

Koskisen

Extensive report

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✓ Inderes corporate customer

This report is a summary translation of the report “Investointien tukemana kohti suhdannekäännettä” published on 1/16/2025 at 8:01 am EET

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res.**

Toward a cyclical turn supported by investments

We reiterate our EUR 7.25 target price and Reduce recommendation for Koskisen. Last year, Koskisen has carried out major investments, especially in the sawmill business, the benefits of which we suspect will only be fully visible in the near term. In addition, Koskisen's performance should gain traction as global construction recovers from the current weak cycle along with declining interest rates. However, we believe that this is already priced in the stock, as most valuation methods indicate that the share price is still correct.

A long-standing wood processing company from the mechanical forest industry

Koskisen is divided into the Sawmill Industry and Panel Industry, where the main products are softwood sawn timber, processed timber, birch plywood and chipboard. The company's entire production is in Finland. About 70% of the Group's revenue comes from Europe and both businesses (and especially the Sawmill Industry) are cyclical and volume-driven by nature. Koskisen's market is international and grows slowly organically but is large relative to the size of the company. With its quality strategy, Koskisen aims to find pockets on the market where customers value highly customized, high-quality products and accept a price premium on them. We believe the competitive dynamics of the sawmill sector are largely brutal and the margins are thin, whereas in the Panel Industry, with the products' higher value-added, we believe the average profitability potential of the segment is better. Koskisen's main risks are demand sensitive to economic development, price fluctuations, tightening competition, and the structurally tight timber market in Finland. Koskisen's target is a revenue of 500 MEUR in 2027 and an average EBITDA % of 15%. In our view, the growth target requires corporate restructuring in structurally fragmented sectors. We consider the margin target challenging, considering the structural profitability levels of the company's businesses.

We expect earnings growth driven by market recovery and investments

Koskisen's demand outlook is supported by several drivers, like the growing popularity of ecological wood construction. Cyclically, the construction market has been in a slump in recent years, but the fall in interest rates should gradually revive demand in both segments in the coming years. In addition, there is a significant supply disruption in the Panel Industry in Europe, the root cause of which is Russia's war of aggression in Ukraine. The investments by the company in the early 2020s, especially in the Sawmill Industry, are also only now starting to bear fruit. Therefore, we expect Koskisen's earnings trend, which made an upturn in Q3'24, to remain on the same path in the next few years. In our forecasts, the company's revenue grows on a volume-driven basis by approximately 10% per year until 2027, and the adjusted EBITDA % gradually increases from 9% in the last 12 months to 10-11%. In both units, margins are significantly limited by Finland's tight timber market and, consequently, high log prices.

We feel the price tag is on the right level

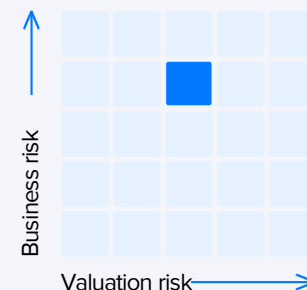
Koskisen's 2024 and 2025 EV/EBITDA ratios are around 8x and 6x, and the P/B ratio (2024e) is around 1.1x. The multiples are largely within the ranges we accept, taking into account the company's estimated return on capital and risk profile. The DCF value is also around the current share price level with our current conservative parameters. Thus, Koskisen's expected return based on earnings growth, falling multiples (Q3'24 LTM P/E 18x) and a dividend of around 4% is, in our view, below the required return. We maintain our cautious stance on the stock, although there could be leverage in the medium term if the European construction and economic recovery were to surprise positively during 2025-2026.

Recommendation

Reduce
(was Reduce)

EUR 7.25
(was EUR 7.25)

Share price:
EUR 7.14



Key figures

	2023	2024e	2025e	2026e
Revenue	271.2	287.6	327.3	369.4
growth-%	-15%	6%	14%	13%
EBIT adj.	24.4	13.5	19.6	27.2
EBIT-% adj.	9.0 %	4.7 %	6.0 %	7.4 %
Net Income	20.2	8.5	13.8	20.0
EPS (adj.)	0.88	0.37	0.60	0.87

P/E (adj.)	6.8	19.3	12.0	8.2
P/B	0.9	1.1	1.0	1.0
Dividend yield-%	5.0 %	3.5 %	4.2 %	4.5 %
EV/EBIT (adj.)	6.0	14.1	9.9	6.9
EV/EBITDA	4.4	7.7	5.9	4.6
EV/S	0.5	0.7	0.6	0.5

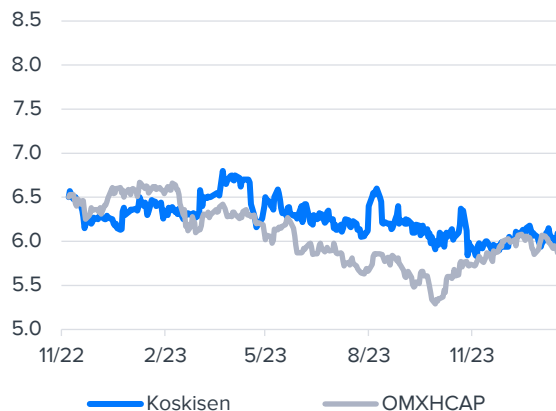
Source: Inderes

Guidance

(Unchanged)

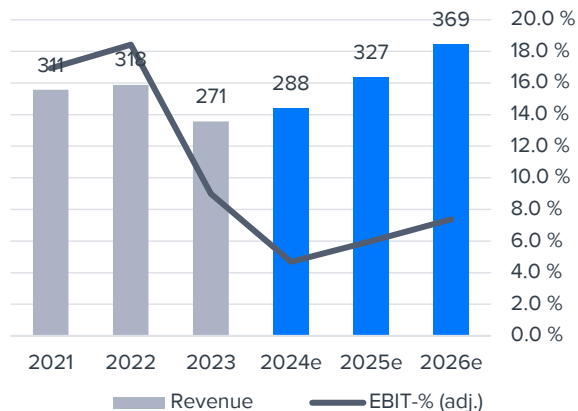
Koskisen Group's revenue for 2024 is expected to grow from the 2023 level. The adjusted EBITDA margin is expected to be 8-12%.

Share price



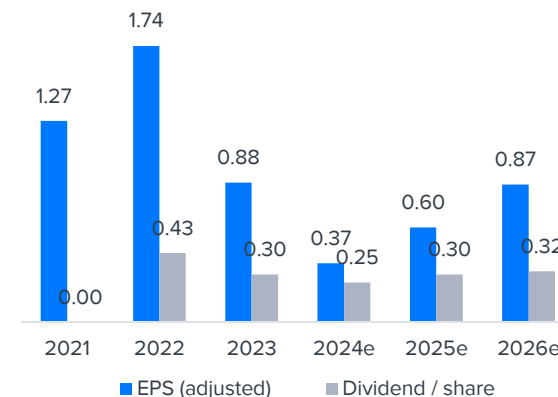
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Healthy long-term demand trends
- Increasing exports and finding customers who appreciate customization
- Potential for improvement in the level of profitability
- Business generates value (ROIC>WACC) at least in a favorable cycle
- War-related supply disruptions help the Panel Industry for the foreseeable future



Risk factors

- Cyclical demand
- Tight competition situation in the sawmill industry.
- Removal of the supply disruptions in the Panel Industry
- Tight timber market in Finland

Valuation	2024e	2025e	2026e
Share price	7.14	7.14	7.14
Number of shares, millions	23.0	23.0	23.0
Market cap	164	164	164
EV	190	193	188
P/E (adj.)	19.3	12.0	8.2
P/E	19.4	12.0	8.2
P/B	1.1	1.0	1.0
P/S	0.6	0.5	0.4
EV/Sales	0.7	0.6	0.5
EV/EBITDA	7.7	5.9	4.6
EV/EBIT (adj.)	14.1	9.9	6.9
Payout ratio (%)	67.9 %	50.2 %	36.9 %
Dividend yield-%	3.5 %	4.2 %	4.5 %

Source: Inderes

Contents

Sawmill Industry	6-14
Panel Industry	15-22
Group's cost structure and economic situation	23-28
Strategy and financial objectives	29-31
Estimates	32-38
Valuation and investment profile	39-48
Climate target and taxonomy analysis	49
Disclaimer and rating history	50-51

Koskisen in brief

Koskisen is a Finnish wood processing company that has been operating in the wood product markets for over 100 years. Koskisen operates in two business segments: Sawmill Industry and Panel Industry.

1909

Year of establishment

2022

IPO

3.2%

Average revenue growth 2010-2023

12.5% (5.8%)

Average adjusted EBITDA % 2019-2023 (Koskitukki Group 2010-2018 average adj. EBITDA %)

278 MEUR

Revenue Q4'23-Q3'24

24 MEUR (8.6% of revenue)

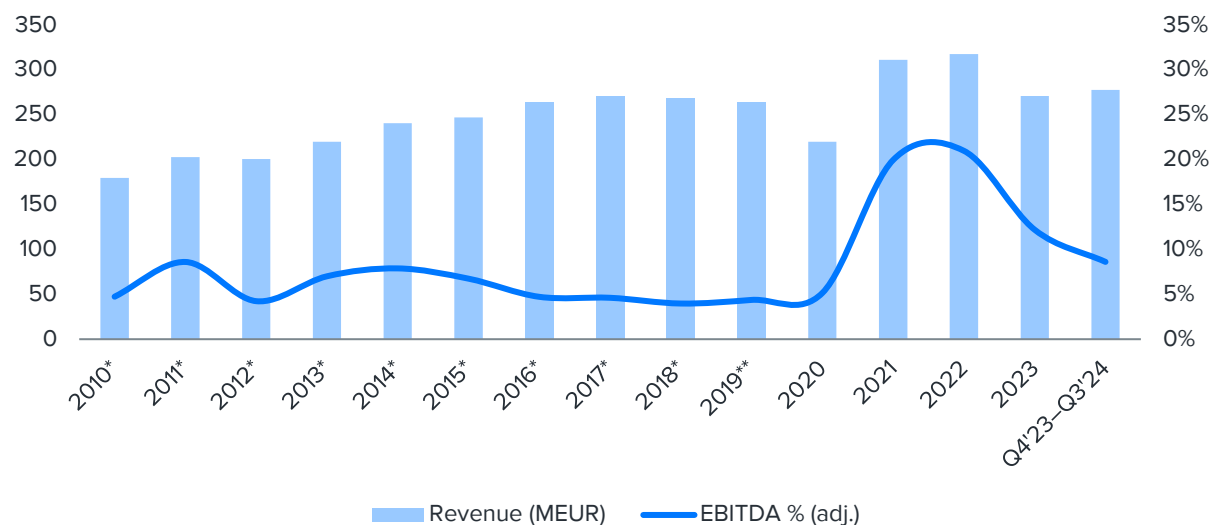
EBITDA Q4'23-Q3'24

951

Personnel at the end of Q3'24

- 1909-**
 - Plywood and chipboard production began in the 1960s and 70s
 - Moderate growth until the turn of the millennium. A strong growth phase at the beginning of the 21st century, heavy investments
 - Since the current CEO started in 2016, the company's business structure has been simplified and the balance sheet has been cleaned with write-downs
- 2018-2022**
 - The company sold and closed down its businesses before the COVID crisis
 - Restructuring burdened profitability in 2018-2020
 - Investment decision to build the new Järvelä wood processing unit (2021)
 - Exceptionally good performance in 2021-2022 due to high prices of sawn timber and/or plywood
 - Listing on the Main Market of Nasdaq Helsinki (2022)
- 2022-**
 - Cyclically weaker demand and a more difficult market, especially due to the slump in the construction sector
 - Adapting to the difficult situation on the Finnish timber market
 - Ramp-up of the new sawmill line in 2023-H1'24 and realizing the benefits from H2'24
 - Refining the growth strategy and continued implementation with a focus on current businesses and bold growth initiatives

Revenue and profitability development



Source: Koskisen, Inderes

*FAS figures in the financial statements of Koskitukki Group

**FAS

Sawmill Industry 1/7

The Sawmill Industry sells sawn timber, processed timber and production side streams

The **sawn timber** in Koskisen's Sawmill segment comprises standard-sawn timber and dimensioned and strength-graded timber manufactured from spruce and pine. Products are manufactured in standard and custom sizes used by the construction industry, and the final use of these products is typically in the construction industry. The company has not disclosed the revenues of its individual products since the prospectus. We estimate that sawn timber has generated roughly 40% of the unit's revenue in the past year.

Processed timber in the Sawmill segment include further processed timber. Koskisen processes about 40% of the timber it produces mainly by planing and, to a lesser extent, by painting, which raises the price point of the product with limited additional investment. Despite the likely good output/input ratio of processing, a quick and significant increase in the degree of processing is not possible, as many customers want to buy both processed products and basic sawn timber from the same supplier. Processed timber includes interior and exterior lining made of spruce and pine, pretreated and painted exterior lining, floorboards, as well as planed and painted wood. The final use of processed timber is typically in building construction and renovation. We estimate that the revenue of processed products has been about one-third of the unit's revenue in the last year.

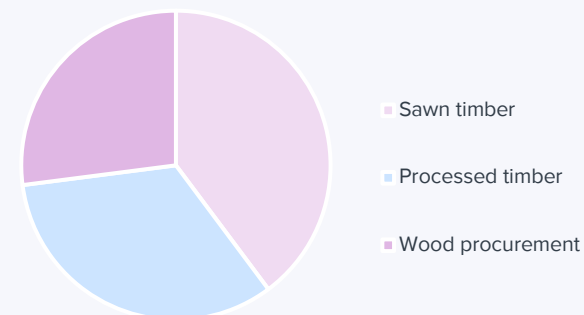
In the Sawmill Industry segment, Koskisen has a **wood sourcing function** which purchases wood (birch, spruce and pine) mainly from private forest owners in Finland and provides forest management services to these forest owners. These are provided on a turnkey basis, including post-logging forest management. Koskisen uses approximately 60% of the wood it has procured in its operations (including both business areas) and the remaining 40% is sold to third parties, in practice to the pulp industry. On the other hand, this also reflects the Finnish timber market, where wood buyers cannot, in practice, buy only the type of wood they need from forest owners, but often have to buy whole stands.

Wood procurement also includes the delivery of production by-products and waste to power plants producing bioenergy, such as power plants located in Koskisen's production plants owned and operated by Loimua. Brokerage-type wood sales and Bioenergy, based on the utilization of by-product flows and meeting the company's own energy needs, are support functions that enable efficient running of the core businesses. We estimate that the share of revenue from wood procurement (incl. bioenergy) in the Sawmill Industry's revenue has been approximately 25% during the past year.

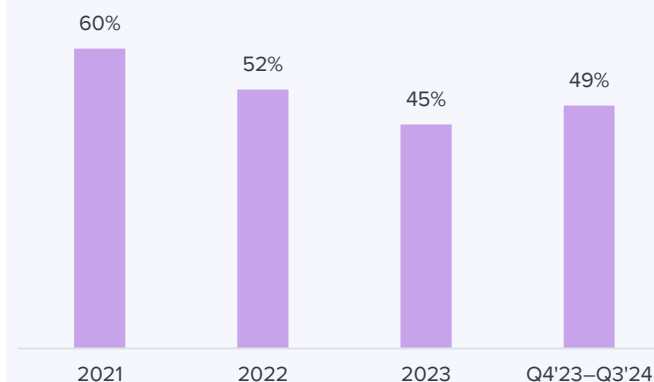
The business is driven by Europe

Koskisen has not disclosed the geographical distribution of its sales by business area.

Estimated* revenue distribution of the Sawmill Industry



Sawmill Industry's share of revenue 2021-Q3'24



Sawmill Industry 2/7

However, due to the Group's geographical revenue distribution and the global nature of the sawmill business, we estimate that the main markets for the Sawmill Industry are Finland, the rest of Europe and Japan. Despite the strategic nature of the latter market (incl. typically high quality requirements), the business is still very much driven by the European construction cycle, as Japan accounts for good 15% of the Sawmill Industry's sales (panel products are hardly delivered to Japan). In Japan, the company's growth potential should be good due to the dynamics of the local market.

Due to exports to overseas markets, the Sawmill Industry carries a certain currency risk, especially related to USD. Overall, we believe that the currency risks of the Sawmill Industry and especially the Group are low, particularly after hedges.

Production in the Sawmill Industry is practically dependent on one unit

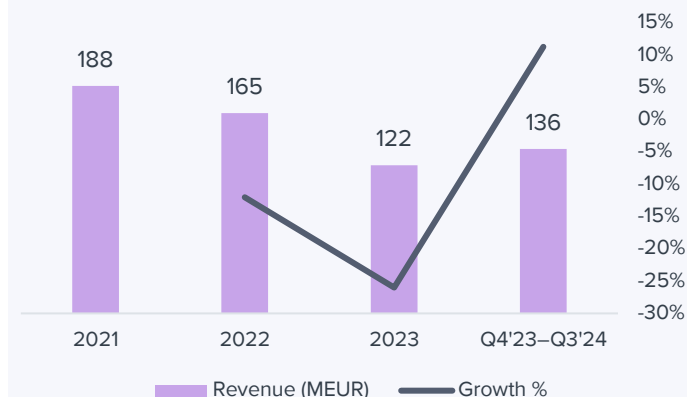
Koskisen's Sawmill Industry's only own production unit is in Järvelä, where the production capacity of the new sawmill line commissioned in 2023 is 400,000 cubic meters of sawn timber per year. The sawmill line which we believe represents the most advanced technology in the industry is highly competitive in terms of production efficiency. In addition, Koskisen has had leased processing capacity in Kouvola (fully variable cost structure). However, in our view, Koskisen's Sawmill Industry involves a binary risk of production focusing on one factory.

The Sawmill Industry is cyclical

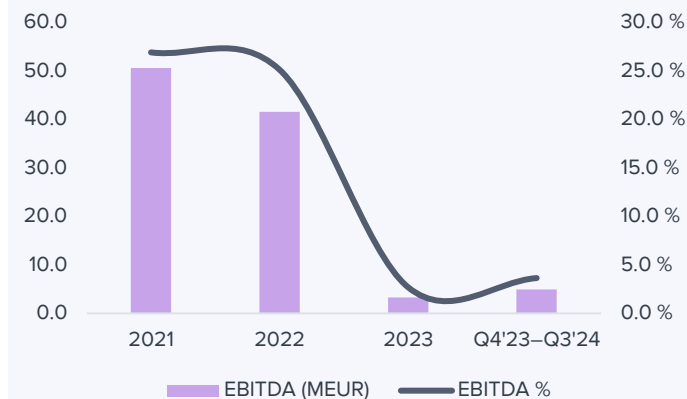
The Sawmill Industry is cyclical by nature, as especially the activity in the most important end use, i.e., construction, and thus the sales volumes of sawn timber and processed products typically fluctuate depending on economic conditions, political environments, changes in financial markets, and even exchange rates. An estimated 60% of the direct customers in the Sawmill Industry (and a large share of the indirect customers) operate in the construction industry. A small proportion of customers come from the packaging industry and other sectors as well as the furniture industry, but fluctuations in economic activity also affect the demand in these customer groups. In general, construction that drives business is post-cyclical, as construction companies' order books are often long. Thus, in our view, the ups and downs of the cycle also affect Koskisen with a delay relative to changes in economic growth, but the different timing of inventory cycles can sometimes sway this overall picture.

Changes in construction activity typically affect the basic demand for sawn timber (i.e. consumption) and the amount of sawn timber inventories in the value chain. Historically, the change in total demand caused by these components has swayed the sales prices of sawn timber heavily, especially as the supply typically adjusts slowly to changes in the operating environment. This is further emphasized by the significant role of wholesalers who thrive in particular on price volatility in the global value chain between producers and end-users. Thus, changes in prices and volumes in particular have swayed the profitability of Koskisen's Sawmill Industry strongly.

Revenue and growth of the Sawmill Industry



EBITDA and EBITDA % of the Sawmill Industry



Sawmill Industry 3/7

There are also seasonal variations in the business

The seasonal fluctuation in the revenue of the Sawmill Industry and thus repatriation of earnings are strongly linked to the construction season and the company's production shutdowns. Production shutdowns typically occur during the summer holidays at the end of Q2 and/or the beginning of Q3 and around Christmas at the end of the year. Summer is more lively in terms of sales, because the construction season is in full swing in the northern hemisphere. According to our estimate, Q2 and Q3 are typically (under normal conditions) the best in terms of demand for the Sawmill Industry, although production shutdowns occur in Q3. Demand is typically moderate in Q4 and Q1 is the weakest quarter of the year.

Sales channels are direct and targeted at the intermediate level

We believe Koskisen does not have significant risks related to individual customers at Group level, but suspect the largest customer relationships can form roughly a low double-digit share of the Sawmill Industry's revenue. Thus, there is a certain, but still tolerable, concentration risk within the business area. Koskisen largely sells its products through direct sales, which, we estimate accounts for over half of Koskisen's sawn timber sales. The rest of the products are sold to wholesalers and distributors.

