to finance its operations with the proceeds from the IPO, and the amount of debt on the balance sheet has therefore been rather low. So far, the company has not paid much taxes because the business has been mainly loss-making. At the end of 2023, the company had accumulated losses of 5.7 MEUR on its balance sheet from the current and previous financial years, most of which is tax deductible if the business turns profitable in the future.

The balance sheet strengthened by the IPO has been put to work
As an unlisted small growth company, Merus Power's financial position has been challenging in the past. In connection with the IPO, it received net assets of 12 MEUR, which has resulted in the equity ratio improving well above the company's target level, and it was 57% at the end of 2023. At the end of June 2024, the company had net cash assets of 3.4 MEUR. Balance sheet key figures vary from time to time due to, e.g., the commitment and release of working capital.

Electricity storage deliveries tie up working capital
At the end of June 2024, Merus Power's balance sheet total was 27.5 MEUR, of which 17.0 MEUR consisted of inventories and receivables. Cash assets amounted to 6.6 MEUR. Non-current assets totaled 4.0 MEUR, most of which consisted of intangible assets such as capitalized development costs. In terms of machinery and equipment, production is relatively capital light and scalable. Investments have been elevated in 2023-24 due to the move to new premises and the transition to supplying large energy storage systems, which has increased development costs.

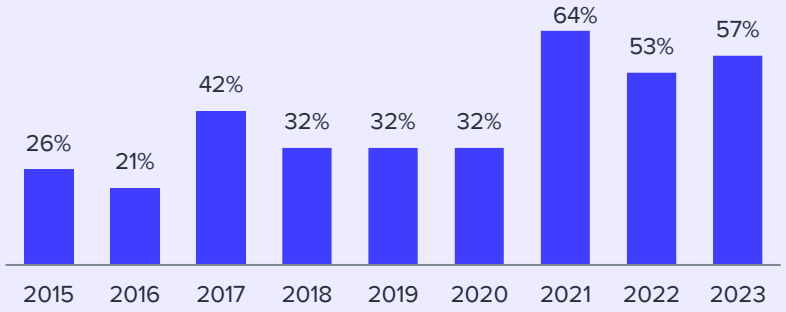
Working capital ties up most capital, and this has been further emphasized by the growth targeted with energy storage systems.
Net working capital at the end of 2023 was 10 MEUR or 34% of revenue. Power quality solutions tie up relatively little working capital. In the company's most important growth segment, the energy storage business, the payment terms for sales receivables are typically weaker for the energy storage supplier, which explains the increase in working capital in 2023 due to the large 20 MEUR energy storage project. Without the funds raised in the share issue, Merus Power would hardly have had the opportunity to participate in energy storage projects of this scale. We estimate that the current balance sheet is sufficient to continue strong growth driven by energy storage, assuming that project management and profitability can be improved.

Merus Power's balance sheet at the end of H1'24 (MEUR)



Balance sheet total 27.5 MEUR

Equity ratio

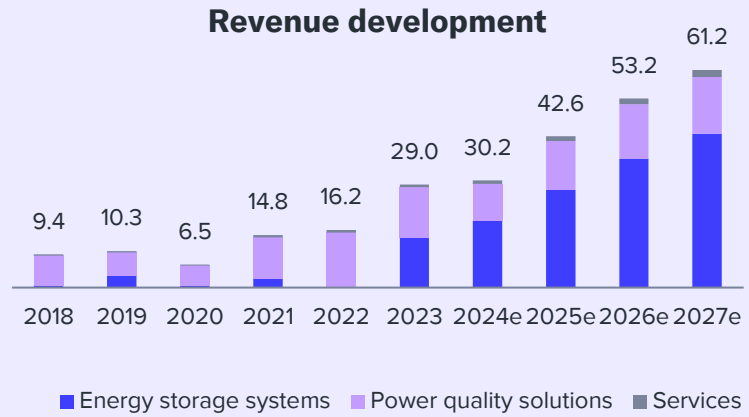


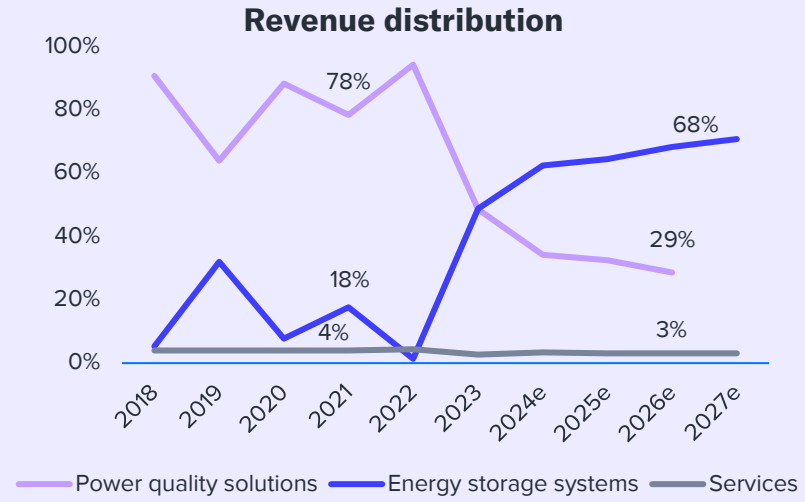
Estimates 1/4

Forecasting model
We forecast Merus Power's revenue through three business segments: energy storage systems, power quality solutions and services. The company does not report segment revenue separately in its half-year reports, but we can use the information in the prospectus and the reported orders to support our segment-specific estimates. We do not break down EBITDA or EBIT for different segments, but we aim to incorporate the different margin levels of the various segments in our group-level estimates.

2024 ended on an upward trend
Merus Power guides that 2024 revenue will increase from the previous year (2023: 29 MEUR), but we expect growth to remain rather moderate (forecast: 30 MEUR). The moderate estimate is due to the low revenue in H1'24 (down -51%), which was affected by, e.g., project timing factors and the weak demand situation for power quality solutions. The same factors, together with the increased cost structure, have also depressed profitability, so we estimate that the 2024 EBITDA will remain at a loss of -1.0 MEUR (company guidance: 0-1 MEUR negative). However, our current estimates include significant revenue growth for the second half of 2024, supported by the company's strong order backlog (H1'24: 46.8 MEUR, growth 133% y/y)

The order backlog enables strong growth in 2025
We estimate that 2025 will be clearly stronger than 2024 in terms of both growth and profitability. We expect revenue to increase by 41% to 42.6 MEUR and EBITDA to rise to 2.1 MEUR (5% of revenue). Merus Power will deliver several energy storage facilities during 2025, including both larger and smaller projects. The demand outlook for power quality solutions has also improved, thanks to a good project order backlog and the stabilization of the general industrial cycle. Our estimate assumes that the announced projects can be delivered mainly on schedule and that the company will not incur significant additional costs from possible delays. We expect the company to have learned from the delivery challenges encountered with the first major energy storage project and to achieve better supply security and operational efficiency during 2025. Learning is affected not only by repeating similar deliveries, but also the fact that the company's rapidly growing personnel is constantly getting better at their tasks. The growth enabled by the order book helps compensate for the fixed cost base inflated by growth measures. The availability of components has also improved and cost pressures have eased. Our forecasts for 2025 do not include revenue from potential new energy storage orders, which could be won in the first half of 2025. Therefore, there could be an upside in the growth estimate in a favorable scenario.





