Suominen
Company update

6/2017

inderes.

The company aims to speed up

We retain our target price 5.10 euros and reduce recommendation for Suominen. The company launched recently a credible growth strategy for the strategy period of 2017-2021, which developing nonwoven markets support decently. We estimate that Suominen's earnings will return on uphill track after difficult year of 2016, where critical elements are product mix transformation and volume growth. However, we consider short term valuation fairly neutral given slightly elevated risks in the near term. Therefore, we are not yet willing to stretch 12 month valuation even if there is clear medium term potential in the share.

No changes in strategic direction, the company aims to increase speed

Suominen did not change its strategic direction in the update launched in April 2017 but value added nonwovens, organic growth and product mix transformation remain at the core of the strategy. However, the company aims to increase speed in profitable growth during the period of 2017-2021 while there is also an option to expand geographical presence (most likely to Asia with M&A) during the ongoing strategy period. The company plans to reach organic growth mostly with its current production platform (incl. full leverage from Bethune) while R&D, commercial excellence and customer orientation should drive absolute and relative growth of value added products. We argue the strategy is credible and it takes advantage of Suominen's strengths. The nonwoven market supports the growth strategy as Suominen's current main markets (Americas and Europe) grow 3 % p.a. in volume.

Current estimates remain clearly below the company's ambitious targets FY'21

Suominen set 6 % organic growth CAGR, on average 15 % ROI-% and 40-80 gearing level as its financial targets for the strategy period. In addition, the company disclosed its net sales will be over 600 MEUR and EBIT-margin over 10 % in 2021 if the strategy execution is successful (2016: net sales 417 MEUR, EBIT-% 6.1 %). We argue that the targets are ambitious but not unreachable even if our medium term estimates remain well below the target levels (2021e: net sales 556 MEUR, EBIT-% 8.0 %). Increasing share of value added products (drives up sales and gross-margin) should be the main driver to close the profitability gap. In addition, some more volumes (increasing sales and gross margin through efficiency) and also lower SGA-% (through growth) will be required. We argue dependence on key customers, limited pricing power and overcapacity represent the most concrete risks related to medium term profit growth. In addition, short term profit growth outlook is unclear as start-up is late in schedule in Bethune, which, however, should have clearly positive impact on earnings in 2018/2019.

There is medium-term potential but we are not yet willing to strech multiples too much

Suominen's P/E-ratios based on our estimates are 16x and 15x for FY'17 and FY'18, while corresponding EV/EBITDA-ratios are 7x and 5x. We consider these levels fairly neutral for Suominen given the risks related to short term profit growth. There could be significant medium term upside (over 15 % p.a. IRR) in the share should the company reach its 2021 targets. However, we are not yet ready to stretch short term valuation too much due to very challenging target levels and short term profit growth risks.

Analyst

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Recommendation and target price

Reduce
Previous: Reduce

5.10 EUR
Previous: 5.10 EUR

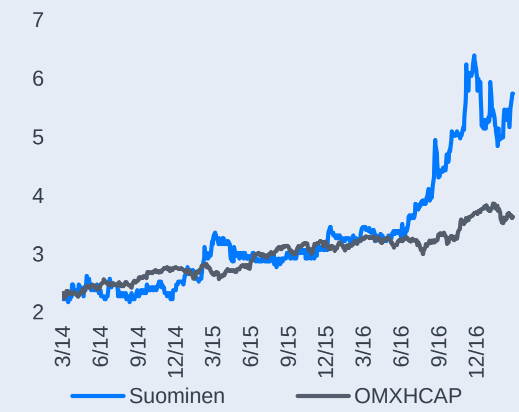
Share price: 4.95 EUR
Upside: 3.0 %

Key figures

	2016	2017e	2018e
Net sales	417	456	488
Growth-%	-6,1 %	9,4 %	7,0 %
EBIT (adj)	31,2	27,5	32,8
EBIT-% (adj.)	6,1 %	6,0 %	6,7 %
Pre-tax profit	22,4	24,3	29,2
Net earnings	15,2	16,1	19,6
EPS (adj.)	0,30	0,30	0,34
DPS	0,11	0,12	0,13
Payout-%	37 %	40 %	39 %
P/E	14,0	16,5	14,7
P/B	1,5	1,7	1,6
P/S	0,5	0,6	0,5
EV/S	0,7	0,7	0,6
EV/EBITDA	6,1	6,7	5,4
EV/EBIT	10,4	11,9	9,2
Dividend yield-%	2,7 %	2,4 %	2,8 %

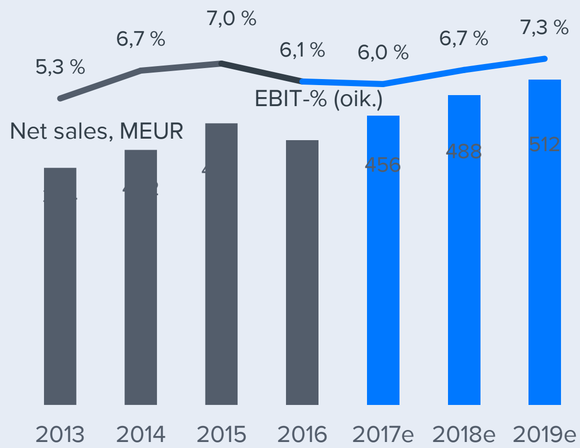
Source: Inderes

Share price development



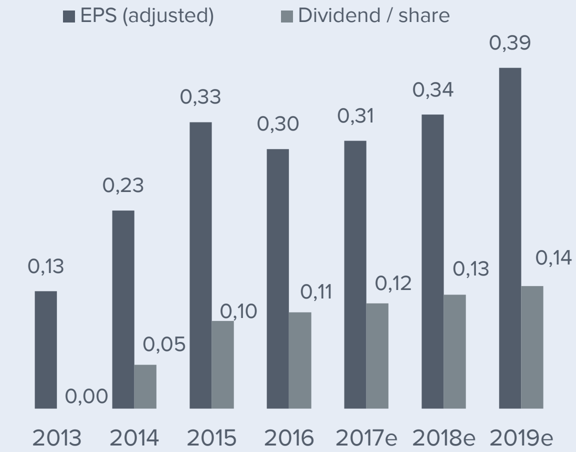
Source: ThomsonReuters

Net sales and EBIT-% (adj.)



Source: Inderes, Suominen

EPS (adj.) and dividend



Source: Inderes, Suominen

P/E (adj.)
16x
2017e

EV/EBITDA
7x
2017e

P/B
1.7x
2017e

Yield-%
3 %
2017e

Drivers

- Growing nonwoven market supports the growth efforts
- Increasing share of value added grades increase profitability
- Some SGA leverage
- Nonwoven demand is fairly defensive
- M&A option

Risks

- Value chain position keeps pricing power limited
- Competition is intensifying in certain segments
- Raw-material price risk
- Profits are sensitive to EUR/USD-rate

Valuation

- Suominen is valued in line with its historical multiples by FY’17 and FY’18 estimates
- There is clear medium term potential should the company reach its 2021 goals
- 12 month TSR outlook is neutral given somewhat elevated estimate risks

Contents

Company description (1/2)

Global nonwoven leader in wiping

Suominen is a manufacturer of nonwovens and the company consist of two BA's, Convenience and Care. The first produces nonwovens for wiping products while the latter focuses on selected niches in hygiene and medical nonwovens. However, the company reports financial results only on group level. The company has approximately 650 employees in 6 countries. In 2016 Suominen's net sales were 417 MEUR and EBIT excl. NRI 25.6 MEUR.

Suominen is the leading global producer in wiping and supplies a range of nonwoven roll goods, which the company manufactures in US, Spain, Italy, Brazil and Finland. Due to its manufacturing footprint, Suominen achieves significant sales in the North and South America as Americas bring over 60 % of the group's net sales, US being clearly the biggest single market by over 50 % of the group's net sales. The second major market is Europe (mostly Western Europe) representing over 35 % of net sales. Net sales is low in other areas as overseas sales is typically difficult in nonwoven business due to logistical issues (low value/volume-ratio of the products).

Sales come from various mostly consumer driven segments

Suominen divides its sales to five revenue streams based on product type:

- **Baby care** is the biggest segment of the company as it brought 38 % of the company's sales in 2016. Baby care wipes is a highly competitive low growth and high volume value for money segment in developed North American and Europe (demand in baby care reflect birth rates). In emerging world (incl. South America) baby care is a well growing segment due to higher birth rates.
- **Personal care** wiping such as wipes for facial cleaning, makeup removal, refreshing and intimate care, travel&catering end-use and flushable WC products constituted 25 % of the group sales in 2016. Personal care is a value added segment that exists currently mostly in developed countries. Personal care has recently become Suominen's fastest growing value added segment.
- **Home** wiping is a value added segment that brought some 18 % of Suominen's sales in 2016. This segment includes cleaning related wiping products that are used in developed western world at homes. Thus, home wiping is mostly value added business.
- **Workplace** wiping consist of Suominen's wiping products to B2B end-customers, which generated 11 % of the group sales in 2016. These products are used from fast food restaurants to factories, thus the portfolio consisting of different kind of value added products is wide. The main markets are US and Europe. Suominen targets the new production line in Bethune plant to improve value and volume growth especially in Home and Workplace and to smaller extent in flushables.
- **Medical&Hygiene** (Care) brought some 8 % of Suominen's sales in 2016. Unlike other segments Care does not include any wiping products but nonwoven components to other products. In Care Suominen has focused on fluid management, thus the company does not (at least yet) try to be all over on large hygiene and medical markets but focuses on selected value added niches. The main markets of Care are in North America and Europe currently.

As illustrated, Suominen's products end up mostly to consumer related end uses and they can be characterized either staples or discretionary. The relatively defensive nature of wiping market is a positive factor from investors' point of view in our opinion.

Historical development

Suominen has a long history from the year 1898 but the company was rebirth in August 2011 when Suominen agreed to acquire Ahlstrom's Home & Personal BA for 170 MEUR (EV). This transaction made Suominen a global company that is focused on nonwovens in the wiping segment. Since then nonwovens have been the only core business of the company but at the beginning of 2012 Suominen had also two other businesses, Codi Wipes and Flexibles, which were divested as non-core assets for 9 MEUR (EV) and 20 MEUR (EV) in 2013 and in 2014. In addition, the company acquired also Paulinia nonwoven plant in Brazil from Ahlstrom for 17.5 MEUR (EV) in 2014. Therefore, two acquisitions and two divestments made Suominen a global leader in its core business in 2010's.

Company description (2/2)

In addition to strategic and structure changing transactions, Suominen required a major operative turnaround as the company had been seriously struggling with its profitability before Ahlstrom H&P acquisition. Historically weak profitability and the acquisition raised the company's gearing to unsustainably high levels at over 100 % at the end of 2011. As the first step in the turnaround, Suominen outlined a new strategy at the beginning of 2012, in which the company decided to focus on value added nonwovens. In short, the strategy aimed to reduce weight in highly competitive bulk production in the portfolio and grow in value added grades carrying higher gross-margins (GM-%).

As the company left from a distressed position and the large acquisition required integration, Suominen focused heavily on internal issues such as direct cost savings (10 MEUR cost saving program completed in 2012/2013) and other internal efficiency improvements (two supply chain development programs in 2012-2014) in its strategy execution in 2012-2014. Correspondingly, debt reduction dominated the company's capital allocation during this phase.

The company was successful in its rebuilding efforts as the savings, the efficiency improvements, the strategic transactions, moderate volume growth and gradual product mix transformation raised Suominen's EBIT margin from 3.3 % to 6.7 % in 2012-2014. In addition, the company generated very strong cash flow during the rebuilding phase as CAPEX was limited to maintenance (clearly below depreciation) and efficiency improvements released NWC. Therefore, the company's gearing dropped from 101 % to 43 % in 2012-2014 (includes also 17.5 MEUR equity increase as the company used a convertible hybrid bond to finance Paulinia acquisition). Therefore, Suominen managed to refinance its expensive debt portfolio at the end of 2014, which was the last step of the very successful rebuilding.

After the rebuilding, Suominen launched a strategy update at the end of 2014. There were no changes in big guidelines but the new strategy for 2015-2017 shifted clearly Suominen's focus from efficiency improvement to organic growth for which the rebuilding had created a solid foundation. In addition, this strategy included fairly heavy CAPEX as the company invested over 70 MEUR (most of them to new production line in Bethune US) to enable product mix transformation in 2015-2017.

Despite the company's efforts to change the gear, 2015-2016 have been a somewhat challenging time for Suominen. Suominen reported its highest net sales and EBIT in 2015 but this was mostly driven by favorable FX development (strong depreciating of EUR/USD). However, organic growth slowed down in US already in 2015 while the progress was adverse growth and profitability wise in both main markets in 2016. This was mostly due to increased supply of several nonwoven grades, which pushed demand and sales prices down in 2016. Despite intensifying competition, lean and efficiency Suominen made its second best results last year while strategically important product mix transformation has remained well on track.

The management and shareholder structure

Suominen appointed Nina Kopola as its CEO after the H&P transaction and she is still managing the company. In addition, also CFO Tapio Engström has been in the company since 2012, thus the top management has a fairly long experience from the company and nonwoven business. Suominen's financial track-record is also strong under the current management. The whole management team consist of 8 members, thus the company has strengthened resources in the top management recently.

Suominen's board of directors constitutes of 6 members. The chairman of board is Jan Johansson who replaced Jorma Eloranta in the position at the AGM in 2017. There are 5 independent members in the board, thus the structure of the board seems to be adequate from all invertors' perspective in our opinion.

Suominen's shareholder structure is fairly centralized as 15 of the biggest shareholders control around 75 % of the company. Ahlstrom Capital became the main shareholder in Suominen in 2014 and it holds 27 % of the shares and votes in the company. Ahlstrom Capital is a family owned long term investor and we believe they are committed to long term value creation in Suominen. Other large shareholders are mostly Finnish institutions and private investors. Therefore, we do not consider the shareholder structure to carry any additional risks. In addition, liquidity of the share is reasonable, thus the centralized shareholder structure does not have a material impact on the share's valuation in our opinion.

Suominen in brief

Suominen is a global market leader in wiping segment in the nonwoven industry.

