ETTEPLAN

26 March 2013

Industrials - Finland

Initiating coverage: undervalued industry forerunner

We initiate coverage of Etteplan's share with a buy recommendation and 3.60 EUR target price. We see Etteplan as an industry forerunner whose share is significantly undervalued both absolutely and compared to peers. Our 6 month target price takes into account the dividend of 0.15 EUR and therefore holds an upside potential of around 20 %.

Strong position among the Finnish machinery industry

Etteplan is a specialist in industrial equipment design services and technical product information solutions. The company is a market leader in Finland and among the largest companies in the field in also Sweden. It has a strong customer portfolio constituting of several global companies that have been Etteplan's customers for more than 10 years. Company's demand follows both the R&D and the order delivery activity of the customer companies and industries. The design service industry is growing faster than the general economy.

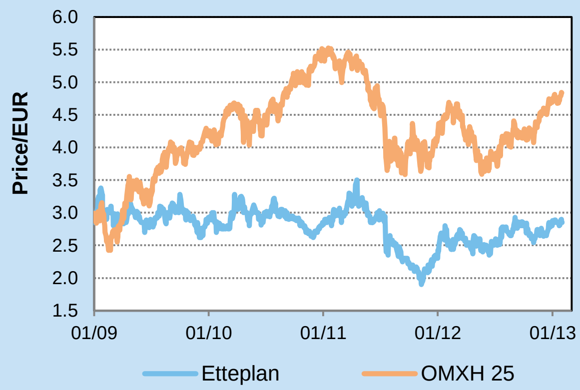
China and productized services hold great potential...

Etteplan has a significant presence in China, where is has been since 2004. Through China's offshoring Etteplan has been able to combine cost effectiveness with high quality and provide local presence for Etteplan's customers that have production there. The design services market in China is still immature, but has significant potential for Etteplan once the market starts to develop. In addition to the China's potential, we see Etteplan's new productized services as a second key driver for future earnings and growth. They offer more effective capacity utilization and better pricing than the traditional business.

...but it isn't visible in the very low valuation

Etteplan is currently valued with a steep discount against its peers, even though we believe it possesses some significant advantages compared to them. Using our current year estimates P/E is below 10x and EV/EBITDA is 6x, while the peer group medians are 14x and 8x respectively. We expect the valuation level of Etteplan to close the gap against peer group, when the equity market notices the undervaluation.

RATING BUY



Share price, EUR	**3.11**
Target price, EUR	3.60
Latest change in recommendation	23-Mar-13
No. of shares outstanding, '000's	19 708
No. of shares fully diluted, '000's	19 708
Market cap, mEUR	61
Free float, %	40.0
Reuters code	ETT1V.HE
Bloomberg code	ETT1V FH
Next interim report	03-May-13
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BUY ACCUMULATE REDUCE SELL

KEY FIGURES

	Sales mEUR	EBIT mEUR	EBIT %	Ptx profit mEUR	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2011	119	7	5.8%	6	0.23	9.5	0.5	6.7	8.8	0.10
2012	134	9	6.5%	8	0.29	9.2	0.5	4.6	7.8	0.15
2013e	141	9	6.6%	8	0.32	9.7	0.5	6.7	7.9	0.15
2014e	147	11	7.2%	10	0.38	8.2	0.5	5.8	6.4	0.18
2015e	154	12	7.7%	11	0.44	7.0	0.4	5.4	5.3	0.21

Market cap, mEUR	61	BV per share 2013E, EUR	1.4	CAGR EPS 2012-15, %	14.9
Net debt 2013E, mEUR	12	Price/book 2013E	2.2	CAGR sales 2012-15, %	4.7
Enterprise value, mEUR	73	Dividend yield 2013E, %	4.8	ROE 2013E, %	23.7
Total assets 2013E, mEUR	78	Tax rate 2013E, %	24.0	ROCE 2013E, %	20.4
Goodwill 2013E, mEUR	40	Equity ratio 2013E, %	36.3	PEG, P/E 13/CAGR	0.6

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1. Investment case summary

Etteplan is a specialist in industrial equipment engineering and technical product information solutions and services. It has a solid position in Finland, where it's a market leader, and it's also among the largest operators in the field in Sweden. Company has a 30-year track record and until the financial crisis company's profitable growth story was almost flawless. Etteplan employs roughly 1,080 experts in Finland, 460 in Sweden, 80 in the Netherlands and 150 in China.

Etteplan's customers include leading global manufacturers of industrial equipment and machinery, and over 72 % of industrial listed on the Helsinki Stock Exchange are Etteplan's clients. Many clients have been with Etteplan over a decade, and we believe that strong client relationships and references are one of the competitive advantages of the company. Other key factors are cost-competitiveness through China's offshoring and the quality of services, which includes also the development of productized services. Our investment case of Etteplan focuses on four key factors:

1) Etteplan has a solid position in an industry that is growing clearly faster than the GDP in the long run. The growth drivers are similar to those of Etteplan's clients, but in addition we believe that Etteplan's market is growing due to clients' increasing focus on core competences and continuing of the outsourcing trend.

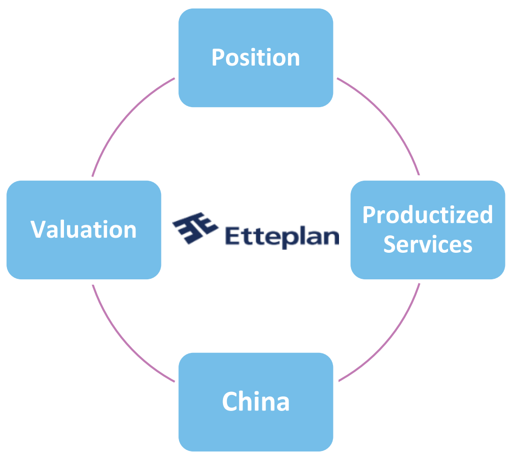
2) Company is an industry forerunner in productized services that hold significant potential. We believe that these help company to improve its profitability, strengthen its customer relationships and add more value for customers.

3) Etteplan has a notable presence and offshoring in China. Company is the largest and first Nordic company providing engineering design and technical product information services in China. We see this as a key China's engineering design market is finally starting to develop and the potential is massive, when the huge market finally matures.

4) The valuation of Etteplan's share is attractive. Etteplan is currently priced with P/E 10x, EV/EBITDA 6x and in general clearly below its peer group. Etteplan's business isn't sexy, but it's still a solid and profitable with reasonable good outlook. We believe that the current very low valuation ignores the potential of productized services as well as the China card, which gives investor another possible potential driver for increasing share price. We expect the valuation level of Etteplan to close the gap against peer group, when the equity market notices the undervaluation.

Solid position in a growing industry	• Strong market position especially in Finland • Long customer relationships • Industry growth clearly exceeds the growth of GDP
Productized services hold significant potential	• Etteplan is a forerunner in productized services • Share of managed services exceeded 20 % in 2012 • Significantly improves the capacity utilization and through this profitability
China's offshoring and market potential	• Etteplan is very well positioned in China • Offshoring is a key for cost-competitiveness • Engineering design service market starting to develop
Attractive valuation	• Etteplan's share is undervalued both in absolute terms and compared to peer group • We believe that markets overlook the potential of productized services and the China card

Create the foundation of Investment Case



Recommendation: Buy
Target price: 3.60 EUR

2. Basics of the engineering design business and company's strategy

Etteplan is a specialist in industrial equipment design services and technical product information solutions. Etteplan's engineering expertise and service products cover the entire life cycle of the client's products. Company is involved both in R&D activities of its clients as well as order- delivery processes and after markets. Company's customers are often in strong positions in their fields and operate in areas like machinery, automotive, aerospace and defense industries as well as the electricity generation and power transmission sectors, and material flow management.

Most of Etteplan's business is related to normal design services that company calls resource hiring, but it could be called also "expertise for rent". Simple put company rents personnel to its clients. However, it's important to understand that these resources are experts in their fields and typically know the clients´ processes and ways to work intimately. Clients are paying for these flexible but skilled workers for many reasons, but typical reasons are that clients' need expertise in an area that is not their own core, need a "buffer" due to variations of demand or just believe that they can optimize their own performance with a supplier with experience. Resource hiring business doesn't necessary sound very glamorous and Etteplan's brand is not visible in the end-products, but it's still a solid and profitable business and the market is growing. While specialization is growing a trend and companies want to concentrate on their core expertise, the subcontracting trend is also supporting Etteplan's business. Etteplan core business is designing industrial equipment, and we believe that company is very competitive in this field especially in Finland. Etteplan has comprehensive competence in electronics and embedded systems development, automation and electrical design, mechanical design and technical product information solutions and services.

When it comes to these typical services offered by Etteplan, there is a close relationship with Etteplan and client. This means that there has to be a local office with sufficient resources in all the key areas. Etteplan has 22 places of business in Finland, 14 in Sweden, one in the Netherlands and two in China. The network has to cover the key competence areas and offices need to be located close to the key clients. Often Etteplan's employees actually work on the premises of the clients. Etteplan's target is to be preferred supplier of all its clients, and it is always a Tier 1 supplier for its clients.

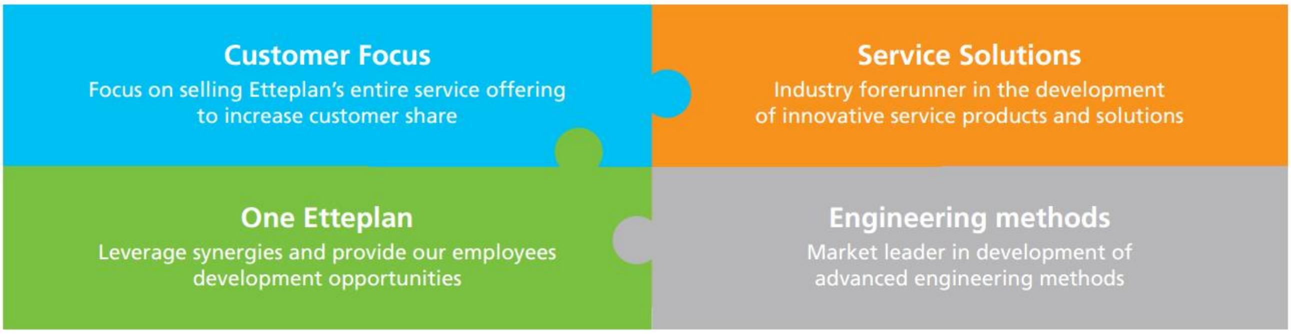
Etteplan is attempting to productize its services and has also had success in this. In 2012 over 20 % of Etteplan's sales come from managed services that can be divided into conceptualized service projects and continuing services. In managed services Etteplan is responsible for the outcome and manages its own resources. Some managed services have been developed into more concrete service products. There are quite a few repeatable and recurring tasks that are necessary in engineering, but are outside the core value creation processes. Etteplan has developed a set of service products to help clients with recurring and routine engineering work. Examples of productized services are Etteplan CORE (for reducing product costs), ITEM (for global item management) and LEAN (for efficient engineering processes). For Etteplan productized service offer an chance to create more efficient processes, while moving away from the "hour based pricing" for its services. Company calls itself an industry forerunner in providing productized services to increase the efficiency of engineering work, and it is the only company in its field that has productized services for different stages of engineering design.