Sales to smaller customers is managed through distributors and wholesalers, while the largest customers are served by direct sales. We believe that pursuing direct sales is a strategic choice, as

direct sales allow the company to obtain higher margins as the margin taken by the distributor/wholesaler remains in the company. In addition, with direct sales Koskisen is in direct interaction with the customer and can thus gain a better understanding of the customer's future needs more quickly and thus control its production, customize products or, e.g., optimize its working capital more efficiently. In practice, Koskisen tries to be an agile player, who finds the right customers in terms of profitability and customer retention and who, with the help of sales personnel who are heavily involved in the customers' businesses can sell products to customers sensibly considering the production conditions (raw material availability, production planning and control). In addition, Koskisen tries to separate itself from its competitors in the eyes of its customers as a reliable, long-term partner by offering products manufactured from solid wood originating from responsibly managed Finnish forests to its quality-conscious customers globally.

Sales to the Sawmill Industry's main markets (i.e. Finland, Japan and the largest European countries) are mainly handled by the company's own sales personnel located in Finland, while sales agents are otherwise used. The remuneration of sales agents is based on commissions, and these commissions are typically tied to sales volumes. Utilizing the agent network provides certain flexibility in the cost structure and facilitates sales management. Despite the agent network, direct sales makes the commercial capability of the sales organization a critical function. This strategic choice has required

investments in the sales organization, which is also reflected in the cost structure as a higher fixed cost base than in a more intermediate-level driven model. In addition, the company must also be successful in driving sales so that agents bring not only volumes but also target margins to the company. We believe the company's current direct sales and agent network can handle significantly higher sales volumes than currently, so growth should not, in principle, cause significant additional fixed costs in sales.

The Sawmill Industry operates with a quality strategy

We believe that agility and delivering on the quality-based customer value proposition described above are important, as volumes and the availability of inexpensive raw materials are generally the key competitive factors in the sawmill business. Koskisen is a small player on the industry scale, and the timber tree market in Finland is extremely tight, especially after Russian timber imports ended. Thus, despite the efficient production of the new sawmill line in Järvelä, the company does not have sustainable cost benefits at least internationally. Therefore, competitiveness must be sought from high quality and flexibility. However, we are not yet fully convinced that these would be sustainable and structural sources of competitive advantage for the Sawmill Industry in absolute and global comparison, even though the company seems to have received a reasonable quality premium on its selling prices in recent years.

Sawmill Industry 4/7

The pricing model is typical for the industry

Koskisen's customer contracts are typically order-specific and product prices are set according to market standards and negotiated on a client-by-client basis. Pricing is done quarterly, so the demand and price levels for the upcoming quarter are probed in the ongoing quarter. In our view, the framework of the pricing model is based on costs and a target volume and margin rather than the value received by the customer from the product. This is typical in the conventional manufacturing industry and we do not believe that this logic can largely be changed.

We suspect a price per unit is defined separately for each type of wood before the deal is closed. The final purchase price is determined based on the actual quantities of timber by species and previously agreed unit prices. In some contracts, the company has included conditions that allow Koskisen to pass on certain costs (e.g. freight) to its customers.

Considering the fragmented structure of the industry and Koskisen's small size, the Sawmill Industry is the price taker in the big picture. The pricing model of the Sawmill Industry is subordinate to world market prices, although the market is divided into price- and quality-conscious markets and customers. Geographically, an example of a quality-driven market is Japan, while in North Africa, which is important for the Finnish sawmill industry, the price on average plays the leading role.

As a whole, the company's pricing models have short cycles and we believe that a large part of the deals are one-off transactions, even though customer relationships at best last for decades. On the one hand, we suspect this may lead to short sales visibility, but it provides flexibility for the company in the event of acute re-pricing needs. The risk in longer sales contracts is unprofitable sales if the price of raw wood suddenly increases. We do not believe that the framework of Koskisen's pricing model differs substantially from competitors or industry practices, but achieving a certain price premium is critical from the point of view of the unit's profitability.

In the Sawmill Industry's Bioenergy, prices are usually set on a seasonal basis, i.e. prices for the next heating season are locked during the first and second quarters preceding it. In general, the company has to adjust sales contracts based on the general market situation and customer-specific needs. In timber brokerage operations, pricing follows the price development of the Finnish fiber and energy wood markets.

Product development

Product development in the Sawmill Industry is small and we believe development focuses more on process development and obtaining various quality certificates. We expect this normal situation for a mature business to continue in the future, and development investments to remain financially insignificant.

The sawn timber market is large

Sawn timber products are moved across oceans from one continent to another, so the sawn timber market is global. The global softwood sawn timber market was estimated to be worth 155 BNEUR in 2021. In 2022, the market likely grew significantly, driven by both price and volume, but in 2023, both components probably contracted the market substantially. Therefore, we feel the estimated market size for 2021 is still in the relevant sphere.

However, the market for Koskisen is estimated to be around 22% in the 2021 prospectus, or in absolute terms around 35 BNEUR. Considering this, Koskisen has room to grow and the market size does not limit the company. However, increasing market share in a very mature, slow-growth market like the sawmill segment is difficult, so a large market size alone is not a reason to get excited. We also believe that the above figure should be seen as an indicative estimate, especially since a larger part of the Sawmill Industry's revenue comes from Europe and a large share of it from Finland.

Major trends are urbanization and environmental awareness

Of the major trends in construction and thus the sawn timber market, urbanization supports demand both in Finland and elsewhere in the world. However, changes in the country's population and regional structure affect this

Sawmill Industry 5/7

substantially from one country to another. Typically, greenfield construction focuses heavily on growth centers. In turn, an aging building stock increases the need for renovation.

Another key megatrend that affects the growth of the market in both of Koskisen's segments is environmental awareness. For example, increased regulation to reduce emissions supports the use of carbon-binding wood products. Responsibility issues becoming more common should also increase the use of wood in furniture as a more responsible and sustainable option

Construction is one of the most resource-intensive industries and is estimated to generate up to 30% of global carbon dioxide emissions. Thus, material choices are a large source of emissions, and at the same time, changes in material choices have an impact on climate change issues as a whole. In this context, Finland and the EU have set significant targets and regulations that support carbon-negative wood construction and thus also the demand outlook for the Sawmill Industry. However, we feel the trend has been rather slow in recent years, as several countries have been plagued by acute economic problems.

The market grows slowly

Global demand (i.e. volume) for softwood sawn timber is expected to grow by an average of 2% per year from the 2021 level until 2030. The softwood sawn timber market is expected to grow, especially driven by the growth in construction volumes and environmental benefits. According to AFRY's market

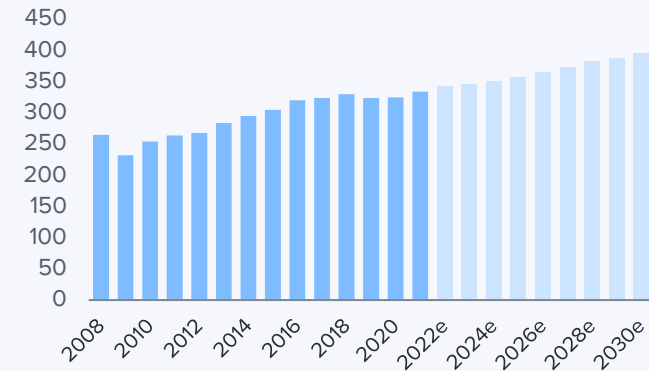
survey, growth in 2021-2026 is divided so that volumes grow by 1.3%, prices by 2.8%, and summarized annual value growth would be around 4.1%. We expect that the realization of the price component depends on the competitive situation and the cost level of the industry while in terms of volumes, an estimate that corresponds with the historical level is more reliable

Recent years have been turbulent on the markets

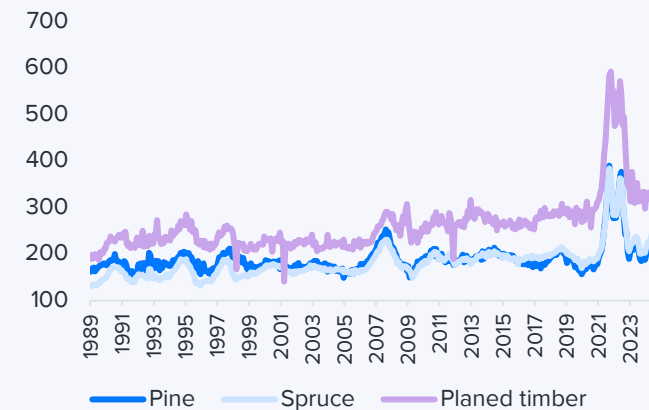
The consequences of the COVID pandemic (e.g. lower interest rates and consumers' renovation enthusiasm) and inflation that erupted after the acute stage of the pandemic (incl. Russia's war of aggression against Ukraine) have swayed the global market prices of sawn timber historically drastically in recent years. During 2021-2022, the price of sawn timber rose to completely exceptional levels of EUR 400 per cubic meter before falling by tens of percentage points during H2'22 and 2023. The drop in prices was affected in particular by weaker underlying demand and high inventories.

According to the latest data provided by the Natural Resources Institute Finland (11/2023), the average export price of spruce sawn timber was EUR 240 per cubic meter. The level is still higher than the long-term average (good EUR 200/cubic meter), but also the producers' cost level, which has risen with inflation in recent years (especially wood), significantly exceeds the long-term average. As a result, many sawmills' record earnings for 2021-2022 quickly changed at EBITDA level to loss-making levels in Q4'22 and 2023. 2024

Volume of global demand for softwood sawn timber (excl. Russia and Belarus, million m³)*



Price development of sawn timber, exports, EUR/cube



Sawmill Industry 6/7

In the sawn timber market, the 2024 market situation has been characterized by subdued demand, low average prices, high cost levels, and profitability problems. In Finland, the varying speed of the end product and raw material market cycles is even more pronounced and has severely impacted the profitability of sawmills.

Competitive dynamics

Due to several product groups, the global nature, and the capital intensity of the sawmill industry, the competition faced by the unit in the market is fragmented. The competitive environment varies by product group from international players and foreign competitors operating in local markets to local domestic competitors. Thus, Koskisen's Sawmill Industry has hundreds of competitors from a bird's-eye view, but the number of competitors in individual markets and individual customers is, naturally, significantly smaller.

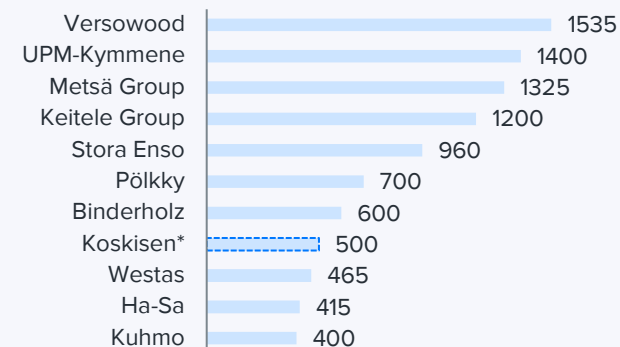
In our view, the most important competitive factors in the industry are volume, price competitiveness, quality, and finding the right target markets. In addition, local changes in raw material availability and prices, as well as exchange rates, may temporarily or permanently alter the relative positions of different actors. Energy and logistics costs and prevailing tax and subsidy policies have also impacted the relative competitiveness of players in the sector. We believe it is difficult to achieve a long-term lead in the industry with technology, as the most modern technology in the industry is well established and IPRs are in the hands of equipment suppliers. However, maintaining

competitiveness requires periodic investments in sufficiently modern technology. Koskisen's key competitors are, in addition to Finland, found in Sweden, Central Europe (incl. Germany, the Czech Republic, Austria) and Canada. Thus, especially changes related to local raw wood markets and currencies should not be underestimated from the point of view of competitiveness, while the end-product market is largely similar for everyone. Russia was also a major competitor before the war of aggression started in Europe, but now the country is out of the markets relevant to Koskisen excluding sanctions leakage.

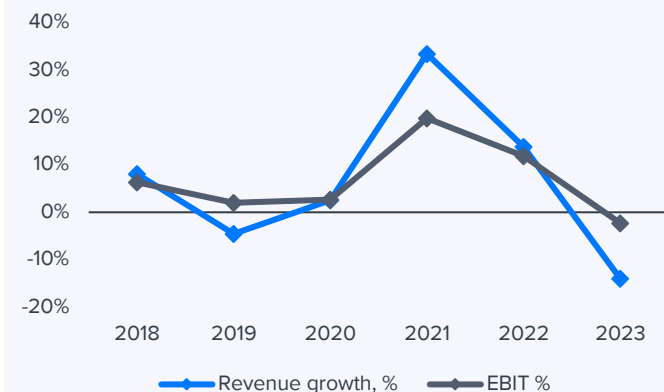
However, when it comes to the end product market, it should be noted that changes occurring outside the core market of an individual company may cause spillover effects. For example, Koskisen does not sell sawn timber to North America (cf. in a competitive and wholesale-driven market, it would be difficult for the company to reach quality-conscious customers), but changes in demand in the large US market can affect global product flows and thus indirectly affect the demand/supply dynamics of Koskisen's core markets.

We estimate that the tightening timber market situation has weakened Finland's relative competitiveness after the war of aggression started by Russia, while the Swedes have benefited from a weak SEK. Central Europe in turn faced significant pest problems in the 2010s, which improved short-term competitiveness due to increased raw material supply, but created corresponding longer-term risks.

Largest sawn timber producers, Finland, thousand cubic meters in 2021



Growth and sustainability of Finnish private competitors¹



Source: Inderes, Koskisen's prospectus, AFRYN's market survey
 *Koskisen's production capacity after the completion of the new unit in Järvelä and the additional capacity

¹Versowood, Kuhmo Oy, Westas Group, Haapajärven Ha-Sa, Keitele, Pölkky Oy

Sawmill Industry 7/7

In many areas (incl. Finland), sawmills have also invested their huge 2021-2022 profits in capacity development, which we suspect will increase competition (new plants) and, on the other hand, have streamlining effects in the long run (the weakening position of players who have not made investments).

Hot to cold

The sawmill industry is a business with slow growth, few opportunities for product differentiation, and on average, low margins due to the fragmented supply structure. The fluctuation in profitability between the years can be significant due to cyclicalities. The median EBIT margin of companies (n=28) in the Finnish sawmill industry (incl. pine sawn timber, which is cheaper than Koskisen's spruce sawn timber), which is the key metric for Koskisen's Sawmill Industry, has been around 4% in 2017-2023, whereas in 2023 the figure was 2% (see next page). In 2024, the development of the industrial sector in Finland has continued to be weak.

Unfortunately, no information is available on the profitability of the sawmill units of large forest groups, as they are reported either as part of the pulp business and/or include other wood products. It is also difficult to find clearly comparable benchmarks in the international competitor field. However, we believe the low average profitability of the sawmill industry also affects larger and foreign companies in the sector.

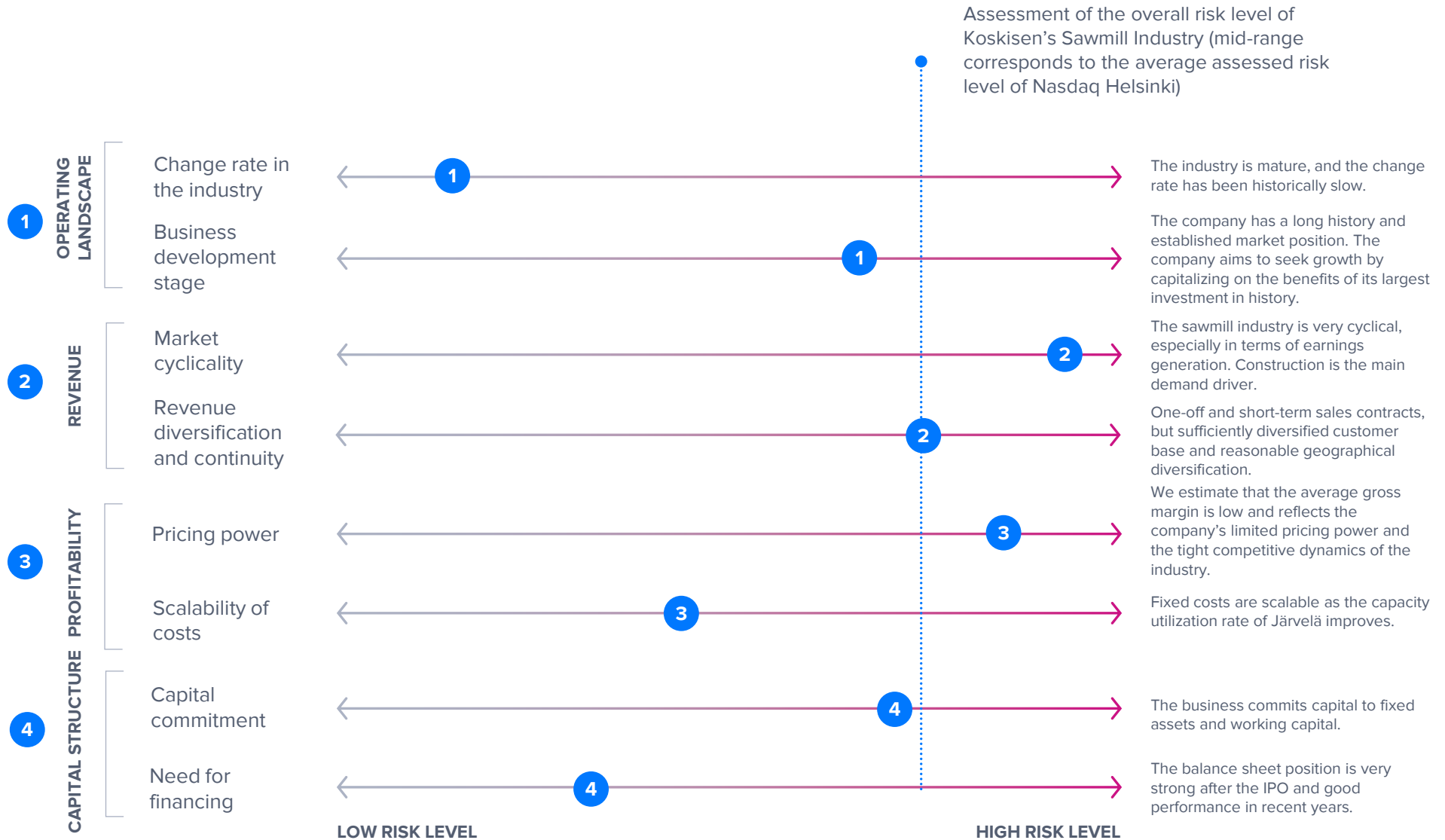
We feel history is an indicator of the future profitability of the sector

We feel there have not been any significant structural changes in the long-term dynamics of the industry for the Finnish sawmill industry despite the strong price-driven fluctuation in profitability, since with growing demand, the supply has also increased and become more efficient as many sawmills have reinvested recent profits in their business. The cost level has also increased. Thus, we believe it is likely that the profitability levels of Finnish sawmills will reflect somewhat longer-term potential also in the future. However, company-specific differences can be large.