1898
THE COMPANY WAS ESTABLISHED

2011
M&A CREATED "THE NEW SUOMINEN"

#1 MARKET SHARE*
GLOBAL MARKET OF NONWOVENS FOR WIPING
* SUOMINEN

417 MEUR (-6,1 % vs. 2015)
NET SALES 2016

25.6 MEUR (6,1 % of sales)
ADJUSTED EBIT 2016

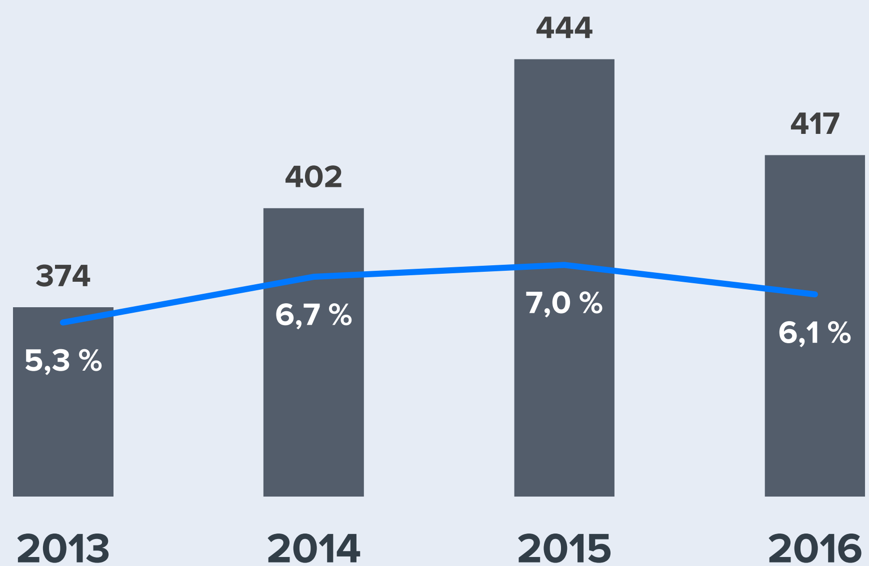
646
PERSONNEL (AVERAGE) IN 2016

8
PLANTS IN 3 CONTINENTS

Rebuilding in 2012-2014
- Focus on savings and effiency
- Low CAPEX, NWC release
- Debt reduction
- Divestment of non-core assets
- Paulinia acquisition
- Product mix transformation

Focus on growth in 2015-2016
- Major CAPEX
- FX tailwind in 2015
- Competition intensifies
- Mix change continues
- Cautious dividend payout

Suominen's net sales and EBIT-% in 2013-2016



Source: Suominen, Inderes

Investment profile, potential and risks

Suominen is a growth company

After the rebuilding and corresponding turn-around case, investors categorize Suominen as a growing manufacturing company. Also the company's current strategy and nonwoven market's long-term growth above GDP growth support the "growth profile". Therefore, we believe Suominen aims to stay as a growth company also beyond the on-going strategy period even if tools may change over time.

Typically growth requires certain CAPEX and ties some NWC in the manufacturing industry, which reduce dividend payout capacity at least in the short term. However, Suominen's capital needs seem fairly limited for the next years (CAPEX below depreciation). We argue that the company has a reasonable ability to pay gradually growing dividends in the coming years eventhough the company is not and should not be considered as "a dividend stock".

Potential

- **Organic growth:** Nonwoven demand has traditionally somewhat exceeded GDP growth in developed Western countries. In emerging markets the gap is even wider as wiping products can be considered as discretionary. In addition, certain value added grades, which are in Suominen's focus, grow even faster than the markets on average. Therefore, the market gives Suominen a solid foundation to grow in the coming years and the company should have a competitive product portfolio in order to exceed the market growth. In profitability perspective, organic growth should leverage on the group's fixed cost structure and also we should see improved GM-% through improving production efficiency.
- **Product mix transformation:** Suominen's has managed to increase the share of value added products from 50 % to 60 % (of net sales) in its product portfolio in 2012-2016. Value added products typically carry a clearly higher GM-% than value for money grades, thus the product mix transformation has supported the company's profitability. This progress should continue if the company manages to capitalize its recent investment in machinery (especially in the new line in Bethune), R&D and commercial excellence. We estimate that Suominen aims to push share of value added grades to 65-70 % until 2021, which could lead to a couple of %-point expansion in EBIT-margin on the group level through higher GM-%
- **Low CAPEX needs:** Even if Suominen aims to change gear in terms of growth and profitability in the next years, the company argues that no major CAPEX is required. This is due to heavy CAPEX in the last strategy period, which is mostly uncapitalized (the new line Bethune is only starting up), competitive old asset base and the product related strategy. Therefore, we expect Suominen's CAPEX to remain clearly below depreciation in 2018-2021. This should lead to strong free cash flow (exceeding earnings). As the company needs no material deleveraging and the dividend policy indicates a moderate payout in base case, the management may well have extra cash to be allocated in M&A, greenfields or dividends. This is a positive problem from the shareholder's perspective.
- **Value creation by M&A:** As a new element in the strategy update in 4/2017, the company disclosed that it is monitoring opportunities to expand to new geographical markets. The fast growing Asian market is definitely the hottest prospect in this sense. We believe M&A is the most probable tool as M&A would allow faster positive cash flows than greenfield investments. ”The new Suominen” has been created by 4 transactions, thus the company and also the current management have a solid track-record in this sense and from both sides of the table. Therefore, we see a fair chance the company can make value creating M&A in Asia in the coming years. However, every transaction must be evaluated separately in relation to quality and price of the target.

Risks

- **Raw material price risk**: As raw materials form a vast majority of Suominen's cost of goods sold (60-70 % of COGS, 50-60 % of total costs), the company is always carrying raw material price risk. Suominen is not hedging its raw material purchases but it is tackling this issue through raw material price clauses, which are included in half of the contracts (likely consisting mostly of large key accounts and/or baby care clients). The lag between the price increases varies from 2 to 5 months depending on the customers.

Investment profile, potential and risks

Overall the lag between the raw material price development and the actual price increases is fairly long. This can cause some fluctuation on quarterly level but should shield the company reasonably well over the longer time period. In addition, the other half of the contracts do not include raw-material clauses, which is an intentional business decision made by the management. We believe Suominen has not included raw material clauses in deliveries where cost of Suominen's products represent only a small part of total costs of the customer's end product. In this type of deliveries, the customer's awareness of Suominen's raw-material price development may not be the best and the customers' resistance against price increases the most severe, which give Suominen some pricing power. In addition, short-term or spot sales do not include raw-material clauses.

In general, we consider the company's hedging from changes in raw-material prices appropriate and raw-material risks limited on long time frame if prices follow-trend-like progress. However, fluctuating raw material prices would probably be a problem for Suominen as customers' resistance against price increases is the strongest when raw-material prices do not show a clear trend.

- **Losing a major customer:** Suominen's two largest clients brought 20 % and 14 % of the company's net sales in 2016 while 10 key customers accounted for 63 % of total net sales. Therefore, losing any one of these key customers would cause a significant drop in sales in the short term, which would have also an impact on profitability. However, the average customer relationship of Suominen is around 14 years, which implies very low customer turnover. Thereby, we see the overall risk of losing a major customer fairly small. However, large global brand houses and retailers barely give all their orders for one supplier but use rather 2-3 manufacturers. Customers' order allocation to suppliers may also vary, which may also create pressure on Suominen's sales even if the customer is not totally lost. We believe Suominen suffered this type of changes in 2015-2016.

- **Overcapacity:** Due to the relatively low price per volume unit, the production in nonwovens has to be located fairly close to the end user. This growing nature of the business and step-like capacity increases result always to a risk of local oversupply. Magnitude of the overcapacity would naturally depend on the amount of new capacity and growth rate of the product segment. Usually overcapacity leads to price erosion and/or higher unit costs in production. The latter fact is due to decreasing operational efficiency deriving from lowering capacity utilization. Overcapacity is especially poisonous in value for money products, where products are very homogenous. Furthermore, there have been recently capacity expansions in North America and Europe, which will increase capacity also in value added grades. This reflected also negatively on Suominen's results in 2016. There are no major capacity expansion plans in the pipeline going forward, thus next years supply/demand-balance should improve through growth. However, this risk remains actual for Suominen in the short and long term.

- **Competitive pressure by large competitors:** Even though Suominen is globally the leading player in wiping, it is still relatively small when looking at nonwovens as a whole. Therefore, there is always a risk for the competitive pressure from large competitors, which could dominate the business by economies of scale. There has been also consolidation in the fragmented sector, which may well continue. These two factors could change the competitive environment to a more unfavorable direction from Suominen's perspective. However, over the short term we see the risk limited as this type of changes will not happen overnight.

- **Sensitivity to EUR/USD:** FX is a risk for Suominen as the company generates over 50 % of its sales and probably an even greater share of EBIT from US. According to the company, a 10 % change in EUR/USD has a 2.5 MEUR impact on annual EBIT given the current business structure. The impact comes through translation to the income statement, which limits opportunities to hedge. Therefore, EUR/USD can have a significant impact on Suominen's reported sales and results. FX sensitivity is naturally a two folded coin but we consider in general FX driven earnings volatility a somewhat negative factor from investors' perspective.

Investment profile

1. Organic growth
2. Competitive environment
3. New products
4. Low CAPEX needs
5. M&A (+/-)

Potential	Risks
▪ Growing and developing nonwoven markets support growth efforts ▪ R&D and commercial efforts gradually improve product mix (i.e GM-%) ▪ Moderate potential to push SGA-% down ▪ Potential expansion to Asia through M&A or greenfields	▪ Raw-material price risks ▪ Limited pricing power due to value chain position ▪ Competition is intensifying in certain segments ▪ Losing a large customer ▪ FX (EUR/USD) can cause volatility in earnings

Source: Inderes

Business model

Suominen is a traditional manufacturing company

Suominen operates in the manufacturing industry, which transforms fiber materials to nonwovens. In addition to manufacturing, the company takes care internally of product development, marketing and sales. Therefore, the business model is typical for a company in this type of manufacturing industry. Raw-materials the company purchases from the market.

Nonwovens can be produced by several technologies but Suominen utilizes mostly spunlace technology in its production. In addition, the new line Bethune is based on wet-laid technology resembling somewhat the paper-making process. We consider Suominen's technological choices adequate as spunlace and wet-laid technologies enable production of soft, smooth, stretch, absorbent, resilient and/or liquid repellent products, which are some key characteristics in value added grades. Thus, we do not believe Suominen aims to expand to new technologies in the near future but is determined to develop its current technology portfolio.

Consumers drive the business, customer base is fairly centralized

The company's key customers are global brand owners and private labels, which sell converted nonwoven products to consumers with their brands or private label trademarks. Thus, Suominen sells only B2B even if consumers are the end-users of the company's products. As a consumer driven business, demand of non-wovens is also fairly stable over the economic cycles. Traditionally consumers do not stop using nonwoven products during economic slowdown or recession but tend to switch their products to lower quality (i.e. cheaper price). Thus, economic cycles have some impact on Suominen from value and volume perspective but in general we consider the defensive and stable nature of the business positive for investors'.

Suominen has not publicly disclosed its customers but we believe global consumer goods companies and retailers such as Procter& Gamble, Unilever, L'Oreal, Johnson&Johnson Mölyncke Healtcare, Rockline Industries, Walmart and Carrefour could be the company's clients. As discussed, the two largest customers brought 20 % and 13 % of the group's net sales in 2016. In general, 10 biggest key accounts constitute over 60 % of Suominen's sales while the second half of the sales come from smaller sources. Therefore, the company's customer pool is fairly concentrated even if we believe Suominen's customer portfolio consist of altogether hundreds of customers.

Given the size of key accounts (global sourcing) and centralized customer base, we argue that Suominen and other nonwoven manufacturers have fairly limited pricing power against clients. Neither fairly homogeneous nature of the products (especially in value for money segments) give help in this sense as tangible differentiation is difficult despite certain value added segments. On the other hand raw-material prices are determined by supply (controlled by few large players) and demand in global markets, thus there is neither pricing power to opposite side of the value chain.

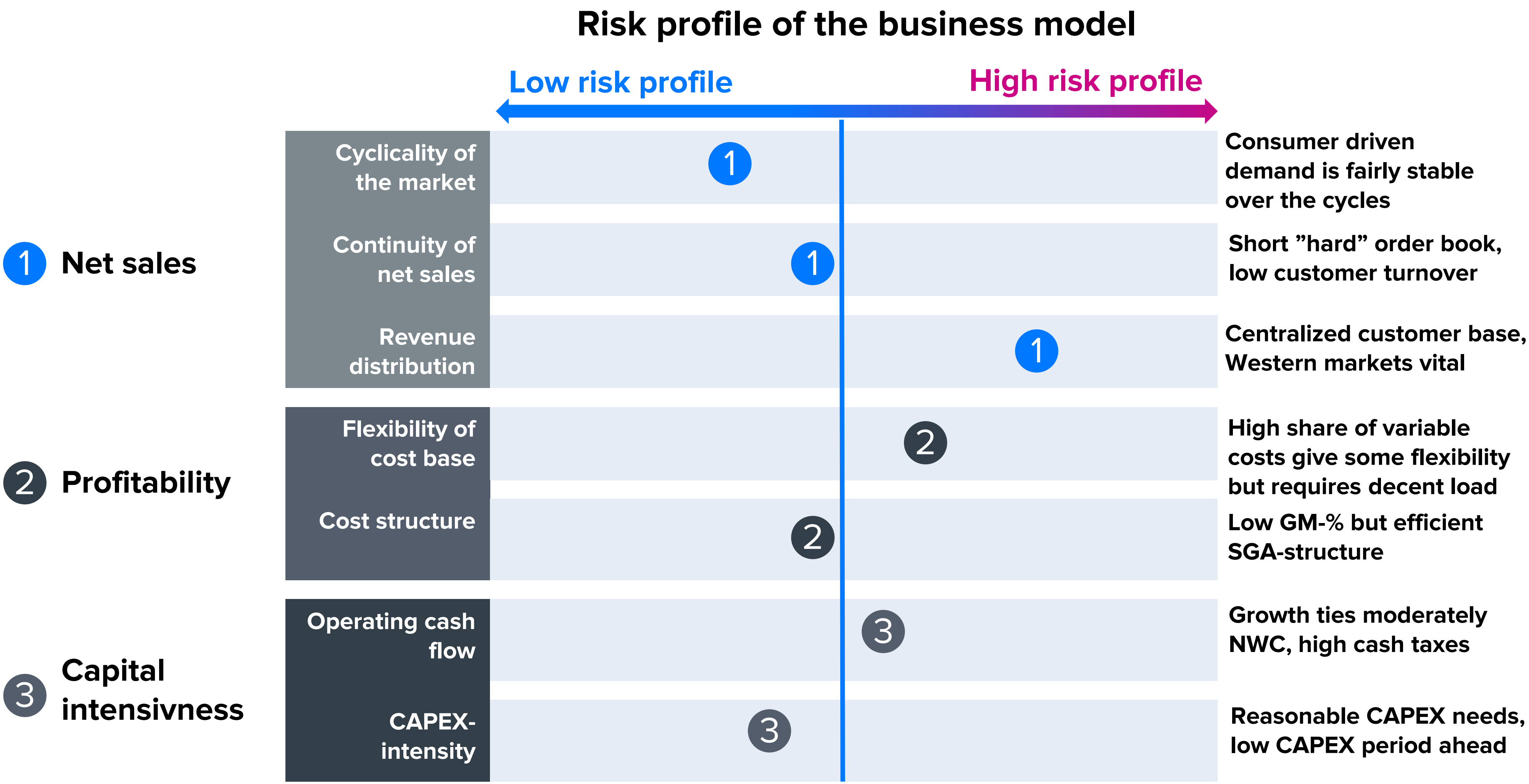
Despite imbalanced distribution of pricing power in the value chain, typical supplier-client relationships between nonwoven manufacturers and brand houses or retailers are relatively long. This indicates that brand owners and retailers are not very keen to change their suppliers despite their pricing power, which could be due to the indirect costs (i.e. product auditions) or uncertainty (delivery reliability and quality) that changes in well-established relationships with the supplier can cause. Also the delivery contracts are long, typically 2-3 years. Therefore, customers are not continuously bidding their contracts despite pricing power advantage.