In continuing managed services client has made an agreement with Etteplan where certain responsibilities, desired outcomes and pricing have been determined. This means that the specifications are known and there are no separate orders for these – Etteplan is part of clients process and responsible for its own part. Often company is connected to clients ERPs and even sees the tendering activity, which gives Etteplan a good visibility and enables it to optimize the use of its resources. One could say that managed services are the most developed part of evolution of services, since Etteplan has actually become part of the clients own processes.

Perhaps the biggest challenge that we see in Etteplan's business model is the generally low visibility in resource hiring. Company has practically no order backlog and even though the client relationships are generally very long, the short-term demand is difficult to estimate. Company's resources are more or less fixed in the short-term and capacity utilization is a key factor in profitability. Also pricing power is naturally limited, since the company is still subcontractor to its clients and most of Etteplan's services are also subjected to in-house / outsourcing decisions, where clients naturally want to see cost benefits. While the emerging markets like China provide Etteplan also many opportunities, also the more and more global competition is putting pressure on the prices.

2.1. Etteplan's strategy and financial targets

Etteplan's strategy was updated after the financial crisis, when the operation environment changed radically and for the first time in its history company was struggling financially. The goal of Etteplan's current strategy is to grow company value by utilizing the changes taking place in the business environment and by seizing the opportunities thereof. The four cornerstones of the strategy are:



Picture 1. The four cornerstones of Etteplan's strategy. Source: Etteplan

Customer Focus: Long-lasting and trustful customer relationships are valuable capital for Etteplan. Growing current customer relationships further by offering larger and more comprehensive services is an important strategic goal.

Service solutions: Etteplan's goal with the service products is to generate cost savings to customers and to improve efficiency of the different stages of the engineering processes. Etteplan focuses heavily on developing service products as part of its strategy, and considers itself to be a forerunner in the industry in this regard.

Engineering methods: By engineering methods company means methodologies, practices and processes that are deployed in engineering work. Etteplan's goal is to be a market leader in the development of advanced engineering methods. Improvements in engineering methods bring quality and cost savings to customers.

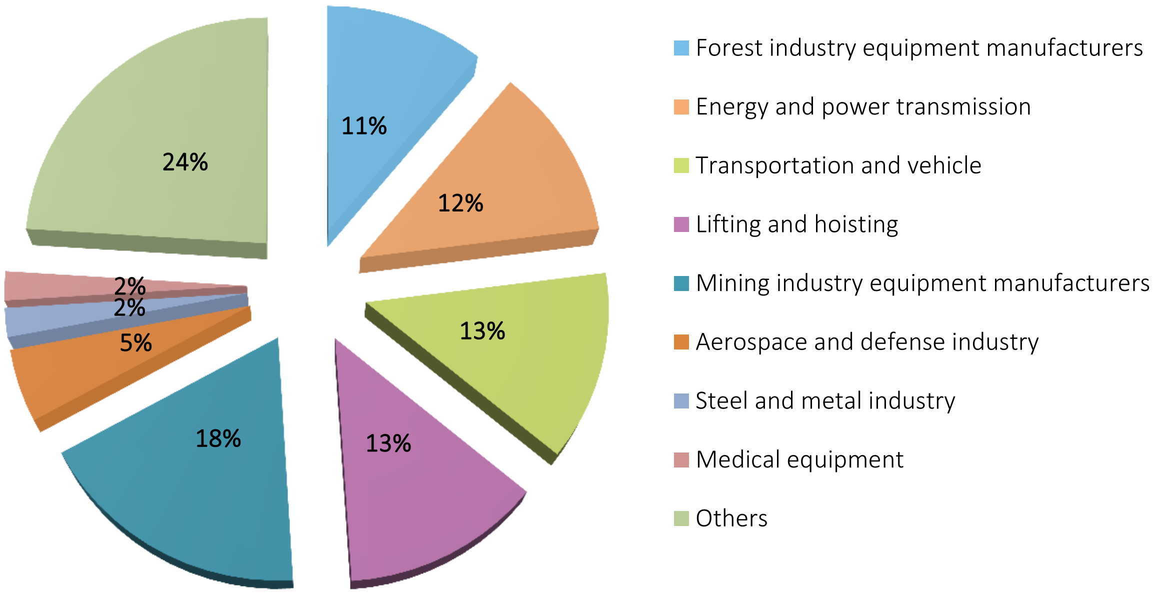
One Etteplan: As a result of business acquisitions and growth Etteplan's operations have expanded geographically and the service offering has grown. The development of internal processes and utilization of synergies is an important strategic goal for the company.

We find Etteplan's strategy, which is summarized above, to be relatively clear and believe that the focal points have been chosen correctly. Etteplan's vision is to be the number one partner for each customer. Company also has some financial targets that are also connected to the strategy and priorities of the company. Etteplan aims to improve its current strong market position and to ensure at least 10 % average annual organic growth. Company states that strong clientele and innovative service solutions are the sources of the organic growth. In business acquisitions the aim is to concentrate on increasing competence capital and clientele. Etteplan also has a profitability target, which is an operating profit margin of 10 %. This is a challenging target considering the current market condition, and we'll discuss it more in the following chapters. In addition to these Etteplan aims to improve cash flow to strengthen the balance sheet. This is naturally a good, but hardly a concrete target.

2.2. Business is built around long-term client relationships

Etteplan's business is built around value added to its customers' products and processes. It's important to understand that company has only a few own products, and customers always own the rights (IPR) of the products that Etteplan helps to develop. The key of Etteplan's success is therefore linked to the success of its customers and especially to value that Etteplan can create for them.

Etteplan's business is based on long-term global key accounts and company is the Preferred Supplier for almost all of its customers. Many of its client relationships have lasted over 10 years, which creates a strong bond with the companies. This is, in our opinion, also the biggest competitive edge that company has. Still the depth of the relationship varies a lot from customer to customer. Etteplan's most important client sectors can be seen in the graph below, where company's 2012 net sales have been divided according to customer industry.



Graph 1. *Etteplan's 2012 revenue divided to main customer segments.*

Etteplan's largest customers include Kone, Konecranes, Sandvik, Cargotec, Outotec, ABB, Metso, Rautaruukki, Saab AB and Atlas Copco. Etteplan has stated that 30 of its biggest clients derive roughly 80 % of company's revenue. Though the relative order between these companies varies from year to year, the top 30 list has been somewhat stable over the years. This customer portfolio is very important for Etteplan's success, and the stability of it is very important and reassuring for investors. One key takeaway from the customer portfolio is still that the demand of end-products is very much cyclical, which naturally reflects also on the demand of Etteplan's services.

Picture 2. *Some references of Etteplan.*

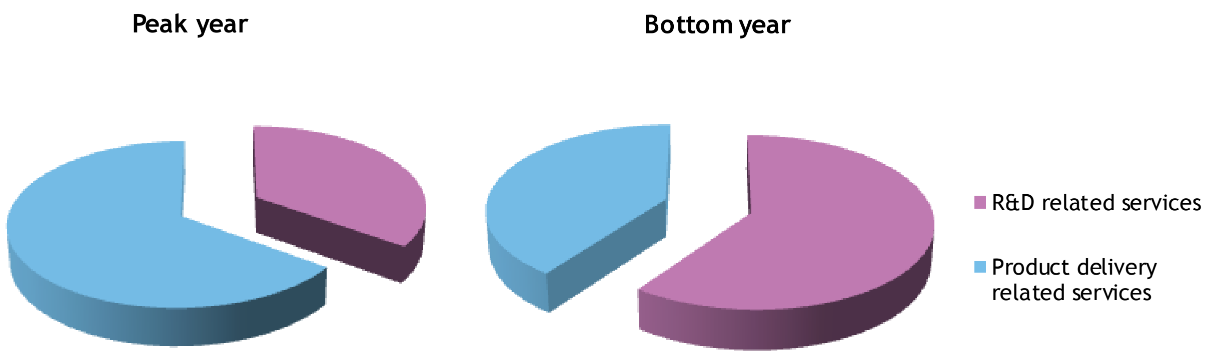
In Finland Etteplan's position is especially strong, and over 72 % of the engineering industry companies listed on NASDAQ OMX Helsinki are Etteplan's customers. This means that the overall of development of industries sector gives a reasonable good indicator for Etteplan's future development. These are companies like Kone, Konecranes and Cargotec in lifting and hoisting industry, Outotec and Metso in mining, ABB in energy and power, Metso also in paper industry and Rautaruukki in metals industry. While the overall success of industrials in Finland varies, most of the key accounts have been very successful in global competition (for example Kone, Konecranes, Outotec and Metso).

In Sweden Etteplan's market situation is more challenging. The competitive situation is more difficult and there are plenty of bigger companies in the field there. The largest customers of Etteplan in Sweden are ABB, Saab AB and Atlas Copco. Since many still associate Saab with cars, it's worth mentioning that this is a defense company nowadays. Naturally there is no direct correlation with the success of Etteplan and its clients, but when looking at the potential demand for Etteplan's services a certain link is definitely there.

2.3. Business dynamics and cyclicality of Etteplan

Etteplan is involved in the whole life-cycle of its customers products. Still, in order to simplify the business dynamics, we will divide business into two main parts: R&D services and order-delivery processes. While the demand for R&D services is relatively stable over the economic cycle, at least when it comes to strong companies that want to ensure their competitiveness over the long run, the order-delivery processes are naturally very much related to the demand of end-products. Like said, Etteplan's customers' end-products are mostly capital goods and their demand is cyclical.

Etteplan hasn't given out official information about how its revenue is divided between these groups, but our educated guess is that the mix is typically close to 60/40 or 50/50 (R&D/order-delivery). However, the mix varies significantly depending on the economic situation, which typically reflects on the demand of the industrial machinery. We have tried to demonstrate this in the following graph, which is purely our estimate of the situation. Peak and bottom in the graph refer to a typical economic cycle. Naturally the mix changes all the time and the exact number is not important, but it's important to understand the dynamics about the business. The R&D services, which is more stable like discussed, provides a base load for company during the more difficult times, when the delivery processes generally go down.