Source: Inderes' estimate (the segment breakdown of revenue for 2018-21 is also based on an estimate)

Source: Inderes' estimate

Estimates 2/4

Our estimates assume positive development but are far from the top scenario

Merus Power has set a revenue target of 80 MEUR for 2026, of which as much as 56 MEUR should come from energy storage systems and renewable energy integrations. The rapid growth in the order backlog driven by energy storage systems in 2023-24 has demonstrated that the business can be grown rapidly by winning large deliveries. Our revenue forecast for 2026 is 53.2 MEUR, which is below the company's target. We justify the cautiousness of our estimates, e.g., by the limited predictability of project business revenue. Investments in energy storage are at a high level and long-term growth estimates are high, but changes in the operating environment may from time to time weaken the pace of investment, as has happened in Finland with wind power construction, for example.

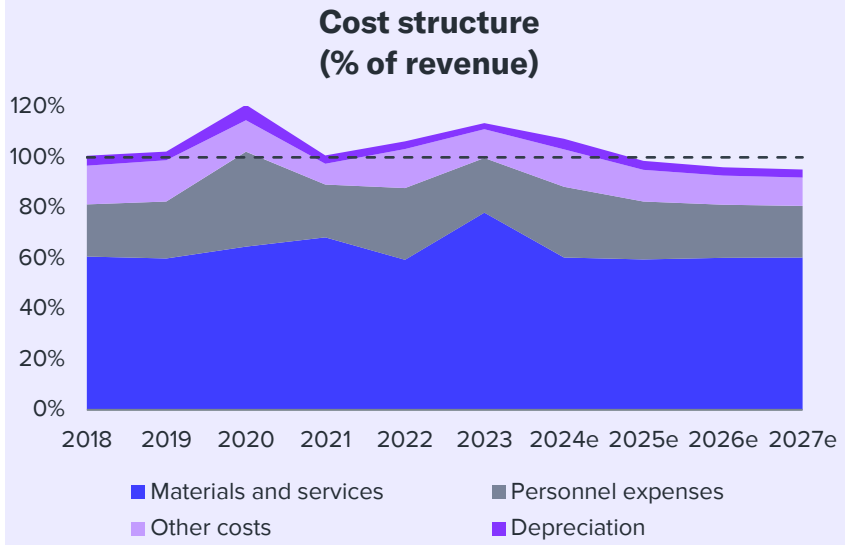
The company's EBITDA target is above 15%, while our forecasts for 2025-27 are 5-8%. In our view, there is great uncertainty in both directions regarding the profitability estimates, as it is currently challenging to estimate the profitability of the newish project business. Considering the profitability profile of the industry, we would consider EBITDA of 10% to be a strong performance.

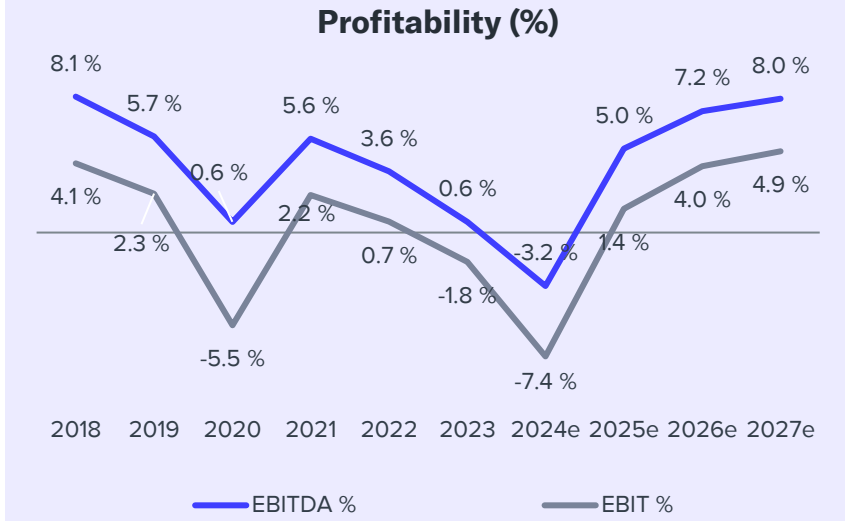
The forecasted margin improvement will be achieved through scaling fixed costs

We forecast that the material margin of the business will develop fairly steadily. Our material margin estimates for 2025-26 are 40.4-39.7%, which assumes a margin of around 35% in energy storage systems and 50% in power quality solutions.

The upward trend in our margin estimates is mainly due to the decline in the relative share of fixed costs as the business scales. We estimate fixed cost growth to slow to 15% in 2025-26, even though the revenue growth estimate averages 33%. We expect that the share of personnel costs and other operating expenses of revenue will decrease to 35% in 2025 and 32-33% in 2026-27, which we believe is a realistic assumption, considering that the percentage has been close to 30% in the company's history (2023-24e: 33-44%). If the growth exceeds our forecast, the scaling could be even stronger.

The depreciation level increases significantly in our estimates. For 2024 we estimate a 1.3 MEUR (2023: 0.7 MEUR) and 1.5-1.8 MEUR for 2025-26. This is due to the increase in investments in 2023-24e, with, e.g., the new premises and the development of new energy storage systems. We estimate that investments will stabilize to a lower level in 2025-26e and continue to grow slightly more slowly than revenue in the long term.





Source: Inderes' estimate

Estimates 3/4

Net income could turn positive in 2025-26
Merus Power's indebtedness is quite low, but we estimate that it will increase slightly in the coming years due to, e.g., working capital commitment. We estimate net financial expenses to increase to 0.6 MEUR in 2024e and remain stable in 2025-26, which would correspond to a financing cost of approximately 6% relative to gross debt.

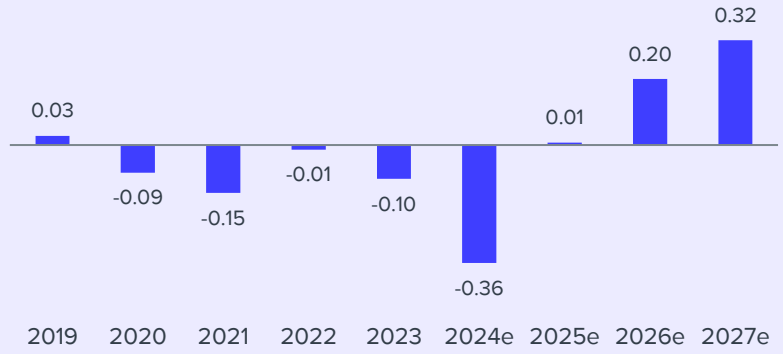
The company does not have to pay corporate tax for many years to come due to losses from previous years (in our estimates, taxes are not paid until 2032). According to our estimate, net income will turn to around zero in 2025 (0.1 MEUR) and clearly positive in 2026 (1.6 MEUR).

Growth ties up working capital
The growth of the energy storage business has already tied up and will continue to tie up more net working capital due to the payment schedules of large-scale delivery packages. We estimate that net working capital at the end of 2024 will be 27% of the revenue. The ratio will drop to 20% by 2027. Due to the increase in working capital, the company's free cash flow will suffer relative to EBITDA or EBIT in 2025-27e. For 2024, we estimate working capital to be released thanks to the strong cash flow in H1, but in the medium term, we estimate that working capital will continue to be tied up. In our estimates, some 1.5 MEUR working capital will be tied up per year over the next three years (2025-27e).