Nonwovens are not very capital intensive in manufacturing industry scale

Due to characteristics of the industry, Suominen's GM-% is low. However, the company is fairly efficient as the rebuilding phased pushed SGA-costs down. We argue that some 20 % of the company's costs are fixed and 80 % variable. Thus there is reasonable flexibility in the cost structure but also some operational leverage on net sales growth. In general, effective capacity utilization (including decent load) is one of the key factors in nonwoven industry like in every manufacturing business.

Suominen's tangible assets to net sales -ratio should be around 20 % in a normal situation (2016 is abnormal due to Bethune investment). Therefore, the nonwoven business is not very capital intensive compared to other manufacturing industries (i.e steel, pulp). This enables fairly high ROCE-% or ROI-% and also good payout potential to shareholders. In addition, Suominen's net sales to NWC -ratio has been 8-10 % recently. Thus, neither NWC ties significant amount of capital in the business but naturally growth is never free in the manufacturing industry.

Business model



Estimated risk level of Suominen’s business

Source: Inderes

Suominen's business environment

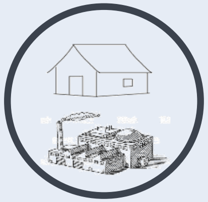
Customers

Hundreds of brand houses or retailers

Competitors

Segments (2016 of net sales %)

Value for money wiping
38 %



Value added wiping
54 %

Care
8 %

Products

Baby wipes

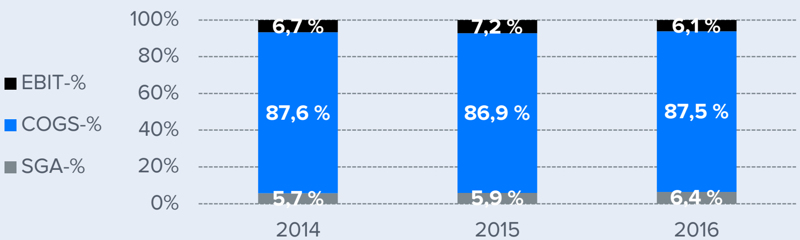
Personal care wipes

Workplace wipes

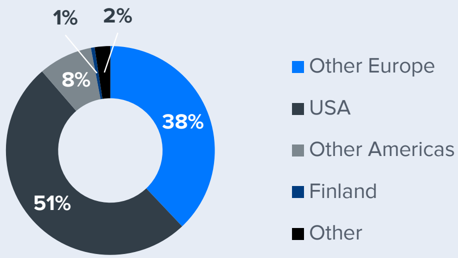
Household wipes

Medical&Hygiene

Cost structure



Geographical net sales split



Source: Inderes, Suominen

Strategy and financial targets (1/3)

Product driven growth strategy

Suominen has been executing its strategy that leans on global footprint and increasing share of value added products since 2012. The rationale of the strategy is fairly straightforward as value added products are carrying clearly higher GM-% and are less vulnerable to competition than value for money products. In addition, Suominen is the market leader in wiping, has a strong market position in Western markets and is serving global customers. These factors and long term growth potential in emerging markets support global perspective in the strategy rather than focusing on certain areas.

As discussed, during the first strategy period in 2012-2014 the company focused on internal efficiency and debt reduction while the second period in 2015-2017 shifted focus to growth investments and based foundation for growth. In April 2017 the company published its recent strategy update, which did not change big guidelines but aims to increase speed of growth and profitability improvement. In addition, geographical expansion is on Suominen's radar in this strategy period of 2017-2021.

According to the company, the following three factors are the cornerstones of Suominen's current strategy:

1) **Business excellence**

2) **R&D and new products**

3) **Personnel.**

These cornerstones describe capabilities, which are required to drive the product mix transformation and correspondingly growth and profitability improvement. We consider the cornerstones adequate for product related strategy. Basically, the cornerstones underline the company's focus on understanding consumers (the customers' customer) and their needs. This is crucial to develop current products and new products that fulfill the needs. This process will be done in co-operation with the customers in order to share created value. Close co-operation with the customers should also make Suominen harder to replace as a supplier. Product development and customer co-operations require skilled and committed personnel, which is why the staff has become one of the cornerstones in the strategy.

There are no numeric targets for the mix

Suominen has published no numeric targets regarding the product mix but we believe that at the end of the on-going strategic period in 2021 baby care should bring around 25 % of Suominen's net sales leaving the rest 75 % for the value added grades. We would like to remind that baby care still has a valuable role in Suominen's portfolio despite lower margins as its high volumes give critical load for the production system. This is important from efficiency perspective. However, growth expectations lay especially on workplace, household and personal hygiene in wiping. In Care Suominen focuses on personal hygiene while growth outlook and the company's market position (incl. technologies) is weaker in medical.

R&D focuses on new products but also on cost innovation

During the last strategy period, Suominen has built a R&D-team, which consists of 20 members in US and Finland. Altogether, Suominen's R&D spending will climb to over 1 % of net sales soon, which is in our opinion a decent level in this type of industry. Therefore, we argue the company has sufficient human and financial capacity to drive product development and correspondingly product mix transformation in the coming years.

In R&D Suominen focuses on 6 key areas (fluid management, texture & patterning, disinfecting & sanitation, dispersibility & flishability, skin wellness, performance superiority) in order to improve current products and create new products. These focus areas are well in line with the product strategy in our opinion. The seventh focus area is cost innovation where the focus is especially in efficient use of materials. Costs should always be a necessity in this type of highly competitive industry in our opinion.

The strategy does not require big investments

The strategy execution does not require significant investments as the company has disclosed that it expects CAPEX to be around 12 MEUR per annum on average (excl. potential M&A or greenfield investment) during the period, which is clearly below depreciation. To put this on perspective, Suominen will invest over 70 MEUR in 2015-2017 of which over 50 MEUR goes to the new line in Bethune. Basically 12 MEUR per annum on average enables the company to make maintenance (around 1 % of sales per annum) and some small quality improving and/or bottleneck removing investments. Moderate CAPEX outlook means also that Suominen is not looking to expand to new manufacturing technologies but rather focuses on developing its current technologies and add adjacent technologies to the portfolio.

Strategy and financial targets (2/3)

On the OPEX-side we expect some increase in SGA on absolute terms as the company grows. However, neither major SGA uplift should not come during the strategy period and the management seems to be extremely focused to maintain tight cost control despite growth efforts. This is in our opinion a necessity in the business due to competitive environment.

Asian expansion is on the radar now, M&A the most likely tool

As discussed, Suominen disclosed in the strategy update, that they will examine opportunities to expand its business to new market regions, primarily to Asia. Asia is the fastest growing nonwoven market (around 7 % p.a.) and expansion would support Suominen's global position, thus we took the very unsurprising addition positively.

Suominen could basically execute the expansion though greenfield investment or M&A. We believe that the latter has become a primary option as M&A enables positive cash flows faster. In addition, M&A brings also new customers in the portfolio to which the company could add potentially some new volumes from the current globally operating key accounts. This could give decent load and mix for M&A-target fairly fast while the greenfield in new market would require much more patience. On the other hand, a greenfield investment would give the company much more degree of freedom with technology and geographical location but these factors do most likely not offset advantages of M&A in our opinion. Naturally the potential M&A-target must have reasonable technological fit to take advantage of Suominen's product portfolio, which is one of the key elements in the Asian expansion. We believe Suominen is looking for financially healthy targets while acquiring turnaround cases are unlikely even if they were cheap.

There are several options in different parts of the continent

Geographically the huge Chinese market is one option but there could be even less competitive and faster growing options for example in India, Vietnam, Indonesia, Philippines and Thailand. In these countries Suominen could get first mover advantages to create unique low cost production platform in the fast growing markets. Japan is a developed market ready to absorb high value added grades right away but we believe the company is not willing to commit the next strategic investment to slowly growing market.

We believe there could be at least 10-20 potential M&A-targets for Suominen in Asia of which the majority are located most likely in China. Valuation of the potential targets remain unclear at this stage but the recent deals have been closed with EV/EBITDA LTM 6x-8x (i.e. Ascania/ Mondi 6x, Berry Plastics/Avintiv 8x). We argue that prices going below this range would be attractive for a healthy target while going towards the upper end of the range or over the range would require new technology to scale to other plants as significant synergies are difficult to reach. Suominen has been valued historically at EV/EBITDA 6x, which gives a good reference point to acceptable valuation range.

We expect Asian expansion at the second half of the strategy period

We believe the potential Asian expansion will most likely happen at the latter half of the strategy period. First, the company will be busy with Bethune for the next 2-3 years in order to capitalize the investment fully. Secondly, there is still non-capitalized potential in Paulinia, which also advocates to keep short term focus on the current asset base. Thirdly, currently valuations are in general high, which may make value creating M&A challenging from the buyer's side. Despite that, we believe the company is ready to act if lucrative targets appear for sale earlier.

After heavy investments in 2015-2017 Suominen could also need some time to create more financial flexibility to their balance sheet as the management seems to be fairly conservative with leverage. As cash flow outlook is good (CAPEX below depreciation from 2018) for the next years, Suominen should have financial flexibility to make small to medium size M&A (EV some 30-80 MEUR) at least at the second half of the the strategy period. Raising equity or other equity instruments would also allow bigger deals. However, we do not believe Suominen is necessarily looking for large market consolidating or synergistic M&A but rather for portfolio balancing and/or a "bolt on" target, which would fill in the geographical hole in Asia. The latter option is financially feasible without new equity in our opinion during the strategy period.

The strategy is credible

We took Suominen's recent strategy update positively and believe it guides the company to the right direction. The company's competitive edge should be in product portfolio and supply chain management efficiency as we argue it is very difficult to create any sustainable advantage by CAPEX (i.e. long lifecycle of technology, limited efficiency differences, low share of fixed costs). Therefore, success in these two factors require reaching margins over the industry average. In addition to the strategy itself, the company should have required resources and capabilities to execute the strategy effectively.

Strategy of Suominen

Strategic drivers	Strategic actions	Financial targets
Supportive long term market growth outlook Emerging markets and niches grow fast Leading market position Fierce competition	• Rebuilding in 2012-2014 and investments in 2015-2017 to position for growth • Product mix transformation to find fast growing niches in US and Europe, Brazilian expansion in 2014 and potential to Asian expansion in 2017-2021 • Reinforcing global footprint, active management of global key accounts • Positioning in value added grades, cost innovations in baby care and R&D	• Net sales growth 6 % on average per annum in 2017-2021 • ROI-% of 15 % on average in 2017-2021 • Gearing between 40-80 % • Dividend payout at least 30 % of profit for the period • If strategy execution is successful, net sales will be over 600 MEUR and EBIT-% over 10 % in 2021
➢ Suominen has a competitive product portfolio ➢ The company has made CAPEX and OPEX investments to position for growth ➢ Low SGA costs, tight cost control, continuing focus on operational efficiency	➢ Financially stable company has a solid foundation to grow, a lot of uncapitalized potential in Bethune (and Paulinia) ➢ Reinforced R&D function has proved its ability to create new products ➢ Clear improvement in profitability even if fierce competition has hit margins recently	➢ Especially 2021 net sales and profitability targets are very ambitious ➢ EBIT-% expansion should come mostly from product mix but some volume and SGA leverage is required too ➢ No major CAPEX is required to reach the targets, the company may have extra cash for M&A, greenfields or dividends

Source: Inderes

M&A strategy of Suominen

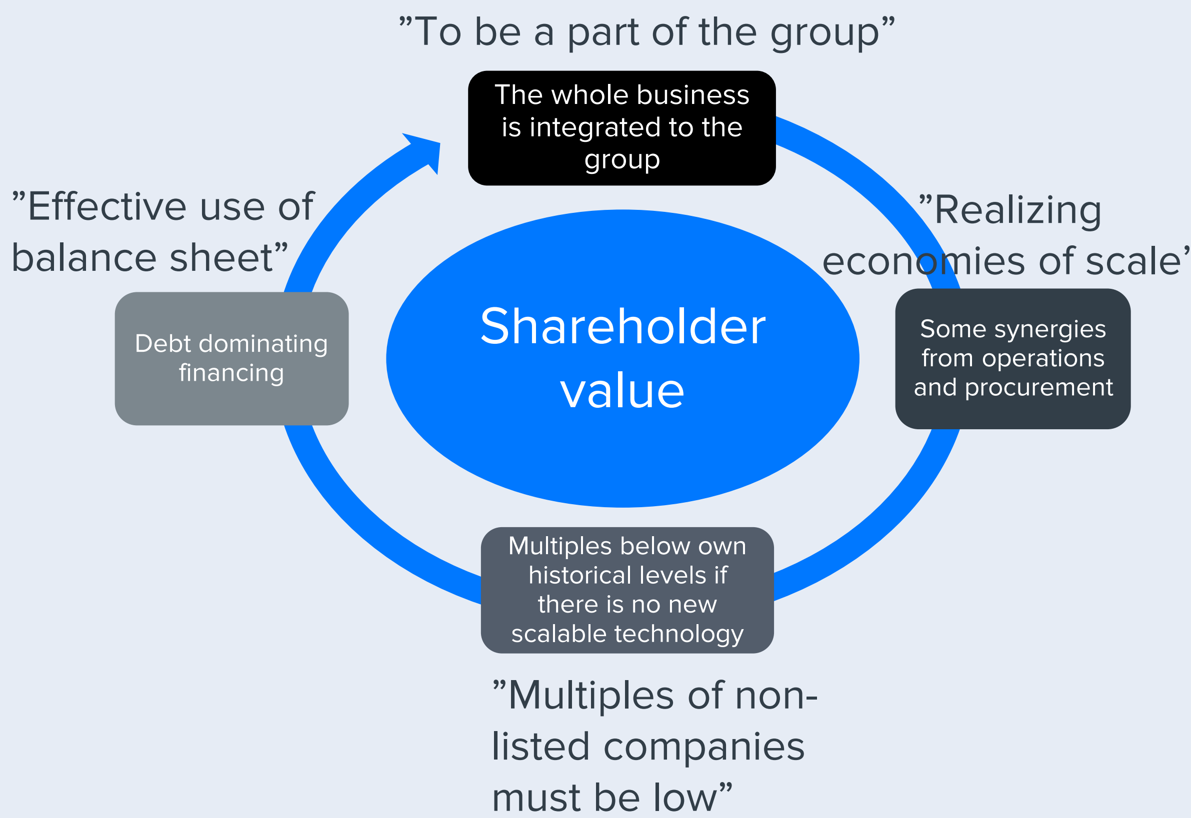
Suominen's criteria for M&A

Supports the strategy
- Expansion to new markets (i.e. Asia)
- Technological fit
- Focus on Suominen's current products

Financially healthy
- Strong local position, good customer portfolio
- Decent financial track-record from near history

Fits to the business model
- No overlaps with the current structure
- Opportunity to integrate in to the group

Shareholder value creation by M&A



Strategy and financial targets (3/3)

Financial targets and dividend policy

Suominen revised its financial targets for the on-going strategy period of 2017-2021 in the strategy update in April 2017. They are:

- **Growth:** Organic growth of 6 % on average per annum
- **Capital efficiency:** ROI-% of 15 % on average (prev. 12 % ROI-% p.a.)
- **Leverage:** Net gearing between 40-80 %
- **Dividend payout:** At least 30 % of its profits in period (prev. around 30 %)

Moreover, Suominen has disclosed that its net sales will exceed 600 MEUR and EBIT-margin 10 % in 2021 if the strategy execution is successful.