Graph 2. *Estimate of Etteplan's sales mix in different states of economic cycle.*

Another important thing to realize is that Etteplan's services generally provide cost reductions to the client, but in order to deploy them customers' processes need to be adjusted. When customers' capacity utilization rates are high due to the strong demand at the top of the cycle adjustments that require time are often postponed. This smoothens the cyclicality of Etteplan to some degree; when the demand of the customers' end-products slows down, normally clients are more inclined to efficiency improvements and aim for cost savings to maintain their profitability. This could create more demand for Etteplan, especially its productized services that are explained in detail in the following chapter. Also Etteplan's wide customer portfolio across the spectrum of industrials eases the cyclicality of the company. Due to these reasons Etteplan's cyclicality is probably lower than an average industrial company listed on NASDAQ OMX Helsinki.

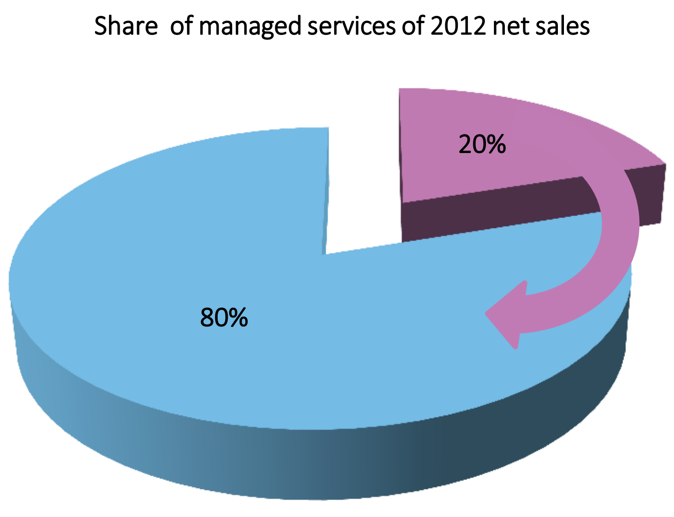
2.4. Resource hiring and the rise of productized services

Majority of Etteplan's business is still resource hiring, which accounts for a little less than 80 % of company's net sales. This is a solid business, but even at its best it captures only a limited portion of the value added to customer. This business model has also other significant limitations: it's driven by people and very dependent on individuals. We have tried to open up our reasoning in a following example:

> *Let's say that person X is working at the client Y, has a solid reputation there and has become important part of client´s business, which is naturally the goal. Still, Etteplan's business ends if person X decides to leave the company. Business model is vulnerable for higher salary demands and at the same time the hourly pricing is very comparable. Hence, the price has to be competitive both for the client and for the employed expert (e.g. salary). Another problem is that even if person X would provide breakthrough innovations for client Y, Etteplan's competition might still be based on hours charged. Naturally these kinds of occasions result in a satisfied client that is probably going to be with the company for a long time, but they wouldn't necessary be visible in the cash flow of Etteplan. The value added isn't directly recognized at the compensation of Etteplan.*

These factors mean that the typical resource hiring business model will always have reasonable low margins. We believe that a 10 % EBIT margin is a very good level for this business. Through managed services Etteplan escapes many of these challenges or at least mitigates them. Company will be compensated more on the basis of value-added as comparison to the hourly rates before, though this change is naturally slow. If Etteplan can do the processes or projects more efficiency than the client and provide additional flexibility, this is a typical win-win case for both Etteplan as well as the client. Client receives cost savings and flexible resources, Etteplan can manage its own resources better and its basis for pricing is better. Of course there are also some additional risks, since Etteplan is also responsible for its part in the client's process or project. However, company's expertise should enable it to manage these risks efficiently and at the same time managed services lower other risks involved with resource hiring (e.g. the example above) Therefore we don't believe that Etteplan's risk profile would increase due to the rise of managed services, perhaps on the contrary it will decrease slightly.

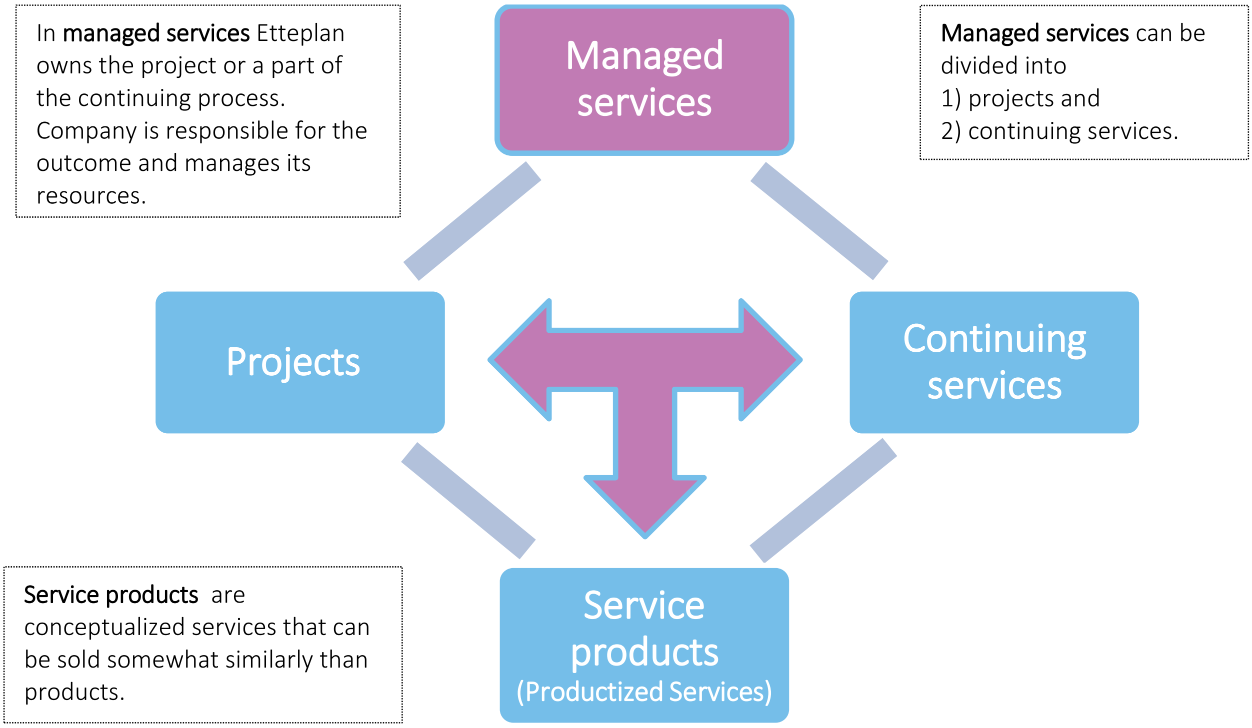
Currently managed services account for approximately 20 % of Etteplan's revenue. Though this is still a minor portion of the sales, it's not a bad accomplished at all considering that company really started to develop the new operating model in 2010. Naturally company aims to increase the portion in the future, but it's difficult to say how fast this development will be. We don't expect rapid changes, but the current economic climate is suitable for productized services, if Etteplan can convince the clients about the arising cost savings. After all, pretty much all the industrials are looking ways to improve efficiency, since the growth seems to be slowing down. We see the rise of productized services as one of the key elements in increasing the competitiveness and profitability of Etteplan, and we encourage investors to follow the development closely.



Graph 3. *Above 20 % of Etteplan's revenue currently comes from managed services.*

2.5. Key elements of managed services

Because terms productized services and managed services probably don't really open up straight away, we have tried to explain them further in this chapter. The managed services that we have already discussed to some degree can be divided into service products and conceptualized service projects as well as continuing services. The following graph hopefully demonstrates this idea.



Graph 4. *Illustration of different productized services.*

In order to understand the key differences between these products and the traditional resource hiring business, we have made also a table including the key factors. Using the table investors can hopefully understand the key differences between different services that Etteplan offers. It's worth noting that the main advantages can mostly be determined by analyzing the effects of the main differences on Etteplan's business. All assumptions in table 1 are made by Inderes.

		Managed services		
Key factors	Resource hiring	Projects	Continuing services	Service products
Project / process leader	Client	Etteplan	Etteplan	Etteplan
Manager of resources	Client	Etteplan	Etteplan	Etteplan
Risk carrier	Client	Etteplan	Etteplan	Etteplan
Requires a specific order	X	(X)	-	(X)
Conceptualized model	.	X	X	X
Reproducibility	.	(X)	X	X
Commitment of customer	Small	Significant	Extensive	Significant
Typical pricing	Hourly	Value added	Value added	Value added
Visibility of demand	Weak	Reasonable	Very good	Reasonable

Table 1. *Main differences between different managed services and resource hiring.*

We have already discussed the fact that in managed services Etteplan is the project / process leader, which means that it manages its own resources as it sees fit. This is clarified even further in the table with “manager of resources”. Since Etteplan is the one responsible for the resources in managed services, it is only logical that the company also carries the operational risk regarding the service. By operational risks we mean risks such as budget overruns, missing deadlines and paying penalties due to mistakes. Risks are always in some relation to the service, so we do not mean that certain mistake in one project would be visible in the operations of Etteplan Group. However, naturally constant problems would push down profitability of the business, just like in any project business. Overall, we don’t believe that Etteplan’s risk profile is increased by the managed services. The relatively small operational risk is more than compensated by the more stable nature of managed services business in general.

All the managed services are conceptualized and at least the work process is productized. Naturally much more cannot be done when it comes to projects, where the desired end-result can differ significantly. However, with the continuing services and service products the whole process is productized and optimized in order to improve reproducibility. This naturally improves efficiency and at the same time helps to significantly enhance capacity utilization rates, because the managed services aren’t dependent on one specific person at a specific location.

It’s also important to understand the managed services in the regard of customer commitment. If the commitment is high, like it is especially in continuing services, Etteplan is difficult to replace. Customer has given a responsibility of certain part of the process to Etteplan, which naturally also means significant investments in both time and money. While in resource hiring client can easily “bid” for the cheapest resource and replace Etteplan’s expert if it isn’t cost-competitive, in managed services the process different. Firstly, the client’s commitment in general is larger, secondly, the outcome is a wider conceptualized service combination, and thirdly, the pricing is much more based on value added by Etteplan. Even though the pricing might be hourly based also in the managed services, there’s still the possibility to manage own resources and optimize the processes. Therefore Etteplan has a possibility to add value also this way.