Development of the revenue and profitability of Finnish sawmill industry operators 2017-2023

Revenue growth %	2017	2018	2019	2020	2021	2022	2023	EBIT %	2017	2018	2019	2020	2021	2022	2023
Small and medium-sized competitors								Small and medium-sized competitors							
FMTimber Oy	-3.7 %	18.4 %	-3.5 %	85.4 %	-4.1 %	-48.0 %		FMTimber Oy	1.3 %	7.4 %	3.1 %	2.8 %	20.2 %	13.8 %	-7.7 %
Haka-Wood Oy	11.6 %	3.8 %	3.2 %	31.7 %	36.3 %	-8.5 %		Haka-Wood Oy	3.9 %	9.6 %	9.8 %	4.1 %	10.7 %	31.4 %	16.9 %
Iisveden metsä Oy	3.7 %	-3.2 %	3.3 %	66.5 %	8.2 %	-16.5 %		Iisveden metsä Oy	2.4 %	3.1 %	2.8 %	2.0 %	22.1 %	12.3 %	-1.9 %
Isojoen saha Oy	14.4 %	-6.7 %	-3.6 %	61.1 %	5.5 %	-15.2 %		Isojoen saha Oy	3.2 %	9.3 %	3.4 %	4.0 %	25.0 %	22.2 %	3.8 %
Jet-puu Oy	0.0 %	4.9 %	-0.9 %	33.2 %	-7.2 %	-52.6 %		Jet-puu Oy	4.6 %	3.6 %	2.0 %	3.6 %	14.5 %	15.5 %	-9.8 %
JPJ-Wood Oy	4.1 %	-28.7 %	22.1 %	77.3 %	-0.1 %	-12.1 %		JPJ-Wood Oy	5.0 %	4.3 %	-4.8 %	9.8 %	24.8 %	24.8 %	4.7 %
Junnikkala Oy	0.8 %	4.8 %	3.0 %	49.1 %	2.4 %	-18.3 %		Junnikkala Oy	1.8 %	6.1 %	1.7 %	3.2 %	25.5 %	22.1 %	2.8 %
Kinnaskoski Oy	5.3 %	-1.5 %	1.1 %	36.8 %	14.5 %	-20.9 %		Kinnaskoski Oy	3.0 %	6.2 %	5.5 %	4.4 %	18.8 %	21.3 %	5.5 %
MM Kotkamills Wood Oy	223.6 %	-3.7 %	2.2 %	36.5 %	6.4 %	-57.0 %		MM Kotkamills Wood Oy	1.9 %	1.4 %	-6.1 %	-2.6 %	16.5 %	10.5 %	-33.0 %
Kouvolan saha Oy	-13.4 %	-14.4 %	-63.8 %	91.2 %	13.4 %	-43.8 %		Kouvolan saha Oy	-3.3 %	2.7 %	-12.6 %	-15.9 %	20.3 %	29.0 %	-0.1 %
Lapuan saha oy	10.8 %	3.4 %	8.6 %	24.5 %	4.6 %	-52.1 %		Lapuan saha oy	-3.3 %	2.9 %	0.8 %	2.3 %	24.3 %	19.3 %	5.3 %
Luopajarven Saha Oy	19.8 %	-13.6 %	-13.1 %	38.0 %	21.3 %	-30.3 %		Luopajarven Saha Oy	-0.4 %	2.6 %	2.1 %	-4.8 %	16.8 %	19.3 %	2.9 %
Luvian Saha Oy	-0.3 %	-3.0 %	-8.5 %	54.7 %	1.9 %	-18.1 %		Luvian Saha Oy	3.3 %	8.0 %	4.6 %	6.3 %	27.7 %	21.7 %	5.1 %
Mäntsälän Saha Oy	9.7 %	9.5 %	27.3 %	19.3 %	44.2 %	-36.4 %		Mäntsälän Saha Oy	3.9 %	6.0 %	6.1 %	4.9 %	5.3 %	5.2 %	3.9 %
Misawa Homes of Finland	-0.1 %	-11.3 %	-12.8 %	39.0 %	0.0 %	3.1 %		Misawa Homes of Finland	2.2 %	1.2 %	2.1 %	1.4 %	0.9 %	0.9 %	2.0 %
Multian Saha Oy	5.6 %	4.3 %	-2.8 %	11.3 %	36.2 %	-20.8 %		Multian Saha Oy	3.0 %	2.4 %	2.6 %	-1.5 %	10.5 %	24.8 %	-1.0 %
Orasko Oy	63.1 %	9.9 %	20.6 %	14.8 %	-19.1 %	-0.4 %		Orasko Oy	1.9 %	1.4 %	1.8 %	2.5 %	2.0 %	3.7 %	2.6 %
Sahakuutio Oy	-10.6 %	23.0 %	-4.3 %	50.5 %	17.4 %	-17.2 %		Sahakuutio Oy	3.4 %	3.3 %	0.3 %	3.0 %	15.9 %	17.2 %	-0.2 %
Södra Wood Finland Oy	12.8 %	-13.0 %	4.7 %	57.5 %	2.8 %	-21.6 %		Södra Wood Finland Oy	7.1 %	9.7 %	-3.3 %	7.4 %	40.5 %	24.7 %	1.9 %
Veljekset Vaara Oy	7.2 %	-9.8 %	24.4 %	28.4 %	3.2 %	-16.3 %		Veljekset Vaara Oy	5.0 %	6.6 %	5.5 %	5.4 %	17.6 %	12.5 %	-2.1 %
Vuokila Wood		19.8 %	5.3 %	85.4 %	31.6 %	-48.8 %		Vuokila Wood		5.3 %	7.8 %	8.9 %	14.1 %	12.7 %	11.8 %
Ålands Skogsindustrier Ab	-1.0 %	48.8 %	-12.9 %	-4.2 %	7.8 %	-		Ålands Skogsindustrier Ab	2.9 %	8.0 %	1.4 %	5.0 %	9.2 %	10.4 %	-
Biggest competitors								Biggest competitors							
Kuhmo Oy	5.2 %	-1.4 %	-7.4 %	44.5 %	-0.5 %	-19.1 %		Kuhmo Oy	1.5 %	8.2 %	2.6 %	1.6 %	26.0 %	19.8 %	-3.0 %
Westas Group Oy	4.4 %	-0.2 %	-6.7 %	26.9 %	17.4 %	14.3 %		Westas Group Oy	0.8 %	0.6 %	0.9 %	-0.5 %	-1.2 %	0.3 %	1.5 %
Haapajarven Ha-Sa Oy	15.7 %	-8.7 %	-2.6 %	60.4 %	8.4 %	-24.1 %		Haapajarven Ha-Sa Oy	2.8 %	10.8 %	2.8 %	3.3 %	27.0 %	21.6 %	1.8 %
Keitele Group	15.4 %	-0.3 %	4.0 %	32.0 %	31.3 %	-35.7 %		Keitele Group	7.9 %	8.2 %	5.1 %	3.6 %	17.1 %	3.6 %	5.1 %
Versowood	3.8 %	-9.9 %	31.5 %	41.1 %	-22.7 %	-4.8 %		Versowood	5.5 %	4.8 %	0.4 %	8.5 %	28.8 %	8.2 %	1.9 %
Pölkky Oy	4.1 %	-7.0 %	-3.5 %	-4.5 %	48.9 %	-14.7 %		Pölkky Oy	1.8 %	5.3 %	0.3 %	-0.4 %	21.2 %	17.7 %	-21.1 %
Median (total)	5.2 %	-1.4 %	0.1 %	38.5 %	7.1 %	-19.1 %		Median (total)	2.9 %	5.3 %	2.1 %	3.3 %	18.2 %	17.4 %	1.9 %
Average (total)	15.2 %	0.5 %	0.5 %	42.4 %	11.1 %	-23.5 %		Average (total)	2.7 %	5.3 %	1.7 %	2.6 %	17.9 %	16.0 %	0.0 %

Risk profile of Koskisen's Sawmill Industry



Panel Industry 1/7

The main product in the Panel Industry is birch plywood

In the Panel Industry segment, Koskisen manufactures **birch plywood**, i.e. tailored birch plywood boards and floor products for applications requiring high durability and/or high quality such as construction, light and heavy commercial vehicles, packaging, interior design, furniture, and joinery industries. Plywood is produced from thin wood veneer sheets, usually by bonding with weather-resistant phenolic resin adhesive. Plywood boards can be coated with different coatings to improve technical performance and properties to improve their resistance to wear, impact, weathering, and chemicals, as well as friction properties. Coating also increases the value added of the product. The plywood process has several sub-processes, some of which require a significant number of personnel despite automation.

Koskisen's birch plywood mill is located in Järvelä, just like the sawmill unit. However, it is located in a different plant area than the Sawmill Industry production plant. The largest end-user segments of Koskisen's plywood products are the logistics, commercial vehicle and construction industries. Over 90% of the plywood produced by Koskisen is exported to EU countries and Great Britain, so Central Europe is the main market for the Panel Industry. We estimate that the plywood business involves only minor currency risks. We estimate that the share of birch plywood in the Panel Industry's revenue was around two-thirds during the last year.

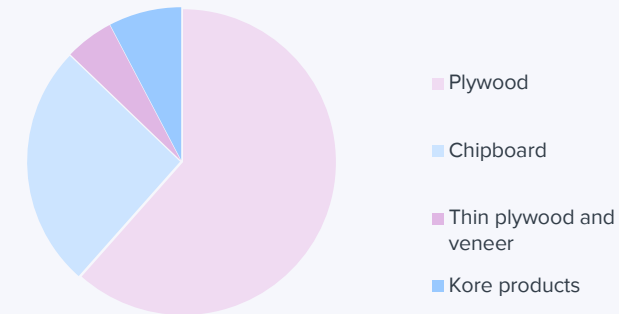
Other product segments include chipboard, thin plywood, birch veneer, and Kore products

In addition to plywood, Koskisen manufactures **chipboard** from sawdust and wood chips, which are by-products of production, at the Järvelä plant in the same plant area as the birch plywood mill. The unit is the only chipboard factory in Finland. Chipboard is manufactured with tailored dimensions and the largest end-user segments are the furniture and construction industries. We estimate that some 75% of the chipboard produced by Koskisen is sold in Finland and the remaining 25% is exported to Europe. The share of chipboard was approximately 20% of the Panel Industry's revenue last year. We believe Koskisen's birch plywood and chipboard capacity in Järvelä covers most of the unit's 175,000 cubic meters capacity

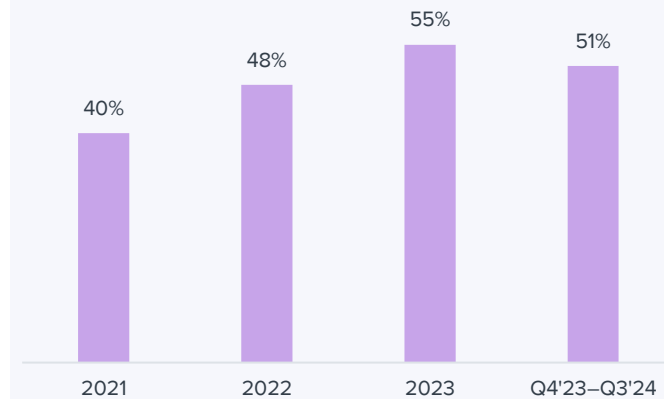
In Hirvensalmi, the Panel Industry also manufactures durable and flexible **thin plywood and birch veneer** suitable for laser cutting, molded products, designer products, interior design elements, lamps, technical structural boards, and CNC machining. The largest end-users of Koskisen's thin plywood and veneer are the furniture and joinery industries. Thin plywood and veneer accounted for approximately 5% of the Panel Industry's revenue last year.

The final product segment in Koskisen's Panel industry is interior solutions for light and heavy commercial vehicles manufactured under the Kore brand in Toporów, Poland. The solutions include floor and lining components, wheel arches and accessories.

Estimated* revenue distribution of the Panel Industry



Panel Industry's share in revenue 2021-Q3'24



Panel Industry 2/7

Kore products accounted for approximately 10% of the Panel Industry's revenue last year. Kore is a refined and capital-light growth business for Koskisen, and the company invested around 3 MEUR in expansions in Toporow during 2024.

Thin plywood, birch veneer and Kore products are also mainly sold in Europe. Due to the small size of the Kore business, Koskisen's currency risks associated with PLN are small.

The Panel Industry is, in principle, a more stable business than the Sawmill Industry

Some half of the customers in the Panel Industry comprise the logistics sector (incl. light and heavy commercial vehicles) and one-third the construction sector. Thus, the Panel Industry is less dependent on construction than the Sawmill Industry and partly for this reason, it is a less cyclical industry. The Panel industry is affected by general economic development, especially through the investment cycles of the logistics sector, and, thus, some cyclicity is also reflected in earnings. In addition, changes in inventories in the value chain can create fluctuations in the business even with long delays (i.e. the entire value chain is long).

Construction seasons and the production shutdowns of the business affect seasonal revenue accumulation. We estimate that demand is slightly more focused on the start of the year than in the Sawmill Industry, while Q3, in particular, is quiet for Koskisen due to its production shutdowns. Overall, however, in the Panel industry, the demand in the

logistics sector is more stable than in the Sawmill Industry, which naturally balances the revenue development at Group level.

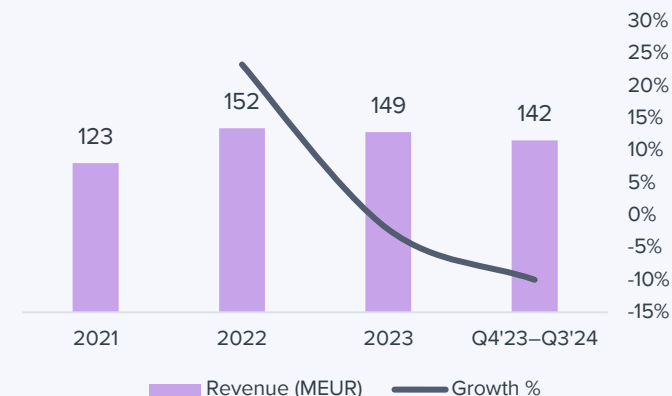
Direct sales ties hands to the sales organization

We estimate that the largest customers of the Panel Industry can roughly account for a double-digit percentage of the business area's revenue, but in absolute numbers, there are many customers and sales also to small customers. Koskisen mainly sells its panel products through direct sales. We estimate that 70-80% of plywood and chipboard sales are direct sales to customers. In addition, a smaller share (Inderes' estimate 20-30%) is sold to wholesalers and distributors. According to the company, sales to smaller customers is managed through distributors and wholesalers, while the largest customers are served by direct sales.

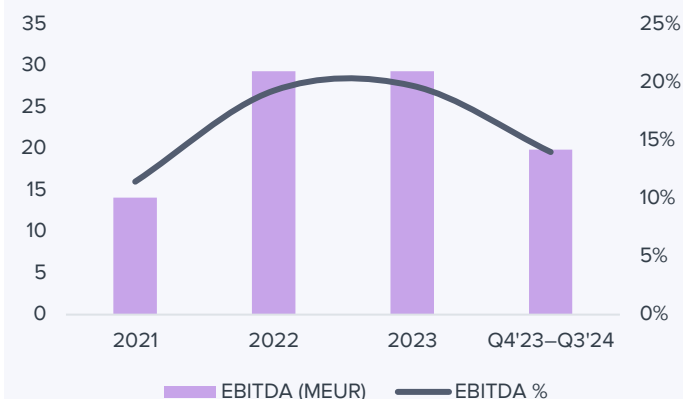
We believe that pursuing direct sales is a strategic choice in the Panel Industry, as direct sales allows the company to obtain higher margins (margin taken by distributor/wholesaler remains in the company) compared to sales to wholesalers and distributors. In the Panel industry, direct sales aim to optimize margin levels, especially as the company's customers (most of them in the commercial vehicle sector) need customized products (e.g. coatings) and are more quality-conscious than average.

In the Panel industry, Koskisen handles its sales directly without agents. In key markets in Europe, the company has a sales organization, sales support

Revenue and growth of the Panel Industry



EBITDA and EBITDA % of the Panel Industry



Panel Industry 3/7

Functions and the Domestic sales organization is in Finland. Also in the Panel Industry, Koskisen tries to separate itself from its competitors in the eyes of the customer as a reliable, long-term partner by offering products manufactured from durable wood originating from responsibly managed Finnish forests to its quality-conscious customers, especially in Europe. Here, we feel the customer value proposition and focus on quality are sensible choices, as we don't believe Koskisen has a sustainable cost advantage in the Panel Industry either, but rather a cost disadvantage due to the tight situation in the Finnish birch log market.

Pricing models

In Koskisen's Panel Industry, customer contracts are typically order-specific. Prices of products are set according to market standards and negotiated on a per-customer basis. The company has invested in value-based sales, as its flexible product lines enable product development and customized products, and thus customer-specific solutions. Due to customer-specific product needs, there are no guiding global or regional market prices for plywood.

Pricing is done quarterly, so the demand and price levels for the upcoming quarter are probed in the ongoing quarter. The pricing cycles in the Panel industry have been longer in history, but today pricing is quarterly also in this segment. We believe Koskisen strives to avoid longer volume commitments in sales contracts, especially when the Russian supply is excluded from the European panel market. Due to this turbulence, movements in the

end product and raw material markets can be strong, which does not support long-term financial commitments.

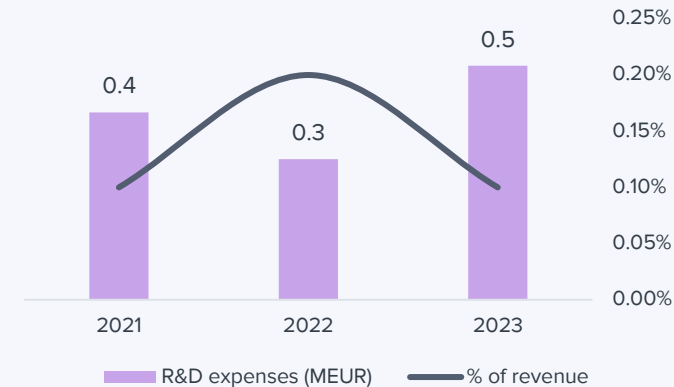
Despite the one-off transactions in the Panel Industry and the short pricing cycle, Koskisen's customer relationships are at best decades long. Thus, the assured visibility of sales is short, although long-term customer relationships create certain continuity and predictable development in demand.

Product development focuses on the Panel Industry

Koskisen aims to develop new solutions to keep up with the development of the wood products industry and maintain and strengthen customer relationships by offering new individually manufactured products to customers. As the product characteristics of sawn timber are largely standardized, product development is largely focused on the Panel Industry. However, due to the mature nature of the Panel Industry, the amount of R&D investments is low in absolute and relative terms: in recent years, Koskisen has spent under 0.5 MEUR/year as a Group or 0.1% of annual revenue on R&D.

The aim of Koskisen's product development in the Panel Industry is to focus on solutions customized for customers. The latest example is the Zero furniture board, launched by Koskisen, which is a purely natural solution suited to the needs of the furniture industry manufactured from bio-based raw materials (from production side streams).

The Group's product development expenses



Panel Industry 4/7

The Zero furniture board products can be manufactured to custom dimensions with Koskisen's existing production machines. We find the innovations interesting but in terms of sales they are still in their infancy and, therefore, the probability and strength of a larger breakthrough for these are very difficult to assess. The prevailing weak economic situation has also thrown a spanner into the works of commercializing new premium-priced producers.

The birch plywood market is smaller and more local

A majority of the birch plywood market is located in Europe, as birch plywood has traditionally been used in the region instead of other panel alternatives. In the past, the market has grown steadily, driven by the growth of the transport and construction sectors. So, this is clearly a smaller and more local market than the large global sawn timber market. The value added of birch plywood is also significantly higher than for sawn timber, so the raw material does not dominate the cost structure in the same way as in the sawmill industry, but the role of other raw materials and personnel efficiency is also significant. Product differentiation and quality competition are easier in the Panel Industry than in the Sawmill Industry, but in the big picture, we also profile the plywood business as a volume-driven business.

According to AFRY's market survey, the value of the global birch market was estimated to be 3.1 BNEUR in 2021, of which 66%, or over 2 BNEUR, is considered an addressable market for Koskisen. We estimate that since then the market has grown,

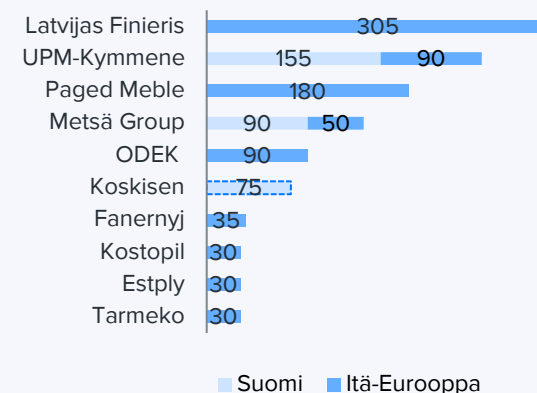
driven especially by price increases, but on the other hand, supply shortages may have reduced demand, at least in EU countries. The growth drivers of the birch plywood market are expected to continue to be the growth of the logistics and construction sectors.

The market grows slowly

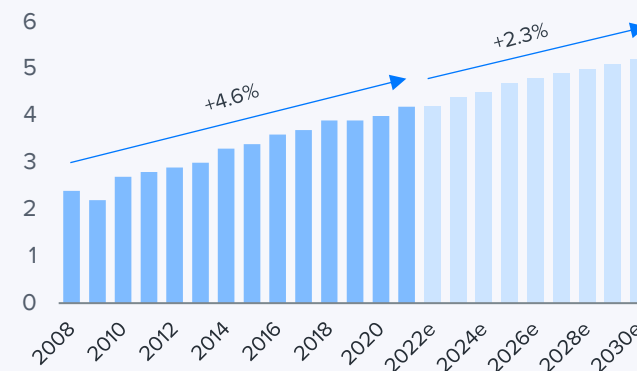
According to AFRY's market survey, demand in the birch plywood market is expected to grow by 2.3% per year in 2022-2030. According to the market survey, growth in 2021-2026 would be divided so that volumes grow by 2.5%, prices by 1.7% and value by some 4.2% per year. However, we expect that the realization of the price component depends on the competitive situation and the cost level of the industry while in terms of volumes, an estimate that corresponds with the historical level is more reliable. However, in the big picture, the birch plywood market grows slowly over time.

However, it is worth noting that over 90 % of the plywood produced by Koskisen is exported to EU countries and the UK. Therefore, the competitive dynamics of this segment are rather located in Europe, but the main competitors come especially from Eastern Europe and Finland (Sweden does not produce plywood). The strength of Eastern Europeans lies in lower personnel costs than in the West, while the Baltic countries suffer from a tight timber market just like Finland. It is also not easy to achieve technological advantage in the plywood industry, as modern production technology is highly available.

Largest producers of birch plywood, Europe, thousand cubic meters



Volume of global demand for birch plywood (excl. Russia and Belarus, million m³)*



Panel Industry 5/7

In the birch plywood market, UPM's plywood business is the largest active player in the Finnish market and Koskisen is only third in the Finnish market after Metsä Group (Metsä Wood). UPM Plywood and Metsä Wood also produce softwood plywood driven by the construction sector. Thus, Koskisen cannot flaunt with scale advantages, and the company is a small player on a market scale.