Growth target reflects double market growth

Suominen's relevant markets (Europe and Americas) are expected to grow some 3 % p.a. in volume in the coming years. Thus, the organic growth target is challenging but not unreachable as Bethune's new line should bring in new volumes and product mix improvement continues. Historically the company has reached over 6 % organic growth in 2013 but was left clearly behind the target in 2014-2016. This describes that the target sets the bar high. We argue that the company should aim for slightly faster volume growth than the market in order to reach the target level. The rest must come from value side as increasing share of value added products increase average prices and boost reported growth. However, part of mix improvement will probably go to offset price pressure, which the bulkiest products will face over long term. Thus, clear mix effect is required to drive average prices actually up.

In addition, 6 % organic growth per annum would raise net sales to some 560 MEUR in 2021. The company has stated that the over 600 MEUR net sales goal in 2021 is reachable without inorganic growth but reaching the target organically requires an even more challenging net sales CAGR of 7.5 % in 2017-2021.

ROI-target less challenging than 10 % EBIT

Also 2021 EBIT-% target of over 10 % is extremely challenging in our opinion in this type of industry. To illustrate the height of the bar, Suominen has reached slightly over 7 % EBIT-% in 2015 and neither of its competitors have gone to double digit margins. Comparing to 2016 figures, the company should close some 4 %-points margin gap (2016: EBIT-% 6.1 %) in five years. First, product mix transformation should drive GM-% up. This should be clearly the greatest contributor in profitability improvement. Second, the company should grow its volumes at least at the pace of the market, which would increase GM-% through operational efficiency and leverage to fixed production cost structure. Third, growth should improve slightly SGA-% as we expect overhead costs to grow more gently than net sales (reducing absolute SGA is most likely not sustainable). Therefore, we argue that the company should reach some 15-16 % GM-% and 5-6 % SGA-% in order to exceed 10 % EBIT-% (2016: GM-% 12.5 %, SGA-% 6.4 %). We do not consider this utopist as a fair part of the current value added portfolio exceeds 15 % GM-%. However, the target is ambitious.

As CAPEX outlook is clearly below depreciation for the next years, Suominen's balance sheet should not grow significantly during the strategy period (excl. potential M&A or greenfields) even if the growth will most likely tie some NWC. Thus, we argue some 5-6 % net sales CAGR and gradual EBIT-% improvement to around 8 % is enough to meet the ROI-% -target of the strategy period. Therefore, we consider the ROI-target clearly easier to reach than 2021 EBIT-% goal. However, we remind that average ROI-% of 15 % would represent excellent performance given the big picture the industry fundamentals.

Balance sheet gives flexibility for Suominen

Due to Suominen's position in the value chain, we believe that it is businesswise necessary to maintain a strong balance sheet. However, the company operates in a somewhat capital intensive manufacturing industry, where certain leverage is required to ensure optimal return on invested capital. Currently, the company is in the target leverage range despite heavy CAPEX in 2015-2017, and thus Suominen's financial position is solid even if the investments (i.e. Bethune) are mostly on the balance sheet but do not generate any cash flow yet.

We estimate that the company will have no worries with the balance sheet and there is a fair chance the company will drop below the lower boundary of the range during the strategy period. However, as the Asian expansion is on the radar we believe Suominen would like to have some financial flexibility and the fairly conservative management does not seem to exclude going out of the range temporarily. Correspondingly, Suominen should not have difficulties to meet its current payout target, which gives the company wide freedom for capital allocation.

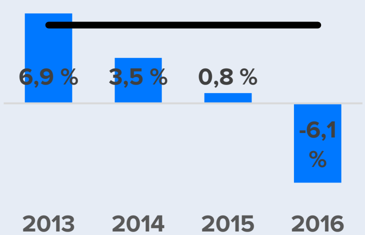
Strategy and financial targets 2017-2021

Growth

Ornanic growth over 6 % on average p.a.

Q1'17

-2.3 %
LTM

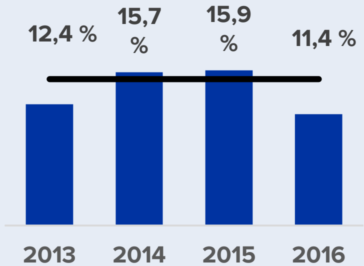


Capital efficiency

ROI-% of 15 % on average

Q1'17

11.7 %
LTM

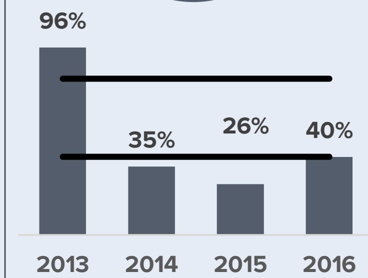


Leverage

Gearing in the range of 40-80 %

Q1'17

50 %
LTM

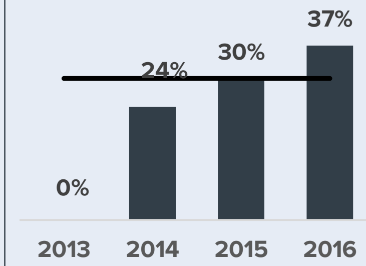


Dividend policy

At least 30 % of profits for the period

2016

37 %
LTM



If the strategy execution is succesfull, Suominen's net sales exceed 600 MEUR and EBIT-% 10 % in 2021 (2016: net sales 417 MEUR, EBIT-% 6.1)

Source: Suominen, Inderes

Nonwoven industry and competition (1/2)

Suominen is focusing on a few segments in nonwoven markets

Suominen operates in a global nonwoven market and the overall market size is estimated to be 26 billion USD. This is of course divided between various segments as nonwovens have several end-use applications in different solutions. Suominen operates in wiping through its Convenience BA while Care BA has focused on selected niches in medical and hygiene

Wiping (incl. sub-segments of baby care, workplace, household, personal hygiene) is globally a market worth of 2.1 billion USD. Suominen's Convenience BA is present all over the wiping market. Medical is a small market worth of some 800 million USD but hygiene is the largest single segment in the nonwoven market worth of some 6.5 billion USD. In Care Suominen is focusing only in selected applications (for example fluid management in hygiene) and does not even try to compete all over the segments (Suominen's technology portfolio support this).

Historical market growth exceeds GDP growth

Demand for nonwoven products has grown historically 2-4 percentage points faster than GDP in developed Western markets (US and Europe). This has been driven by several megatrends such as population growth and aging, increasing consumption on personal health and urbanization. In the future, these megatrends will be increasingly present in developing markets, which have a clear impact on the market growth expectations in future. According to Suominen's market outlook, demand for nonwovens in wiping is expected to grow around 2 % per annum in North America, 2-6 % in Europe, 6 % in South America and 7 % in Asia and Africa. These are expected growth rates for volume but we argue that value of the market should grow slightly faster than volume as value added grades grow the fastest. These figures make approximately a 3 % expected CAGR for Suominen's main markets (Europe and Americas) and some 5 % globally for the next years.

These figures represent the overall growth for non-woven demand while growth varies greatly between end-use segments. This gives Suominen the opportunity to focus on the most interesting and fastest growing segments. Generally, value added categories of Convenience and Care have higher growth outlook than value for money products. In other words, 60 % of the company's current offering are expected to exceed the average market growth in the future. Thus, the company should have room to exceed overall market growth in its most profitable product categories, which supports Suominen's aims to exceed market growth and to improve profitability. The results will depend on the company's success in strategy execution but the market outlook is definitely supportive.

Fragmented markets in global scale

Given Suominen's sales in Conveniece and the mentioned market size, Suominen has a 20 % market share in wiping, which makes the company a global market leader in the segment. As a whole, the wiping market is very fragmented globally. The four biggest tier 1 competitors in wiping have together some 30 % market share, thus the five biggest hold only slightly above half of the market. The other half is controlled by small local players. In medical and hygiene Care BA is a minor player and does not have any significant market share. Also, these markets are fragmented structurally.

Nonwovens is a local business

As the nonwovens are fairly low cost and high volume products, they are unable to carry significant logistics costs. Thus, the nonwoven business is local by nature. The production must be continental or in certain cases even more local. More expensive value added products can carry somewhat higher logistics costs than the cheapest value for money products, which slightly expands the potential market area at the high end. However, we argue overseas sales is still challenging in the business. This is proved also by Suominen's geographical sales split as only 2 % of net sales came from the regions in which the company did not have production in 2016. The same goes for the raw materials, which the manufacturers purchase continentally.

We believe locality reduces somewhat Suominen's global operational synergies and ability to utilize its key accounts consisting of large brand companies without expanding its plant portfolio geographically. However, unsustainably high transportation costs shield Suominen's European and North American markets from Asian low cost exports. This limits competitive pressure in the company's main markets. Therefore we argue that the local nature of the industry is a two-folded coin for Suominen.

Nonwoven industry and competition (2/2)

Growing markets attract investments

The whole wiping business has been suffering from a modest overcapacity in Europe, which was built during the boom years of 2003-2008. Clear overcapacity has been cut due to recent growth but there is still definitely enough production capacity especially in baby care in Europe. North American supply/demand balance has been historically better as similar overcapacity was not built in early 2000s.

There has been recently some capacity increases in Suominen's main markets as at least two plants were started up in North America and two in Europe in 2015/2016. We argue that very good trading conditions and robust long term growth outlook in certain fast growing segments (such as flushables) in the last years have attracted market players to invest in North America. Thus, the market balance has been recently weakening in European baby care and in flushables globally. However, there are no more capacity increase plans in public excluding one baby care line in Europe (Akinal/Estonia).

Capacity increases are natural and inevitable as the markets keeps on growing but they have always impact on the market balance at least on the short term. For example, the capacity additions in 2015-2016 in US and Europe has kept Suominen's volumes more or less flat in 2014-2016 (no changes in raw-material use) and pushed sales prices clearly down in 2016. This describes the fierce competitive environment in the sector, which will remain as such also in the future.

Market balance is reasonable in the big picture

Despite recent increases, we consider the market balance reasonable currently in Suominen's main markets. We believe North America remains a somewhat better market than Europe even if the gap between the continents seems to slightly even out as North American capacity increases more and on the other hand the European economy has recovered. Given current estimates, we do not expect chronic overcapacity to be built to either market excluding European baby care where the supply/demand-balance and pricing outlook remains challenging. However, further capacity increases could make the matters worse. We argue that one typical new production line in Europe or North America will raise up local production capacity some 2-3 %. Basically, one line per continent annually is required to meet demand growth but several lines would create market pressure if old capacity was not simultaneously ceased. This is the big picture on overall market conditions while in single product grades situation may vary significantly.

The South American market is growing fast but the market cannot always absorb all the volumes that come to the markets unevenly due to start-up of a greenfield plant. This is due to absolute market size in tons, which is clearly smaller in South America compared to North America and Europe. Thus, supply/demand-balance may be temporarily unfavorable but the fast growth should even out imbalances fairly quickly. In addition, South America is a developing market and Suominen is basically launching value added grades to the market after Paulinia plant rebuilding was completed in 2015. Therefore, it will take time to reach on group level significant value added sales in Brazil. Recently, Brazilian nonwoven market has remained fairly robust despite the challenges in the economy resulting from declining commodity prices. This confirms the defensive nature of the business.

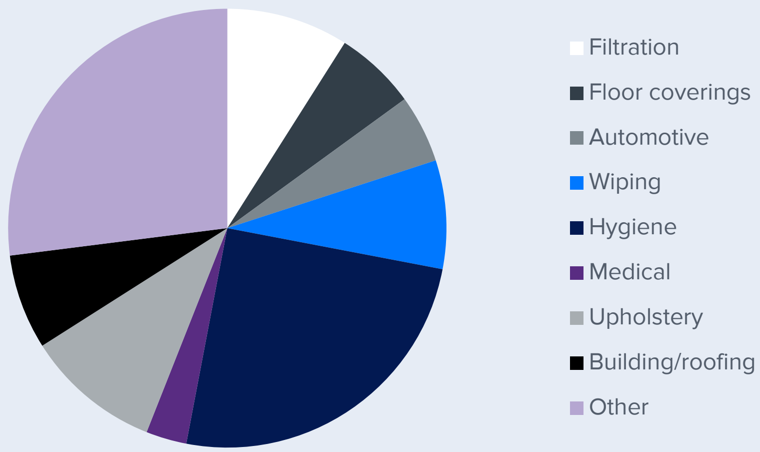
Performance versus sector peers'

Even if Suominen faces competition from global players such as Kimberly-Clark, Jacob Holm, Sandler and Berry Plastics (prev. Avintiv) in wiping, it is very difficult to compare Suominen's financial performance to other players directly. This is due to fact that straight competitors are private equities or parts of big corporations, which have different businesses that reduce comparability. However, we have benchmarked (see next two slides) Suominen's financial performance against certain players of different nonwoven segments. We have included in the comparison Pegas Nonwovens, Fibertex Nonwovens, Avintiv (prev. PGI, currently part of Berry Plastics) and Avgol. Pegas Nonwovens is a Czech listed company, which operates in the hygiene segment mostly in Eastern Europe. Its technology is somewhat different compared to Suominen Israeli Avgol operates in similar business globally. Fibertex Nonwovens belongs to Schouw Group and operates mostly in continental Europe in industrial nonwovens such as automotive, building and furniture segments.

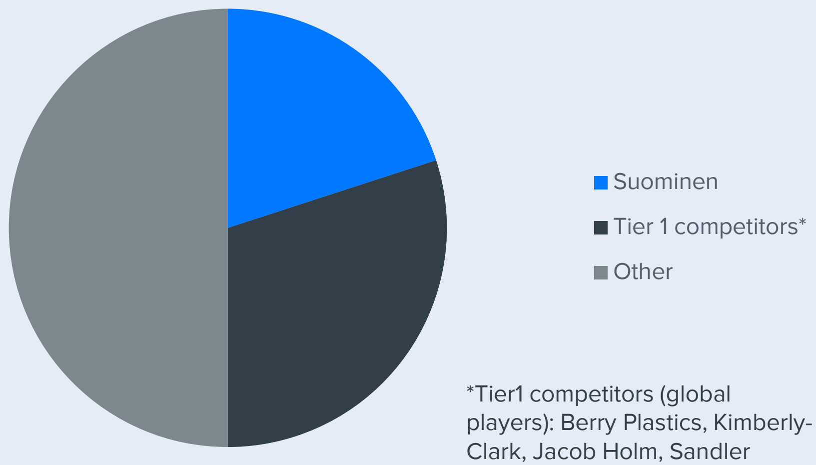
Suominen has performed recently quite well in line with peers in terms of profit margins, which confirms our view on the company's solid position. Pegas Nonwovens and Avgol have out-performed clearly but their business is based on somewhat more capital intensive technology than Suominen's one. This must be visible also in the profit margins and ROI-% or ROCE-% would be actually right metrics to compare their performance to Suominen.