2.6. Technical information business

Etteplan is also one of the leading providers of technical product information services and solutions. One example of “technical product information” is the manual that you can probably find in the glove department of your car. Etteplan’s technical product information services include for instance technical documents, such as operation manuals, multimedia and graphics, marketing materials, training materials, documentation instructions and information management. Typically Etteplan’s clients produce industrial machinery that is rarely a “bulk product”. Even though the basis of the product is often the same or there are certain modules, these products are normally customized according to the end-users’ needs. If we consider a standard crane or an elevator for example; the basic structure is the same, but all the specifications have to be accustomed to the exact location, usage and other requirements of the end-user. Therefore the manual of the product is also “unique” and has to be adjusted for each product. Therefore this becomes one part of the delivery process.

This technical product information (“manual”) needs to have the exact information about how everything works, how the machine has to be maintained, what spare parts to use and so on. High quality and usability of documentation is especially important for companies investing in service business, where there are both internal and external user groups for the documentation. Like everyone involved with the industrials segment knows, the service business is becoming more and more important for these companies all the time. Documentation is a compulsory part of the process, and in a global scale it’s a huge business that rarely is in the “core” of Etteplan’s clients. Quality documentation will last over the entire life cycle of the product, and Etteplan’s services cover the production and maintenance of all documentation over the entire product life cycle.

Even though this might sound very much a “bulk business”, it requires a huge amount of knowledge about the client’s products and procedures. Based on long experience in working with various client industries and understanding of different engineering disciplines, Etteplan has the knowhow to translate the requirements for products and their components to high quality technical documentation. Naturally also efficiency of the processes is critical, and it needs to be automatized through software systems. In the 2012 annual report Etteplan stated that the latter half of 2012 saw the commencement of several technical product information assignments in Finland and China using the technical product information methods developed by Tedopres, which leads us to the next chapter.

2.7. Tedopres acquisition strengthened Etteplan's position in technical information

Tedopres International, a Dutch-based company founded in 1974, was acquired by Etteplan in March 2012. Company has 90 specialists based in the Netherlands and the USA. Tedopres specializes in all assets that come with technical documentation, including controlled authoring, (technical) translation in over 50 languages, technical illustration and software development to support the creation and management of technical documentation. These include manuals for installation, operation and maintenance (service), as well as patent & intellectual property documentation, workflow and process documentation, training material and parts catalogues.

Company's reputation and references are solid: they include industry leaders including Boeing, Black & Decker, GEA, Philips, Siemens and Rolls-Royce. Company states that they have customer portfolio of more than 500 multinational corporations. Etteplan's "old" references included industrial companies like Sandvik Mining and Construction, Cargotec and Husqvarna. With the Tedopres acquisition this list grew much larger including companies such as John Deere, Siemens, Boeing, Caterpillar and Honeywell, just to name few from the industrials. Through Tedopres Etteplan also has a much wider customer base outside of Etteplan's core that is around Machinery, Aerospace and Defense. Tedopres provides technical documentation to all industries, including aerospace, defense, (heavy) machinery, electronics, process technology, telecommunications, medical, pharmaceutical, semiconductor, laboratory instruments, oil and offshore, consumer electronics and automotive.

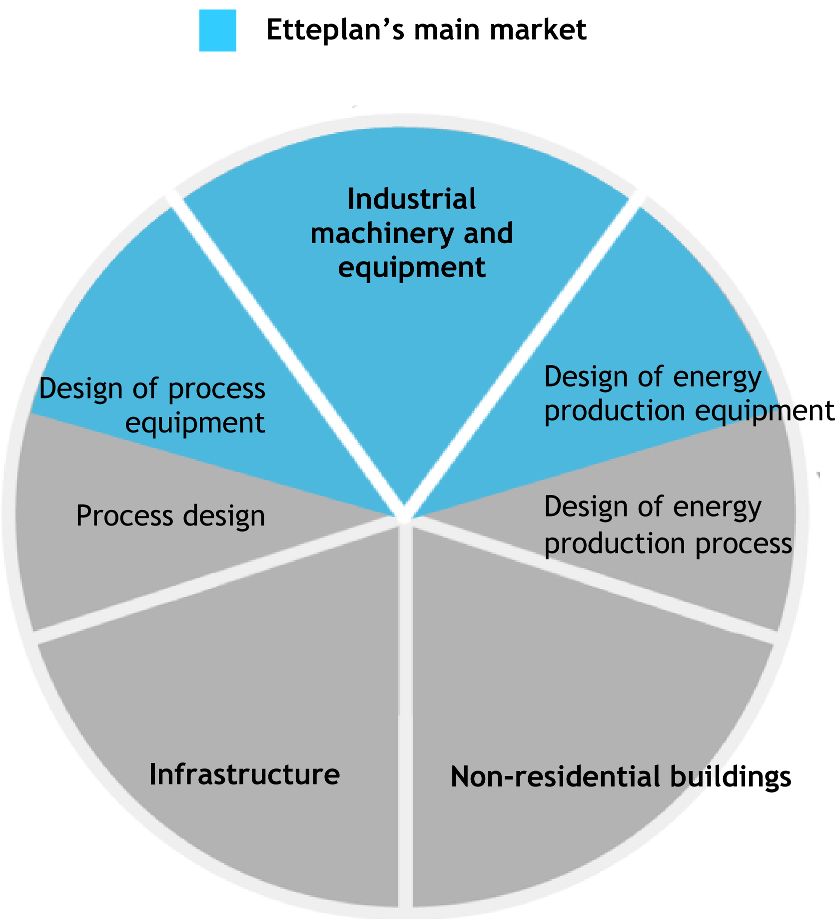
Picture 3. *Some references of Tedopres.*

Tedopres offers Etteplan a possibility to improve its offering to another level in technical information, and through this company can leverage its "old" customer base. Company can offer its long-term clients more comprehensive service packages, which should provide some synergies. At the same time Etteplan now has many new clients that company can offer its core design services. Etteplan's key competence here lies with the industrial machinery, which is why we are most interested in the new industrial references mentioned above. In long run, the clients of Tedopres might provide a basis also for new industries, if Etteplan would decide to extend its coverage into new areas.

3. Etteplan's markets and competitive situation

Global market for industrial equipment segment is approximately 30 billion euros annually. Even though the market fluctuates strongly with the economic cycles, over the long-term the demand for field's services exceeds the pace of global GDP growth. For Etteplan the most important areas are naturally Finland and Sweden. The growth of the industry in 2012 was 8 % in Finland and 10 % in Sweden according to local associations of consulting firms. While China is important, the size of the market is huge and Etteplan will always be a tiny player compared to the overall potential. However, China is the factory of the world and its economic development gives a strong signal for the overall strength of the market. Therefore, China's development should be followed closely.

Engineering market can be divided into five different segments: Infrastructure, Power generation facilities, Industrial machinery and equipment, Industrial processes and Non-residential buildings. Etteplan operates mainly in the industrial equipment segment. However, if we divide Industrial processes into two part, design of process equipment and process design, Etteplan is involved with the equipment side. Similarly the design of energy production equipment is within Etteplan's main market, even though the energy production process isn't. Etteplan's main market and the whole engineering market is demonstrated in the graph below.



Picture 4. Engineering market and Etteplan's key focus area. Source: Etteplan.

The business environment in machinery and equipment design has undergone an intense change in the course of the last couple of years due to major changes in operating environment. These changes can mostly be derived from segment's customers: Industrial machinery companies are facing increasing competition and they are shifting their focus to Asia as well as other developing countries in many sectors. Engineering companies have been moving their operations to emerging markets over the past years, and this trend is still continuing. This has led to an increase in the demand for engineering design services in low-cost countries, such as China, India and Eastern European countries. New demand for technical design services is being generated in Asia as a consequence of these changes in the business environment.

Etteplan's customers and industrial companies in general are concentrating on more and more on their core business and unifying their methods of operation. For technical design and product information services, this leads to requirements to provide saving opportunities, flexibility, and services that are independent of time and place. Currently the key in this market is the ability to show significant and concrete savings for the clients, because that's what the client sector is currently looking for. In order to succeed in the market, Etteplan has to be able to make clients' processes much more efficient so that they can offer savings to the client as well as make solid margins for themselves.

3.1. Etteplan is a market leader in Finland, Sweden is more challenging

Etteplan is the leader of its market in Finland and among the largest operators in its field in Sweden. Overall, the design sector is still fragmented in its structure and there are plenty of small, local companies in this field. However, there are also some bigger ones, especially in Sweden, when looking at Etteplan's core markets. In Finland the main competitors are generally smaller companies, and none of them are listed. Just to mention few of the main competitors, they are companies such as Comatec (sales 26 MEUR in 2012, personnel ~400) and Elomatic Consulting & Engineering (net sales ~46 MEUR in 2012, personnel ~700).

In Sweden the main competitors are large companies like ÅF, Semcon, Prevas, Sweco and Rejlers. All of these are also listed on the Stockholm Stock Exchange, which gives Etteplan a solid peer group regarding valuation. In Sweden the engineering design as a business is more common and the industry is generally well-known also for investors, so in this regard one could say that the Swedish market is more developed than the Finnish one. However, while the Swedish companies are generally more used to hiring experts outside of the company, they haven't been that interested in more developed services such as Etteplan's managed services. In Finland the market might be more inclined to "strategic partnerships"; at least this seems to be the case for Etteplan. The dynamic of the two core markets therefore differ a bit, but in general they are quite similar.

Picture 5. *Some of the biggest competitors of Etteplan.*

Naturally some of the large Swedish companies are also doing business in Finland, but their presence is relatively weak. For example ÅF, that is a dominant player when it comes to size in Sweden, is hardly visible in the competitive radar in Finland. Swedish companies find Finland generally more difficult market than other Scandinavian countries, which is positive for Etteplan. If the Swedish competitors would decide to make capturing Finnish market their number one target, it would definitely put pressure on Etteplan and the whole competitive space. Currently there aren't any signs pointing to this direction. Etteplan has succeeded well in the centralization decisions of its customers, and it has enough size to compete basically with anyone in the field.

3.2. Summary of Etteplan's main competitors

It is challenging to identify the main competitors of Etteplan, since basically all the significant companies in the field are working in different client sectors and often focus on different things. It's also worth noting that companies have very different ideas how to segment the businesses. Therefore the following table should be considered just as one opinion about the competitive situation. It should provide a relatively good picture of the overall situation, despite the problems of classifying companies / customers.

Customer industry - Main competitors

	Comatec	Elomatic	ÅF	Semcon	Prevas	Sweco	Rejlers	Rũcker
Forest industry		X					X	
Energy and power	X	(X)	X	(X)	X	X	X	
Transportation		X	X	X	X			X
Lifting and hoisting	(X)	X					X	
Mining industry	X		X		(X)			
Aerospace and defense	X		X		X		X	
Steel and metal	(X)		X					
Medical equipment					X			(X)

Table 2. Main competitors of Etteplan in different sectors. X = main competitor, (X) = significant company.