Koskisen's Panel Industry has generated an 11-20% LTM adjusted EBITDA margin in 2021-Q3'24, while UPM Plywood has generated a 14-25% LTM EBITDA margin for the same period in 2015-Q3'24. However, UPM has done this with roughly ten times the production capacity and, thus with significantly higher volumes and resulting economies of scale. In addition, a significant share has been in lower cost level countries in Estonia and until 2022 also in Russia. Metsä Wood, in turn, has generated an average EBITDA of around 9% in 2016-2023. We note that Metsä Wood and UPM Plywood are not fully comparable with Koskisen's Panel Industry as their product mixes differ from Koskisen's Panel Industry.

Among foreign operators, Panel Industry's peer company the Latvian Latvijas Finieris AS has generated an EBITDA margin of 5.5-19.5% in 2013-2023. No longer time series is available on the profitability of Koskisen's Panel Industry, so it is not entirely straightforward to estimate the longer-term relative competitiveness of Koskisen in this segment.

Birch plywood prices

Plywood prices have been more stable than sawn timber prices in history, especially in the last 10 years before 2022. We believe this is due to the

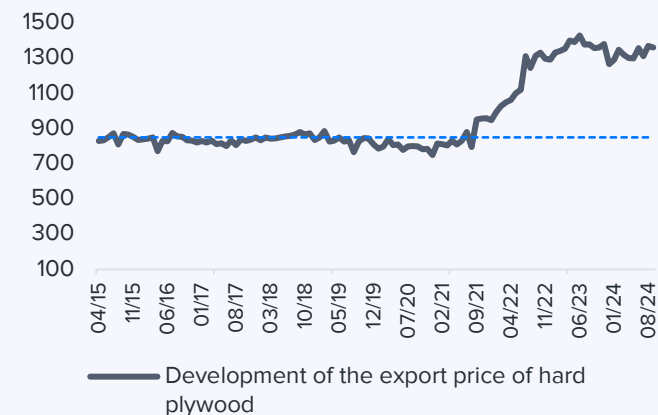
significantly higher value added of plywood compared to sawn timber. The prices of plywood have also increased during the past 1-2 years at record levels, which has provided strong support for the performance of the Panel Industry, especially in 2022-2023. Sales prices and profitability of the Panel Industry started to rise at the quarter level immediately after the war broke out, starting from Q2'22, and profitability development was mainly good up to Q3'23, when the rising price of birch logs cut into margins during a seasonally weak period.

Since the beginning of 2022, the European market has experienced a major supply shortage following sanctions against imports from Russia, even though European players have tried their best to fill this gap. In the past, Russia was the largest exporter of birch plywood to Europe, accounting for up to 60% of Europe's birch plywood supply. In practice, the import of Russian birch plywood to Europe has been banned. During 2023, at least UPM has reported that the sanctions have leaked to some extent, but in the summer of 2024, the EU at least tried to plug the leaks through customs duties.

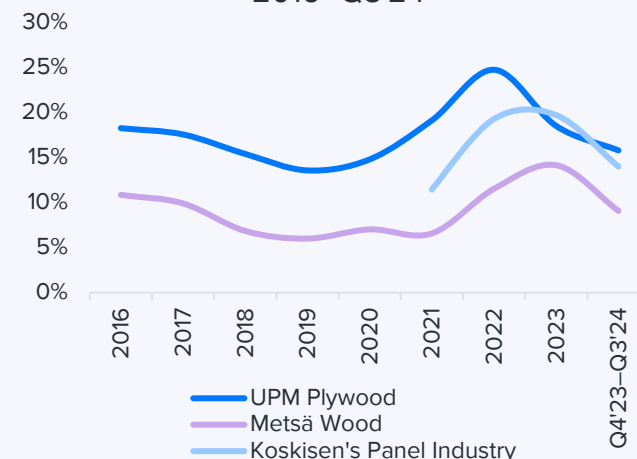
Tightening of the raw material market is also felt in the Panel Industry

In addition, birch logs were imported from Russia to Finland before Russia started the war of aggression in Ukraine. The exit of imports has caused problems in the availability of birch wood, although Koskisen has avoided a direct raw material shortage thanks to active purchasing and increased wood purchases along with sawing volumes (i.e., more birch has been

Price development of birch plywood, exports, EUR/cubic meter



EBITDA % 2016–Q3'24



Panel Industry 6/7

obtained as a by-product). The company has also tried to use smaller log sizes, relaxing sorting and optimizing lathe automation to improve material supply. In our view, birch logs imported from Russia to the factory have not been exceptionally advantageous in terms of costs, at least compared to pre-war log prices. However, birch log prices have increased significantly in Finland after the outbreak of the war, so some of the benefits of the tightening market have flowed to forest owners, which, together with the weak economic cycle, has been reflected negatively in the profitability development of the Panel Industry in 2024.

Focus of investments shifts to the Panel Industry

In December 2024, Koskisen announced that it would launch a three-year investment program in the Panel Industry. The investment program runs until the end of Koskisen's strategic period in 2027. The first phase of the investment program will be implemented during 2025 with a total value of approximately 12 MEUR. The entire program will increase Koskisen's plywood production capacity in Järvelä by around 30% to 85,000 m³. The investment program will enable volume growth in the Panel Industry, streamline production and facilitate related internal logistics. The investments to be made will also include the automation of production stages. The investment sum for the entire program was not opened at this stage, but we estimate it to be around 25-35 MEUR cumulatively.

Shifting focus to Panel Industry was an expected move

Koskisen's investments have focused heavily on the Sawmill Industry in recent years. Koskisen also indicated in the Q3 report that the investment focus will shift to the Panel Industry starting next year. In the Panel Industry, despite the current weak economic cycle, the market in Europe (the main market for birch plywood) suffers from severe supply constraints, with Russian production, which accounted for up to 60% of supply, largely out of the picture so far (apart from leaking sanctions). In our opinion, the best estimate so far is that the supply limit will continue in the foreseeable future even if a peace agreement is reached in Ukraine in the next few years.

This dynamic could justify a more aggressive effort to increase capacity in the birch plywood segment, but the availability of birch wood is a limitation also for Koskisen. However, we estimate that Koskisen has increasing sawing volumes (cf. the ramp-up of the new sawmill line in Järvelä) and considering the required wood procurement, the conditions to moderately acquire more birch logs as well. Continuously striving for the top of the quality pyramid is also a key part of Koskisen's competitiveness to which the investment program also aims. In addition, the plywood industry is still labor intensive, especially in certain sub-processes, so investments in automation have the potential to reduce costs. We see the investment program as a logical continuation of Koskisen's growth strategy.

We estimate that Koskisen will be able to finance the entire investment program with current cash and cash flow generated by the business, although the total program is likely to be significantly larger than the 2025 allocation.

Competition in the chipboard industry comes from outside Finland

Koskisen has a very strong position in the Finnish chipboard segment, as it claims the company has a market share of about 50% in Finland as the only local chipboard supplier. Koskisen is likely to be able to sell its chipboard with a price premium, as the product is sustainably manufactured and the delivery time in Finland is fast. In addition, the high market share should help the Panel Industry maintain the price level of chipboard in Finland, as the company can control production by adjusting local demand/supply dynamics. Due to the weak phase of the construction cycle, Koskisen has also limited its chipboard production from the end of 2023.

Although the current situation in the chipboard segment is cyclically weak, with construction suffering, in the longer term, the demand for chipboard in Europe is expected to grow at a rate of approximately 2.2% over the next 10 years led by furniture production and the construction industry. We estimate that this forecast also reflects the growth of the Finnish market. Overall, the European

Panel Industry 7/7

chipboard market was estimated to be 11 BNEUR in 2021. About 5% of this can be considered a relevant market for Koskisen, as the majority of the market is low-grade chipboard.

In the chipboard market segment, Koskisen only faces competition from abroad. Geographically, the competitors come from Central Europe. In addition, IKEA is a large chipboard producer but it does not compete directly with Koskisen because it uses most of its production internally.

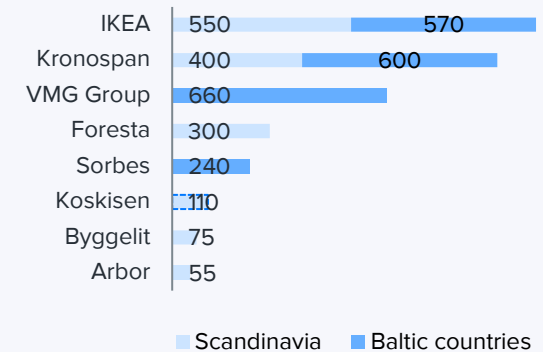
Kore's competitors are small companies

We believe the main competitors of Koskisen's Kore business are small Central and Eastern European companies in the vehicle solutions industry. Unlike Koskisen, most of the competitors do not have own panel production, so they cover a shorter section of the value chain than Koskisen. Instead of own production, competitors buy panels from larger producers and process them into final products.

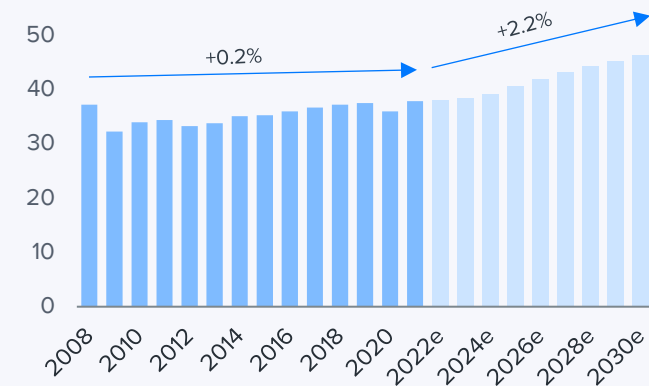
The driver behind the Kore products is in practice the production volume of light vehicles and trailers. In addition, the company aims to expand the sales of its increased capacity to the train segment. As a rule, the relevant market for Koskisen in a niche segment like Kore is small in absolute terms, but we also estimate it to be significant compared to the size of Koskisen's Kore business. Similarly, the growth rate of a small niche market is likely higher than that of a mature market. However, on Koskisen's scale, the

impact of Kore's growth on the Group's overall figures is limited for a fairly long time, although we consider investing in a capital-light (i.e. good potential return on capital) segment to be sensible given the very capital-intensive nature of the sawmill and plywood businesses that dominate the company's portfolio.

Largest chipboard producers, Northern Europe, thousand cubic meters

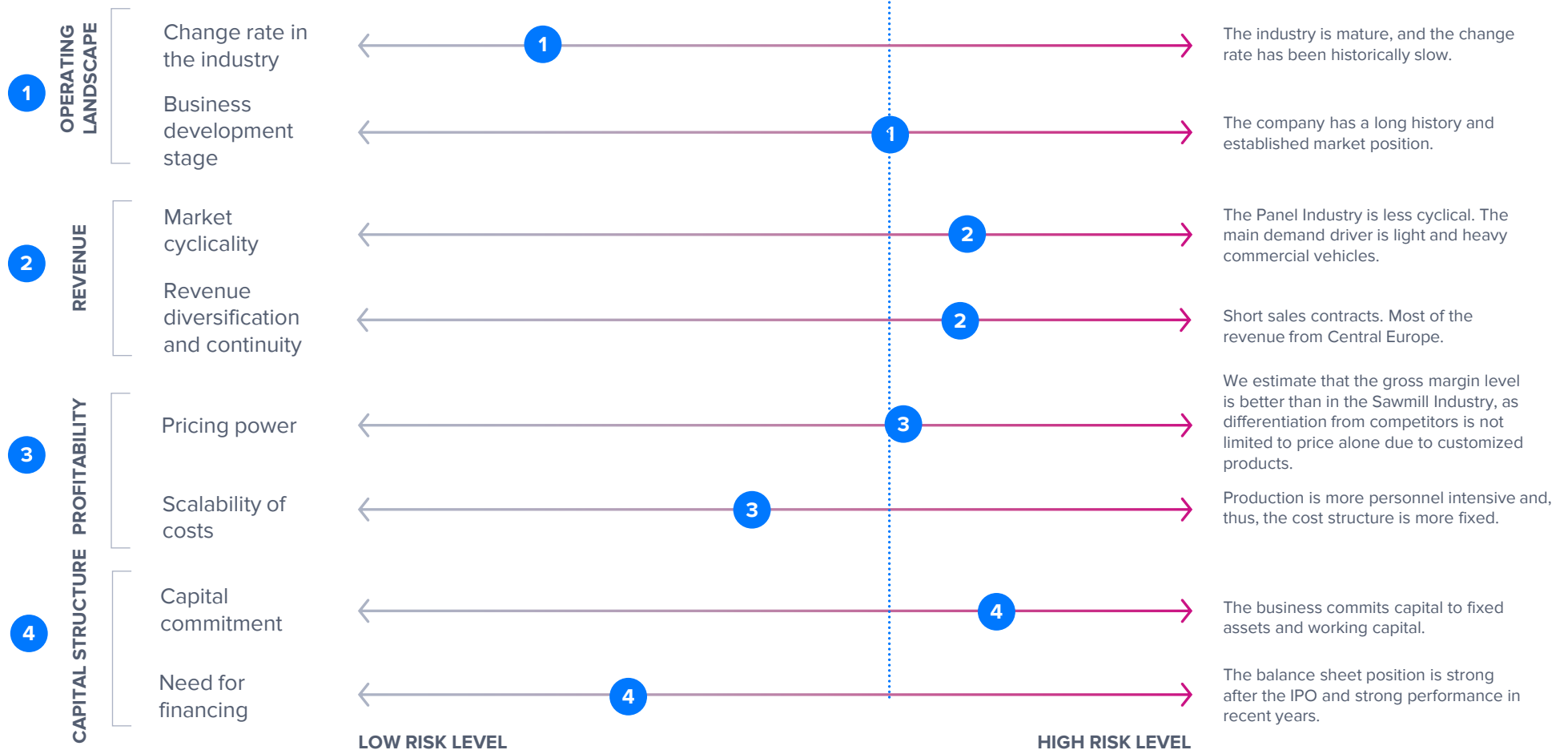


Volume of demand for chipboard in Europe (excl. Russia and Belarus, million m³)*



Risk profile of Koskisen's Panel Industry

Assessment of the overall business risk of Koskisen's Panel Industry (mid-range corresponds to the average assessed risk level of Nasdaq Helsinki)



Group's cost structure and economic situation 1/5

Wood procurement function and price formation of logs

Raw material purchases are the biggest cost item in Koskisen's balance sheet. We estimate that raw material purchases represent roughly 40% of Koskisen's revenue. The majority of raw material costs consist of raw wood purchases. The price of wood, and thus the purchase of wood, is primarily influenced by the balance between supply and demand on the local Finnish timber market. On the demand side of wood, Koskisen must compete with both centralized wood procurement organizations of large Finnish forest companies and independent sawmills. In Finland, the wood supply, in turn, consists of supply created by private forest owners, the state, municipalities, and other public entities, as well as imports. The balance between supply and demand has been affected, e.g., by the ban on wood imports from Russia and Belarus in response to the ongoing war in Ukraine.

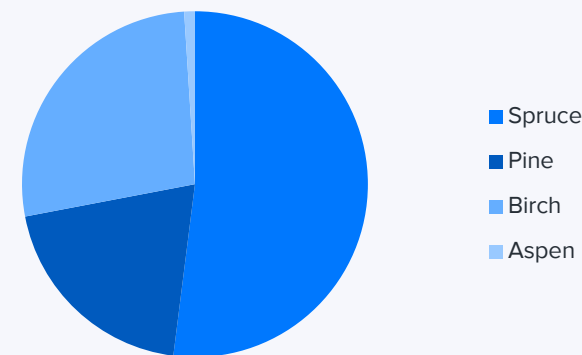
Factors affecting the formation of wood mill prices include, in addition to supply and demand, the costs of harvesting and transporting wood, energy prices, and price differences between timber trees and pulpwood. In addition, on the regulatory side, price formation can be affected by conservation, sanctions and export restrictions. Changes in the conditions for harvesting wood can have a temporary impact on prices as they can cause temporary wood shortages in local markets, e.g., due to frost heave or forest fire risks. As a rule, harvesting costs are seasonally slightly higher during the winter season, but typically, annual wood prices in Finland are seasonally at their highest in spring and early summer due to demand-based reasons.

Koskisen buys wood in southern and eastern Finland

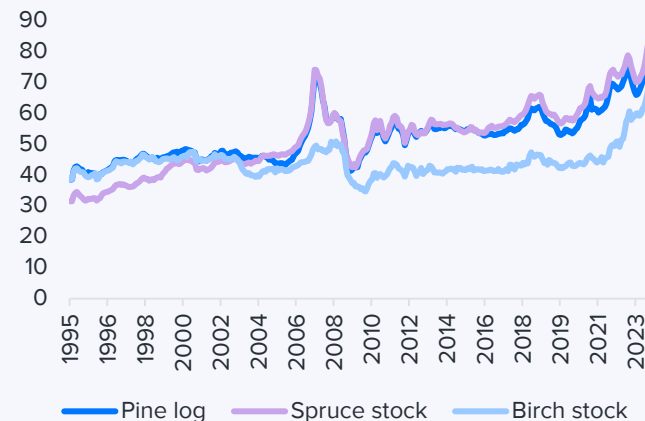
In 2023, the amount of wood procured through Koskisen's wood procurement was 1.45 million cubic meters. We estimate that about half of this was spruce, a fifth pine and about a quarter birch. As a crude rule of thumb, two cubic meters of log wood are needed for one cubic meter of sawn timber. The yield is higher in plywood. Koskisen acquires most of the wood from thousands of forest owners in Southern and Eastern Finland.

According to statistics of the Natural Resources Institute Finland, the prices of pine, spruce and birch logs have been about 0-5% higher in Southern Finland than in the statistics for the whole country. Similarly, according to Kymi-Savo (Eastern Finland) statistics, wood prices have been at the same level as the average for the whole of Finland. Thus, in terms of wood procurement, Koskisen's geographical exposure is not optimal, but in exchange for higher purchases in Southern Finland, we estimate that the average transport distances to the mill are mainly within a competitive range of under 150 kilometers. In addition, production focusing on Järvelä is an advantage for end product logistics, as construction focuses on Southern Finland and the main export ports are on the southern coast. This at least partly offsets the company's likely higher-than-average wood purchase price in Finland.

Estimated distribution of wood procured by Koskisen by wood type in 2023 (total 1.45 million m³)



Price of standing timber in Finland by month (whole country)



Source: Koskisen, Inderes, Natural Resources Institute Finland, Volumes and prices in industrial roundwood trade

Group's cost structure and economic situation 2/5

Forest giants' operations in the timber market cause challenges for wood product companies

The partly strategic purchasing of raw wood by large forest companies dominating wood purchasing in Finland plays an important role in generating demand in the timber market and thus in price formation. This dynamic is underlined by the fact that the business models and wood sourcing of large forest companies have been optimized from the perspective of the chemical forest industry, which means that it is important for large companies' consolidated results that the price of the key raw material pulpwood remains under control. This was also quite successful until the war of aggression initiated by Russia.

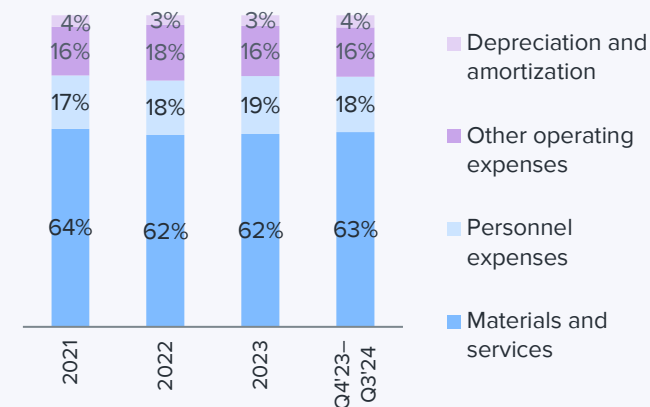
In practice, large forest companies may be willing to pay proportionally more for logs (and previously for Russian imports) and even "overpricing". Correspondingly, the forest owner's income from wood sales is formed especially from more valuable logs. These factors complicate the dynamics of the timber market from the viewpoint of companies focusing solely on wood products, like Koskisen. We do not expect this dynamic to change, even though the wood product industry has been trying to challenge the way forest giants operate in the timber market for a long time. After the Russian war of aggression, however, the price difference between timber tree and pulpwood has narrowed slightly, which in principle is positive for Koskisen.

Compared to a conventional domestic sawmill company, Koskisen has a wider wood sourcing network as the company also needs birch for plywood production. This, on the other hand, requires relatively more staff in wood procurement and thus generates fixed costs. The company has outsourced harvesting and transport operations to subcontractors (only approximately 12% of revenue). On the other hand, the company benefits from better management of raw material supply. This has also had tangible benefits, as Koskisen has managed to procure enough birch logs to run its production in 2023-2024, despite the very tight supply situation. In connection with wood procurement, Koskisen also offers forest owners the benefits of a regular partner and certain services, which we believe is necessary due to sustainability and tight raw material competition.