Suominen's markets

Segments in the nonwoven market

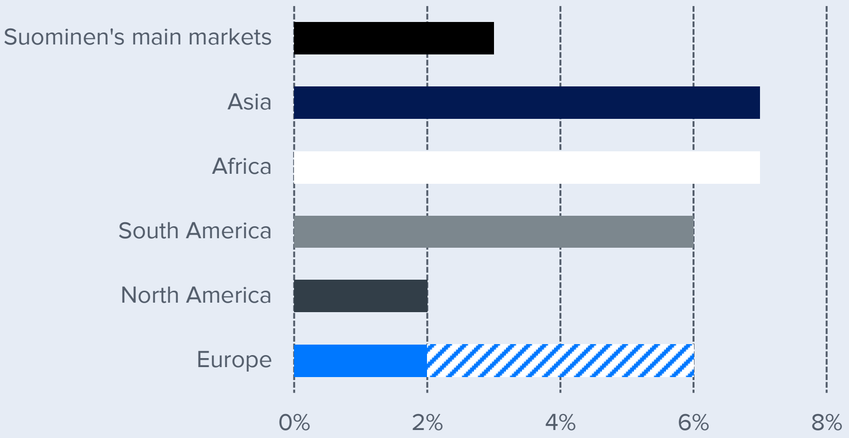


Suominen's market share

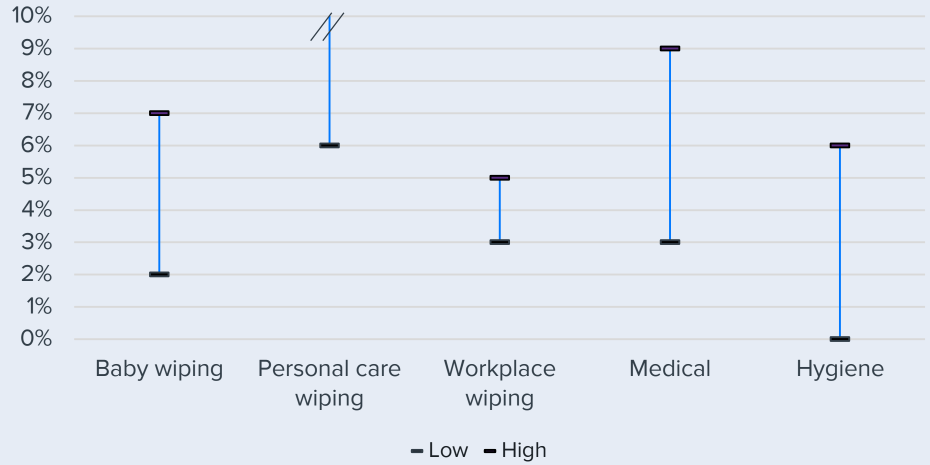


*Tier1 competitors (global players): Berry Plastics, Kimberly-Clark, Jacob Holm, Sandler

Geographical market growth estimates



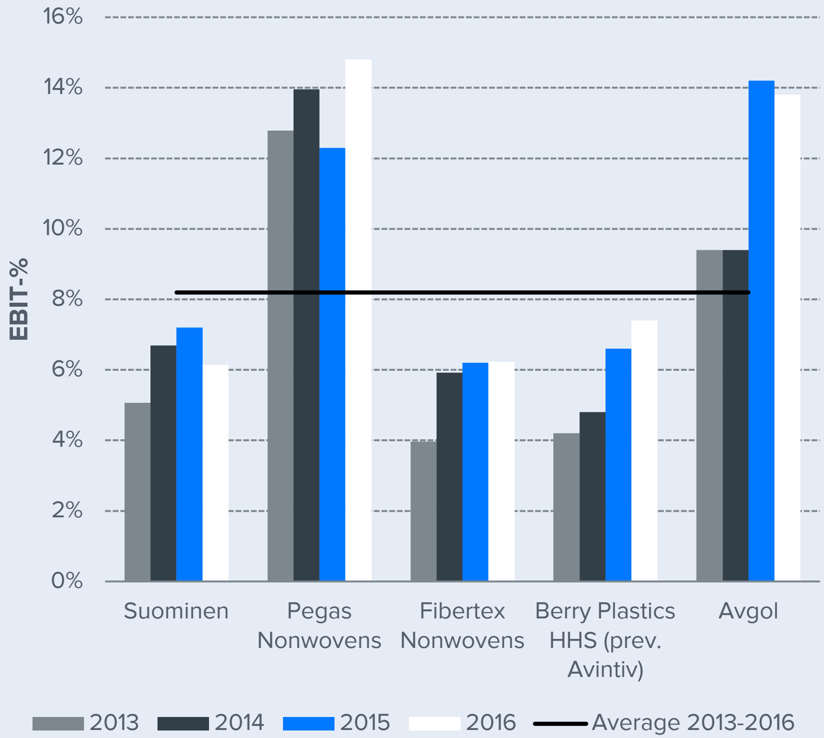
Product segment growth estimates



Source: Inderes, Suominen

Competition and Suominen's competitive forces

Suominen vs. peers



Competitive forces of Suominen

\+ Global market leader in wiping

\+ Competitive product portfolio

\+ Effective R&D function

\+ Delivery reliability (several sites)

\+ Up to date plant portfolio

– Minor player in medical&hygiene

– No presence in Asia

– Production mostly in high cost countries

– Limited technology portfolio

Source: Suominen, Inderes, CapitalIQ

Financial position (1/2)

Low GM-%, competitive SGA-level

Suominen's GOGS are some 87-88 % of sales (GM-% 12-13 %) and we estimate that some two thirds of Suominen's COGS are raw-materials. Raw-materials such as pulp (mostly fluff), viscose and polypropene are mainly priced in the global markets with global market prices. The second big variable component in COGS is energy, which could constitute around 10 % of COGS. Price of energy is determined also in the markets but energy markets are more local than for example raw-material markets. The third large variable cost component in COGS must be wages of production personnel, which could represent another 10 % total COGS. Almost entire production staff of Suominen is located in the developed countries where wages are high. However, as the nonwoven business is local by nature, Suominen's position is not significantly worse in relation to competitors. Basically, high wages could be competitive disadvantage in Europe where Suominen could face competition from Eastern European manufacturers, which have lower personnel related costs. Rest of the COGS is depreciation of production assets (majority of depreciation). Altogether, Suominen has no cost advantages in COGS, thus GM-% expansion must come from the mix side.

In the SGA the largest item is administration expenses. The second biggest item is sales & marketing while other items (R&D, other costs and other income) are around 1 % or less of the net sales. Overall these SGA costs accounted for 6.4 % of sales or 26.2 MEUR in 2016. We argue this is a fairly competitive level and the management has maintained very tight cost control even if growth has increased absolute SGA costs in 2014-2016 and will most likely increase it also in future. However, Suominen reached its lowest SGA-% of 5.5 % in 2013. This proportional level should be reachable for the company with topline growth.

No major financial costs burden but the tax rate remains high if Trump does not help

As Suominen's balance sheet is solid, the net financing costs of the company are on a reasonable level of around 1 % of the net sales. This includes interest payments and other fixed financing related costs. However, high taxes burden Suominen's net results as the company generates profits in US and Brazil where corporate tax levels are very high at 35-40 %. In addition, Italy and Spain tax corporates by 31 % and 25 %, thus Finland, with a 20 % tax rate, is the only low tax country in Suominen's portfolio. Therefore, Suominen's normalized tax rate is some 30-35 %. The company has still some losses to reduce in Europe, which could slightly limit their tax burden in the coming years but the normalized tax-rate is a heavy load for the company. It has also direct implications on Suominen's acceptable valuation in our opinion.

Given Suominen's taxation framework, the potential changes in US corporate taxation represent a significant factor. The new president Donald Trump has proposed to cut corporate tax to 15 % but it is still very uncertain whether he can pass the proposal through the congress as the reduction would create a major hole in the federal budget and it is unclear how the hole will be filled. Altogether, a 10-20 %-point cut in US tax rate would push Suominen's tax rate to 20-25 % and would fix the tax issue. This would have a clear impact on cash flows and valuation but realization of the tax cut is far from sure.

Investment cycle makes free cash flow deviate

As Suominen depreciates its asset base fairly fast the company's EBITDA-% has been some 4-5 %-points higher than EBIT-% at 10-11 % recently. Therefore, the company has generated solid cash flow from operations of some 27-28 MEUR per annum in 2015-2016. This should continue as NWC growth should be moderate and paid interest costs and taxes should not differ significant from figures in the income statement. However, the company's free cash flow depends heavily on their investment cycle. Recently FCF has dropped to the negative side (strong FCF during the rebuilding) but should improve clearly from 2018 onwards when CAPEX drops back below depreciation, as discussed earlier. This reflects positively also Suominen's payout capacity in the next years.

No write down risks in non-current assets

The majority of Suominen's non-current assets consist of tangible assets, which are mostly plants and machinery. At the end of Q1'17 tangible assets were 140 MEUR. This includes a significant part of the investments in the new line in Bethune. At the end of Q1'17 the balance sheet contained some 16 MEUR of goodwill representing 15 % of equity attributable to share-holders. Other intangible rights were 15 MEUR at the end of Q1'17. We see no write-down risks in these items as the company depreciates its assets fairly fast and units carrying goodwill are generating well positive cash flow.

Financial position (2/2)

Vendor loan is an interest bearing receivable

On the non-current asset side, the fourth meaningful non-current item in the asset side is a loan receivable of 7 MEUR (Q1'17). This is related to Flexibles' divestment as Suominen gave a vendor loan for the buyers to finance the transaction. The item is treated as an interest bearing receivable in accounting. The receivable is divided to a loan note maturing at the end of 2018 and which has an interest of 6 % p.a. and a subordinated loan note maturing at the end of 2024 with an interest rate of 9 % p.a. Thus, the company should get some 0.4-0.5 MEUR per annum as financial income from the vendor loan. We see the receivable current as Flexibles' (currently Amerplast) have managed to improve its financial performance. In addition, Suominen has earn-out of 1 MEUR based on Flexibles' financial performance but there is still major uncertainty over its realization and timing (could be 2-4 years). In addition, Londsdale Capital Partners will most probably aim to exit from Amerplast after the successful turnaround. This would allow also Suominen to sell its equity stake of 19.9 % in Amerplast potentially with a one-time profit.

NWC-level is competitive

On the current asset side, the three biggest items were inventories (39 MEUR), trade receivables (59 MEUR) and cash (26 MEUR) at the end of Q1'17. Generally, we believe that the NWC items (including payables in liabilities) are on a good level since Suominen has been able to trim down its NWC clearly during the rebuilding phase. At the end of 2016 the NWC to net sales ratio was slightly above 8 %. We believe that the current level should be a sustainable level for Suominen but as the company grows it will tie up more capital. This trend began in 2015 and we expect that it will continue in the coming years. Other items in current assets have fairly limited significance on the group level.

Hybrid bond conversion will increase number of shares in 2018

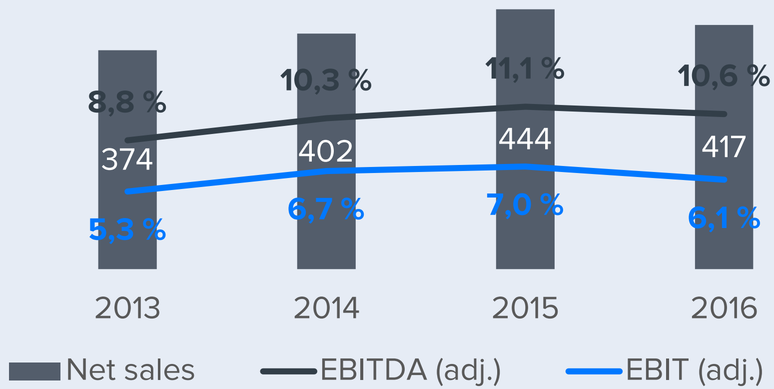
In the liabilities side Suominen has 124 MEUR of equity attributable to owners of the parent company and a 16 MEUR convertible hybrid bond that Suominen used to finance Paulinia acquisition. As mentioned before, the latter item will be converted to share capital at the latest in February 2018, which will increase Suominen's number of shares around 13 % to maximum 58 million shares. As the conversion price is only 2.50 euro per share, the financing structure of Paulinia acquisition made the transaction fairly expensive for the shareholders. This increase in number of shares has an impact on Suominen's acceptable valuation currently.

Suominen's non-current liabilities included a 75 MEUR bond maturing in September 2019 and a 11 MEUR bank loan. At the end of 2015 Suominen converted its euro nominated bank loans to USD in order to create a natural hedge for EUR/USD. We consider this as a good move given the company's sensitivity to EUR/USD but its hedging impact is low given the company's operating USD flows and the amount of debt. In addition, the company has 30 MEUR non-draft revolving credit facility for NWC needs. The five-year senior bond has a coupon rate of 4.4 % while interest rate of the bank loan should be lower, around 1.5-2.5 % per annum. As discussed, we consider these as competitive levels. Current liabilities are dominated by payables of 58 MEUR. Total assets were at 317 MEUR at the end of Q1'17, thus Suominen operates with reasonably light and current balance sheet given the scale of the business.

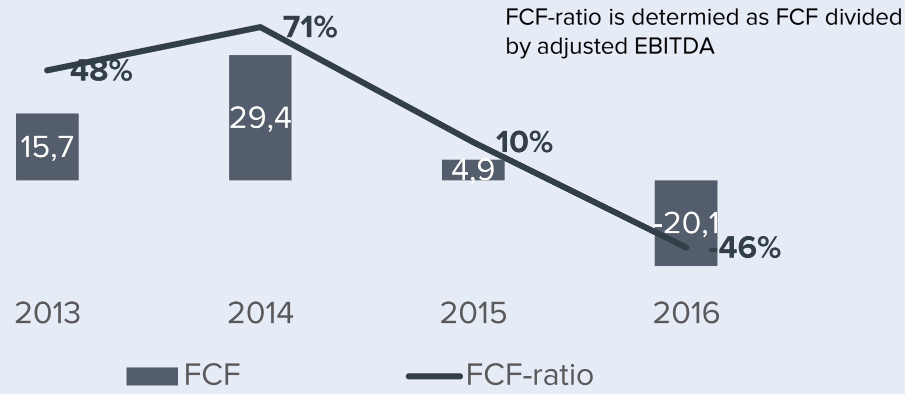
Suominen's gearing was 44 % and equity ratio 50 % at the end of Q1'17. As mentioned, we argue that Suominen needs certain leverage to keep WACC-% reasonable and to boost return on equity. Thus, the company has still wide financial freedom to execute their strategy and keep the balance sheet optimal also from the perspective of the ROI-target. Therefore, the company is in solid financial position in every perspective and the balance sheet supports execution of the company's growth strategy.