When looking at the table above, already mentioned Comatec and Elomatic are easy to single out in Finland. In Sweden we have cut some corners and we are focusing on the large, quoted companies. They are the ones who dominate the field, but naturally there are plenty of small companies in addition. From these companies ÅF has the widest coverage, and it is often also the main competitor for Etteplan. Rejlers is also an important player to follow.

It's important to understand that companies can focus on different technology areas within the customer industries. For example Prevas, that is one of the main competitors when looking at the table, is focused solely on embedded solutions and industrial IT. Even though Prevas is in the same customer segments, its offerings revolve around software and electronics that aren't generally at the core for Etteplan. Sweco and Rücker are rarely direct competitors for Etteplan. Sweco is more focused on buildings and infra, while Rücker focused on different geographical area (central Europe). In addition to the ones mentioned in the table above, at least Sigma Kudos AB is a very significant competitor in the technical information sector. However, this is a different business altogether.

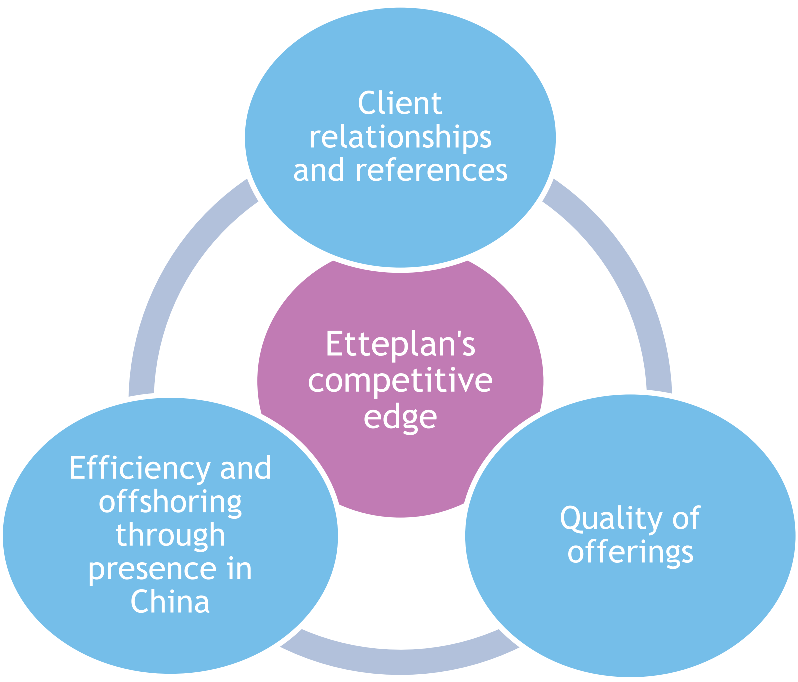
It is often assumed that Finnish consulting and engineering company Pöyry would be Etteplan's competitor, but this is actually a rare occasion. Like we have discussed earlier, Etteplan concentrates on the industrial equipment market. In the other hand, Pöyry is generally involved with projects in the industrial processes (such as pulp mills), infrastructure (urban planning) and power generation facilities. Companies work in same sectors, for example forestry industry, but generally Etteplan begins when Pöyry ends its part in the projects. To oversimplify, Pöyry might design the factory and Etteplan the machines inside it. Etteplan business is more recurring and its biggest projects are in the range of 3 MEUR, while Pöyry's biggest projects can be 100 times bigger. These companies have similar business logics and therefore relatively good peers regarding for example valuation, but they aren't direct competitors.

3.3. Etteplan's competitive edge

Etteplan is one of the leading companies in the Nordics providing industrial equipment engineering design and technical product information services. Etteplan also has a strong market position in China, where they are able to offer cost efficient services. According to Etteplan the success is based on the following competitive advantages: 1) Etteplan is customer driven and proactive, 2) company offers cost-efficient service solutions and 3) company designs competitive products.

While we naturally understand the importance of the aspects, these advantages are difficult to quantify. In our mind they also don't qualify as lasting competitive advantages. We believe that it's pretty much impossible to acquire a really enduring competitive edge in this business field, because factors such as scale benefits, patents etc. cannot be established in a business model that eventually comes down to the expertise of personnel. Of course this is also a matter of definition of a "lasting" competitive edge. For example, we believe that it will take many years for competitors to create comparable offerings to Etteplan's managed services, but we believe that with time and investments it be done. This doesn't mean that we wouldn't believe in the success of Etteplan also in the future. It just means that company has to continuously develop its operations and services to keep up with the competition.

We would look at Etteplan's competitive advantages from a slightly different angle. We especially value the really long customer relationships that company has with many of the leading industrial companies. Company has a great position especially in Finland, and it's really difficult for competitors to break relationships that have been ongoing for 20 years. Of course, Etteplan still has to remain competitive in pricing. The key factors that we see in this regard are 1) efficiency of local operations and 2) offshoring possibility for those services that have most price competition. It also goes without saying that the quality of services provided by Etteplan has to be competitive. In the following graph we have concluded our own view of Etteplan's competitive edge.



Graph 5. *Inderes' view of Etteplan's competitive edge.*

So eventually we came to the same conclusion than Etteplan, but we summarized competitive advantages in this way: 1) Etteplan has solid references and long-term client relationships, 2) company offers cost-effective solution through offshoring possibilities and efficient organization, and 3) quality of the offerings is high. The third point, the quality of the offerings, also takes into account the Etteplan's forerunner position in developing the productized services concept. However, we don't believe that these advantages offer much additional pricing power, so efficiency is required now and in the future.

3.4. Consolidation of the sector is expected to gather momentum

Like already discussed, the design market is very much fragmented and there are still plenty of small players in the field. The consolidation of the industry that commenced in the beginning of the 21st century slowed down in 2009 and hasn't really recovered ever since. Financial crisis hit the industry hard, and at least for a while there was significant overcapacity. This naturally made companies reluctant to invest more on acquisitions, though the price would have probably been right at the heart of the crisis. Even though the consolidation development has slowed down, the customers have continued to centralize their purchases. As a consequence the structure of the sector is changing slowly – some consolidation is happening constantly and large companies are growing faster than the market.

Last year there was one larger deal in Sweden, when ÅF acquired Epsilon. Companies called this a merger of "two of the leading technology consulting companies in the Nordic countries". With the transaction ÅF become clearly the biggest company in the sector in Sweden. Prior to the transaction Epsilon was probably around fifth largest company in the sector in Sweden. According to ÅF's 2012 financial statements, Epsilon's invoiced sales total to approximately 2 billion Swedish crones a year. The initial purchase price (enterprise value) was 1.7 billion Swedish crones. This gives also one interesting indicator for possible valuation in acquisitions (EV/Sales ~0.85), but shouldn't be generalized.

Considering the trends of the industry, we believe that the consolidation will gather up speed as soon as the general economic uncertainty especially in Europe settles down. The key drivers are that:

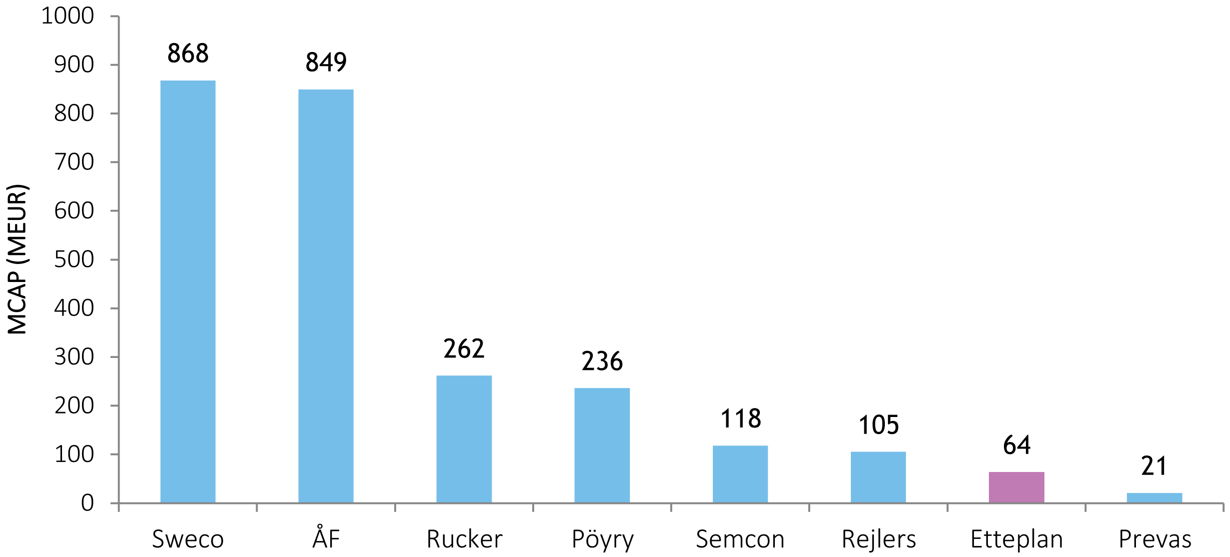
1) Customers want to focus their purchases to fewer partners,
2) Both customers and competitors are more and more global, and
3) If the acquisitions are done right, there should be some synergies between companies.

However, the last point isn't straightforward like in some businesses. Companies need to be able to scale new expertise, so they can offer more to also old customers. To get the maximum benefits, services should be somehow productized, which is something that Etteplan has been working on. We don't believe that just buying manpower in this business leads into significant synergies. It's possible in some cases, but the end result might also be the opposite.

For a more concrete example, ÅF and Epsilon estimated that synergies deriving from the merger will amount to more than 100 MSEK. To scale this to some degree, the new born ÅF has net sales of roughly 8 billion Swedish crones. Some 50 MSEK are expected to be realized through cost savings. In addition, substantial positive effects are expected through the realization of sales synergies and through Epsilon's Partner concept being integrated into ÅF. According to ÅF, the realization of the synergies will be aided by the companies' geographical and cultural proximity, as the majority of the consultants within the divisions in question are employed in Sweden. The full effect of synergies is expected to be obtained within three years, while the integration costs are expected to be around 30 MSEK mostly in 2013. These figures aren't really impressive when thinking about for example industrials, but this is naturally a different business.

Currently the consolidation development that the industry is undergoing is driven mostly by the customers that are reducing the number of partners. Financial markets don't seem to be too keen on the development. Interest is probably pushed down by the underlying poor economic situation and especially the great uncertainty in Europe and in some degree also in China. If the economic situation were to improve, or at least to stabilize, we believe that there would be much more acquisition.