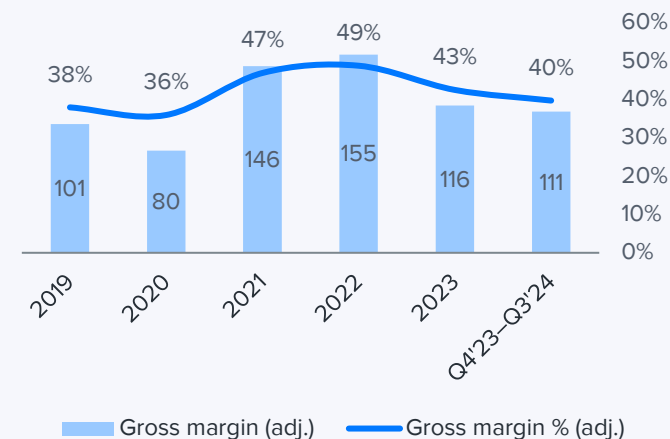
The biggest cost item is materials and services

The largest single item in Koskisen's cost structure is materials and services in line with the earnings logic, which accounted for about 51-57% of revenue in 2021-2023. As stated, the majority of the company's material costs consist of wood purchases (incl. pulpwood that is resold), coatings and adhesives related to the manufacture of processed timber and plywood, as well as other production materials. This item also includes external services, which comprise services related to wood harvesting, transportation and machinery repairs.

Cost structure, share of total costs



Sales margin development



Group's cost structure and economic situation 3/5

We estimate that material costs are particularly high in the raw material-intensive Sawmill Industry, but wood purchases are also the single biggest cost item

in the Panel Industry. Log costs, i.e. the factory price of the log, can be divided into the following components: price of standing timber, logging costs, transport costs and overheads. The price of standing timber is the highest cost item, but the factory price of a log is still clearly higher than the price of standing timber. In total, Koskisen's costs for materials and services are almost completely variable and therefore non-scalable.

In 2021-Q3'24 LTM Koskisen's gross margin has been 43-49%. The gross margin percentage is naturally also affected by the revenue level and, as a subcomponent of this, especially sales prices even more than the level of variable costs. The period under review has been quite good in terms of the gross margin and hence the profitability of the company as a whole, as the prices of sawn timber in 2021-2022 and birch plywood in 2022-2023 were very high.

Koskisen has not reported business segment-specific gross margins, so it is difficult to accurately assess the figures. However, we estimate that the gross margin profile is lower in the sawmill industry, whereas the margin profile is better in the Panel Industry as the final products have a higher degree of processing and thus a higher value. Correspondingly, the Panel Industry is clearly more personnel-intensive than the Sawmill Industry. Especially in the Sawmill Industry, gross margins are relatively low, and this is

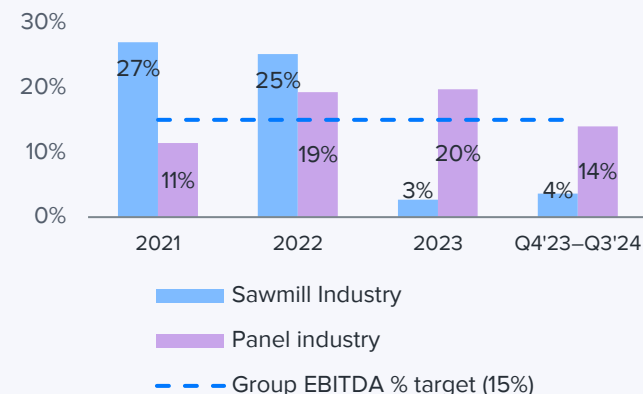
influenced by the pricing strategy of each operator and the share of direct sales, while market prices and the demand/supply ratio ultimately primarily dictate price formation.

Production requires staff

Koskisen's second largest cost item is personnel expenses. In 2019-2023, they accounted for 14-17% of revenue. Although the degree of production automation has improved and will improve further with the new Järvelä unit in the Sawmill Industry, the business is still quite personnel-intensive, especially in the Panel Industry, which involves several production sub-processes and operates with older capacity on average (i.e., a lower degree of automation), although the launched investment program will improve personnel efficiency in the Panel Industry. Kore's processing business is also personnel-intensive, but Kore's personnel are located in Poland, a country with lower wage levels. In addition, the wood procurement function and focus on direct sales tie up personnel resources.

According to our estimates, personnel costs are somewhat scalable as production automation improves. The proportion of expensive shifts (i.e. nights and weekends) should also be clearly lower in the future than in recent history. Personnel expenses are flexible downwards after a certain delay, which is also supported by Finland's flexible layoff possibilities. On the other hand, this provides certain flexibility to adjust the cost level in a weak demand environment, even though in the past Koskisen, as a small player in both industries, has tried to

EBITDA margins for business segments



Group's cost structure and economic situation 4/5

fill their capacity even in weaker times and leave the task of ensuring market balance to the larger players. This has worked moderately in the Sawmill Industry during 2023, as the unit's profitability has been better than for several key peers.

The role of other expenses is almost equal to that of personnel costs

The share of other expenses in Koskisen's business have accounted for some 13-15% of revenue in 2019-2023. The costs mainly include sales freight, handling and delivery costs, and sales commissions to agents, as well as property maintenance costs. In addition to these, conventional administrative costs related to IT, consulting and administrative services. We estimate that electricity accounts for 2-3% of the total costs, so the share is not significant. Koskisen also hedges the price of electricity. The relative share of other costs can be considered highish, albeit a typical level for the industry. We believe other operating costs are mainly fixed and thus scalable.

The balance sheet ties up fixed assets

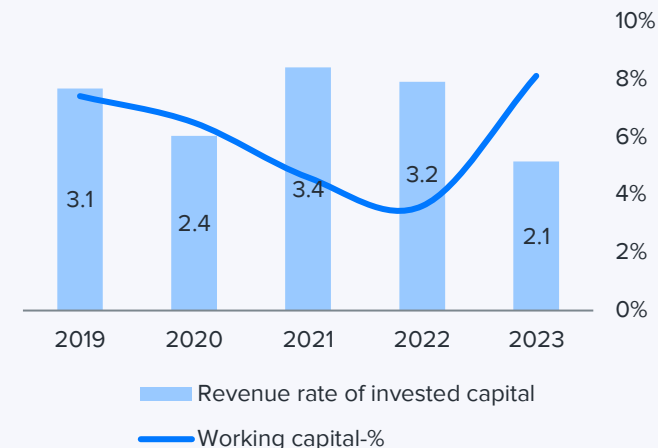
Koskisen's non-current assets consist mainly of tangible assets (Q3'24: 109 MEUR), most of which are the buildings of the company's production facilities and the machinery used in production and other equipment. The remainder of non-current assets in practice covers a 34 MEUR right-of-use asset, most of which consists of a right-of-use asset arising from the lease agreement of the Järvelä power plant. Koskisen's balance sheet does not include goodwill and the share of other intangible assets is also small on the balance sheet. We do not see any write-down risks in Koskisen's non-current assets.

Current assets in the Q3'24 balance sheet (128 MEUR) include 41 MEUR in inventories committed to operating activities and 32 MEUR in accounts receivables. Correspondingly, trade payables amounted to 33 MEUR at the end of the review period (incl. interest-bearing trade payables of 6 MEUR from the payment process). The company's cash position was 32 MEUR at the end of Q3'24.

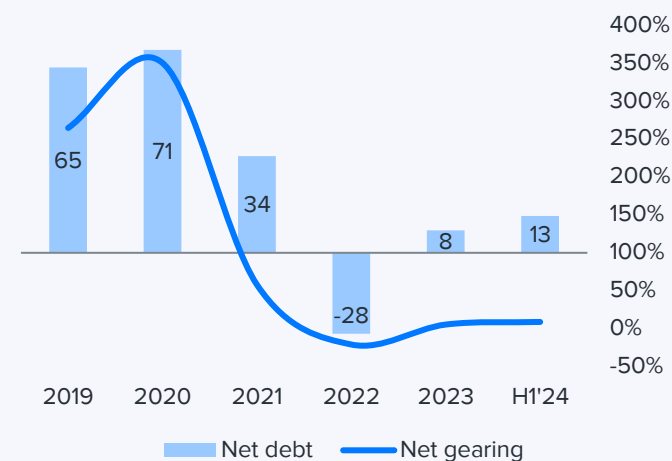
From the point of view of working capital efficiency, the revenue period of accounts receivables has been plus/minus 30 days in the past 3 years, whereas the payment of accounts payable has taken on average 80 days. The revenue period of inventories during the corresponding period has been 40-50 days. We feel the revenue period for working capital items has been relatively stable in history.

Koskisen offers wood sellers KoskiRaha service, which in practice is a tool for financing the company's accounts payable. If the wood seller wants to postpone the payment for the wood from Koskisen, the seller receives interest in return for their money. At present, the interest rate is 3.5% for amounts below EUR 20,000 and 4.0% for amounts exceeding EUR 20,000. Interest rates have historically moved in line with market interest rates, and we expect this to continue (i.e., the next interest rate movement will likely be down). However, the size class of KoskiRaha is small relative to the balance sheet, and thus its significance for the company's earnings is limited.

Capital commitment



Net debt (MEUR) and gearing



Group's cost structure and economic situation 5/5

The business commits capital to fixed assets

In Koskisen's business, a majority of capital is committed to fixed assets, which is typical for a manufacturing company. The company's fixed assets (incl. right-of-use assets under IFRS 16) accounted for some 50% of the balance sheet at the end of Q3'24, and these assets have represented just over 50% of annual revenue looking back. Consequently, Koskisen's business is clearly in the league of capital-intensive companies, although due to the significant investments in recent years, this may now be slightly sturdier than longer-term averages. However, investors should be prepared for investments required to maintain competitiveness and grow the business in the longer term, considering the nature of the business.

In addition to fixed assets, the business ties up operational working capital. Working capital's share of revenue has been around 4-13% in recent years. This consists especially of inventories, as the company's ratio of trade payables to trade receivables has been clearly positive (i.e. trade payables > trade receivables). As a whole, we believe the working capital intensity of the business is on an average level on Nasdaq Helsinki. Thus, growing the business requires investments not only in fixed assets but also in working capital.

Robust balance sheet

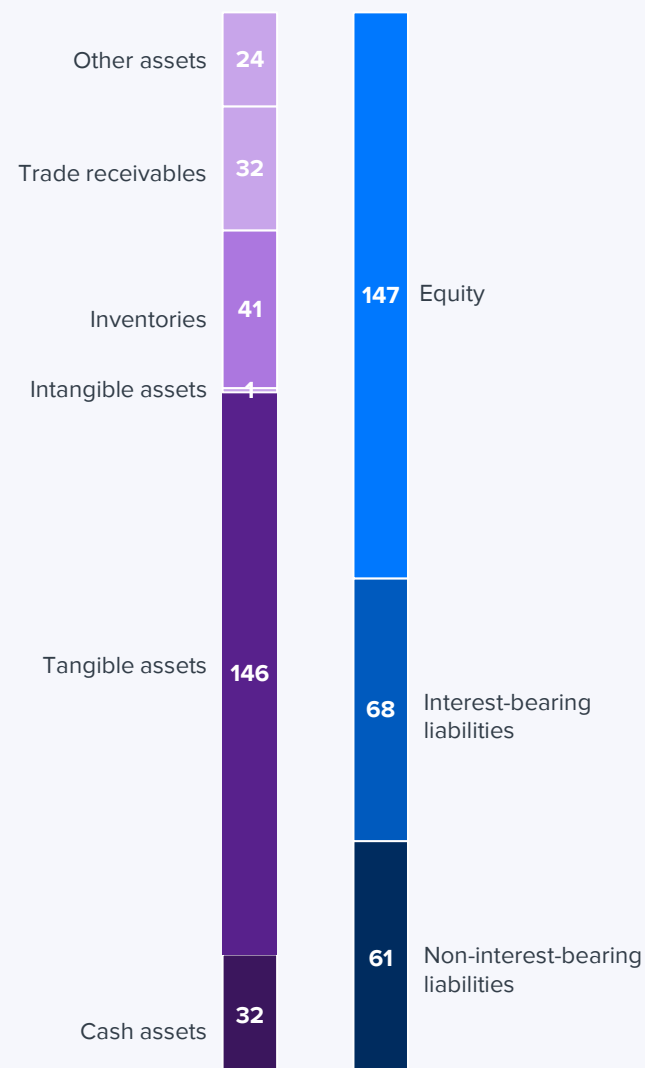
Koskisen's cash assets in the balance sheet at the end of Q3'24 were approximately 32 MEUR thanks to the IPO and recent mainly good earnings development. In addition, we believe around 12

MEUR in financial assets recognized at fair value through profit or loss (current + non-current) are included in financial assets. Therefore, Koskisen's liquidity is strong.

Koskisen had equity of some 147 MEUR on the balance sheet at the end of Q3'24. Interest-bearing debt (incl. lease liabilities and interest-bearing accounts payable) amounted to some 68 MEUR and non-interest-bearing debt to around 61 MEUR. Thus, the company's net debt including cash and financial assets totaled good 10 MEUR in the Q2'24 balance sheet. So the company's Q3'24 net indebtedness was approximately 17% and the equity ratio approximately 53%.

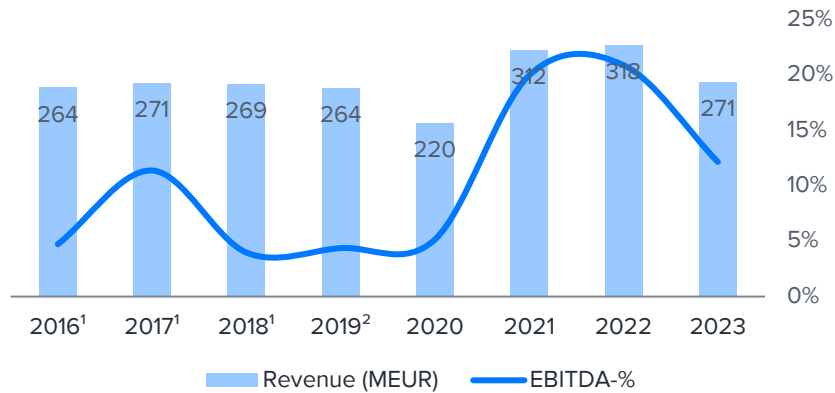
Koskisen does not have numerical balance sheet targets, but we believe that despite the cyclical nature of Koskisen's business, it could sustain moderate leverage without significantly increasing the stock's risk profile. We feel the appropriate level could be, e.g., an equity ratio of over 45%, a net indebtedness of around 20-30% and a net debt/EBITDA ratio roughly at 1x-2x. Therefore, we believe that the company's balance sheet position at the end of Q3'24 is solid and will at least allow for organic growth through cash flow and debt. Acquisitions, on the other hand, would require, at least excluding the very smallest acquisitions, additional equity or the use of shares as payment. In addition, we feel Koskisen's dividend capacity is reasonable if the company does not make inorganic or larger organic growth investments. However, dividend levels naturally depend on the performance of the next few years.

Balance sheet
(Q3'24, 277 MEUR)

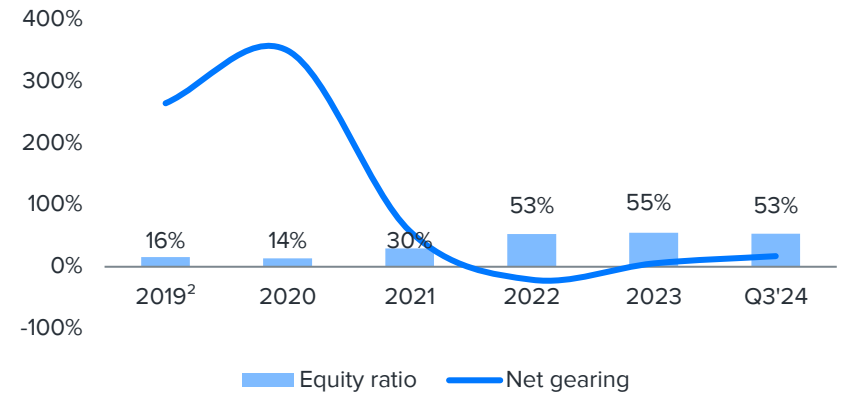


Financial position 2/2

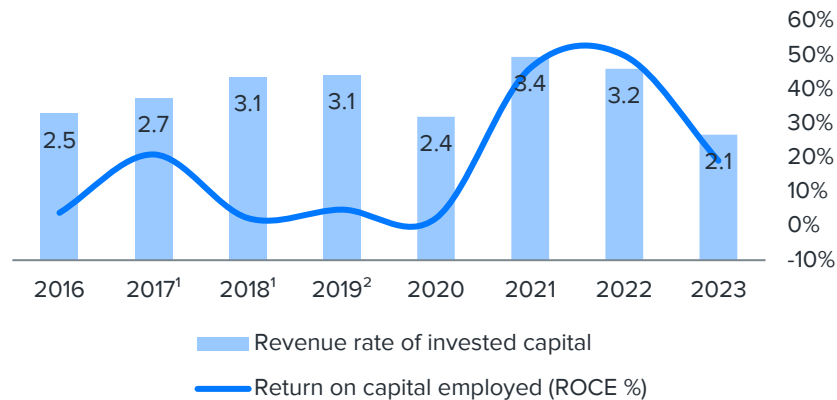
Revenue and profitability development



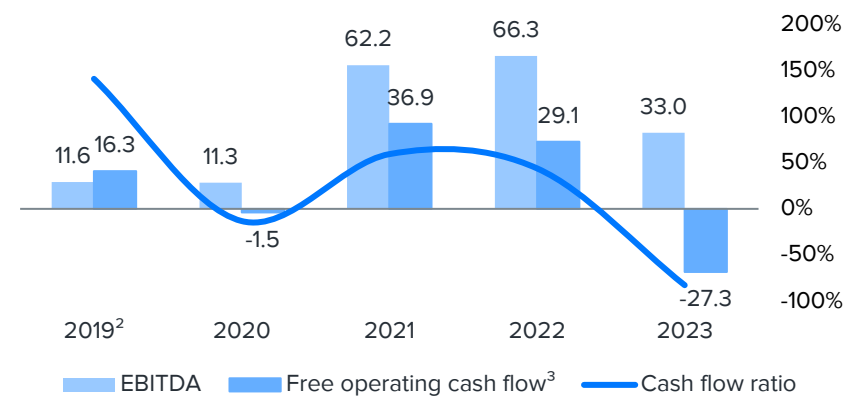
Development of balance sheet position



Capital efficiency



Cash flow development (MEUR)



Source: Koskisen, Inderes

¹FAS figures from the financial statements of Koskitukki Group

²FAS, ³Cash flow from business operations after investments

Strategy and financial targets 1/3



Forming into a wood processing company

- Focus on fostering and developing long-term customer relationships
- Developing economic performance over cycles
- In 2010, production of interior design solutions for vans began under the Kore brand in Poland
- Plywood and chipboard businesses consolidation into the Panel Industry segment

Strengthening competitiveness and clarifying the structure

- Divestment of the Taloteollisuus business
- Brand reform and the introduction of an integrated online planing line and Bio8 boiler in Järvelä
- Investment decision to build the new Järvelä unit
- IPO
- Russian operations terminated

Accelerating growth with record investment

- Ensuring the benefits of the Järvelä investment
- Organic growth through customer understanding (incl. product customization), competitive sales and high-quality customer service
- Developing and maintaining an agile business model: ability to react quickly to changing customer needs
- Adapting to the tight timber market
- Continued investments
- Forerunner in responsibility by reducing Koskisen's already small carbon footprint and increasing its carbon handprint by developing more responsible products

Core elements and challenges of the strategy

Actualized

- Clarification of the Group structure
- A major investment in the new Järvelä sawmill unit, which will increase capacity and improve efficiency, and smaller investments in parts of the production lines to strengthen competitiveness
- Successful capital raising in the IPO
- Very strong results in 2021-2022

Near future, 1-2 years

- Completion of the Järvelä investment and ensuring the benefits of the investment
- Adapting to the changing economic cycles and the tight timber market in Finland
- Development of new products, customization and customer service
- Initiation of an investment program in the Panel Industry
- Possible investment in the production of a new product
- Exploring consolidation opportunities, especially in the Sawmill Industry

Next 5 years

- Developing and selling products with higher value added
- Quality maintenance of customer relationships
- Developing the product portfolio organically and through acquisitions
- Finalization of the Panel Industry's investment program and materialization of the benefits of a potential investment in a new product line
- Acquisitions that expand the customer base, increase capacity and provide synergy probably in the Sawmill Industry

Strategy and financial targets 2/3

Focus areas of Koskisen's strategy



Value creation for customers

Koskisen invests in high-quality and customized products, customer-oriented service and innovative solutions.



Development of current activities

Koskisen aims to strengthen the competitiveness and differentiation of its factories, product development and efficiently implement new initiatives



Taking bold steps

Koskisen plans and prepares for possible acquisitions and investments.