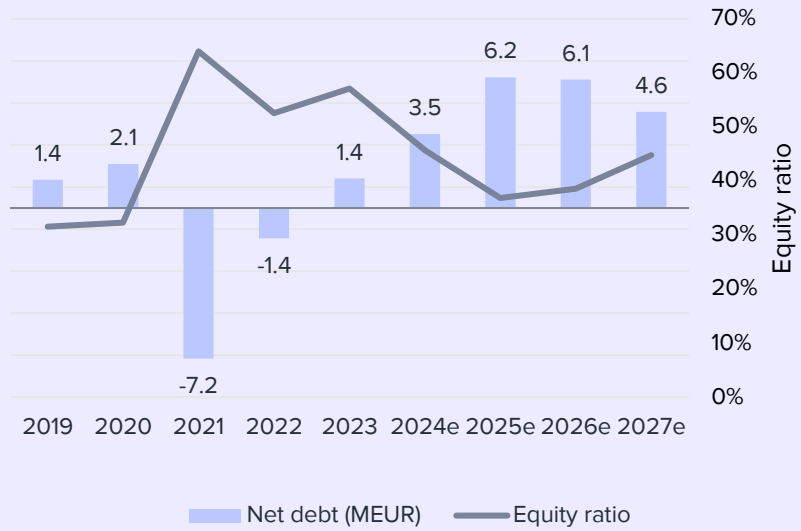
The balance sheet does not limit growth at least yet
The losses estimated for 2024 and the working capital needs expected for the next few years stretch Merus Power's balance sheet and increase net debt. We estimate that the current forecasted growth can be achieved without strengthening equity. In our view, however, the balance sheet cannot withstand major setbacks in terms of, e.g., profitability development or project management.

In our forecasts, net debt is 6.2 MEUR at its highest (2025e). Cash flow should strengthen in the coming years, mainly supported by the profitability turnaround, but the cash position is also affected by the forecasted decrease in investment needs after the growth efforts of 2023-24. We do not expect the company to pay dividends in the coming years. Instead, we believe that balance sheet assets will be mainly used to finance the working capital needed for growth.

Earnings per share (EUR)



Development of balance sheet key figures



Source: Inderes' estimate

Estimates 4/4

Detailed estimates

MEUR	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Order intake		**7**	**15**	**13**	**17**	**34**	**49**			
- growth %			100%	-11%	30%	100%	45%			
Order book	**5**	**2**	**10**	**8**	**9**	**14**	**33**			
- growth %				-17%	8%	53%	136%			
Revenue	**9**	**10**	**7**	**15**	**16**	**29**	**30**	**43**	**53**	**61**
- growth %		10%	-37%	127%	10%	79%	4%	41%	25%	15%
Revenue by segment, MEUR										
Power quality solutions	8	7	6	12	15	14	10	14	15	16
- growth %		-22%	-13%	102%	32%	-8%	-27%	34%	10%	5%
Energy storage systems	1	3	1	3	0	14	19	27	36	43
- growth %		560%	-85%	420%	-91%	6279%	33%	46%	32%	19%
Services	0	0	0	1	1	1	1	1	2	2
- growth %		10%	-37%	127%	20%	10%	30%	28%	28%	15%
Material margin %	44.9%	44.9%	52.6%	35.0%	47.8%	34.2%	40.2%	40.4%	39.8%	39.7%
Personnel expenses, % of revenue	20.7%	22.6%	37.5%	20.9%	28.4%	21.6%	28.1%	22.8%	21.0%	20.5%
Other costs, % of revenue	15.3%	16.4%	12.5%	8.2%	15.5%	11.5%	14.9%	12.5%	11.5%	11.2%
EBITDA	**0.8**	**0.6**	**0.0**	**0.8**	**0.6**	**0.2**	**-1.0**	**2.1**	**3.9**	**4.9**
- % of revenue	8.1%	5.7%	0.6%	5.6%	3.6%	0.6%	-3.2%	5.0%	7.2%	8.0%
Depreciation and amortization	-0.4	-0.4	-0.4	-0.5	-0.5	-0.7	-1.3	-1.5	-1.8	-1.9
EBIT	**0.4**	**0.2**	**-0.4**	**0.3**	**0.1**	**-0.5**	**-2.2**	**0.6**	**2.1**	**3.0**
- % of revenue	4%	2%	-6%	2%	1%	-2%	-7%	1%	4%	5%
Investments	0.3	0.5	0.5	0.6	0.8	2.9	2.4	2.0	1.9	2.0
Net working capital	0.3	2.5	3.0	4.7	10.1	9.9	8.1	10.4	11.7	12.5
Net debt		1.4	2.1	-7.2	-1.4	1.4	3.5	6.2	6.1	4.6

Source: Inderes

In connection with the extensive report, we raised our revenue estimates for 2025-26 by 8% and 6% due to the recent order backlog (4 MEUR order from Enertia Oy). At the same time, our EBIT forecast for 2025 increased to 0.6 MEUR (was 0.0 MEUR). However, our 2026 EBIT estimate rose only moderately to 2.1 MEUR (was 2.0 MEUR).

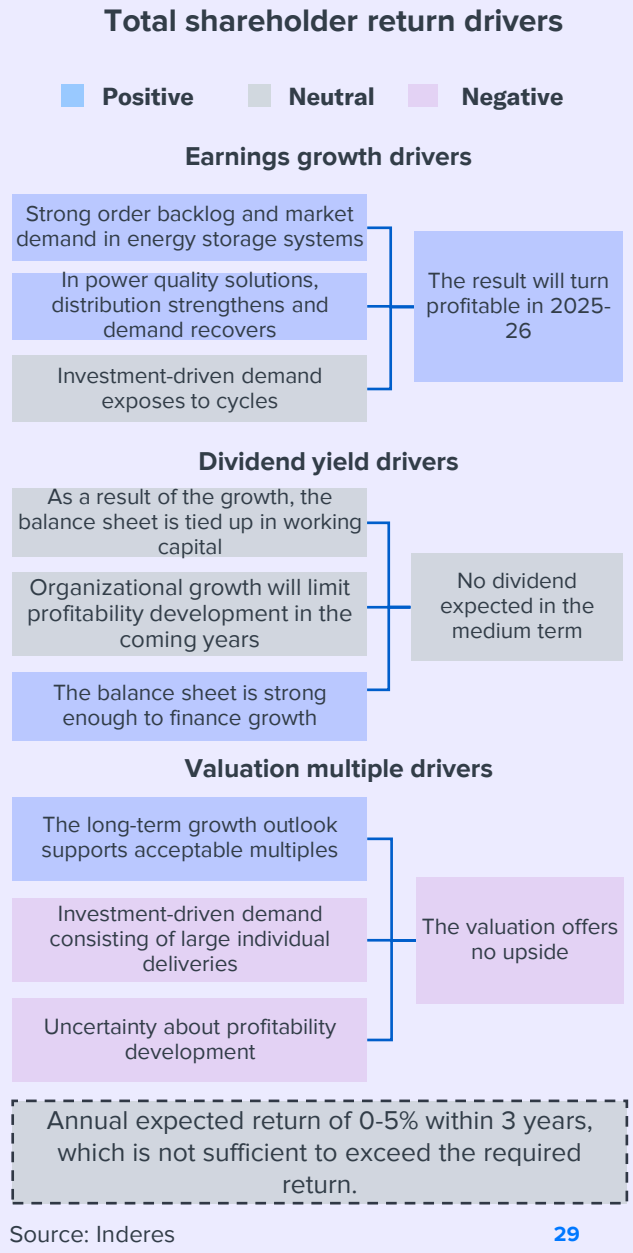
Valuation 1/4

Investment profile
Merus Power is growing strongly, supported by market growth offered by the energy system transformation and the growth measures enabled by the IPO in 2021. The rapid growth in the order backlog driven by energy storage in 2023-24 has demonstrated that the business can be grown quickly by winning large deliveries. Our 2026 revenue estimate is 53 MEUR, which is below the company's target, but the direction of growth is still strongly positive. The growth story could be further strengthened if Merus Power succeeds in diversifying its growth sources by winning energy storage projects abroad and proving the competitiveness of its energy storage systems also outside Finland. Although we feel the energy market disruption is a sustainable growth driver, investment-driven demand can fluctuate on an annual level and cause volatility in estimates.