Etteplan has stated that they want to be the active participant in consolidation, and that their acquisition strategy is to increase company's competence. However, considering company's relatively small size, valuation and strong position in Finland and in China, naturally company could be also an acquisition target. Just to give an idea about the sizes of the listed companies in the business sector, we have listed the market caps of most interesting companies in the graph 6 below. It shows that Etteplan, even though a market leader in Finland, is a small company compared to others in the field. Only Prevas has a smaller market capitalization than Etteplan (around 64 MEUR). We'll discuss acquisitions more in the chapter *Corporate structure, acquisitions and growth*.



Graph 6. *Market caps of some companies in the sector. Source: Thomson Reuters (9/3/2013)*

3.5. Trends driving growth of the Etteplan's market

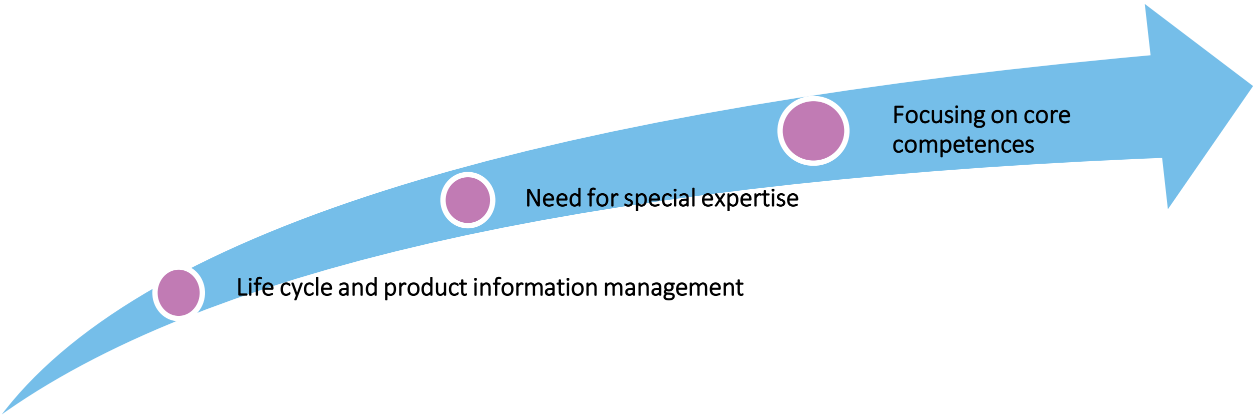
The drivers behind Etteplan's market are naturally mostly the same than the trends that support its customers. Of course these differ from company to company in some degree, but often factors like sustainable use of limited resources, globalization, urbanization, energy efficiency, environment, safety and aging increase technology use and solutions globally. We have summarized these into three main categories in the following graph. The growing amount of machinery and equipment increases the demand for engineering design services.

Graph 7. *Megatrends that drive the demand of Etteplan's customers.*

One specific trend that is very important for Etteplan is naturally outsourcing or subcontracting – what will companies want to do in-house and what they choose to buy. This could be also called focusing or specialization. Currently the development of outsourcing seems to be moving to a positive direction once again; companies are focusing on their own core competences and obtaining the expertise outside of from companies like Etteplan. However, these decisions are sometimes subject to "management fashions" that can change over time. However, we believe that the only way to competitive in the global market is to specialize and co-operate. This would lead into concentration in the core competences, which would be a positive trend for Etteplan.

Of course there's another side in make-or-buy decisions, since the expertise might not even be available in-house. There are also emerging technologies like clean technology, battery technologies and medical technology in Etteplan's service portfolio, which should be good example of expertise that are not typically available. Since the technology is becoming more and more complicated in general, this trend is should be supportive for Etteplan's business.

The same trends that guide the demand development of machinery and equipment design sector with tough competition lead into rapid introduction of product innovations to the market and the growing need for information, for its management and utilization. Also stricter requirements with regard to the environment and eco-efficiency stress the importance of management of the entire life cycle of machinery and equipment. Life cycle management, for its part, creates demand for controlling technical design and product information at all stages.



Graph 8. Trends that support Etteplan's demand in addition to customers' drivers.

3.6. Global competition is increasing, margin pressure from the developing countries

Much like in the IT services business, the competitive landscape for industrial design services is also becoming more and more global. Etteplan's clients are mostly multinational companies that are used to purchase from international markets and are sought after also competitors from, for example, China and India. While these competitors are mostly behind Etteplan in quality issues and in local presence, they are definitely putting pricing pressure to all the players in the field. This trend is visible in all the "Western" market and doesn't exclude the Nordic markets, where Etteplan mostly still operates in.

Etteplan has answered to the increasing competition with the logical solution of offshoring. Etteplan started its operations in China already in 2004, many years before numerous more local competitors. The basic design work ("bulk designing") is now often done in China, while more expensive resources in Finland and Sweden are used for more challenging tasks. This combination has worked reasonable well for the company in the past, and will probably become even more important factor in the future. We believe that operations in China are the key in maintaining the cost-competiveness against both old and new rivals.

While operations in China have become the new normal in manufacturing, immaterial services business and especially outsourcing them is still a relatively new notion there. There will certainly be new companies rising to the industrial design market also from China and India, but there's always a worry about the client's IPRs. R&D services, that are naturally a major part design business, are exceptionally vulnerable for stealing of intellectual property as well as data security in general, and China has a very bad reputation in this regard. This naturally creates a great challenge for Chinese companies to gain market share, when the client is non-Chinese.

It's difficult to forecast how these issues will develop in the future, but in the medium term we believe that industrial companies that Etteplan serves will look for a compromise. They want to gain cost savings through offshoring, but still select "Western" partners that are more reliable partners with IPRs. This puts Etteplan in a good position, since it has a proven offshoring concept in China. It has delivered cost savings, and there haven't been any problems with IPRs due to very strict controls in China. Over the long-term the situation might change through the development of Chinese competitors, but this will probably take a long time and lots of work on improving the reputation regarding respecting other companies IRPs.

In this chapter we have mostly discussed China, but the situation is similar also in other developing countries. For Etteplan China is a natural selection because of its massive manufacturing industry. Therefore most of Etteplan's biggest clients operate in China. India has generally been more inclined to information technology, but also the industrial design industry has been developing their lately. India's strong points in the design market are automotive and aerospace, and most likely others will follow. India also holds a huge potential, but there are also new competitors growing there.

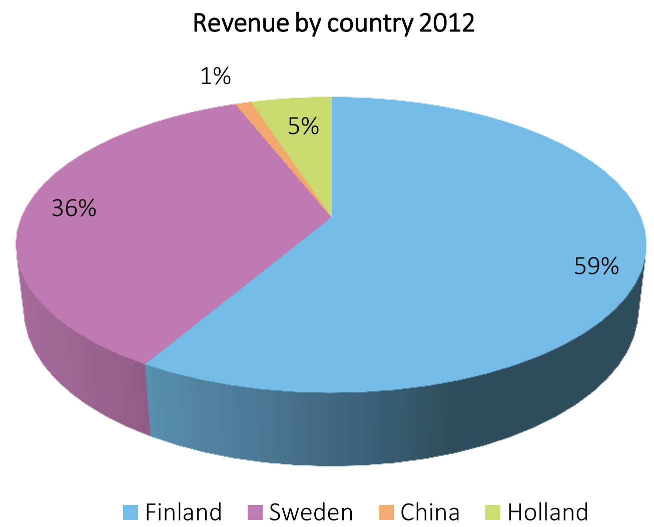
4. Corporate structure, acquisitions and growth

Etteplan has 22 sites in Finland, 14 in Sweden, 1 in the Netherlands, 2 in China, a sales office in the United States that came with Tedopres, and representation in Russia. As one can conclude from the offices, Etteplan's main business areas are Finland and Sweden, even though the Netherlands is also significant after the Tedopres acquisition and China is on the rise. Company grew mostly through acquisitions to Sweden in the 21st century, which led into some problems that were very visible after the financial crisis. Company's operations in Sweden are somewhat fragmented, and currently company is in the middle of "One Etteplan" project that is an important part of the current strategy. This means, for example, that all units are unified under the brand Etteplan. Some years ago certain units were still working under the old brands.

Etteplan entered Sweden mostly through acquisitions made between the years 2005-2008. In hindsight we believe that these acquisitions were pricy and didn't create shareholder value - some even destroyed it. They also increased the amount of goodwill in company's balance sheet from 2005 level of ~9 MEUR to 2010 level of ~36 MEUR. During the boom years Etteplan also spread to Italy, but that business was quickly closed up after the boom years came to an end. In 2009 company sold the majority holdings in Etteplan Tech AB, currently named I3TEX AB, that provides mainly design services for automotive industry in Sweden, and business in Italy. These are treated as discontinuing operations starting and have been excluded in the net sales and operating profits in this analysis. Luckily Italian business was never really significant for Etteplan. Similarly Etteplan "flirted" with Germany, but business there never grew to a significant scale.

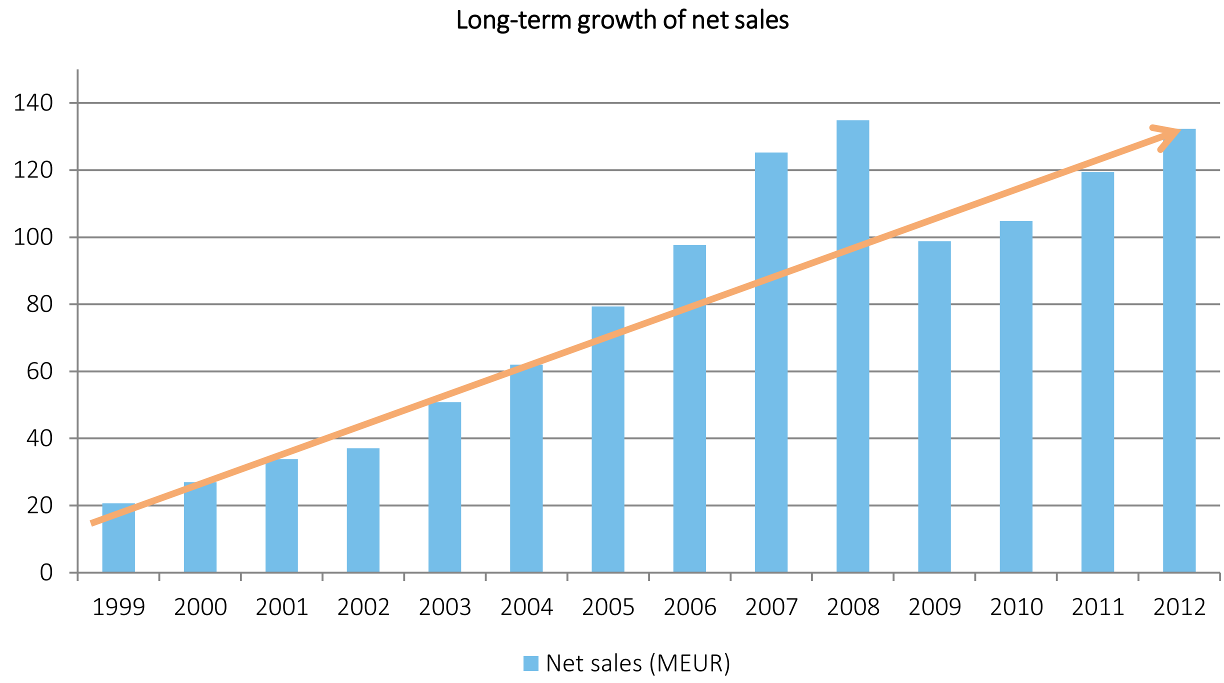
We believe that company has learned from these mistakes that were still small compared to many other companies listed on the Helsinki Stock Exchange. Etteplan didn't make any significant acquisitions in the years after the crisis. In recent years company has been getting "back to basics" - improving the efficiency and profitability of the company. One clear sign of this is the One Etteplan strategy. However, this doesn't mean that company wouldn't be actively scouting potential acquisition target. Company has stated their acquisition strategy is to increase company's competence.