Promoting responsibility and sustainable development

Koskisen considers the wise use of natural resources in its operations, strives to mitigate climate change and invests in sustainable bioeconomy solutions.

Inderes' comments on Koskisen's strategic focus areas

- Considering Finland's high production cost level, we do not believe Koskisen has sustainable cost advantages, even though the company's factories (especially the new Järvelä sawmill line) are efficient. Therefore, we feel focusing on quality, customization and innovative solutions is the logical and almost only option for the company to achieve higher profitability than the industry average.
- In terms of customer value creation, it is also essential to gradually increase the value added of production through, e.g., processing, Kore products and completely new wood products.

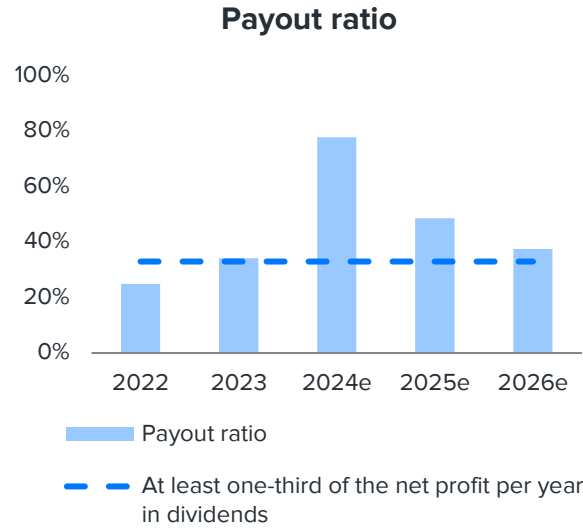
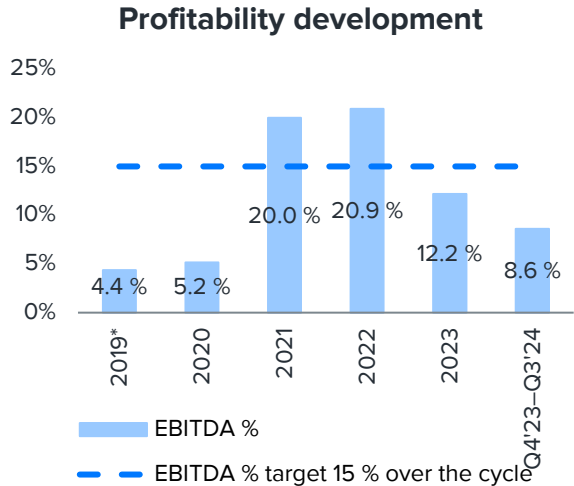
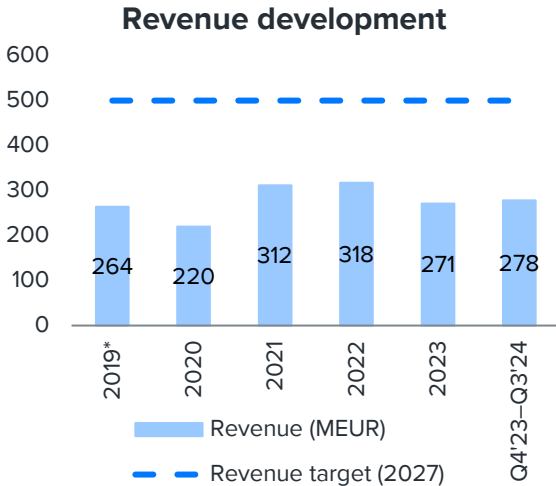
- We believe the development of the current business includes the commercial side and increasing the production efficiency of the factories (incl., e.g., investments in the Panel Industry).
- Regarding efficiency, there is significant improvement potential in the Järvelä sawmill line, which is still in the final stages of ramp-up, and the benefits of the investment have not yet been fully seen in the income statement.
- On the commercial side, the company must be able to sell the new and potentially growing capacity in Järvelä and also other existing products to the market in an increasingly profitable manner

- The company is looking at possible M&A transactions, especially in the Sawmill Industry in Finland and organic investment opportunities in the Panel Industry.
- A transaction in the Sawmill Industry that would clearly increase the size class, has minor overlaps and generates cost synergies (wood sourcing in particular) in Finland could be sensible. In the Kore segment, acquisitions could create value considering the estimated good capital return of the segment's businesses.
- Bold steps will probably require significant capital, which requires the company to maintain a strong balance sheet.

- There are growing pressures on forest use from different sectors, so ensuring the general acceptability of the forest industry requires sensible use of raw materials.
- Koskisen's products are clearly carbon-negative and thus mitigate climate change, which gives the company an exceptionally good starting point for benefiting from the sustainability trend.
- Focusing on responsibility will probably require investments from the company, but some of these will also open up new business opportunities.

Strategy and financial targets 3/3

Koskisen's financial objectives



Financial objectives set by the company

- Growth:** Revenue 500 MEUR, including both organic and inorganic growth
- Profitability:** Average EBITDA margin of 15% over the cycle
- Balance sheet:** Maintaining a strong balance sheet
- Profit distribution:** Attractive dividends – at least one third of net profit per year

Inderes' comments on the objectives

- Achieving the revenue target requires significant inorganic growth. We believe M&A transactions should be directed at the biggest sawmill industry players in Finland for the industrial logic (capacity increase, expansion of customer base and synergies) and scale to be suitable.
- The profitability target is challenging relative to the industry context and company history. Profitability levels are structurally low and very volatile, especially in the Sawmill Industry. In addition, very few operators in the Panel Industry have been able to generate over 15% EBITDA over cycles. Therefore, we consider the goal quite challenging.
- Considering the cyclical nature of the business, maintaining a strong balance sheet is critical to manage financial risks. In our view, the company's moderate net debt in the current balance sheet already clearly meets the balance sheet target and gives the company reserves, at least for organic growth investments.
- The profit distribution target allows for growth investments if attractive opportunities arise. The flexible objective also provides leeway.

Source: Inderes, Koskisen
*FAS figures

Estimates 1/5

Estimate model

We model Koskisen's short- and medium-term revenue development based on estimated volume growth in business segments, predicted average price development of end products, and unit cost forecasts. In assessing short- and medium-term profitability development, we also model the development of the company's gross margin and fixed cost structure. Our long-term forecast is based on our estimates of the long-term growth rate of the market, the development of Koskisen's market share, and Koskisen's sustainable profitability level (cf. the company's historical track record and our assessment of the company's profitability potential).

Macroeconomic outlook

In Koskisen's main markets in Europe and Finland, economic growth has been very subdued in 2024, as interest rate hikes by central banks to curb inflation and geopolitical uncertainty have stifled economic activity in both private consumption and investments. Construction, which is particularly important to Koskisen, has suffered heavily from the rise in interest rates in Western countries, and the stagnation of construction is expected to lead to a housing shortage on both sides of the Atlantic at a later stage.

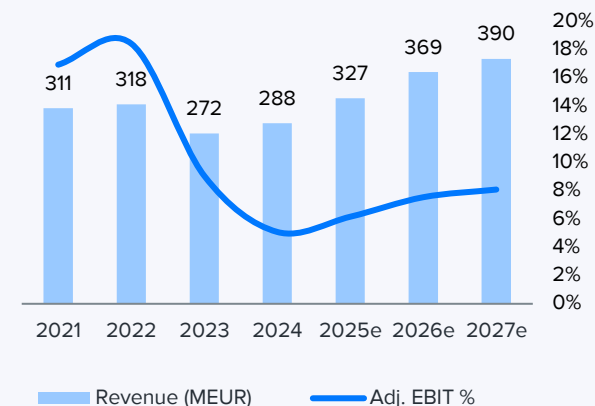
On the positive side, however, the measures taken by the Western central banks have curbed inflation, which has enabled interest rates to fall already this year. The market also expects interest rate cuts to continue, which should eventually stimulate both

consumer and investment demand, and through these channels also construction, in line with a normal economic cycle. This, of course, requires that the geopolitical situation does not escalate from the already tense situation.

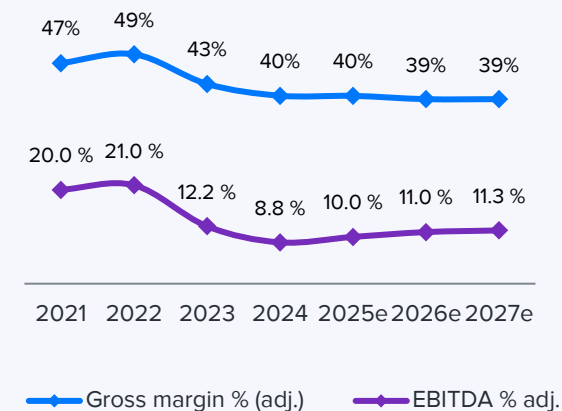
Japan has not had the same inflation and interest rate problems as Europe, but due to the prolonged weak economic development, construction demand on the island has also been weakish. In Japan, the next turn is also expected to be upward.

Economists expect that the Finnish and European economies will turn to a slow growth rate of 1-2% in 2025-2026. In Japan, growth is also expected to be slow at roughly 1%. The first half of 2025 will likely remain challenging for post-cyclical construction, but with interest rate cuts materializing and the economic situation gradually improving, we expect construction to recover along with the rest of the economy, especially during H2'25. In the Panel Industry driven by the logistics sector, we believe that the trend is broadly the same, as Volvo, for example, expects the truck market to be roughly stable next year. We believe that value chain inventories in both the Sawmill Industry and the Panel Industry are low, so in the early stages of a positive turnaround, inventory normalization could at least mildly and temporarily support demand and pricing in both segments.

Revenue and profitability



Gross margin and adj. EBIT %



Estimates 2/5

We expect the Finnish timber market will remain very tight in the next few years, as production in both the chemical and mechanical forest industries recovers with the economic cycle and supply does not grow substantially. However, we expect capacity closures to limit the rise in the price of wood in the forecasting horizon.

Our forecasts in Koskisen's neutral scenario are based on the above-described macro outlook for the global economy and main markets for the coming years. However, despite the easing inflation and likely continuation of interest rate cuts, the macroeconomic situation remains quite fragile, partly highlighted by the probably long-term increase in geopolitical uncertainty. In addition, the US President-elect Donald Trump may muddle the global economy and global commodity flows with his likely customs. Thus, the macroeconomic forecasting risks remain substantial, although we feel uncertainty has decreased in 2024, as central banks have gotten inflation under control.

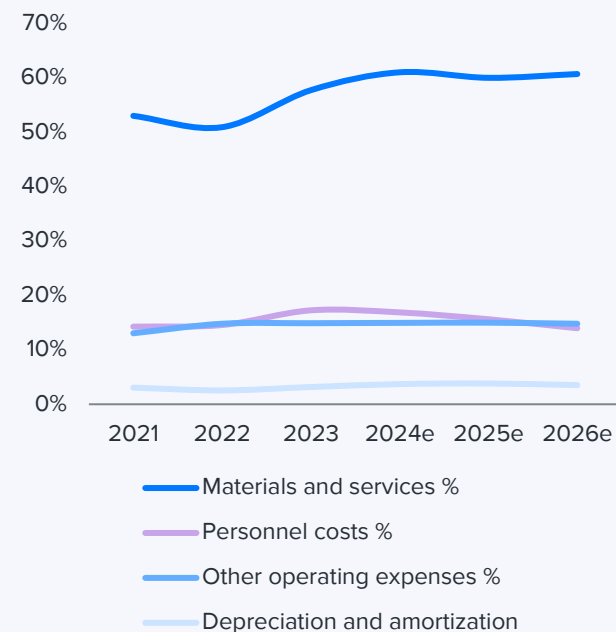
2024: Hardly expecting miracles in Q4

In connection with its financial statements, Koskisen's guidance for the current year was revenue growth and an adjusted EBITDA margin of 8-12%. The year has progressed in line with these steps, as after nine months the company's revenue has grown by 3% year-on-year and the adjusted EBITDA margin has been 9%. The result decreased clearly in H1 from relatively good comparison figures, but the trend was reversed in Q3 as the comparison figures weakened.

Growth has come from the Sawmill Industry, where volume growth enabled by the new Järvelä line and the slight increase in prices have supported sales. Profitability of the Sawmill Industry (1-9/2024 adj. EBITDA % 4%) has, however, remained weak due to the tight raw material market. The efficiency benefits of the Järvelä investments have not yet supported the figures either. With the exception of late Q3, demand in the Panel Industry has been quite good and prices stable due to tight supply conditions, but the lack of volume growth and a tight raw material market have impacted profitability. However, we feel that the Panel Industry's adjusted EBITDA margin of 14% for the first nine months of the year is still good considering the cyclical situation, which is largely due to the war-based supply disruption.

We suspect that Koskisen's market situation has remained sluggish in Q4, as construction has not recovered. Demand in the birch plywood segment has also decreased toward the end of the year. The price of wood will continue to rise, at least when viewed from the income statement, and the end of the year will include at least Christmas shutdowns, in addition to which there may also be market-based production restrictions in the Panel Industry. By contrast, Järvelä should already generate efficiency gains for the Sawmill Industry. Seasonally, Q4 is subdued for the core of the Sawmill Industry, but the start of the heating season should support by-product sales. Reflecting this overall picture, we expect Koskisen's revenue to increase by 14% to 78 MEUR in Q4 and adjusted EBITDA to rise by 17% to 6.2 MEUR driven by the Sawmill Industry (i.e. growth and efficiency).

Relative share of the gross margin and cost items in revenue



Estimates 3/5

We, therefore, expect Koskisen's revenue to grow by 6% and an adjusted EBITDA margin of 8.6% for the full year, which is in line with the company's guidance. We expect full-year EBIT to be 13 MEUR as depreciation increases especially in H2. Our EPS forecast after slightly increasing financing costs and a normal tax rate is EUR 0.37 (-58% vs. 2023).

We estimate free cash flow to be negative due to investments exceeding depreciation (especially the Järvelä woodyard) and working capital tied up due to volume growth in the Sawmill Industry. With our forecasts, Koskisen's equity ratio will be 54% at the end of the year and net indebtedness 18%, so the company's balance sheet has remained strong. Our dividend forecast is slightly lower than last year at EUR 0.25, as 2024 earnings are subdued, and we suspect that the company prefers to save capital to implement its growth strategy (incl., e.g., the investment program for the Panel Industry) rather than maintaining profit distribution.

For market-based reasons, we have cut our Q4 earnings forecasts slightly.

2025: We see preconditions for a continued earnings turn

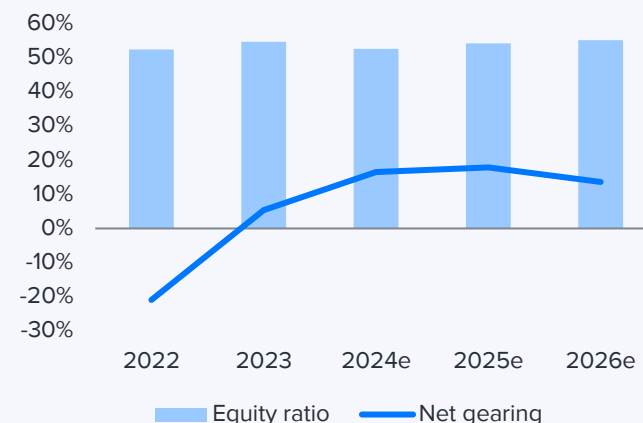
We expect Koskisen's demand environment to remain subdued in the Sawmill Industry in H1'25 and to improve towards the end of the year with the macroeconomic situation in its main markets. Thus, the company's sales organization has its work cut out for it to sell the additional capacity from Järvelä at a good price. Regarding sawn timber market price levels, we see a slightly positive development similar to 2024, as many players are at the limits of

profitability with the current price and cost levels and are thus forced to limit their production. Reflecting this overall picture, we expect sales in the Sawmill Industry to grow in 2025, especially in terms of volumes and also prices, by 19% to 169 MEUR. We estimate that the profitability of the Sawmill Industry will improve by 4 percentage points to an adjusted EBITDA margin of 8%, as most of the efficiency benefits of investments in the Järvelä sawmill and a new woodyard materialize. However, in our view, the margin improvement in the Sawmill Industry will continue to be limited next year by the continuing rise in log prices, with which the historically weak ratio of final product prices and raw material costs in the sawmill segment will not improve significantly either.

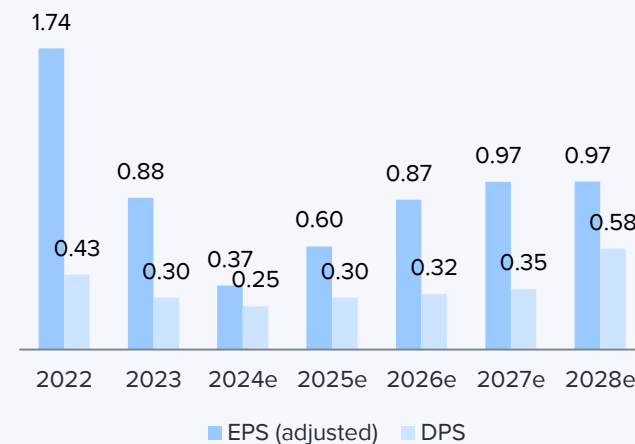
In the Panel Industry, the situation is highly twofold. We estimate that the supply of Russian birch plywood will continue to remain outside the European market next year as well, but a clearer recovery in demand may not occur until the end of the year. In addition, the high and possibly still rising average price level of birch logs keeps the cost level elevated. We expect the chipboard segment to behave in a similar manner to the Sawmill Industry and our estimate is that Kore should grow clearly as the new capacity is completed.

Reflecting these factors and Kore's growth, we expect the volume of the Panel Industry to grow in 2025. We estimate that average prices will increase slightly, but that demand will not allow for strong price increases next year, despite the ongoing supply disruption and high cost levels. Therefore, we expect

Development of balance sheet position



EPS and dividend



Estimates 4/5

the revenue of the Panel Industry will increase by 8% to 158 MEUR driven by volumes. We expect the profitability of the Panel Industry to remain stable at an adjusted EBITDA% of 13%, as the increase in the price of birch logs balances the earnings leverage of growth.

As a result, our 2025 EBITDA estimate is 33 MEUR at Group level, which corresponds to an EBITDA margin of 10%. At EBITDA level, we estimate that the company's result will improve by a good 30% with volume growth and efficiency gains compared to the previous year. In 2025, Koskisen's depreciation will increase as the new Järvelä sawmill line is depreciated at full force throughout the year, and the depreciation of the new woodyard will also start at the beginning of the year. However, our EBIT forecast increases with a lever relative to EBITDA. Koskisen's financing costs are slightly negative in 2025 thanks to a strong balance sheet and the tax rate is at the usual 20% level. Thus, our EPS estimate is EUR 0.60. We expect Koskisen to pay a dividend of EUR 0.30 per share on the 2025 result reflecting the profit distribution policy.

On the cash flow side, the increase in working capital due to volume growth renders the cash flow slightly subdued relative to EBITDA (cf. interest paid and taxes correspond to income statement items). On the other hand, investments will fall from the high levels of 2021-2024, although the company will invest 12 MEUR in the Panel Industry next year in addition to maintenance investments. However, we consider acceleration in organic (and inorganic) investments possible, but we add them to both our investments and growth and earnings forecasts as the company

specifies its plans. Thanks to net profit and positive free cash flow, Koskisen's balance sheet remains strong.

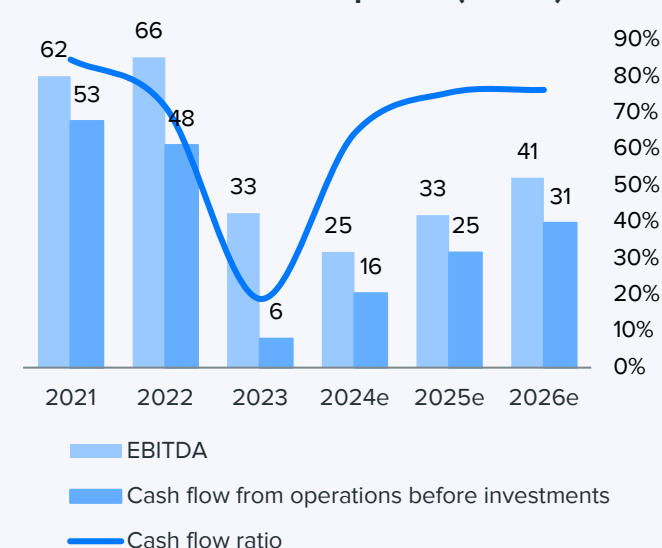
We have slightly cut our earnings forecasts, especially in the Panel Industry, as the development of the market situation and the price of birch logs has recently been slightly more subdued than we expected.