In addition to growth, we believe it is important for the investment case that the company can strengthen its profitability. Defining the long-term profitability level is challenging so far, and we believe future evidence in this area is a key driver from a valuation perspective. In our view, it is challenging to achieve high double-digit EBIT margins in the energy storage business due to the thin margin levels of the projects.

Earnings-based valuation is high for now but could fall to a fairly reasonable level in the medium term
In our opinion, the most useful valuation methods are medium-term earnings-based valuation multiples and DCF, although the latter is even more affected by the difficult-to-determine long-term margin level. We favor EV-based valuation multiples, which consider the current net cash position and balance sheet development.

Merus Power's earnings-based valuation multiples are currently high due to growth investments, and the 2024 earnings are negative. With our 2025-27 estimates, the EV/EBIT ratios would be 68x, 20x and 13x. If the profitability turnaround we expect materializes, the multiples would decline to more reasonable levels in the medium term, although not yet to attractive levels. The valuation multiples for 2026-27 could already be considered close to a fair level, and improved visibility into the competitiveness and profitability scalability of the energy storage business could even turn the valuation attractive. However, this would require more evidence of the company's earnings turnaround and exceeding our earnings estimates for the coming years.



Source: Inderes

Source: Inderes' estimate

Valuation 2/4

Valuation does not appear particularly attractive relative to growth peers

We believe Merus Power's valuation level should be compared to specialized companies producing energy storage systems and power quality solutions with strong growth prospects. We have selected the Chinese Sinexcel Electric, the Dutch Alfen, and the US Fluence Energy as the main peers.

Merus Power is clearly smaller in size than its peers and somewhat behind them when it comes to the profitability turnaround, although Alfen and Fluence are not clearly profitable yet either. Based on 2025 estimates, the earnings-based valuation is clearly more expensive than the peer companies (EV/EBIT: 68x vs. 23x). The clearer profitability improvement we forecast for 2026 would reduce Merus Power's EV/EBIT multiple to 20x, which is still a higher level than the peer group (12x).

In terms of revenue, Merus Power is cheaper than the top of the class of the peer group, Sinexcel Electric, but more expensive than Alfen and Fluence. We do not see strong reasons for Merus Power's EV/S-based valuation to be higher than that of the peers in question. While Merus Power's growth rate is currently stronger than Alfen's, Alfen's growth is also expected to recover in 2025-26. In addition, we believe Alfen has a stronger track record of profitability as revenue scales. Fluence, in turn, is a globally competitive company and slightly ahead of Merus Power in terms of the profitability turnaround.

The power quality business alone is not enough to justify the current share price

Assessing the long-term margin of the energy storage business is challenging, but we believe that the profitability of the power quality business can be estimated with a higher level of certainty. We expect the revenue of the power quality business to be 13.8 MEUR in 2025. In a positive scenario, we believe the business could generate an EBIT margin of 8-10% (EBIT: 1.1–1.4 MEUR), so the value of the power quality business with a rather moderate EV/EBIT ratio of 13x would be 14-18 MEUR, or less than half of the company’s current enterprise value (40 MEUR). We can therefore conclude that energy storage systems need to evolve into value-creating business for the current share price or potential upside to be possible. It should, naturally, be noted that working capital is currently tied up in capital related to the energy storage business, which weakens the comparability between the current enterprise value and the potential separate value of the power quality business.

A summary of the valuation multiples

Valuation	2024e	2025e	2026e
Share price	4.61	4.61	4.61
Number of shares, millions	7.64	7.64	7.64
Market cap	35	35	35
EV	39	41	41
P/E (adj.)	neg.	>100	22.6
P/E	neg.	>100	22.6
P/B	3.8	3.8	3.2
P/S	1.2	0.8	0.7
EV/Sales	1.3	1.0	0.8
EV/EBITDA	neg.	19.5	10.7
EV/EBIT (adj.)	neg.	68.4	19.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Comparison to core peer group

Company	Sinexcel Electric	Alfen	Fluence Energy	Peers, average	Merus Power
Annual revenue growth 2023-26e	25%	5%	31%	20%	22%
EBIT-% 2025e	15%	4%	4%	7%	1%
EV/EBIT 2025e	35	17	17	23	68
EV/S 2024e	2.8	0.7	0.8	1.5	1.3
P/B 2024e	5.4	1.7	4.6	3.9	3.8

Source: Inderes' estimate, Millistream and Bloomberg

Valuation 3/4

Scenario-based valuation
We also use scenario-based valuation to support the valuation. We form three different scenarios (table on the right) for Merus Power's revenue and EBIT margin for 2027, extending one year beyond the company's current strategy period.

We aim to illustrate the company's potential value using EV/EBIT multiples. The probabilities of the scenarios are not equal, as we consider it very unlikely that the company's EBIT margin would rise to as high as 10% in 2027 (positive scenario). There are also some uncertainties associated with the profitability assumptions of the baseline scenario, as it requires almost 2 MEUR in EBIT from energy storage systems, and assessing the long-term profitability of that segment is difficult for the time being. For the sake of simplicity, we have assumed that the company's net cash position in all scenarios develops in line with the estimates of our baseline scenario. We have also assumed that the valuation level applied to the company in all scenarios is EV/EBIT 15x for 2027, which exceeds the stock exchange average and requires value-creating growth from the company.

In the baseline scenario, revenue in 2027 would be 61 MEUR and the EBIT margin would be 4.9%. With these assumptions, the company's 2027 EV would be 45 MEUR and the market cap 40 MEUR. This would correspond to an average annual return of 4%, which is below the required return on equity (10.4%).

In our optimistic scenario, we have set revenue close to the company's target levels, but our profitability assumption is still below the company's target, which we consider quite challenging to achieve. We consider the realization of the positive scenario highly unlikely, as the profitability of competitors in the energy storage industry has so far been low. In this scenario, revenue would be 92 MEUR and the EBIT margin would be 10%, resulting in an EBIT of 9.2 MEUR and an enterprise value (EV) of 138 MEUR. Thus, the share value in 2027 would be almost 4 times the current price in this scenario. In reality, the valuation multiple could rise even higher than currently assumed if the profitability and growth in the positive scenario prove sustainable in the longer term as well. The scenario illustrates the high potential of the stock if the company's energy storage systems prove to be very competitive and clearly more profitable than those of its competitors.

In the pessimistic scenario, revenue would remain at 35 MEUR in 2027, which would still require an annual growth of 5%. Due to weak growth, profitability would also scale poorly and EBIT would remain at 1.0 MEUR. We do not consider the scenario likely, as Merus Power's high order backlog clearly indicates stronger growth. However, in new and rapidly developing industries, demand can vary from time to time, which could lead to unexpected changes in the investment-driven order book.