Etteplan's most recent acquisition was Tedopres International B.V. This deal was finalized in March 2012, so there's still two months of non-organic growth to come in the beginning of 2013. Reported sales from the Netherlands were 7.5 MEUR in 2012, but these were from the 10 month period, which means that the net sales of Tedopres were roughly 9 MEUR in full 12 months period. The net sales in Holland, which represented 5 % of total sales, are derived from Tedopres, which seems like a solid acquisition considering company's strategy. Dutch-based Tedopres specializes in technical product information solutions and through the acquisition Etteplan now offers a wider service portfolio in this field and is among Europe's largest technical information service providers. Goodwill resulting from the acquisition of Tedopres amounts to EUR 2.7 MEUR, which is a modest figure in our opinion. More information about Tedopres can be found in the chapter *Technical information business*.



Graph 9. *Etteplan's revenue by country in 2012.*

Etteplan's profitable growth story was well intact until the financial crisis. Like one can see in the graph below, during a 9-year-period before the financial crisis company's net sales grew from ~20 MEUR to ~135 MEUR. This means that company's sales were multiplied by ~6.5 between 1999 and 2008. Financial crisis put a firm stop to the positive development, and in 2009 net sales decreased 26.5 %. Since then the demand has stabilized again and net sales growth has been in a healthy level.



Graph 10. *Etteplan's net sales growth of* ***continuing operations*** *between 1999 and 2012.*

In the following table we have opened up how the growth has divided into organic and non-organic growth in the past seven years. Notice that in 2009 company also divested some assets, but it hasn't published the effect of these on net sales. Therefore the 2009 figures are incomplete and the calculated averages are not exactly comparable. Still, the median figures say that both sources of growth have been significant in the past, and most likely the situation will be the same also in the future.

Year	Sales growth-%	Organic growth-%	Non-organic growth-%
2012	12.6 %	7.5 %	5.1 %
2011	14.0 %	14.0 %	0.0 %
2010	6.2 %	6.2 %	0.0 %
2009	-26.5 %	-	-
2008	29.1 %	10.6 %	18.5 %
2007	28.2 %	16.6 %	11.6 %
2006	28.1 %	7.3 %	20.8 %
Median	14.0 %	9.1 %	8.4 %
Average	13.1 %	10.4 %	9.3 %

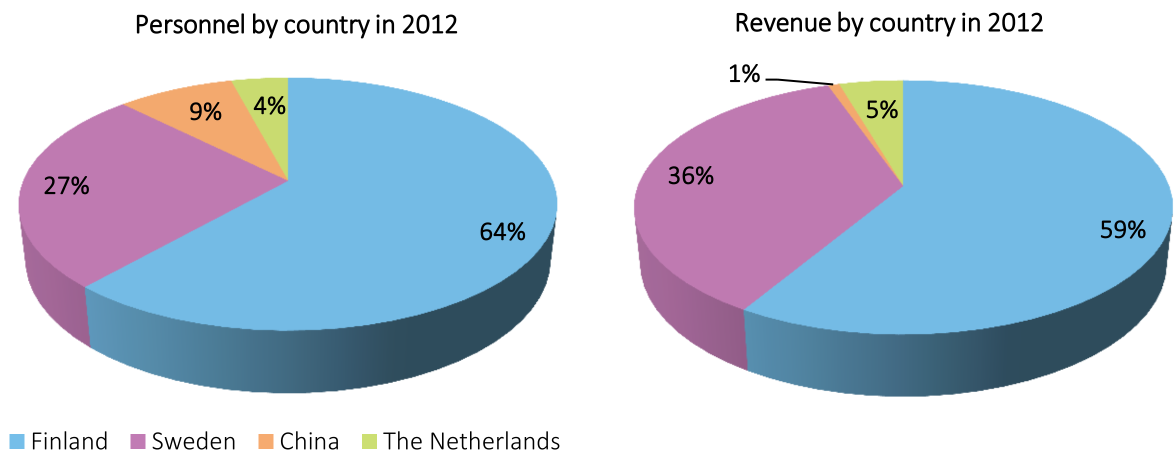
Table 2. *Etteplan's net sales growth divided between organic and non-organic 2006-2012.*

5. Is China's massive market finally awakening?

Etteplan has operated in China longer than any other Nordic engineering company and served over 120 customers there since 2004. Etteplan utilizes the units in China in service solutions and the offshoring services are critical for company's competitiveness in the global competition. Offshoring in the "cheap labor countries" is generally challenging to get working properly, since there are always problems for example with communications, procedures and safety of information (e.g. client's IPR). However, working offshoring solutions can theoretically combine the "Western" quality and "Eastern" costs. Etteplan has been fairly successful in offshoring, probably because it's not a rookie in China. Having operated in China for a long time, Etteplan has expertise on local engineering and production requirements, which creates significant value for the customers.

Even though *currently* China is important mostly due to its offshoring potential, it holds also massive market potential when the Chinese services market finally matures to outsourcing expertise. China is the factory of the world, meaning that for industrials and machinery it is the key production place. Etteplan's clients are already there, and there are naturally growth opportunities inside of them, but there's basically endless potential for new clients when the services market matures. Of course it's always more difficult to obtain completely new clients.

Because of its long presence in China, Etteplan's position in the market is relatively good when it eventually opens in the future. It goes without saying that Etteplan will be fighting for a tiny share of an enormous pie, but it really doesn't have to be much in order to be very significant for Etteplan. In 2012 Etteplan's net sales in China were just above one million euros, which means that they are currently insignificant for the group. However, it's important to notice that this doesn't include internal sales – just the direct sales to company's Chinese customers. When looking at the personnel in China, we can see that the net sales don't give a correct picture about the importance of China. Of course Chinese labor is cheap, but still the 9 % of personal gives a better picture of China's importance than the net sales. The most important takeaway from this is that the foundation for taking advantage of the growth opportunities is there.



Graph 11. *Personnel and revenue by country in 2012. Notice China's role in offshoring strategy.*

The most significant changes needed for to the Chinese design service markets to open up are to do with changes in the labor market and the formation of service purchasing culture. According to Etteplan, signs of stricter labor legislation in China became evident in the course of year 2012. This made manufacturers more cautious in employing in-house engineering design personnel, which in turn created more opportunities for engineering design companies. In the past there has been very little outsourcing, because 1) labor is cheap, 2) there are very few restrictions in labor legislation, and 3) Chinese are used to be the suppliers, not to use them. Especially buying immaterial services is still unusual for the Chinese. The emergence of a new kind of service culture is also down to the aim of Chinese machine and equipment manufacturers to produce goods to global market, which meet Western quality standards.

It takes a long time to change a culture, and it's difficult to estimate when the market will really wake up. Still, we believe that it's only a matter of time when labor controls become stricter under the rule of the communist party. When this happens, especially the cyclical companies should be very interested in subcontracting, since laying off (and hiring back) people would eventually become expensive. This flexibility provided by Etteplan should become interesting also for Chinese companies, which would basically create a massive market.

In 2012 annual report Etteplan said that the service provision of the China units diversified during 2012. Etteplan consolidated its position as the technology transfer partner for machine and equipment manufacturers: the company was involved in several customer projects transferring their production or subcontracting to China. This is naturally deriving from the developed countries, but it is still another solid opportunity to take advantage of Etteplan's competence of operating in China. Also Etteplan in China has gained new global customers, who take advantage of the growth potential of the expanding domestic markets in China and elsewhere in Asia. In addition to large corporate customers, many small and middle sized enterprises have been interested in Etteplan's services in China mostly with the aim of improving the profitability of their products.

6. Financial situation and balance sheet

Etteplan's balance sheet is currently reasonable strong, but not without risks. Clearly the biggest risk is the large amount of goodwill in the balance sheet (39.9 MEUR in end of 2012). We wouldn't be worried about the goodwill, if it wouldn't mostly be allocated to operations in Sweden (25.1 MEUR). After all, in a business that is mostly based on immaterial assets, such as personnel expertise, all the acquisitions generally create goodwill. We have illustrated the key figures of balance sheet in the following table and graph. It's important to notice the effect of hybrid loan, which was paid back in the end of year 2011.