Financial position

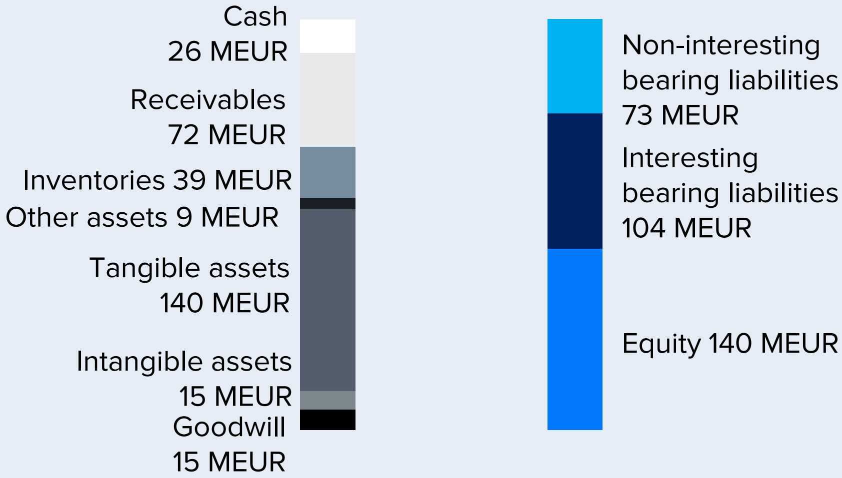
Development of sales and profitability



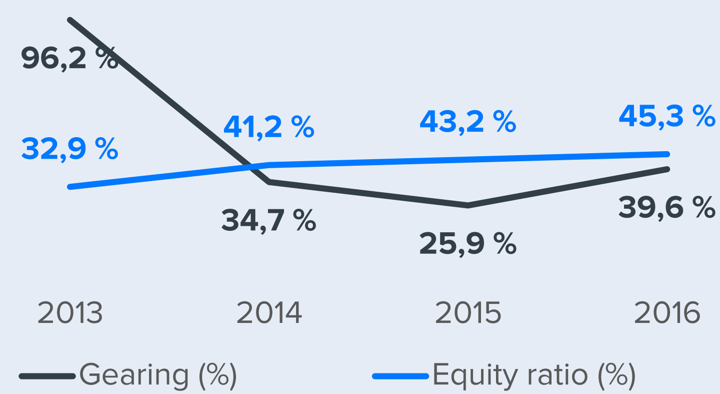
Free cash flow



Balance sheet structure at the end of Q1'17



Historical development of balance sheet



Source: Inderes, Suominen

Estimates (1/2)

Short and medium term outlook

Suominen's main relevant macroeconomic drivers consist of GDP growth and consumer confidence. Considering Suominen's main markets, GDP growth was good in North America during 2016. On the other hand, Europe continued to show positive signs and began gradually to close the growth cap to North America despite its structural challenges.

The macroeconomic big picture has remained mostly the same at the beginning of 2017 even if US has reported somewhat weaker than expected figures in Q1'17. There has also been some decline in consumer confidence but it has remained on a good level in absolute terms. Europe has continued on a positive track and growth seems to accelerate slightly above US' rate. This is mostly due to ECB's QE increasing exports and also slightly investments while low oil price has given some additional support. However, governments have failed to make structural changes, which is somewhat worrying. Correspondingly, consumer confidence has remained on an upward trend reflecting improving GDP growth. Brazil has been recovering as rising commodity prices have supported the economy but uncertainty has remained due to internal issues in the country.

From macroeconomic perspective our profit estimates for Suominen are based on IMF's GDP forecasts, which expect US' GDP to grow 1.9 % in 2017, 1.7 % in 2018 and 1.6 % in 2019. Corresponding figures for Eurozone are 2.2 % in 2017, 1.9 % in 2018 and 1.7 % in 2019. Therefore, we expect the decent macroeconomic environment in Suominen's major markets for the next years in the base case. However, debt risks (Southern Europe, Japan and China), uncertain geopolitical situation, Trump and Brexit keep risks high short and medium term. Thus, uncertainty around operating environment will remain concrete in the next few years and major changes in GDP outlook are possible if the risks would be realize.

2017 estimates

Suominen got a decent start for 2017 since the company's net sales increased 8.7 % to 112.9 MEUR in Q1. Good topline growth was driven by good trading conditions and volumes increased clearly compared to the weak Q1'16. In addition, FX gave minor support for the topline. Volumes drove GM-% up 0.8 %-points to 12.1 % while SGA-% increased 0.6 % to 6.6 % due to growth efforts. Thus, Suominen's EBIT was 6.3 MEUR in Q1, which corresponds to a EBIT-margin of 5.5 %. EPS came at 0.06 euro per share as net financing costs were low (interests activated due to IFRS) and tax-rate was fairly normal at 31 %. As discussed the new line in Bethune did not start in Q1 as planned due to improper design in parts of the machinery. The company expects the plant to start-up in Q2 while we expect deliveries to begin mostly likely in early Q3.

The management retained its guidance for FY'17 in their Q1'17-report. Thus, Suominen expects that its net sales will improve in 2017 from year 2016 (2016: 416.9 MEUR) and comparable EBIT (2016: 25.9 MEUR) will improve in 2017 from year 2016, provided that the new production line at the Bethune plant will be started up as planned. As discussed, demand outlook has remained healthy but on the other hand pricing suffers still from recent capacity increases in the certain segments. In addition, raw material prices are picking-up, which will most likely cause margin pressure at least during the summer. Given this market framework and delayed start-up we are somewhat worried about the company's short term profit growth outlook despite the positive Q1.

Currently we estimate Suominen will grow 9.4 % and report 456 MEUR net sales and 27.5 MEUR EBIT (excl. NRI) in 2017. This corresponds to EBIT-% of 6.0 %. New volumes from Bethune will drive net sales growth in H2 but we also expect product mix to continue gradual improvement but pricing directly remains slightly challenging. Also pass through of raw-material prices should support reported sales in H2. However, we estimate GM-% to remain flat at 12.5 % due to pricing, raw-material cost inflation and Bethune start-up. We estimate SGA-% to remain basically flat at 6.5 % in 2017. However, we would like to remind that these estimates expect only minor loss from the new line of Bethune in 2017. The line will begin its lifecycle as EBITDA negative (low efficiency even if volumes should be decent due to delay) and the start-up curve is very uncertain. As Bethune's depreciation burden the group's EBIT 1-1.5 MEUR/Q from Q3 onwards, our assumption on slight loss may be well too optimistic. Thus, there are concrete short term risks related to profit growth.

Below EBIT we forecast Suominen's net financing costs to be at -3.2 MEUR in 2017, which means basically 1 MEUR/Q net financing costs for Q2-Q4. This is a fairly normalized level considering the company's debt structure and other annual financing costs.

Estimates (1/2)

Tax-rate remains at normalized level of 33 % in 2017 as we do not include potential reduction of the corporate tax in US in to our estimates. Altogether, we estimate EPS to remain flat at 0.30 euros this year as completed hybrid bond conversions increase number of shares and eat net profit growth. However, we expect that Suominen raises its dividend to 0.12 euros per share, which reflects the company's dividend policy (2016e: payout-ratio 40 %). FCF will be low in 2017 as part of Bethune's CAPEX will be accounted in 2017. Suominen's financial position strengthen moderately in 2017.

2018 estimates

We expect positive progress to continue in 2018 as market fundaments reflecting good GDP growth in Europe and US should support the sector also in 2018. However, Bethune's new line should give clear support to volumes during the year even if first months may be still ramp-up phase. Therefore, full volume and profit impact from the line will be seen only in 2019. We expect that Suominen should be able to improve its product mix somewhat faster in 2018 as new value added products launched in 2015-2017 have had time to take off and Bethune investment enables faster mix transformation.

We estimate net sales of 488 MEUR for Suominen in 2018. This corresponds for 7.0 % growth, which comes once again from volume and value driven mostly by the Bethune investment. Our GM-% estimate for 2018 is 13.0 % which reflect product mix transformation. We see that SGA will continue to face pressure upwards in 2017 on absolute terms but operating leverage should push relative figures down. Therefore, we expect SGA-% will drop marginally 0.3 %-points to 6.2 %. These three factors should boost Suominen's EBIT to 32.8 MEUR in 2018, which corresponds to the company's second best EBIT-% of 6.7 %.

Financing costs should remain somewhat intact at around 3.6 MEUR/a (large share of bond financing). We estimate Suominen's tax-rate to remain at 33 % in 2018, thus potential cuts in the US corporate tax-rate are not included in the estimates and taxation changes would push EPS estimates somewhat higher. Altogether, we expect Suominen to make EPS of 0.34 euros in 2018 as the last hybrid bond conversions will increase number of shares and dilute profit growth on EPS level. Positive progress of EPS will still keep dividend on uphill track and we estimate Suominen pays out 0.13 euro DPS, being in line with the company's dividend policy (2017e: 39 % payout). In addition, CAPEX should go clearly down in 2018, which correspondingly should push FCF upwards. Therefore, net profit and strong FCF will begin to create financial flexibility to the company's balance sheet (2018e: equity ratio 50 %, gearing 21 %).

2019 estimates

2019 should not offer any changes to the big picture of nonwoven markets that remain growing steadily supported by the previously named drivers. We expect Suominen's growth to remain above market growth in 5 % as gradual improvement of product mix continues and Bethune reaches its full volume potential. Our net sales estimate is 512 MEUR for FY'19.

We expect Suominen's GM-% to reach 13.3 % in 2019 as improving product mix and efficiency support GM-% expansion, which is partially offset by fierce price competition. We forecast SGA-% will keep on going down by 0.2 %-points to 6.0 %. These three factors will lift Suominen's EBIT to 37.2 MEUR in 2019 in our estimates, which corresponds the company's ATH EBIT-% of 7.3 %. In 2019 we estimate net financial items of 3.3 MEUR due to diminishing interest bearing debt in the balance sheet and normal tax rate of 33 %. FY'19 EPS estimate is 0.39 and DPS estimate 0.14 euro. FCF remains strong and the balance sheet keeps on strengthening, which gives the management even more options to capital allocation.

Long term estimates

From 2020 onwards we are expecting the growth to be in range of 2.0-4.4 % which represents the average growth rate of the industry and GDP of the main markets over the long term. We estimate EBIT margin to peak at 8 % in 2021 and to decrease to 5-7 % over long term when competition intensifies. Thus, our long term estimates stay significantly below the company's 2021 targets. Therefore, there could be clear upside in medium term estimates if the company can demonstrate its ability to push its profitability to new levels in the coming decade.

These estimates are based on organic growth even if we believe that Suominen will make M&As by the latest at the end of the current strategy period and/or over the long term. Thus, potential transactions could have significant impact on estimates but their timing is naturally impossible to estimate. In addition, long term estimates are non-cyclical averages as neither timing of cycles is possible to forecast.

Estimates

Quarterly earnings	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17e	Q3'17e	Q4'17e	2017e	2018e	2019e
Net sales	**444,0**	**103,9**	**108,8**	**103,8**	**100,4**	**416,9**	**112,9**	**116,5**	**115,2**	**111,4**	**456,0**	**487,9**	**512,3**
Nonwovens	*444,0*	*103,9*	*108,8*	*103,8*	*100,4*	*416,9*	*112,9*	*116,5*	*115,2*	*111,4*	*456,0*	*487,9*	*512,3*
EBITDA	**49,5**	**10,1**	**13,2**	**12,6**	**8,2**	**44,1**	**10,9**	**13,7**	**13,2**	**10,5**	**48,4**	**55,7**	**59,2**
Depreciation	-17,7	-4,6	-4,5	-4,7	-4,6	-18,5	-4,7	-4,7	-5,8	-5,8	-21,0	-22,9	-22,0
EBIT (excl. NRI)	**31,3**	**5,5**	**8,7**	**7,9**	**3,5**	**25,6**	**6,3**	**9,0**	**7,4**	**4,7**	**27,5**	**32,8**	**37,2**
EBIT	**31,8**	**5,5**	**8,7**	**7,9**	**3,5**	**25,6**	**6,3**	**9,0**	**7,4**	**4,7**	**27,5**	**32,8**	**37,2**
Nonwovens	*31,8*	*5,5*	*8,7*	*7,9*	*3,5*	*25,6*	*6,3*	*9,0*	*7,4*	*4,7*	*27,5*	*32,8*	*37,2*
NRI	*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	-5,3	-0,2	-1,0	-0,8	-1,1	-3,2	-0,2	-1,0	-1,0	-1,0	-3,2	-3,6	-3,3
PTP	**26,5**	**5,3**	**7,7**	**7,0**	**2,4**	**22,4**	**6,1**	**8,0**	**6,4**	**3,7**	**24,3**	**29,2**	**33,9**
Taxes	-9,5	-1,9	-2,5	-2,1	-0,8	-7,2	-1,9	-2,7	-2,3	-1,3	-8,1	-9,6	-11,2
Minority interest	0,0	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	**17,0**	**3,4**	**5,3**	**4,9**	**1,6**	**15,2**	**4,2**	**5,3**	**4,2**	**2,4**	**16,1**	**19,6**	**22,7**
EPS (adj.)	**0,07**	**0,07**	**0,10**	**0,09**	**0,03**	**0,30**	**0,08**	**0,10**	**0,08**	**0,05**	**0,30**	**0,34**	**0,39**
EPS (rep.)	**0,07**	**0,01**	**0,02**	**0,02**	**0,01**	**0,06**	**0,08**	**0,10**	**0,08**	**0,05**	**0,30**	**0,34**	**0,39**

Key figures	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17e	Q3'17e	Q4'17e	2017e	2018e	2019e
Revenue growth-%	10,5 %	*-7,2 %*	*-3,6 %*	*-9,7 %*	*-3,7 %*	-6,1 %	*8,7 %*	*7,0 %*	*11,0 %*	*11,0 %*	9,4 %	7,0 %	5,0 %
Adjusted EBIT growth-%	16,5 %	*-24,1 %*	*-12,8 %*	*-19,5 %*	*-17,4 %*	-18,2 %	*12,9 %*	*3,9 %*	*-5,5 %*	*34,8 %*	7,2 %	19,4 %	13,6 %
EBITDA-%	11,1 %	*9,8 %*	*12,1 %*	*12,1 %*	*8,1 %*	10,6 %	*9,7 %*	*11,8 %*	*11,5 %*	*9,5 %*	10,6 %	11,4 %	11,6 %
Adjusted operating profit-%	7,0 %	5,3 %	8,0 %	7,6 %	3,5 %	6,1 %	5,5 %	7,7 %	6,5 %	4,3 %	6,0 %	6,7 %	7,3 %
Net profit-%	3,8 %	3,3 %	4,8 %	4,7 %	1,6 %	3,6 %	3,8 %	4,5 %	3,6 %	2,2 %	3,5 %	4,0 %	4,4 %

Source: Inderes

Key estimate parameters	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17e	Q3'17e	Q4'17e	2017e	2018e	2019e
Net sales growth (%)	10,5 %	-7,2 %	-3,6 %	-9,7 %	-3,7 %	-6,1 %	8,7 %	7,0 %	11,0 %	11,0 %	9,4 %	7,0 %	5,0 %
*Volume growth (%) **	0,0 %	-3,6 %	0,0 %	-7,7 %	-2,3 %	-3,4 %	7,5 %	7,0 %	8,0 %	10,5 %	8,3 %	5,5 %	4,0 %
*Price/Mix growth (%) **	0,0 %	-3,6 %	-2,4 %	-2,0 %	-2,3 %	-2,6 %	-1,0 %	0,0 %	3,0 %	3,0 %	1,3 %	2,5 %	2,0 %
*FX change (%) **	10,5 %	0,0 %	-1,2 %	0,0 %	0,9 %	-0,1 %	2,6 %	0,0 %	0,0 %	-2,5 %	0,0 %	-1,0 %	-1,0 %
Gross-margin (%)	13,1 %	11,4 %	13,8 %	14,0 %	10,9 %	12,5 %	12,1 %	14,0 %	12,8 %	10,9 %	12,5 %	13,0 %	13,3 %
SGA-%	-5,9 %	-6,0 %	-5,8 %	-6,4 %	-7,4 %	-6,4 %	-6,6 %	-6,3 %	-6,3 %	-6,6 %	-6,5 %	-6,2 %	-6,0 %

Source: Inderes *Inderes estimate also on actual years

Suominen's main profit drivers and their outlook

Positive driver
Negative driver
Neutral driver

Nonwoven demand
High consumer confidence / good GDP growth outlook

Costs / raw-materials
Raw-material prices are picking-up, moderate inflation in other cost items

Competition / price
Capacity grows in some grades but overall market balance outlook is reasonable, structurally weak pricing power

Suominen

EUR/USD
EUR/USD is on par of the last year level and global FX forwards expect fairly flat EUR/USD going forward

Product mix
Investments in machinery and innovation enable gradual product mix improvement. Markets supports the efforts

Source: Inderes

Valuation and recommendation (1/2)

Valuation cornerstones

After the rebuilding and corresponding turnaround case, investors categorize Suominen as a growing manufacturing company. Thus, Suominen will be valued by income statement based valuation multiples, most importantly by P/E-ratio. However, we use also EV-multiples to value the share as they take into account Suominen's fairly strong balance sheet unlike P/E. Especially EV/EBITDA is a useful multiple as EBITDA illustrates the solid operating cash flow that Suominen can generate. Correspondingly, cash flow based valuation by P/FCF is also a feasible metric. In addition, P/B is always a good multiple in manufacturing industry even if in our opinion Suominen should not be directly valued by the balance sheet as the company operates in less capital intensive sector of manufacturing.