Scenario analysis

In 2027 MEUR	Negative scenario	Baseline scenario	Positive scenario
Annual revenue growth in 2025-27	5%	27%	45%
Revenue	35	61	92
EBIT %	3.0%	4.9%	10.0%
EBIT	1.0	3.0	9.2
EV/EBIT (x)	15	15	15
= EV	16	45	138
Net cash 2027e	-5	-5	-5
= Market cap	11	40	133
Share price 2027	1.5	5.2	17.5
Return	-68%	13%	279%
Annual return	-32%	4%	56%

Source: Inderes

Valuation 4/4

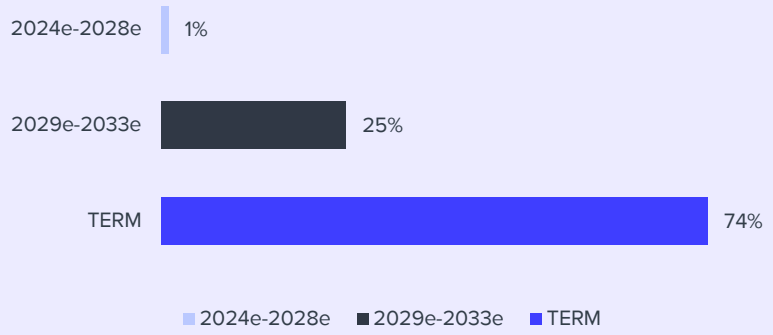
DCF valuation
Our cash flow-based DCF model gives a value of 36 MEUR (EUR 4.8 per share) for Merus Power's equity. In our estimate model, the average annual revenue growth for 2025-2026 is at a high level (33% p.a.), after which growth falls to a more moderate 10-15% level and finally to 3% in 2033e.

In our model, the EBIT margin rises to 4.9% by 2027 and the EBITDA margin to 8.0% (company target is an average EBITDA margin of over 15%). Profitability still improves slightly in our long-term forecasts (EBIT 5.5% in the terminal period). The estimated long-term margin can be considered highish relative to the current profitability of the energy storage industry, but on the other hand, profitability will likely strengthen in the long term as the industry's growth-seeking decreases and the sector matures.

The weighted average cost of capital (WACC) used in the model is 9.2%. The terminal period accounts for 74% of cash flows, which is high and reflects the great importance of long-term profitability assumptions and the high risk associated with the valuation. We use a highish cost of equity (10.4%) because we still see considerable uncertainty in the company's outlook due to the company's and industry's development phase. Lowering the cost of equity by one percentage point would increase the DCF valuation by 20%, and raising it would decrease the value by 15%.

A significant factor lowering the DCF valuation is related to Merus Power's working capital needs in the coming years. With the rapid growth of the energy storage business, the company's business is tying up more working capital. For example, during the years of strong growth estimates in 2025-27, we expect 1.5 MEUR of working capital to be committed per year, which is a relatively significant amount relative to the company's total market cap. The commitment of working capital also partly explains why so much of the value is weighted to the terminal period.

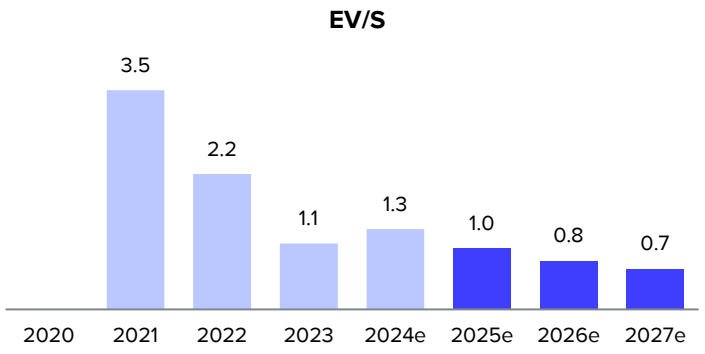
DCF: Distribution of cash flow timing

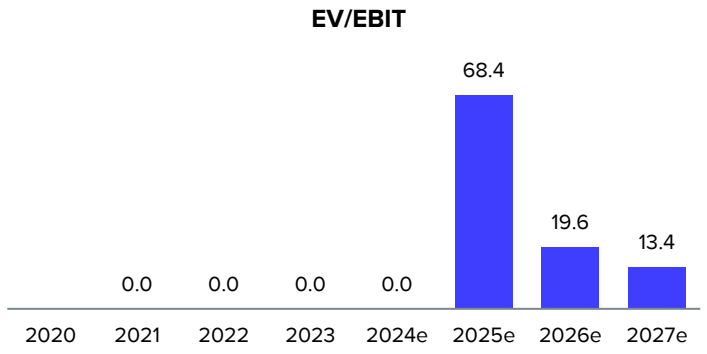


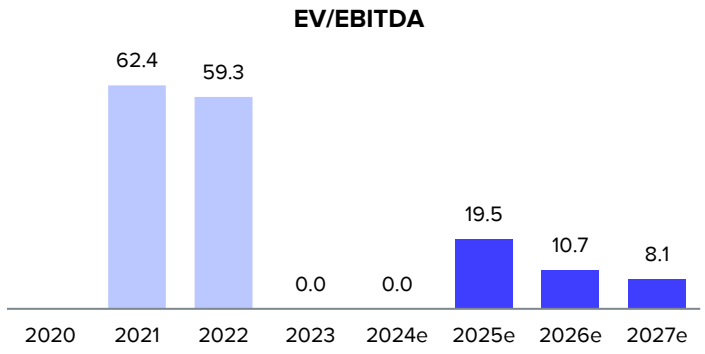
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price			7.70	4.77	3.82	**4.61**	**4.61**	**4.61**	**4.61**
Number of shares, millions			6.53	7.64	7.64	**7.64**	**7.64**	**7.64**	**7.64**
Market cap			59	36	29	**35**	**35**	**35**	**35**
EV			52	35	31	**39**	**41**	**41**	**40**
P/E (adj.)			neg.	neg.	neg.	**neg.**	**>100**	**22.6**	**14.3**
P/E			neg.	neg.	neg.	**neg.**	**>100**	**22.6**	**14.3**
P/B			4.5	2.8	2.4	**3.8**	**3.8**	**3.2**	**2.6**
P/S			4.0	2.3	1.0	**1.2**	**0.8**	**0.7**	**0.6**
EV/Sales			3.5	2.2	1.1	**1.3**	**1.0**	**0.8**	**0.7**
EV/EBITDA			62.4	59.3	>100	**neg.**	**19.5**	**10.7**	**8.1**
EV/EBIT (adj.)			>100	>100	neg.	**neg.**	**68.4**	**19.6**	**13.4**
Payout ratio (%)			0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**
Dividend yield-%			0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**