In 2026-2027, the market situation could finally be more normal

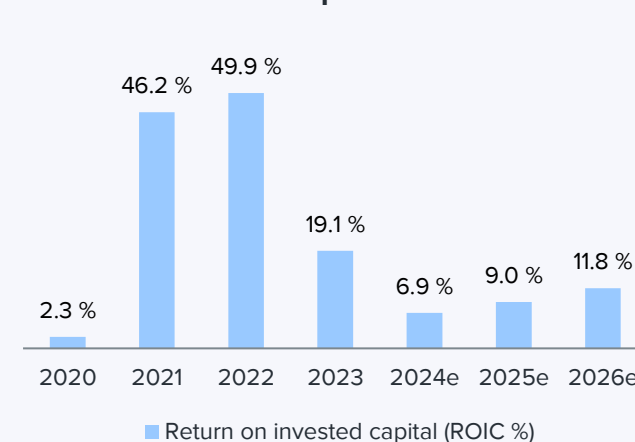
We believe Koskisen will enter 2026 in an improving economic situation. We also expect Russian supply to remain out of the European market, which tightens the Panel Industry's birch plywood market in Europe, even though customer industries have had time to adapt to the new situation. The Panel Industry should have slightly more capacity available in 2026 thanks to investments. On the other hand, the raw material market for logs is likely to remain tight in Finland.

We estimate that Koskisen's revenue will grow by 13% in 2026 to 369 MEUR and by 6% in 2027 to 390 MEUR. We believe that growth will come especially from the volumes of both businesses. We expect the volume growth enabled by the Järvelä investment to continue and prices to rise slightly due to recovering construction demand. In the Panel Industry, we believe the recovery of the business cycle and additional capacity enabled by investments will be reflected in both volumes and prices. Despite the high price of birch logs, the growth enables a slight margin improvement for Koskisen in our forecasts for these years.

Cash flow development (MEUR)



Development of return on invested capital



Estimates 5/5

In 2026-2027, we estimate that Koskisen's adjusted EBITDA will be about 41-44 MEUR, corresponding to an EBITDA margin of around 11%. In our forecast, both units will improve their profitability slightly. We expect the profitability of the Panel Industry to remain structurally higher than that of the Sawmill Industry, although we do not believe that the Panel Industry will reach the high profitability levels of the initial phase of the war (i.e., 2022-2023) in the coming years, mainly due to raw material prices.

However, our profitability forecasts are below the company's targets, and there is also an upside risk to them if the Panel Industry returns to peak profitability levels as market disruptions continue and/or if the cyclical recovery raises the Sawmill Industry's profitability to the double-digit levels typical of an economic boom. The negative risks, on the other hand, relate to the level of raw material costs, the economic situation and the profitability level in the Panel Industry under normal market conditions.

We predict that Koskisen's depreciation will gradually increase toward 14 MEUR, that financing costs are moderate (i.e. under 1% of revenue) and the tax rate is approximately 20% in 2026-2027. Thus, we estimate that EPS will be EUR 0.87-0.97 in 2025-2026, with a reasonable operating result, and profit distribution will be EUR 0.32-0.35 per share

The growth will probably tie up some working capital but we estimate that Koskisen's cash flow from operations will be at a reasonable level of 31-36 MEUR. On the other hand, we predict that

investments will remain slightly higher than depreciation (cf. investment program in the Panel Industry) and be 15-17 MEUR. With our forecasts, Koskisen's balance sheet remains strong.

So far, our forecasts do not include the investment Koskisen is considering in a production line for a new product, as we believe the probability of the project being realized does not clearly exceed 50% at the moment, and no information necessary for modeling has been published about the plan. We suspect this would be an investment project measured in tens of millions and, if realized, the project would significantly impact our growth and earnings forecasts for the latter part of the decade.

We raised our earnings estimates a bit for 2026-2027 related to the slightly bigger investment program in the Panel Industry than we expected.

Longer-term estimates

We expect Koskisen's long-term organic growth outlook to be healthy as environmental awareness and the popularity of wood construction increase in the future. In the big picture, we expect the company to be able to grow its revenue at roughly the same pace as global economic growth, which means 2-3% growth in the long term. We note, however, that annual changes can be dramatic depending on the economic and construction cycles. Our forecasts do not include M&A transactions but are based on organic growth.

In the long term, we expect Koskisen to achieve an EBITDA margin of approximately 9-11%, reflecting the tight long-term competitive dynamics of the

company's industries and the company's still limited track record over cycles. This corresponds to an EBIT margin of 5.6-7.5%. Profitability may, however, fluctuate clearly from one year to another and our forecasts reflect our estimate of normalized profitability over cycles. The terminal EBIT margin forecast is a conservative 5.6%, with which the company's terminal return on capital is roughly equivalent to the cost of capital. We are still cautious concerning the terminal before Koskisen can achieve a stronger track record in different types of market situations and over time.

We expect investment needs for capital requirements (incl. IFRS 16 items) to be approximately 3-5% of revenue in the longer term. This is based on an assumption that growth in the long term is approximately in line with the market. Thus, seeking more aggressive growth through larger or new product investments would be reflected in both our investment and growth forecasts. We expect Koskisen's net working capital needs to be around 13-14% of revenue over the longer term. So we do not expect any significant changes in capital requirements relative to the company's history considering the conditions of the industries. We estimate that net debt in Koskisen's balance sheet will remain at most moderate without larger organic or inorganic growth projects. Our long-term tax rate estimate is 20% reflecting the Finnish corporate tax rate.

Income statement and estimate revisions

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	318	73.2	73.9	55.5	68.7	271	63.7	77.8	67.8	78.3	288	327	369	390
Sawmill Industry	166	32.1	29.6	24.9	35.8	122	29.0	47.2	23.9	41.7	142	169	185	189
Panel Industry	152	41.1	44.2	30.6	32.9	149	34.7	30.6	43.9	36.7	146	158	185	201
Other / Eliminations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	66.3	12.6	13.8	1.3	5.3	33.0	5.5	9.4	3.6	6.2	24.7	32.6	40.6	44.3
Depreciation	-8.1	-2.0	-2.1	-2.3	-2.3	-8.6	-2.4	-2.5	-3.2	-3.2	-11.3	-13.0	-13.4	-13.7
EBIT (excl. NRI)	58.5	10.7	11.8	-1.0	3.0	24.4	3.1	6.9	0.4	3.0	13.5	19.6	27.2	30.6
EBIT	58.2	10.7	11.7	-1.0	3.0	24.4	3.1	6.9	0.4	3.0	13.4	19.6	27.2	30.6
Sawmill Industry (EBITDA)	41.6	1.6	1.6	-1.0	1.0	3.3	0.7	1.6	1.7	2.0	5.8	12.8	16.5	17.7
Panel Industry (EBITDA)	29.3	9.8	12.2	2.6	4.7	29.3	5.3	8.1	1.8	4.3	19.5	21.1	25.4	28.1
Other / Eliminations	-4.3	1.2	-0.1	-0.3	-0.4	0.4	-0.4	-0.3	0.2	-0.1	-0.6	-1.3	-1.3	-1.5
Depreciation	-8.1	-2.0	-2.1	-2.3	-2.3	-8.6	-2.4	-2.5	-3.2	-3.2	-11.3	-13.0	-13.4	-13.7
Adjustments	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-0.4	-0.4	0.6	-0.3	-0.2	-0.3	-0.4	-0.7	-1.0	-0.7	-2.7	-2.3	-2.2	-2.5
PTP	57.8	10.3	12.3	-1.3	2.8	24.0	2.8	6.2	-0.6	2.3	10.6	17.2	25.0	28.0
Taxes	-11.8	-1.5	-2.5	0.4	-0.2	-3.8	-0.5	-1.3	0.1	-0.5	-2.1	-3.5	-5.0	-5.6
Minority interest	-6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	39.8	8.8	9.8	-1.0	2.6	20.2	2.3	4.9	-0.5	1.8	8.5	13.8	20.0	22.4
EPS (adj.)	1.74	0.38	0.43	-0.04	0.11	0.88	0.10	0.22	-0.02	0.08	0.37	0.60	0.87	0.97
EPS (rep.)	1.73	0.38	0.43	-0.04	0.11	0.88	0.10	0.21	-0.02	0.08	0.37	0.60	0.87	0.97

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	2.1 %	0.0 %	0.0 %	0.0 %	-78.4 %	-14.6 %	-13.0 %	5.3 %	22.3 %	14.0 %	6.1 %	13.8 %	12.9 %	5.7 %
EBITDA-%	20.9 %	17.2 %	18.7 %	2.4 %	7.6 %	12.2 %	8.7 %	12.0 %	5.4 %	7.9 %	8.6 %	10.0 %	11.0 %	11.3 %
Adjusted EBIT-%	18.4 %	14.5 %	15.9 %	-1.8 %	4.4 %	9.0 %	4.9 %	8.9 %	0.6 %	3.8 %	4.7 %	6.0 %	7.4 %	7.8 %
Net earnings-%	12.5 %	12.0 %	13.3 %	-1.8 %	3.8 %	7.4 %	3.6 %	6.3 %	-0.8 %	2.3 %	2.9 %	4.2 %	5.4 %	5.7 %

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	289	288	0%	331	327	-1%	363	369	2%
EBITDA	25.1	24.7	-2%	33.5	32.6	-3%	39.4	40.6	3%
EBIT (excl. NRIs)	13.9	13.5	-3%	21.0	19.6	-7%	26.5	27.2	3%
EBIT	13.9	13.4	-3%	21.0	19.6	-7%	26.5	27.2	3%
PTP	11.1	10.6	-4%	18.9	17.2	-9%	24.6	25.0	2%
EPS (adjusted)	0.39	0.37	-4%	0.66	0.60	-9%	0.85	0.87	2%
Dividend / share	0.30	0.25	-17%	0.32	0.30	-6%	0.32	0.32	0%

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	105	130	142	149	153
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.9	1.3	1.7	2.1	2.5
Tangible assets	99.0	124	135	142	146
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	4.5	4.6	4.6	4.6	4.6
Other non-current assets	0.1	0.0	0.0	0.0	0.0
Deferred tax assets	0.1	0.1	0.1	0.1	0.1
Current assets	154	140	141	140	154
Inventories	34.2	37.5	37.4	42.5	48.0
Other current assets	9.9	22.9	22.9	22.9	22.9
Receivables	25.5	23.4	31.6	35.3	39.2
Cash and equivalents	84.4	55.8	48.9	39.3	44.3
Balance sheet total	259	269	283	289	308

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	136	147	149	157	170
Share capital	1.5	1.5	1.5	1.5	1.5
Retained earnings	60.6	51.5	53.1	61.1	74.1
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	73.7	94.2	94.2	94.2	94.2
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	56.3	64.1	75.5	69.8	70.0
Deferred tax liabilities	3.7	5.7	5.7	5.7	5.7
Provisions	0.1	0.2	0.2	0.2	0.2
Interest bearing debt	49.4	55.2	66.5	60.9	61.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	3.0	3.1	3.1	3.1	3.1
Current liabilities	66.5	57.8	58.3	62.6	67.7
Interest bearing debt	6.5	8.5	7.0	6.5	6.5
Payables	59.1	32.8	34.8	39.6	44.7
Other current liabilities	0.9	16.5	16.5	16.5	16.5
Balance sheet total	259	269	283	289	308

Valuation 1/5

Emphasis on EV-based pricing multiples

We focus on earnings-based multiples in Koskisen's valuation. When examining earnings-based multiples, we use both EV/EBITDA and EV/EBIT multiples, which consider the company's capital structure, as well as the net income-based P/E ratio, as Koskisen's structure (incl. IFRS 16 impact) has no factors impairing the usability of the top or bottom lines of the income statement. In addition, the cash flow-based P/FCFE is a multiple worth monitoring for Koskisen if the company moves to a more peaceful phase of the investment cycle in the next few years.

As absolute multiples, we have used the acceptable pricing multiples that we have defined based on our view of the company's current growth, profitability and risk profile, and partly also on Koskisen's historical pricing on the markets. In addition, we have compared the valuation to peer companies' longer-term historical multiples. When looking at absolute valuation multiples, we focus on the estimate year and the following year, as we do not think that Koskisen's cyclical nature supports setting the target particularly far away.

We also approach Koskisen's valuation from a balance sheet perspective. We prefer the conventional P/B ratio and EV/Invested capital (EV/IC)¹ ratio. The EV/Invested capital valuation multiple is comparable to the P/B ratio, with the difference that it also considers the company's capital structure unlike the P/B ratio. We have compared Koskisen's balance sheet-based valuation with the company's ability to generate capital (ROE% and

ROIC%). We have also approached the balance sheet-based valuation through the historical levels of peers. We believe that it is reasonable to consider the balance sheet-based valuation because the company's business is cyclical, and, thus, the fluctuations in annual earnings may be very volatile. On the other hand, in a mature, competitive and investment-intensive sector, return on capital is limited in the longer term to a rather strict framework, when examined through averages of several years.

In addition to valuation multiples, we use the DCF model in Koskisen's valuation, which considers the long-term perspective better than valuation multiples. We feel DCF is quite suitable for Koskisen despite the company's cyclical nature, as the company operates in a business with limited organic growth, estimable long-term average profitability and clear capital needs.

Factors influencing valuation

We believe that the following factors support and depress Koskisen's valuation:

The earnings growth outlook from the current (Q3'24 LTM) lowish level is quite good. Koskisen's demand outlook is supported by several long-term drivers, and also the next cyclical turn in the construction market is most likely upwards. In addition, the good pricing situation in the Panel Industry and the still unrealized efficiency gains of the new wood processing unit in Järvelä support the earnings growth outlook. We believe sustainable earnings growth would be a strong driver for the share.

Valuation	2024e	2025e	2026e
Share price	7.14	7.14	7.14
Number of shares, millions	23.0	23.0	23.0
Market cap	164	164	164
EV	190	193	188
P/E (adj.)	19.3	12.0	8.2
P/E	19.4	12.0	8.2
P/B	1.1	1.0	1.0
P/S	0.6	0.5	0.4
EV/Sales	0.7	0.6	0.5
EV/EBITDA	7.7	5.9	4.6
EV/EBIT (adj.)	14.1	9.9	6.9
Payout ratio (%)	67.9 %	50.2 %	36.9 %
Dividend yield-%	3.5 %	4.2 %	4.5 %

Source: Inderes

¹EV/IC = (market value of equity + net liabilities) / (equity + net liabilities)

Valuation 2/5

Robust balance sheet after the IPO ensures the possibility to focus purely on developing operational activities and also exploring M&A transactions.

The cyclical basic nature of the business weakens longer-term visibility and raises the risk profile and thus limits the valuation multiples that can be accepted for the share. In addition, in the short term, the risk of a prolonged weak cycle creates uncertainty.

The company's small size and limited liquidity may limit the interest of certain types of investors in the stock and thus restrict the formation of the share price. In addition, production focused on individual production plants increases the risk level of the stock.

Earnings-based valuation

We feel acceptable 12-month forward-looking EV/EBITDA ratios for Koskisen are roughly 4x-7x, considering the growth and profitability levels of the business and the risk profile. These levels roughly correspond to the 12-month forward-looking EV/EBIT ratios 7x-10x and P/E ratios 10x-14x. On an annual basis, the multiples may occasionally stretch to a very wide range depending on the cycle, especially with bottom-line metrics that are sensitive to even small profitability fluctuations.

The above-mentioned valuation multiples are also in line with the longer-term average levels of the nearest peers (Interfor Corp, Boise Cascade, Steico). Industrial acquisitions in the sector have also been carried out on average EV/EBITDA ratios of 5-6x, which we feel supports our estimates of the acceptable valuation.

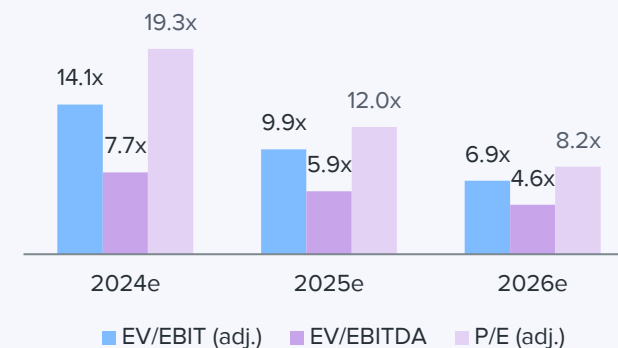
Koskisen's adjusted P/E ratios for 2025 and 2026 based on our estimates are 12x and 8x, while the corresponding EV/EBITDA ratios are 6x and 5x and EV/EBIT ratios are 9x and 7x. These ratios are within the ranges we estimate for the company, especially with the multiples of 2025 receiving the main emphasis at this stage. Thus, we consider the earnings-based valuation of the share rather neutral, considering the attractive but uncertain 2026 multiples and the 2024 earnings-based multiples, which are above our acceptable levels.

Koskisen's dividend income rises to good 4% with our profit distribution forecasts for 2024-2025. Thus, the dividend provides reasonable support for the share and a base return for investors. However, in our view, Koskisen is primarily positioned as a growth company in its strategy. Thus, the role of dividend in the company will, in principle, support the expected return rather than dominate it, as sooner or later growth will require capital for investments, which, in turn, limits the ability to pay dividends in the short term.

Balance sheet-based valuation

With our current forecasts, we expect Koskisen to reach a return on invested capital of around 10% in the coming years and in the long term. In terms of ROE our forecasts are pretty similar, especially for the coming years. Since we expect the company's capital returns to be roughly in line with the cost of capital in the examination over the cycle, the company should in principle be valued roughly at an average P/B of 1x and EV/IC ratio of 1x in the long

Earnings multiples



Peers' EV/EBITDA fwd. 12 months



Valuation 3/5

term. Considering the range of our forecasts and the cost of capital we apply, the acceptable balance sheet-based valuation level (P/B and EV/IC) is around 0.7x-1.3x in our view. The upper end is justified in a favorable cycle. Furthermore, a valuation exceeding the book value could be justified if Järvelä's investments could be shown to have sustainably raised Koskisen's return on capital clearly to double-digit figures or if the cost of capital were to fall (cf. e.g. interest rate level) clearly below our current assumption. Correspondingly, at the low end, we believe the share should receive reasonable support from the balance sheet even in a weak cycle, considering the long-term return on capital and the quality of the balance sheet (i.e. equity is matched by tangible assets on the balance sheet).

For Koskisen, EV/IC and P/B are both 1.1x with our forecasts for the current year. Therefore, both multiples are in the middle of the ranges we accept for the company, and we also believe that the balance-sheet-based pricing of the stock is approximately in the right ballpark, considering current assumptions.

Peer group reasonable for relative comparison

It is difficult to find fully comparable listed peers for Koskisen and the core peer group we built consists of listed companies that are linked to the sawmill and panel industries. The peers operate in different markets (especially North America) and to some extent with different product portfolios than Koskisen,

which further limits comparability. We have largely excluded Nordic forest companies that mainly focus on the chemical forest industry from the peer group.

Also, the growth and profitability profiles of the peer group differ somewhat from those of Koskisen. Therefore, the pricing of Koskisen's stock cannot be based on this alone, and the valuation indication obtained from peers should, in our opinion, be interpreted with caution. We also point out that the companies in the peer group are very cyclical. Consequently, their earnings multiples can also fluctuate drastically with earnings levels.

Koskisen's closest peers are with 2024 consensus estimates valued at a median EV/EBITDA ratio of 12x, P/E ratio of 26x and P/B ratio of 1.0x. Earnings multiples are high, but they are mainly due to poor results and not investors' confidence in the company's outlook. The estimated median EV/EBITDA 9x and P/E 16x for 2025 are also highish for the same reason. Koskisen has been valued below its peers on an earnings basis, but due to the high multiples of the peer group, this is no cause for excitement. In relative terms, Koskisen's balance sheet-based P/B is at a premium, which also describes a better performance than for its peers.

Peers' P/B ratios



Sensitivity analysis for P/B ratio

		Acceptable P/B ratio				
		ROE %				
CoE-%	12%	0.6	0.7	0.8	0.9	1.0
	11%	0.7	0.8	0.9	1.0	1.1
	10%	0.8	0.9	1.0	1.1	1.3
	9%	0.9	1.0	1.1	1.3	1.4
	8%	1.0	1.2	1.3	1.5	1.7

Valuation 4/5

DCF model

We also give weight to the cash flow based model (DCF) in our valuation despite it being very sensitive especially to the variables of the terminal period. We have, however, used conservative estimates in the terminal period parameters of our DCF model and in light of these, we feel the model offers relevant support to the other methods we use and especially for examining longer term revenue potential.

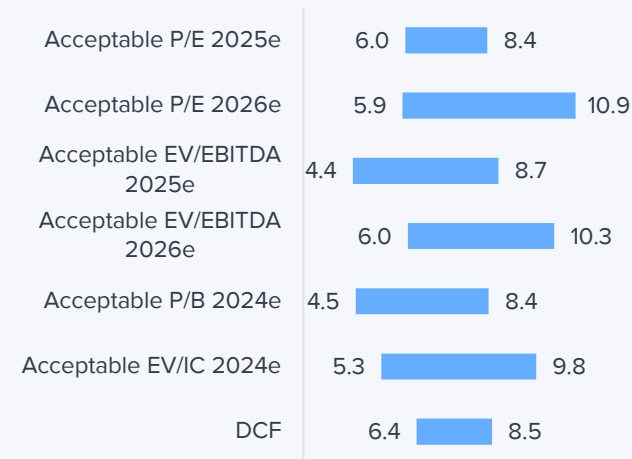
According to our DCF model, the share value is EUR 7.3, which, like the other methods we use, supports our view of the stock being somewhat correctly priced. The COE requirement we apply to Koskisen in the DCF valuation is 11%. In terms of the target capital structure, we have set gearing at nearly 20%, as we consider a balance sheet with a reasonable debt burden justified considering the cyclical nature of Koskisen's business. As a result of this and the 20% tax rate, the weighted average cost of capital (WACC) is set at 9.9%. The discount rates are slightly higher than the average for a company on Nasdaq Helsinki, as we also believe Koskisen's risk profile is currently higher than that of an average listed company. As the company's financial track record builds up and strengthens and/or interest rates stabilize, there could be downside in our required return, but for now, we make no significant changes to our required return.