We argue that the defensive nature of consumer related nonwoven business support Suominen's acceptable valuation level. Due to this factor we also give forward looking multiples relatively large weight in our valuation as visibility to the demand is fairly reasonable. On the other hand, the company's difficult value chain position, limited opportunities to differentiate and weak pricing power offset this partially. Given that background, we argue Suominen should be valued by with a P/E-ratio of 13x-15x in the current organic growth phase. Correspondingly, acceptable EV/EBITDA-ratio is somewhere between 6x-7x in our opinion, which is in line with Suominen's historical valuation. The latter figure should be proportionally somewhat lower as EV/EBITDA does not take into account Suominen's hefty normalized tax rate of 30-35 % like P/E does. Acceptable EV-based valuation range is supported also by recent M&A-activities in the sector since Blackstone sold Avintiv to Berry Plastics for LTM EV/EBITDA 8x in the summer of 2015 while few months earlier Mondi acquired Ascania for LTM EV/EBITDA 6x. These deals give a good indication for valuation levels in the business even if several factors have impacted on transaction prices in M&A-cases.

Suominen's P/E-ratios for the next two years based on our estimates are 16x and 15x. The figures take into account the increase in number of shares due to hybrid bond conversions done in 2017 and coming by 2/2018 (we expect full dilutive impact as share price is well above conversion price). Increasing number of shares mitigate estimated strong net profit growth in 2017. Corresponding EV/EBITDA-ratios are 7x-5x. Therefore, given our valuation range for Suominen, we see the share fairly valued looking 12 months forward and after the share's over 17 % uphill YTD. Dividend yields are moderate 2.5 % and 2.9 % but the growth outlook of the dividend remain good. P/B of 1.8x, which is in line with the company's median balance sheet valuation in 2012-2016. Thus, neither P/B indicates severely incorrect valuation.

Relative valuation is only an indication

As Suominen's direct competitors in wiping segment are private equity owned companies or parts of large corporations consisting of several business segments, valuing the share in relation to the peer group is challenging. However, we have collected a peer group, which includes a few listed companies from other segments of nonwoven industry. On the other hand, we have included in the peer group also companies from other sectors, which have similar business model (manufacturing), type of products (not branded consumer related goods) and value chain position to Suominen. The peer group table is on the next page. However, the peer group is far from complete in terms of size and type of companies, thus we keep its weigh limited in our valuation.

Suominen is valued a small discount by P/E-ratio and dividend yield and with a clear discount by EV-based ratios compared to this peer group. Therefore, relative valuation does not seem very challenging. However, we argue some discount is justified as Suominen's business portfolio is smaller and less widely spread than the peer group, which makes its risks profile somewhat higher. In addition, EV-multiples do not take into account Suominen's hefty tax rate which justifies higher discount by EV/S, EV/EBITDA. EV/EBIT.

The markets seem to accept relatively high valuation for this type of defensive consumer related companies on absolute terms currently. This supports also Suominen's valuation in our opinion but given fairly gross valuation (2017e: median P/E 18x, median EV/EBITDA 10x) of loosely related peer group, we do not believe relative valuation will drive Suominen's share higher short term. Therefore, decent relative valuation does not make us too excited and we keep on paying more attention on absolute multiples.

Valuation and recommendation (2/2)

DCF-valuation

We give a fairly low weight on DCF-value in our valuation as the model is very sensitive to changes in parameters. DCF-model, based on our long term estimates, gives a value of 5.63 euro per share for Suominen. This reflects long term potential that is in the share. However, we do not believe the share reaches its DCF-value before the company can demonstrates that it can return to organic growth and lift margins to the new levels around 7-8 %. Weight of terminal value is reasonable at 48 % in the model. WACC-% of the model is at 7.4 % and cost of equity at 8.8 %. Risk free interest rate is 3.0 %, market risk premium 4.75 %, liquidity premium 1.0 % and beta 1.0.

Clear medium term potential if 2021 targets will be reached

We argue there is clear medium term potential in a positive scenario in Suominen. We estimate Suominen should make over 0.60 EUR EPS in 2021 if the company reaches 600 MEUR net sales and 10 % EBIT-% in 2021 (net financing costs 0.5-1.0 % of sales and tax-rate 33 %). With this impressive track-record in 2021, Suominen could be easily valued by P/E 15x. This would give share price of at least 9.00 euro per share at the end of 2021. As the share trades currently at slightly below five euros, investor's would get an 85 % share price appreciation and dividends of four years if the positive scenario realizes. Thus, TSR for four and half year investment would go roughly to 100 %, which corresponds to an IRR over 15 % per annum. This would be a very attractive upside but profit growth risks are concrete.

Target price and recommendation

We retain Suominen's target price of 5.10 euros and recommendation at reduce as the 12 month forward looking valuation is fairly neutral in our opinion and given somewhat elevated risks related to short term profit growth outlook. As discussed, the positive scenario would give clear upside for the share medium term for but we are not yet willing to stretch short term valuation too much before the company can provide more evidence that growth will exceed clearly market growth and margins will expand to a totally new level. Therefore, we continue to wait slightly higher margin of safety before considering higher target price and positive recommendation even if Suominen's long term investment story contain certain interesting elements.

Valuation multiples and sensitivity analysis

Valuation	2012	2013	2014	2015	2016	2017e	2018e	2019e
Share price	1,75	2,40	4,00	6,20	4,14	4,95	4,95	4,95
MCAP	86	118	197	313	212	266	266	266
EV	183	194	243	354	277	322	301	277
P/E (adj.)	259,3	17,9	17,7	18,9	14,0	16,5	14,7	12,7
P/E	neg.	20,7	19,3	18,4	14,0	16,5	14,7	12,7
P/FCF	1,4	4,4	13,7	36,9	-9,1	15,5	8,9	7,9
P/B	0,9	1,5	1,8	2,5	1,5	1,7	1,6	1,5
P/S	0,2	0,3	0,5	0,7	0,5	0,6	0,5	0,5
EV/S	0,4	0,5	0,6	0,8	0,7	0,7	0,6	0,5
EV/EBITDA	6,0	5,3	5,2	7,0	6,1	6,7	5,4	4,7
EV/EBIT	14,2	8,6	7,8	10,9	10,4	11,9	9,2	7,4
Payout (%)	0,0 %	0,0 %	24,2 %	29,7 %	37,1 %	40,0 %	38,7 %	36,0 %
Dividend yield-%	0,0 %	0,0 %	1,3 %	1,6 %	2,7 %	2,4 %	2,8 %	3,1 %

Source: Inderes

Value matrix 2017e (2017 net sales, net debt and number of shares)

		EBITDA-%					
		10,1 %	10,3 %	10,5 %	10,7 %	10,9 %	11,1 %
EV/EBITDA	5,0	3,23	3,32	3,41	3,50	3,58	3,67
	5,5	3,68	3,78	3,87	3,97	4,07	4,17
	6,0	4,13	4,23	4,34	4,45	4,56	4,66
	6,5	4,58	4,69	4,81	4,92	5,04	5,16
	7,0	5,03	5,15	5,28	5,40	5,53	5,65
	7,5	5,48	5,61	5,74	5,88	6,01	6,14
	8,0	5,93	6,07	6,21	6,35	6,50	6,64

Source: Inderes

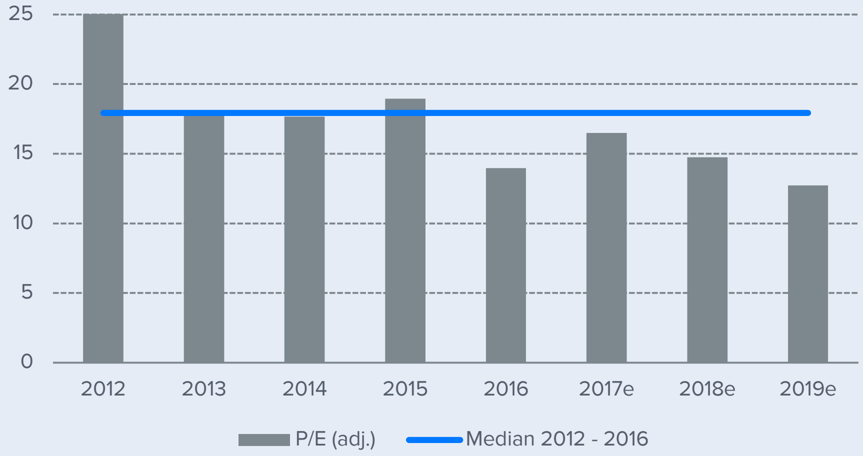
Value matrix with different sales and GM-% (2018 number of shares)

		420	440	460	480	500	520
		12,6 %	12,8 %	13,0 %	13,2 %	13,4 %	13,6 %
P/E	11	2,43	2,86	3,30	3,76	4,22	4,69
	12	2,65	3,12	3,60	4,10	4,60	5,12
	13	2,87	3,38	3,90	4,44	4,99	5,55
	14	3,09	3,64	4,20	4,78	5,37	5,98
	15	3,31	3,90	4,50	5,12	5,76	6,40
	16	3,53	4,16	4,80	5,46	6,14	6,83
	17	3,75	4,42	5,10	5,81	6,52	7,26

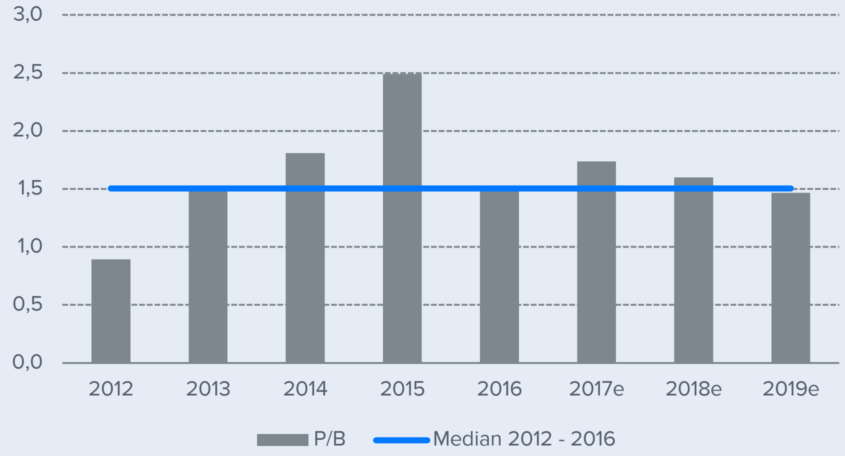
*SGA 30.4 MEUR, 3.5 MEUR net financing costs, 33 % tax-rate)

Historical valuation of Suominen

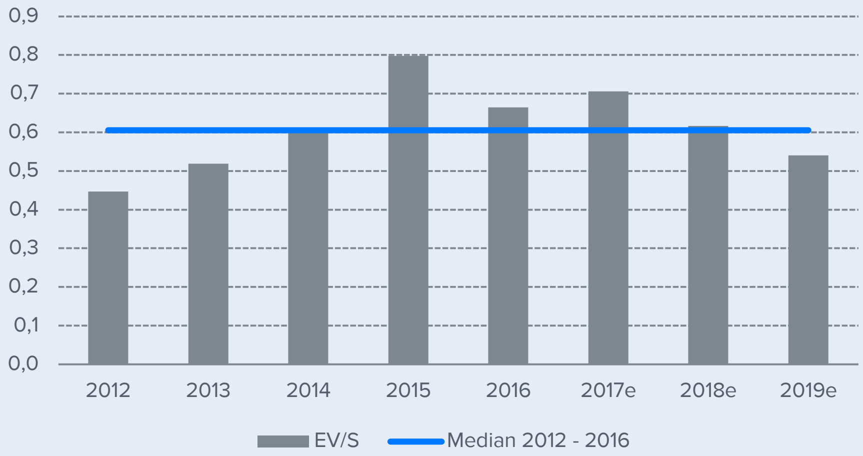
P/E (adj.)