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**
Sinexcel Electric	1274	1268	56.0	35.0	19.1	14.7	2.8	2.2	21.7	15.9	1.0	1.3	5.4
Alfen	274	350		17.2	16.0	8.3	0.7	0.7		19.7			1.7
ABB	105599	107397	20.9	18.7	17.9	16.3	3.5	3.3	27.4	24.7	1.7	1.7	7.5
Schneider Electric	155795	166135	25.9	22.5	21.3	18.8	4.4	4.0	33.9	29.1	1.4	1.5	5.5
Wärtsilä	10604	10199	15.4	13.2	12.8	11.0	1.6	1.4	22.7	19.5	2.3	2.6	4.2
Fluence Energy	2449	2129	118.9	17.0	37.0	12.7	0.8	0.6	141.9	25.2			4.6
Merus Power (Inderes)	**35**	**39**	**-17.4**	**68.4**	**-40.3**	**19.5**	**1.3**	**1.0**	**-12.7**	**623.9**	**0.0**	**0.0**	**3.8**
Average			**47.4**	**20.6**	**20.7**	**13.6**	**2.3**	**2.0**	**49.5**	**22.4**	**1.6**	**1.8**	**4.8**
Median			**25.9**	**18.0**	**18.5**	**13.7**	**2.2**	**1.8**	**27.4**	**22.2**	**1.5**	**1.6**	**5.0**
Diff-% to median			***-167%***	***281%***	***-318%***	***42%***	***-42%***	***-46%***	***-146%***	***2706%***	***-100%***	***-100%***	***-24%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	H1'23	H2'23	2023	H1'24	H2'24e	2024e	2025e	2026e	2027e
Revenue	**16.2**	**13.6**	**15.5**	**29.0**	**6.7**	**23.5**	**30.2**	**42.6**	**53.2**	**61.2**
Group	16.2	13.6	15.5	29.0	6.7	23.5	30.2	42.6	53.2	61.2
EBITDA	**0.6**	**-0.4**	**0.6**	**0.2**	**-3.4**	**2.4**	**-1.0**	**2.1**	**3.9**	**4.9**
Depreciation	-0.5	-0.3	-0.4	-0.7	-0.6	-0.7	-1.3	-1.5	-1.8	-1.9
EBIT (excl. NRI)	**0.1**	**-0.7**	**0.2**	**-0.5**	**-4.0**	**1.8**	**-2.2**	**0.6**	**2.1**	**3.0**
EBIT	**0.1**	**-0.7**	**0.2**	**-0.5**	**-4.0**	**1.8**	**-2.2**	**0.6**	**2.1**	**3.0**
Group	0.1	-0.7	0.2	-0.5	-4.0	1.8	-2.2	0.6	2.1	3.0
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-0.2	-0.1	-0.2	-0.3	-0.3	-0.2	-0.6	-0.6	-0.6	-0.5
PTP	**-0.1**	**-0.8**	**0.0**	**-0.8**	**-4.3**	**1.5**	**-2.8**	**0.1**	**1.6**	**2.5**
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**-0.1**	**-0.8**	**0.0**	**-0.8**	**-4.3**	**1.5**	**-2.8**	**0.1**	**1.6**	**2.5**
EPS (adj.)	**-0.01**	**-0.11**	**0.00**	**-0.10**	**-0.57**	**0.20**	**-0.36**	**0.01**	**0.20**	**0.32**
EPS (rep.)	**-0.01**	**-0.11**	**0.00**	**-0.10**	**-0.57**	**0.20**	**-0.36**	**0.01**	**0.20**	**0.32**

Key figures	2022	H1'23	H2'23	2023	H1'24	H2'24e	2024e	2025e	2026e	2027e
Revenue growth-%	9.7 %	114.9 %	56.4 %	79.2 %	-50.8 %	52.1 %	4.0 %	41.0 %	25.0 %	15.0 %
Adjusted EBIT growth-%	-68.2 %	68.5 %	-62.1 %	-582.1 %	463.9 %	788.7 %	336.7 %	-127.2 %	247.4 %	40.9 %
EBITDA-%	3.6 %	-2.9 %	3.8 %	0.6 %	-51.1 %	10.4 %	-3.2 %	5.0 %	7.2 %	8.0 %
Adjusted EBIT-%	0.7 %	-5.2 %	1.3 %	-1.8 %	-60.1 %	7.6 %	-7.4 %	1.4 %	4.0 %	4.9 %
Net earnings-%	-0.7 %	-6.1 %	0.2 %	-2.8 %	-64.8 %	6.5 %	-9.2 %	0.1 %	2.9 %	4.0 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**1.5**	**3.7**	**4.8**	**5.3**	**5.5**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	1.3	3.5	4.7	5.1	5.3
Tangible assets	0.2	0.2	0.2	0.2	0.2
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	**23.0**	**17.5**	**15.6**	**20.1**	**22.8**
Inventories	10.8	6.3	6.9	8.3	9.6
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	7.0	8.6	6.0	8.5	9.6
Cash and equivalents	5.3	2.6	2.6	3.3	3.7
Balance sheet total	**24.5**	**21.2**	**20.4**	**25.4**	**28.3**

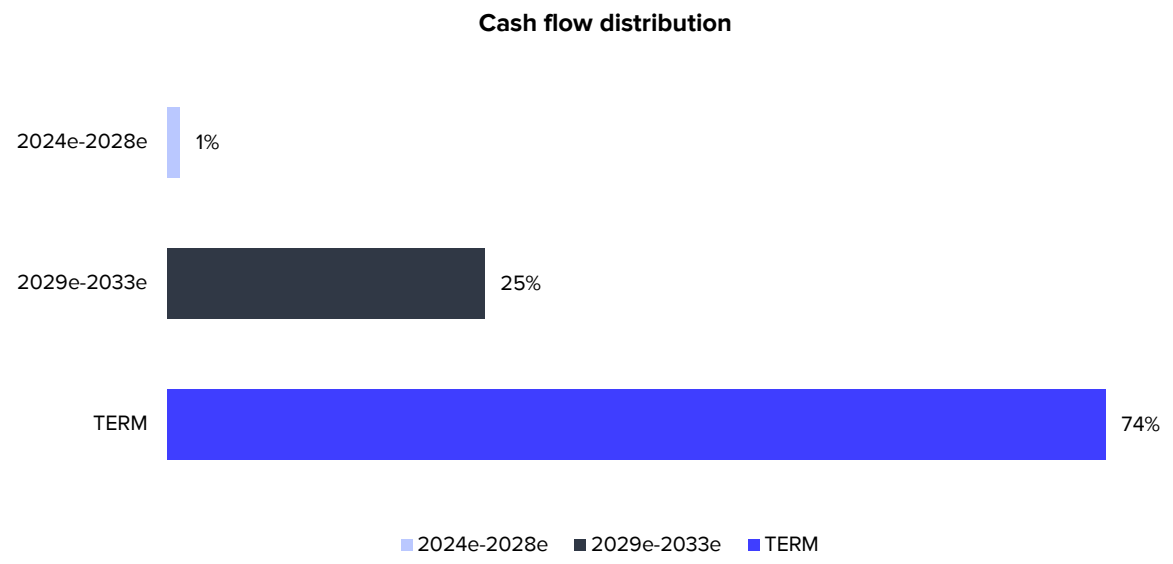
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**12.9**	**12.1**	**9.3**	**9.4**	**10.9**
Share capital	17.8	17.8	17.8	17.8	17.8
Retained earnings	-4.9	-5.7	-8.5	-8.4	-6.8
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**2.6**	**1.9**	**3.8**	**5.8**	**6.0**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.2	0.1	0.1	0.1	0.1
Interest bearing debt	2.5	1.8	3.7	5.7	5.9
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	**9.0**	**7.2**	**7.3**	**10.2**	**11.4**
Interest bearing debt	1.4	2.2	2.4	3.8	3.9
Payables	7.6	4.9	4.8	6.4	7.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**24.5**	**21.2**	**20.4**	**25.4**	**28.3**