Valuation in line with objectives remains a matter of speculation

If the company reached its 2027 target of 500 MEUR in revenue and the EBITDA % target of 15% over the cycle it would mean an EBITDA of about 75 MEUR. If this was priced with an EBITDA ratio of around 4-7x the debt-free enterprise value would be 300-525 MEUR (cf. current EV under 200 MEUR). However, it is very difficult to estimate the shareholders' share of this (and the fair value of the share), as we estimate that revenue of 500 MEUR is not possible for the company within the target timeframe without acquisitions.

The quality, price and synergy potential of acquisitions and related financing decisions are again impossible to assess in advance without concrete details. We also point out that carrying out M&A transactions that generate significant revenue (i.e. especially the consolidation of the low-margin sawmill industry in Finland) and simultaneously improving profitability can, in practice, be a very difficult combination to implement simultaneously in the coming years. Thus, we believe investors should not base their investment decisions on the target scenario for the time being.

Valuation summary (EUR/share)



Valuation 5/5

Expected return not yet sufficient to justify purchases

Considering the overall picture of the valuation methods, we estimate that the fair value of Koskisen's stock is approximately EUR 6.5-8.5 per share. The share's expected return, consisting of fairly clear earnings growth, valuation downside (Q3'24 LTM P/E 18x), and a dividend yield of just over 4%, is positive but below the required return for the next 12 months, so we consider the pricing of the stock (share price around EUR 7 per share), which is approximately in the middle of our fair value range, to be neutral.

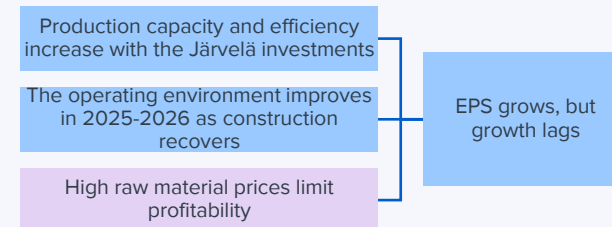
The expected return would turn positive if the company exceeded our forecasts, especially next year, e., through a faster-than-expected recovery of the European economy and construction. Correspondingly, the share could have a moderate downside if the company's performance did not improve as we expect in 2025. As we believe the risks in our estimates are roughly balanced or slightly negative (incl. consensus estimates that are above ours), we do not see a major pricing error in the share on a 12-month horizon.

The expected return would turn more clearly positive if Koskisen could raise its profitability to its target of over an average 15% adj. EBITDA-% (cf. our estimates of adj. EBITDA-%: 10-11%). At best, this will only be possible when a better cycle arrives in the medium term, as there are still no signs of a rapid recovery in construction. Overall, we believe that the stock's risk/reward picture is neutral even in the medium term, as downside estimate risks cannot be ruled out, given the still difficult situation in the construction sector and the tight timber market in Finland. Thus, before moving to the buy side, we await signs that the company's strategy execution and/or a cyclical recovery will accelerate/ensure earnings growth expectations for the next few years and/or the stock's risk level decreases, e.g., as a result of the required return falling (cf. interest rate level and track record accumulation).

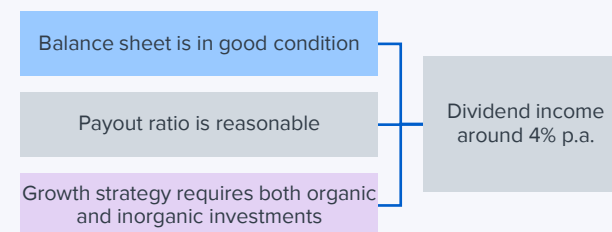
Total Shareholder Return drivers Q3'24 LTM-2026e

■ Positive ■ Neutral ■ Negative

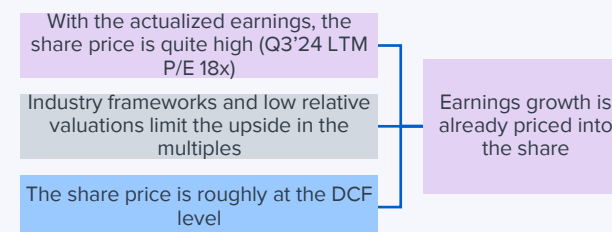
Profit drivers



Dividend yield drivers



Valuation multiple drivers



The expected return is positive but below the required return, especially on a 12-month horizon

Investment profile

1.

The company seeks a niche mainly in volume-driven markets with its quality strategy

2.

The business is cyclical, although the plywood business balances the fluctuations in the sawn timber market

3.

The benefits of the Järvelä production plant investment have yet to materialize

4.

Intense competition in the industries has kept returns on capital low historically

5.

Acquisitions with sound industrial logic, good quality and moderate price tags can create value

Potential



- Faster than market growth through customization, new products and a successful sales organization
- The long-term demand trend for carbon-binding wood products is healthy
- Investment in the Järvelä wood processing unit should increase the company's normalized profitability through efficiency gains already in the near term
- Inorganic opportunities created by a fragmented industry

Risks



- Cyclical risks (+/-)
- Chronically very tense and price-driven competition, especially in the Sawmill Industry and in weak cycles (i.e. limited possibilities for differentiation)
- The lack of economies of scale, Finland's tight timber market and otherwise high cost levels challenge cost competitiveness
- M&A transactions (+/-)
- Concentrated production structure

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price				6.28	6.00	7.14	7.14	7.14	7.14
Number of shares, millions				23.0	23.0	23.0	23.0	23.0	23.0
Market cap				145	138	164	164	164	164
EV				116	146	190	193	188	179
P/E (adj.)				3.6	6.8	19.3	12.0	8.2	7.4
P/E				3.6	6.8	19.4	12.0	8.2	7.4
P/B				1.1	0.9	1.1	1.0	1.0	0.9
P/S				0.5	0.5	0.6	0.5	0.4	0.4
EV/Sales				0.4	0.5	0.7	0.6	0.5	0.5
EV/EBITDA				1.8	4.4	7.7	5.9	4.6	4.0
EV/EBIT (adj.)				2.0	6.0	14.1	9.9	6.9	5.9
Payout ratio (%)				25.1 %	34.2 %	67.9 %	50.2 %	36.9 %	36.0 %
Dividend yield-%				6.9 %	5.0 %	3.5 %	4.2 %	4.5 %	4.9 %

Source: Inderes

Peer group valuation

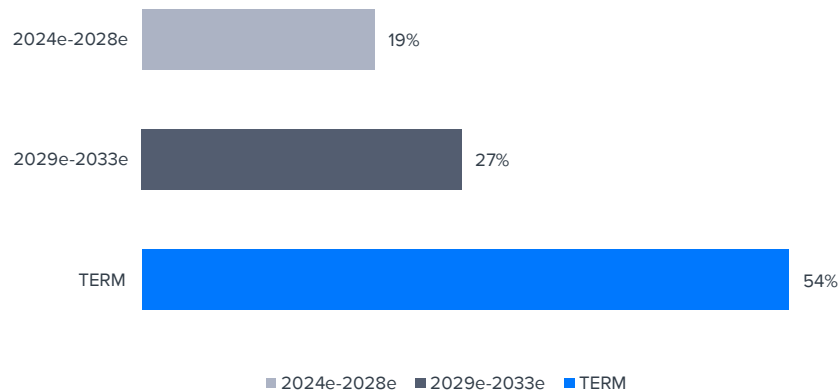
Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
			2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Interfor Corp	599	1187			19.9		0.5	0.6					0.5
Boise Cascade	4611	4333	7.0	9.2	5.9	7.1	0.7	0.7	10.1	12.9	7.0	4.6	2.2
West Fraser Timber	6923	6492		198.7	11.8	10.1	1.1	1.1	8635.9	202.7	1.4	1.5	1.0
Canfor	1203	1329			68.8		0.4	0.4					0.4
Stora Enso	7637	11254	44.4	19.4	12.0	9.6	1.2	1.3	51.0	21.5	2.9	2.6	0.7
STEICO	292	448	14.7	10.2	7.5	5.3	1.2	1.2	16.0	11.5	2.1	2.8	1.0
Louisiana-Pacific	7450	7451	26.1	14.3	17.8	11.4	3.0	2.6	35.6	19.4	0.9	1.0	5.2
Stella-Jones	2482	3571	20.6	10.6	8.7	8.4	1.6	1.5	11.8	12.0	1.4	1.5	2.2
Koskisen (Inderes)	164	190	14.1	9.9	7.7	5.9	0.7	0.6	19.3	12.0	3.5	4.2	1.1
Average			20.6	43.7	19.0	8.6	1.2	1.2	1460.1	46.7	2.6	2.3	1.6
Median			14.7	12.5	11.9	9.0	1.1	1.1	25.8	16.1	1.7	2.0	1.0
Diff-% to median			-4%	-21%	-35%	-34%	-41%	-48%	-25%	-26%	101%	105%	13%

Source: Refinitiv / Inderes

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-14.6 %	6.1 %	13.8 %	12.9 %	5.7 %	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	9.0 %	4.7 %	6.0 %	7.4 %	7.8 %	7.5 %	7.0 %	6.5 %	6.0 %	5.6 %	5.6 %	5.6 %
EBIT (operating profit)	24.4	13.4	19.6	27.2	30.6	30.2	28.8	27.5	26.0	24.9	25.4	
+ Depreciation	8.6	11.3	13.0	13.4	13.7	14.0	14.1	14.2	14.3	14.3	14.4	
- Paid taxes	-1.8	-2.1	-3.5	-5.0	-5.6	-5.6	-5.4	-5.2	-4.9	-4.7	-4.8	
- Tax, financial expenses	-0.1	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.5	-0.5	
+ Tax, financial income	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	
- Change in working capital	-24.9	-6.1	-4.1	-4.2	-2.4	-1.3	-1.2	-1.2	-1.2	-1.2	-1.0	
Operating cash flow	6.2	15.9	24.6	31.0	35.8	36.8	36.0	35.0	33.8	33.0	33.7	
+ Change in other long-term liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-33.7	-23.4	-20.4	-17.4	-17.4	-15.4	-15.4	-15.4	-15.4	-15.4	-15.6	
Free operating cash flow	-27.3	-7.5	4.2	13.6	18.4	21.4	20.6	19.6	18.4	17.6	18.1	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-27.3	-7.5	4.2	13.6	18.4	21.4	20.6	19.6	18.4	17.6	18.1	234
Discounted FCFF		-7.5	3.9	11.3	13.9	14.7	12.9	11.2	9.6	8.3	7.8	101
Sum of FCFF present value		186	194	190	179	165	150	137	126	117	108	101
Enterprise value DCF		186										
- Interest bearing debt		-63.7										
+ Cash and cash equivalents		55.8										
-Minorities		0.0										
-Dividend/capital return		-6.9										
Equity value DCF		171										
Equity value DCF per share		7.4										

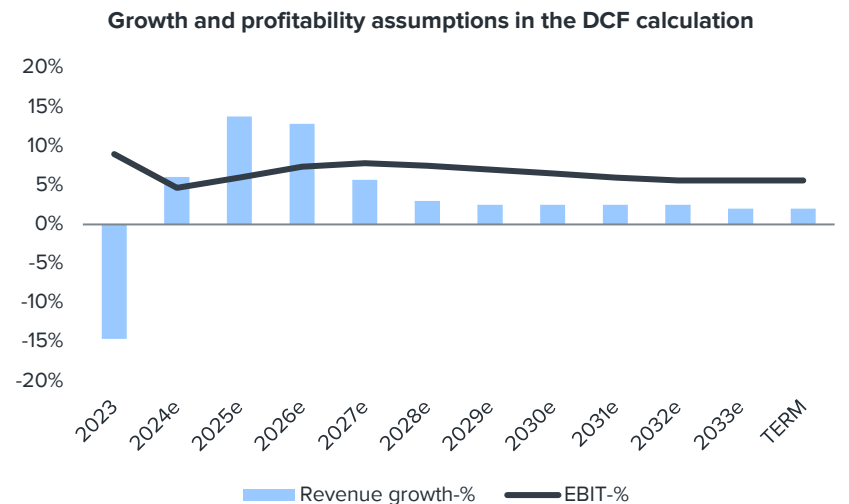
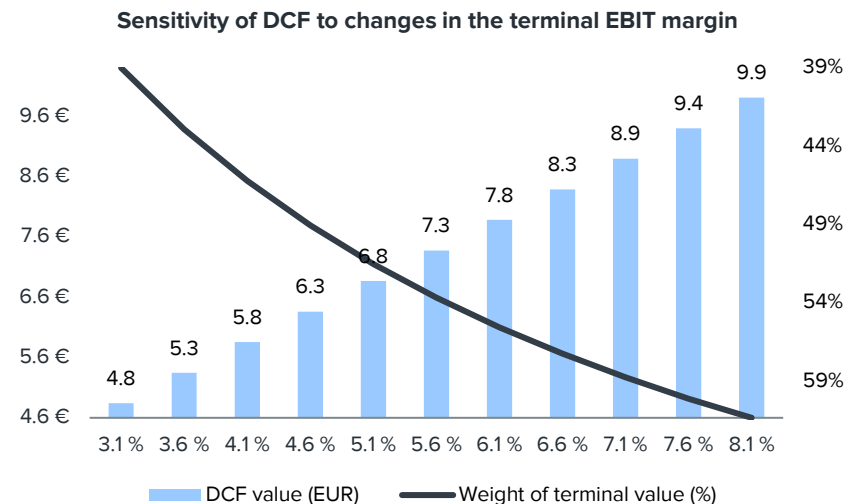
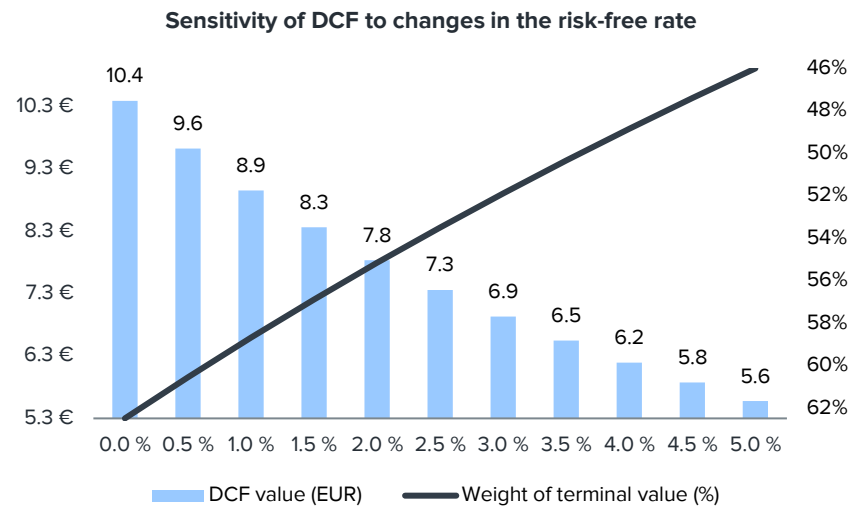
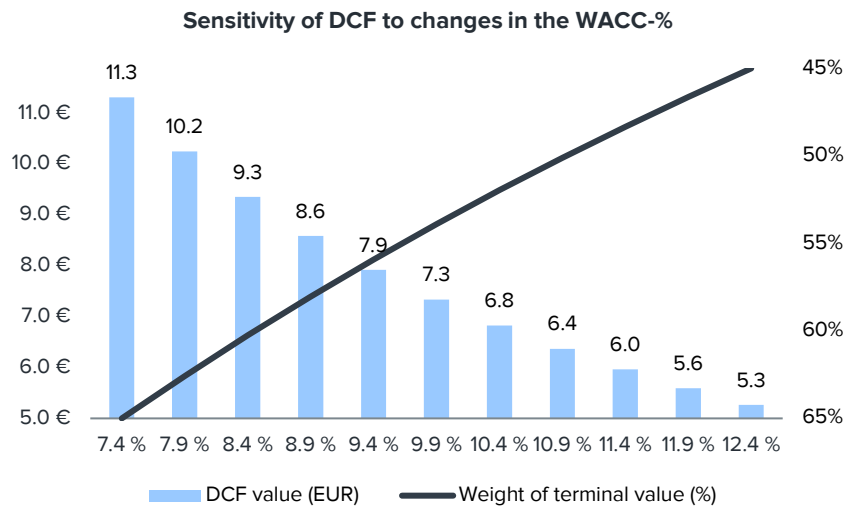
Cash flow distribution



WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	17.5 %
Cost of debt	5.0 %
Equity Beta	1.82
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	11.1 %
Weighted average cost of capital (WACC)	9.9 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



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

Climate target and taxonomy analysis

Core activities are outside the taxonomy classification

Among Koskisen's businesses eligible for taxonomy in 2023 in terms of revenue were forest management and manufacturing of energy efficiency equipment for buildings. Other eligible items in terms of capital expenditure and operating costs included remediation of contaminated sites and land, renovation of existing buildings, electricity generation using photovoltaic technology, production of heat/cool from bioenergy, cogeneration of heat/cool and power from bioenergy, construction, extension and operation of water collection, treatment and supply systems, installation, maintenance and repair of energy efficiency equipment, provision of IT/OT data-driven solutions, and manufacture of other low carbon technologies. Consequently, the sawn timber, plywood and chipboard products, which account for the majority of Koskisen's revenue, are not taxonomically classified.

As a result, the taxonomy rate of Koskisen's revenue, operating costs and investments remains low. Furthermore, the taxonomy rates are unlikely to rise in the coming years if the future taxonomy definitions won't include a much larger share of the company's external sales-generating products. We do not believe that the low taxonomy rate will put immediate upward pressure on, for example, Koskisen's cost or availability of financing, or pose other challenges to the business.

Businesses contain a political element

So far, taxonomy does not cover much of the forest industry's main products and value chain, but we think there is a certain political element to Koskisen's

business, as there is a general awareness of the role of forests in climate change mitigation and biodiversity issues in particular. Of course, Koskisen has focused exclusively on so-called long-cycle wood products, which also have significant and widely recognized positive elements in reducing climate emissions from construction. However, regulations and policies, especially those related to forest use, may come from different regulatory frameworks. This is important for Koskisen's business, as wood is by far the company's most important raw material. So far, we do not believe that forest-related regulation has materially undermined Koskisen's long-term business conditions.

The company set emission reduction targets in 2024

Koskisen aims to reduce Scope 1 and Scope 2 emissions by 50% and Scope 3 emissions by 20% by 2027 compared to 2022. We consider the targets to be realistic, especially since the company's own emissions are quite moderate as the business is not particularly energy-intensive. Koskisen's products also bind carbon significantly and over the long term, which is why the carbon handprint of Koskisen's products is positive (i.e. more carbon is bound than the production of the products generates).

We estimate that progress towards the stated climate targets will not result in significant additional direct costs for the company in the short term. In the medium term, the climate targets are likely to require investments or cost investments by the company, at least in the production of the energy needed to manufacture the end products, in the energy efficiency of production, and possibly also in reducing the emission load of logistics.

Taxonomy eligibility	2022	2023
Revenue	7.5%	9.9%
OPEX	11%	20%
CAPEX	7.5%	11%

Taxonomy alignment	2022	2023
Revenue	0%	0%
OPEX	0%	0
CAPEX	0%	4.0%

Climate

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

We are starting to increase the visibility of sustainability assessments by looking at the climate target and taxonomy impacts because we believe that they are currently, on average, most significant in the company's value formation. Visibility to other factors will be gradually increased. The analyst considers the impact of all sustainability factors on the company's growth and profitability potential and risk (i.e. the required return) when forming the investment view. NB! Taxonomy eligibility % is shown in the table without taxonomy-aligned activities.

NB! Taxonomy eligibility % is presented in the table excluding taxonomy-aligned activities.

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

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2/24/2023	Reduce	6.00 €	6.35 €
3/17/2023	Reduce	6.00 €	6.29 €
----- Analyst changed -----			
5/25/2023	Reduce	6.75 €	6.40 €
8/11/2023	Accumulate	6.75 €	6.19 €
8/25/2023	Accumulate	7.50 €	6.40 €
11/20/2023	Accumulate	7.00 €	6.35 €
2/13/2023	Accumulate	6.75 €	6.05 €
2/19/2024	Accumulate	6.75 €	6.18 €
4/12/2024	Reduce	6.75 €	7.18 €
5/15/2024	Reduce	7.00 €	7.60 €
8/19/2024	Reduce	7.50 €	7.50 €
11/18/2024	Reduce	7.25 €	7.08 €
1/16/2025	Reduce	7.25 €	7.14 €



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