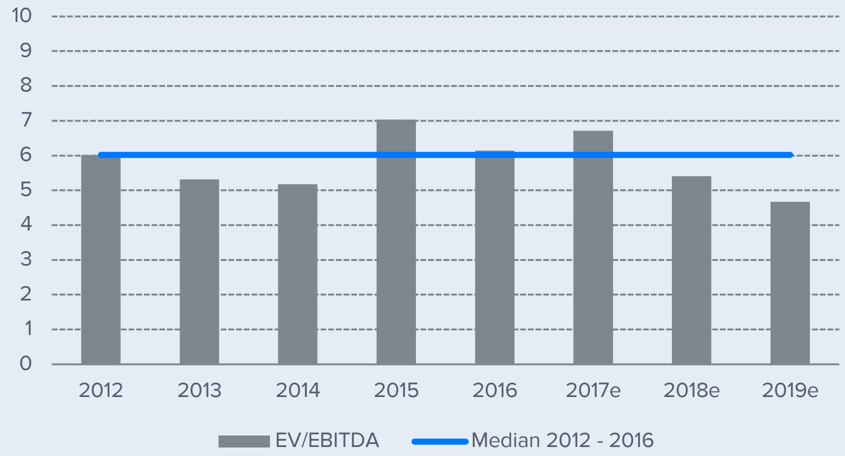
P/B



EV/S

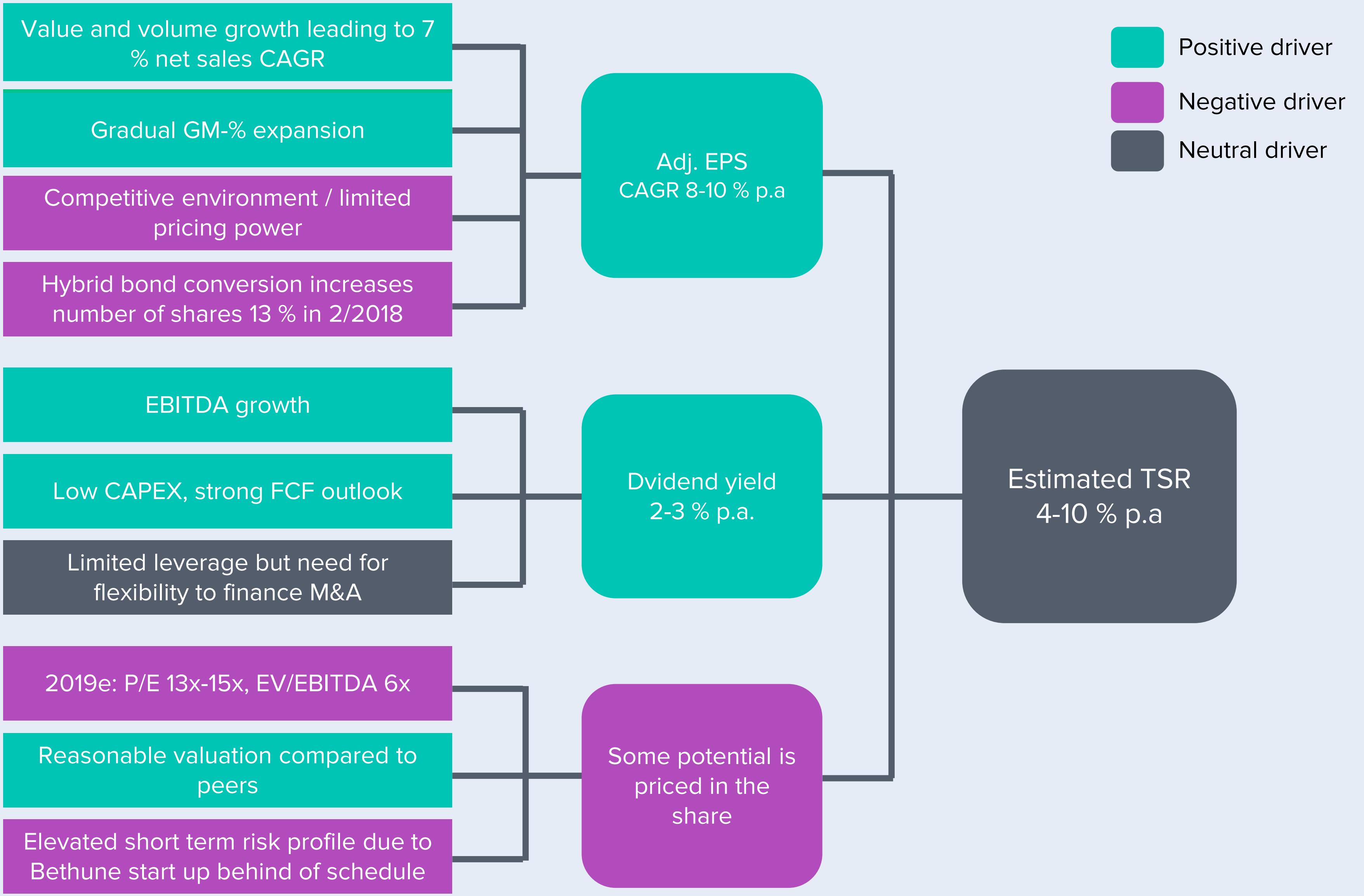


EV/EBITDA



Source: Inderes

Suominen's value drivers in 2017e-2019e



Source: Inderes

Peer group valuation

	MCAP	EV	EV/EBIT		EV/EBITDA		EV/Sales		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e	2018e	2017e
Suominen	252	317	11,2	9,6	6,3	5,2	0,7	0,6	16,5	14,8	2,5	2,7	1,7
Huhtamäki	3868	4604	15,2	13,8	10,7	9,7	1,4	1,3	18,2	16,3	2,3	2,7	2,9
Duni	575	644	13,8	13,0	10,2	9,7	1,5	1,5	14,9	14,0	4,5	4,6	2,2
Sealed Air	7926	11427	17,9	15,1	14,4	12,5	2,7	2,5	25,2	17,9	1,4	1,3	
Riverstone	491	464	14,8	13,5	12,0	10,9	2,8	2,5	17,8	15,8	2,4	2,4	3,6
Pegas	327	481	18,0	16,4	11,1	10,3	2,3	2,1	17,1	15,0	3,6	3,8	
Halyard	1602	1994	13,9	12,8	10,2	10,3	1,4	1,3	20,6	18,8			1,9
Glatfelter	752	1069	13,1	10,6	7,1	6,2	0,7	0,7	15,4	12,3	2,5	2,6	1,2
Ahlstrom-Munksjö	1841	2030	12,3	9,4	6,5	5,6	0,8	0,8	18,3	13,7	3,4	3,9	1,7
Berry Plastics	6755	11927	15,1	13,6	9,3	8,6	1,7	1,6	20,1	17,4			9,2
Suominen (Inderes)	**266**	**322**	**11,9**	**9,2**	**6,7**	**5,4**	**0,7**	**0,6**	**16,5**	**14,7**	**2,4**	**2,8**	**1,7**
Average			**14,5**	**12,8**	**9,8**	**8,9**	**1,6**	**1,5**	**18,4**	**15,6**	**2,8**	**3,0**	**3,1**
Median			**14,4**	**13,2**	**10,2**	**9,7**	**1,5**	**1,4**	**18,0**	**15,4**	**2,5**	**2,7**	**2,0**
Premium/discount -% vs. mediaan			**-17 %**	**-31 %**	**-34 %**	**-44 %**	**-52 %**	**-56 %**	**-8 %**	**-4 %**	**-3 %**	**7 %**	**-15 %**

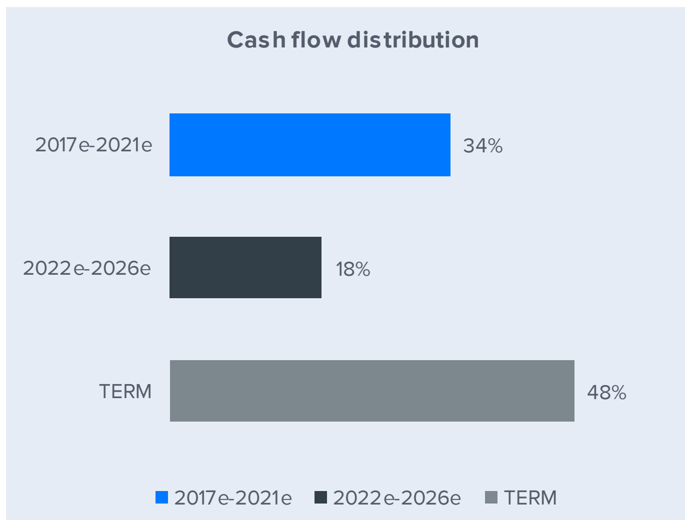
Source: Bloomberg / Inderes. Notification: Inderes' MCAP does not include treasury shares

DCF-model

DCF model

DCF model (MEUR)	2016	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	TERM
EBIT (operating profit)	**25,6**	**27,5**	**32,8**	**37,2**	**40,8**	**44,5**	**43,0**	**41,3**	**38,3**	**35,1**	**35,8**	
+ Depreciation	18,5	21,0	22,9	22,0	20,4	18,9	17,7	17,6	17,8	18,2	18,8	
- Paid taxes	-5,8	-8,1	-9,6	-11,2	-12,4	-13,6	-13,1	-12,6	-11,6	-10,5	-10,7	
- Tax, financial expenses	-1,0	-1,1	-1,2	-1,1	-1,1	-1,1	-1,1	-1,1	-1,1	-1,1	-1,1	
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	
- Change in working capital	-4,3	-1,9	-0,9	-0,2	-0,5	-0,3	-1,0	-1,1	-1,1	-1,1	-0,8	
Operating cash flow	**33,0**	**37,3**	**44,0**	**46,8**	**47,3**	**48,5**	**45,5**	**44,2**	**42,4**	**40,6**	**42,0**	
+ Change in other long-term liabilities	-0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
,- Gross CAPEX	-56,1	-20,1	-14,1	-13,1	-12,1	-12,1	-17,1	-19,1	-20,1	-21,6	-23,4	
Free operating cash flow	**-23,4**	**17,2**	**29,9**	**33,7**	**35,2**	**36,4**	**28,4**	**25,1**	**22,3**	**19,0**	**18,6**	
+/- Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-23,4	17,2	29,9	33,7	35,2	36,4	28,4	25,1	22,3	19,0	18,6	355,4
Discounted FCFF		16,6	26,8	28,1	27,4	26,4	19,2	15,8	13,1	10,4	9,4	180,4
Sum of FCFF present value		**373,4**	**356,9**	**330,1**	**301,9**	**274,6**	**248,2**	**229,0**	**213,2**	**200,2**	**189,8**	**180,4**
Debt free DCF		**373,4**										
- Interesting bearing debt		-94,5										
+ Cash and equivivalents		29,5										
-Minorities		0,0										
-Dividend/capital return		-5,6										
Equity value DCF		**302,8**										
Equity value DCF per share		**5,63**										

WACC	
Tax-% (WACC)	35,0 %
Target debt ratio (D/(D+E)	25,0 %
Cost of debt	5,0 %
Equity Beta	1,00
Market risk premium	4,75 %
Liquidity premium	1,00 %
Risk free interest rate	3,0 %
Cost of equity	8,8 %
Average cost of capital (WACC)	7,4 %



Source: Inderes

Income statement

(MEUR)	2014	2015	2016	2017e	2018e	2019e
Net sales	**402**	**444**	**417**	**456**	**488**	**512**
Costs	-360	-395	-373	-408	-432	-453
EBITDA	**41,5**	**49,5**	**44,1**	**48,4**	**55,7**	**59,2**
Depreciation	-15,6	-17,7	-18,5	-21,0	-22,9	-22,0
EBIT	**25,9**	**31,8**	**25,6**	**27,5**	**32,8**	**37,2**
NRIs in EBIT	*-1,0*	*0,5*	*0,0*	*0,0*	*0,0*	*0,0*
EBIT (excl. NRIs)	*26,9*	*31,3*	*25,6*	*27,5*	*32,8*	*37,2*
Net financial items	-16,6	-11,6	-9,9	-10,1	-10,2	-10,0
Associated companies	0,0	0,0	0,0	0,0	0,0	0,0
Pre-tax profit	**17,8**	**26,5**	**22,4**	**24,3**	**29,2**	**33,9**
Other items	0,0	0,0	0,0	0,0	0,0	0,0
Taxes	-7,6	-9,5	-7,2	-8,1	-9,6	-11,2
Minorities	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	**10,2**	**17,0**	**15,2**	**16,1**	**19,6**	**22,7**
Net earnings (excl. NRI)	*11,1*	*16,5*	*15,2*	*16,1*	*19,6*	*22,7*
Extraordinaries	-5,2	0,0	0,0	0,0	0,0	0,0
Profit for period	**5,0**	**17,0**	**15,2**	**16,1**	**19,6**	**22,7**
EPS	*0,21*	*0,34*	*0,30*	*0,30*	*0,34*	*0,39*
EPS (excl. NRIs)	***0,23***	***0,33***	***0,30***	***0,30***	***0,34***	***0,39***

Source: Inderes

Balance sheet

Assets (MEUR)	2014	2015	2016	2017e	2018e
Non-current assets	**135**	**142**	**179**	**178**	**169**
Goodwill	15	15	15	15	15
Intangible assets	13	13	14	14	14
Tangible assets	89	98	136	135	126
Associated companies	0	0	0	0	0
Other investments	2	1	1	1	1
Other non-current assets	11	10	9	9	9
Deferred tax assets	6	4	3	3	3
Current assets	**130**	**150**	**137**	**147**	**165**
Inventories	32	33	43	46	47
Other current assets	7	10	11	11	11
Receivables	52	52	54	59	63
Cash and equivalents	38	56	30	32	44
Balance sheet total	**265**	**292**	**316**	**325**	**334**

Liabilities (MEUR)	2014	2015	2016	2017e	2018e
Equity	**109**	**126**	**143**	**153**	**166**
Share capital	12	12	12	12	12
Retained earnings	-47	66	77	87	100
Shares repurchased	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	144	47	54	54	54
Minorities	0	0	0	0	0
Non-current debt	**92**	**106**	**99**	**96**	**88**
Deferred tax liabilities	9	11	11	11	11
Provisions	0	0	0	0	0
Long term debt	82	93	87	83	75
Convertibles	0	0	0	0	0
Other long term liabilities	2	2	1	1	1
Current debt	**64**	**60**	**74**	**76**	**80**
Short term debt	3	3	8	4	3
Payables	60	56	65	72	77
Other current liabilities	0	0	0	0	0
Balance sheet total	**265**	**292**	**316**	**325**	**334**

Source: Inderes

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Recommendation	Upside potential*
Buy	> 15 %
Accumulate	5 - 15 %
Reduce	-5 - 5 %
Sell	< -5 %

Potential regarding to 12 month target price

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Recommendation history

Date	Recommendation	Target price	Share price
14.7.2014	Buy	0,70 €	0,58 €
21.7.2014	Buy	0,70 €	0,60 €
27.10.2014	Accumulate	0,72 €	0,64 €
13.11.2014	Accumulate	0,72 €	0,67 €
8.1.2015	Reduce	0,82 €	0,88 €
2.2.2015	Accumulate	0,88 €	0,80 €
17.3.2015	Accumulate	1,00 €	0,95 €
28.4.2015	Accumulate	1,10 €	1,04 €
18.6.2015	Buy	1,10 €	0,90 €
20.7.2015	Accumulate	1,20 €	1,13 €
27.10.2015	Reduce	1,20 €	1,19 €
12.11.2015	Reduce	1,25 €	1,27 €
1.2.2016	Reduce	1,05 €	1,07 €
17.3.2016	Accumulate	0,95 €	0,84 €
29.4.2016	Accumulate	4,50 €	4,03 €
29.6.2016	Accumulate	4,50 €	3,93 €
9.8.2016	Reduce	4,80 €	4,58 €
21.9.2016	Accumulate	4,20 €	3,80 €
27.10.2016	Accumulate	4,60 €	4,34 €
1.2.2017	Accumulate	4,35 €	4,00 €
27.4.2017	Accumulate	5,10 €	4,77 €
11.5.2017	Reduce	5,10 €	5,00 €
22.6.2017	Reduce	5,10 €	4,87 €

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2017
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