DCF-calculation

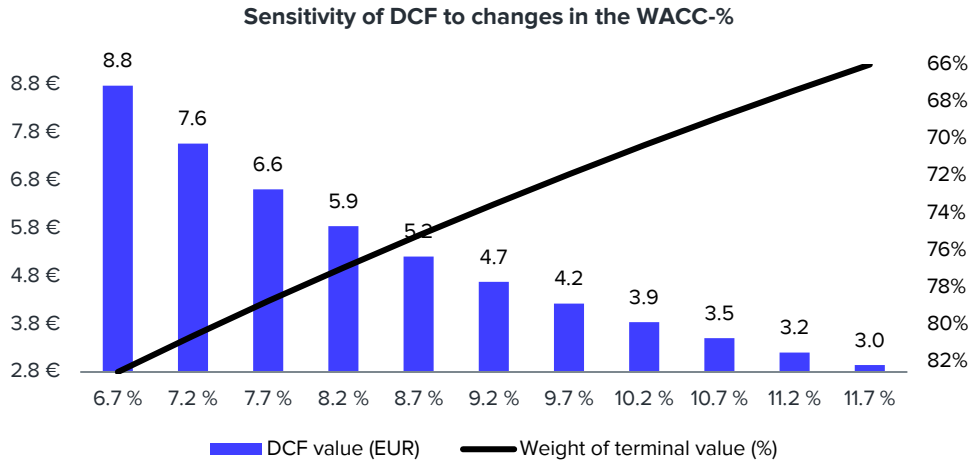
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	79.2 %	4.0 %	41.0 %	25.0 %	15.0 %	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %	3.0 %	3.0 %
EBIT-%	-1.8 %	-7.4 %	1.4 %	4.0 %	4.9 %	4.9 %	4.9 %	4.9 %	4.9 %	5.5 %	5.5 %	5.5 %
EBIT (operating profit)	**-0.5**	**-2.2**	**0.6**	**2.1**	**3.0**	**3.3**	**3.6**	**4.0**	**4.3**	**5.4**	**5.6**	
+ Depreciation	0.7	1.3	1.5	1.8	1.9	2.1	2.3	2.6	2.6	2.7	2.7	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.1	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.2	1.8	-2.3	-1.3	-0.8	-0.6	-0.6	-0.6	-1.0	-1.0	-0.5	
Operating cash flow	**0.4**	**0.8**	**-0.1**	**2.6**	**4.1**	**4.8**	**5.4**	**5.9**	**6.0**	**7.0**	**6.6**	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-2.9	-2.4	-2.0	-1.9	-2.0	-2.2	-2.4	-2.7	-2.7	-2.7	-2.9	
Free operating cash flow	**-2.6**	**-1.6**	**-2.1**	**0.7**	**2.0**	**2.6**	**2.9**	**3.3**	**3.3**	**4.4**	**3.7**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-2.6	-1.6	-2.1	0.7	2.0	2.6	2.9	3.3	3.3	4.4	3.7	61.5
Discounted FCFF		**-1.6**	**-2.0**	**0.6**	**1.6**	**1.8**	**1.9**	**2.0**	**1.8**	**2.2**	**1.7**	**28.0**
Sum of FCFF present value		37.8	39.4	41.4	40.8	39.2	37.4	35.5	33.6	31.8	29.6	28.0
Enterprise value DCF		**37.8**										
- Interest bearing debt		-4.0										
+ Cash and cash equivalents		2.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**36.4**										
Equity value DCF per share		**4.8**										

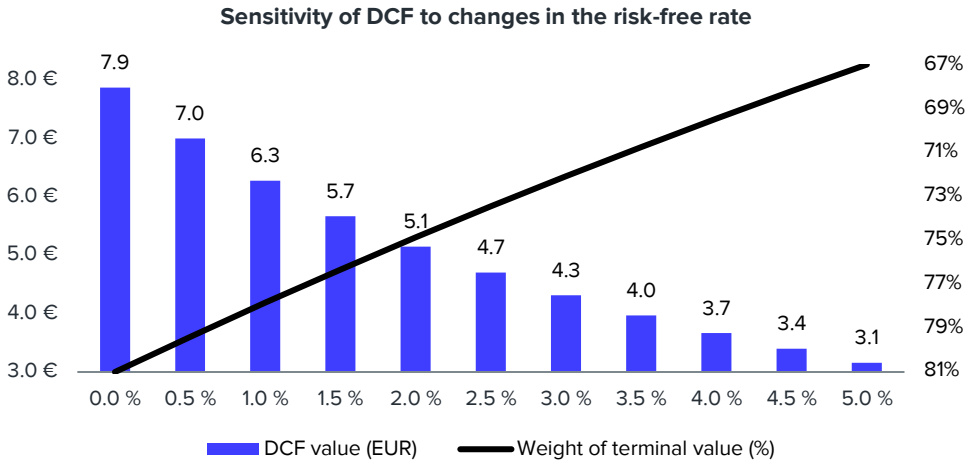
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	15.0 %
Cost of debt	3.0 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	2.00%
Risk free interest rate	2.5 %
Cost of equity	**10.4 %**
Weighted average cost of capital (WACC)	**9.2 %**

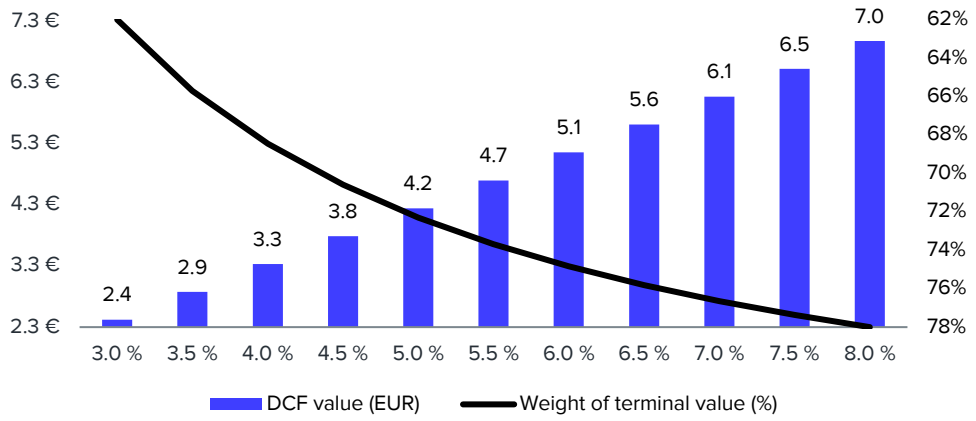


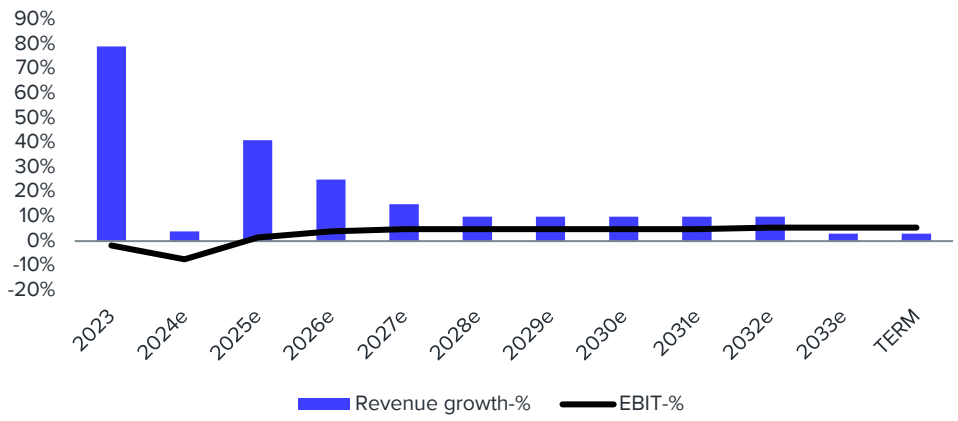
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs









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

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	14.8	16.2	29.0	**30.2**	**42.6**
EBITDA	0.8	0.6	0.2	**-1.0**	**2.1**
EBIT	0.3	0.1	-0.5	**-2.2**	**0.6**
PTP	-1.0	-0.1	-0.8	**-2.8**	**0.1**
Net Income	-1.0	-0.1	-0.8	**-2.8**	**0.1**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	20.3	24.5	21.2	**20.4**	**25.4**
Equity capital	13.0	12.9	12.1	**9.3**	**9.4**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	-7.2	-1.4	1.4	**3.5**	**6.2**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	0.8	0.6	0.2	**-1.0**	**2.1**
Change in working capital	-1.7	-5.4	0.2	**1.8**	**-2.3**
Operating cash flow	-0.9	-4.8	0.4	**0.8**	**-0.1**
CAPEX	-0.6	-0.8	-2.9	**-2.4**	**-2.0**
Free cash flow	-1.4	-5.5	-2.6	**-1.6**	**-2.1**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	3.5	2.2	1.1	**1.3**	**1.0**
EV/EBITDA	62.4	59.3	>100	**neg.**	**19.5**
EV/EBIT (adj.)	>100	>100	neg.	**neg.**	**68.4**
P/E (adj.)	neg.	neg.	neg.	**neg.**	**>100**
P/B	4.5	2.8	2.4	**3.8**	**3.8**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	-0.15	-0.01	-0.10	**-0.36**	**0.01**
EPS (adj.)	-0.15	-0.01	-0.10	**-0.36**	**0.01**
OCF / share	-0.14	-0.62	0.05	**0.11**	**-0.02**
FCF / share	-0.22	-0.72	-0.33	**-0.21**	**-0.28**
Book value / share	1.99	1.69	1.58	**1.22**	**1.23**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	127%	10%	79%	**4%**	**41%**
EBITDA growth-%	1881%	-29%	-69%	**-618%**	**-321%**
EBIT (adj.) growth-%	-193%	-68%	-582%	**337%**	**-127%**
EPS (adj.) growth-%	72%	-90%	626%	**248%**	**-102%**
EBITDA-%	5.6 %	3.6 %	0.6 %	**-3.2 %**	**5.0 %**
EBIT (adj.)-%	2.3 %	0.7 %	-1.8 %	**-7.4 %**	**1.4 %**
EBIT-%	2.3 %	0.7 %	-1.8 %	**-7.4 %**	**1.4 %**
ROE-%	-12.9 %	-0.8 %	-6.4 %	**-26.0 %**	**0.6 %**
ROI-%	3.1 %	0.6 %	-3.1 %	**-14.2 %**	**3.5 %**
Equity ratio	64.0 %	52.5 %	57.1 %	**45.7 %**	**36.9 %**
Gearing	-55.2 %	-11.2 %	11.6 %	**37.8 %**	**66.4 %**

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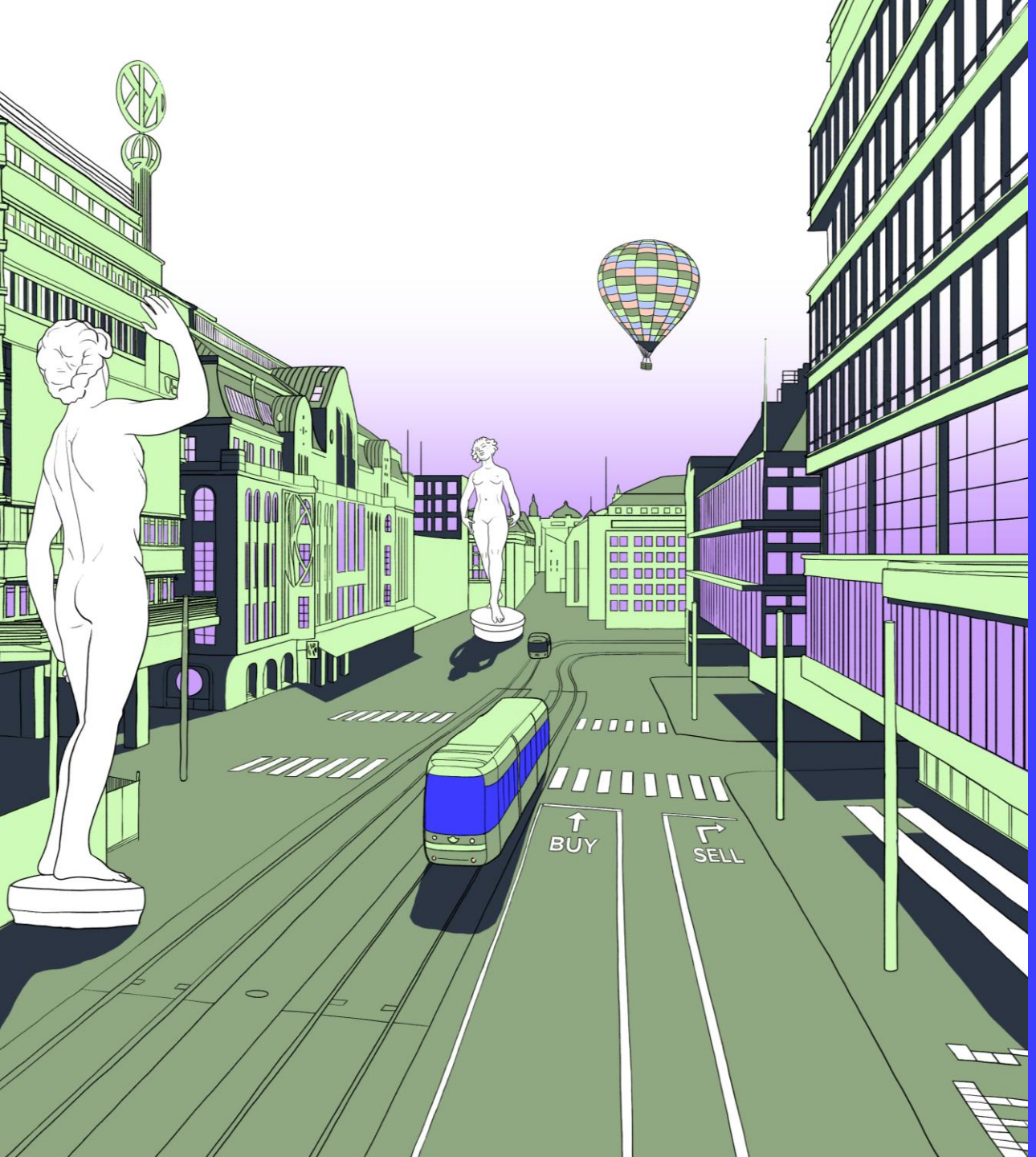
Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
11/1/2021	Accumulate	9.20 €	8.29 €
1/3/2022	Reduce	9.40 €	9.52 €
2/10/2022	Accumulate	8.20 €	7.54 €
8/24/2022	Reduce	7.20 €	7.89 €
11/15/2022	Reduce	5.20 €	5.00 €
2/9/2023	Reduce	6.50 €	6.82 €
8/2/2023	Reduce	5.00 €	4.95 €
8/24/2023	Reduce	4.00 €	4.36 €
12/12/2023	Reduce	3.50 €	4.08 €
12/15/2023	Reduce	3.70 €	3.82 €
2/8/2024	Reduce	3.70 €	4.28 €
2/14/2024	Accumulate	5.00 €	4.41 €
7/3/2024	Reduce	4.50 €	4.93 €
8/14/2024	Reduce	4.50 €	4.74 €
8/22/2024	Reduce	4.00 €	4.41 €
1/24/2025	Reduce	4.30 €	4.61 €



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