Key figures	2007	2008	2009	2010	2011	2012	2013e	2014e	2015e
Equity ratio	40.5 %	34.5 %	38.9 %	43.6 %	31.1 %	32.5 %	36.6 %	41.8 %	47.1 %
Gearing	25.7 %	54.6 %	20.8 %	24.1 %	84.9 %	62.8 %	41.9 %	21.8 %	4.5 %

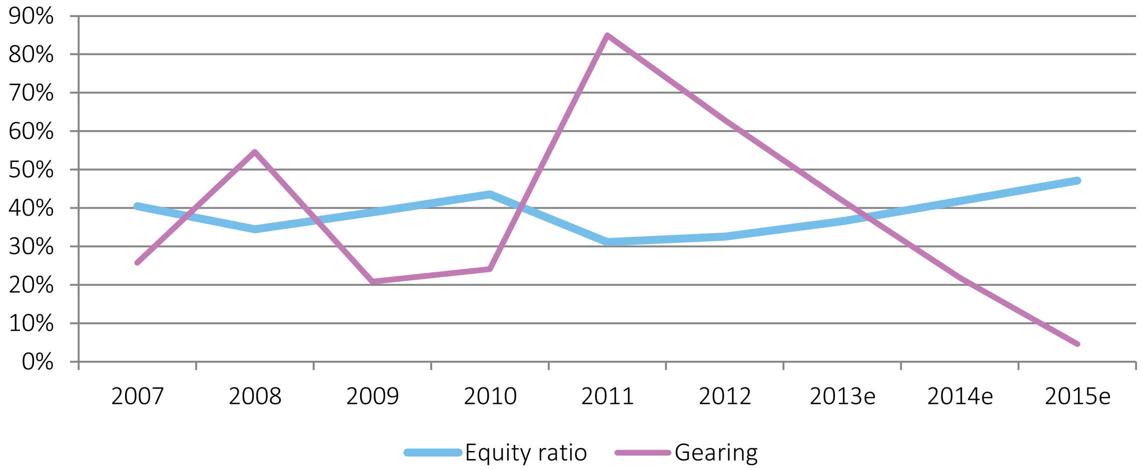


Table 3 and graph 12. *Key figures of Etteplan's balance sheet. Note the effect of hybrid that was paid back in 2011.*

Official figures haven't been published, but according to our estimates Sweden's profitability has been relatively low in the recent years, which increases the risks regarding the goodwill. In 2012 annual report Etteplan states that the recoverable amounts exceeded the carrying amounts in the impairment testing of goodwill, but in Sweden this amount was only 26.8 MEUR. This is already relatively close to the actual amount of 25.1 MEUR, which causes some worry. According to the Etteplan's sensitivity analysis, a 4 % decrease in operating profit would lead to an impairment loss of 7.5 MEUR in Sweden. Currently there's no reason to expect any impairment losses, but Sweden is still clearly a risk for Etteplan. For example the impairment of 7.5 MEUR would destroy around 30 % of company's equity, which would weaken the balance sheet considerable even though there's no cash flow effect. Outside of Sweden goodwill isn't going to cause any problems in any scenario that could be forecasted with any reasonable assumptions.

After the financial crisis Etteplan was struggling with its finances for a while, and it issued 10 million euro hybrid bond on December 1, 2009. The coupon rate of the bond was 9.5 % per annum, so it wasn't a cheap form a financing, but at the time there weren't many financing options available. The hybrid could be paid back after two years, which is exactly what Etteplan did on December 1, 2011. This increased the debt level, but now the financing costs are considerable lower, since hybrid isn't diluting the result.

Company's business model doesn't require large investments to e.g. machinery, which means that n general the balance sheet is reasonable light. In assets the balance sheet is dominated by already mentioned goodwill, as well as receivables (22 MEUR in the end of 2012). Payment terms are typically unfavorable for companies such as Etteplan, but company has been able to manage the risks regarding receivables very well in the past, since there haven't been any major writedowns. Most of Etteplan's clients are in great financial shape, so some credit to them isn't a problem. For those in a more challenging financial situation, the payment terms are much tougher.

Assets (MEUR)	2010	2011	2012	2013e	2014e	2015e	2016e
Non-current assets	**39.7**	**40.5**	**48.9**	**48.0**	**47.9**	**48.3**	**48.7**
Goodwill	36.0	36.3	39.9	39.9	39.9	39.9	39.9
Other intangible rights	1.0	1.4	6.5	6.3	5.9	6.1	6.5
Tangible assets	1.6	1.7	1.8	1.1	1.5	1.5	1.6
Associated companies	0.0	0.3	0.1	0.1	0.1	0.1	0.1
Other investments	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Current assets	**27.9**	**25.1**	**27.4**	**29.3**	**30.4**	**31.9**	**33.5**
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables	22.9	22.0	22.0	24.6	25.6	26.9	28.2
Cash and cash equivalents	5.0	3.0	5.4	4.6	4.8	5.1	5.3
Balance sheet total	**67.7**	**65.6**	**76.4**	**77.3**	**78.4**	**81.5**	**90.0**

Table 4. Assets of the balance sheet.

When looking at the liabilities (table 5), we note that company's debt structure is healthy. In the end of 2012 company's net interest bearing debt was 15.5 MEUR, while company's total equity was 24.7 MEUR. This puts net gearing, which is the key ratio for Etteplan, at 62.8 % at the end of the year. This isn't a low figure, but it's definitely on a sustainable level. Considering company's strong operating cash flow in 2012 (11.3 MEUR) the level is very well under control.

Liabilities (MEUR)	2010	2011	2012	2013e	2014e	2015e	2016e
Equity	**29.3**	**20.5**	**25.1**	**28.4**	**32.9**	**38.5**	**44.5**
Share capital	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Retained earnings	6.7	8.1	11.9	15.3	19.7	25.3	31.3
Shares repurchased	-2.0	-2.1	-1.9	-1.9	-1.9	-1.9	-1.9
Asset revaluation reserve	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Other equity	12.8	2.7	3.4	3.4	3.4	3.4	3.4
Minority interest	0.1	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4
Deferred tax liabilities	0.3	0.2	1.2	1.2	1.2	1.2	1.2
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**6.8**	**13.4**	**16.5**	**15.1**	**12.8**	**10.2**	**11.2**
Long-term debt	6.8	13.4	13.2	11.9	9.6	7.0	8.0
Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.0	0.0	3.2	3.2	3.2	3.2	3.2
Current liabilities	**31.2**	**31.6**	**34.0**	**33.0**	**31.9**	**31.9**	**33.4**
Short-term debt	5.3	6.8	7.7	4.5	2.3	1.0	1.0
Non-interest bearing current liabilities	25.1	24.3	25.4	27.4	28.5	29.9	31.4
Other current liabilities (non-ib.)	0.8	0.5	1.0	1.0	1.0	1.0	1.0
Balance sheet total	**67.7**	**65.6**	**76.4**	**77.3**	**78.4**	**81.5**	**90.0**

Table 5. Liabilities of the balance sheet.

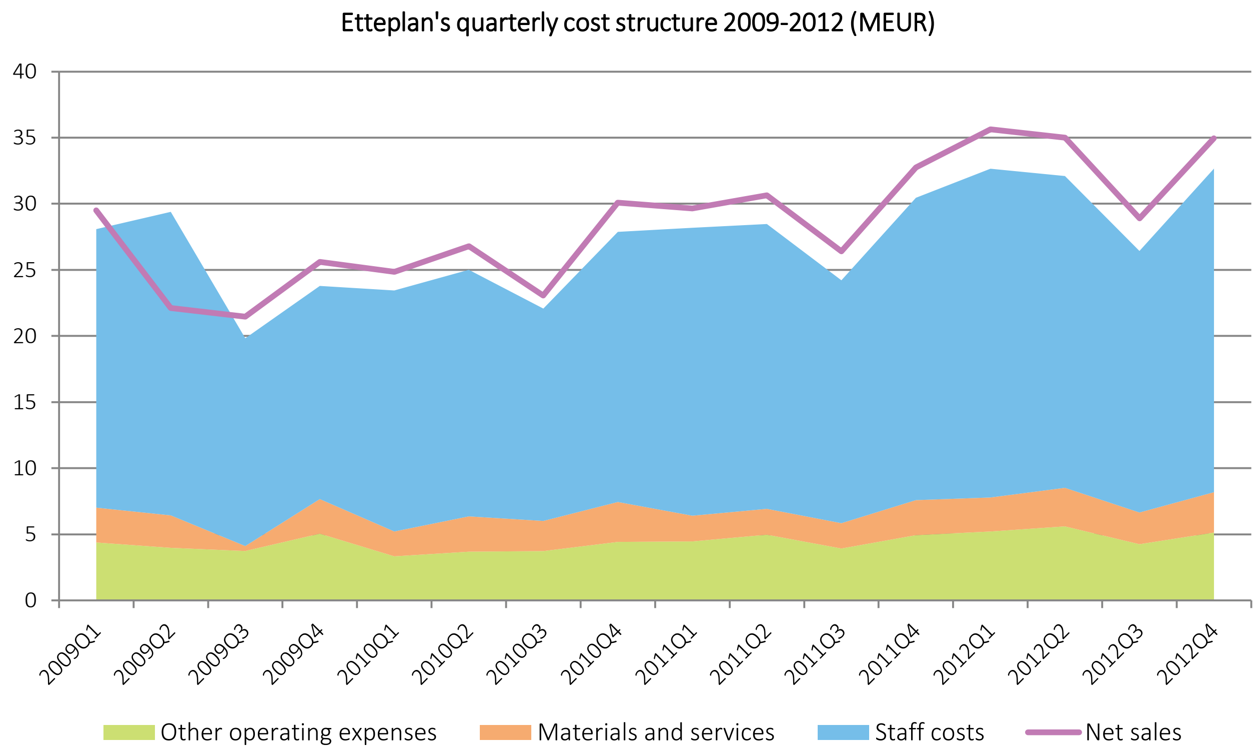
The fact that company is reasonable confident with its current balance sheet was visible in the dividend proposal of 0.15 euros per share. Another thing worth noting is that the light balance sheet of the company enables high return on capital employed. In 2012 ROCE was 20.4 %, and the result was only reasonable good. For investors this is good news, because the money invested by the company should have good returns also in the future.

7. Cost structure revolves around personnel costs

In the end Etteplan's business is based on expertise of its personnel. While competent employees are crucial for Etteplan's success, their salaries are also clearly the most important piece in company's cost structure. In 2012 staff costs were ~93 MEUR, which is almost 75 % of the all expenses of Etteplan. Therefore the number of employees, average salary and the usage of personal (sales per employee) and the development of these are crucial for company's financial success. Naturally also the pricing, efficiency of the processes and development of the productized services are also very important, but when looking at the cost structure, staff costs are the key. This is also the cost that company can directly influence on its recruitment decisions, while license fees and cost related to business infrastructure are more given in the short-term.

We have tried to open up the cost structure in the following graph. Note that the following cost structure doesn't include depreciation, amortizations or possible impairments. We believe that the main points to understand are the following:

1) Clearly the most important factor in cost structure is **personnel expenses**. Most of the personnel is in Finland and Sweden, but there's also an increasing amount of people working for Etteplan in China. In China the wages are naturally in a completely different level than in Finland or Sweden, which makes it important to follow also where the recruiting takes place and not only look at the top level head count. We believe that offshoring is an important part of Etteplan's success and cost competitiveness, where China's development is the key.
2) **Fixed expenses** excluding personnel expenses are low. However, large part of personnel expenses should be considered fixed in the medium term, as company's business naturally derives from the knowhow and competence of employees.
3) **Utilization of personnel**, simplified to sales per employee, is a key factor regarding Etteplan's profitability. The productized services that company is developing are very important in increasing flexible usage of capacity, and therefore another important thing to follow.
4) **Operational leverage** is low due to the nature of service business. However, some leverage is available from the technical information business as well as productized services.
5) Most of the growth in expenses should occur in staff costs, while other expenses should be more or less stable.



__Graph 13.__ Etteplan's cost structure in a quarterly level.

8. Future estimates – back to profitable growth?

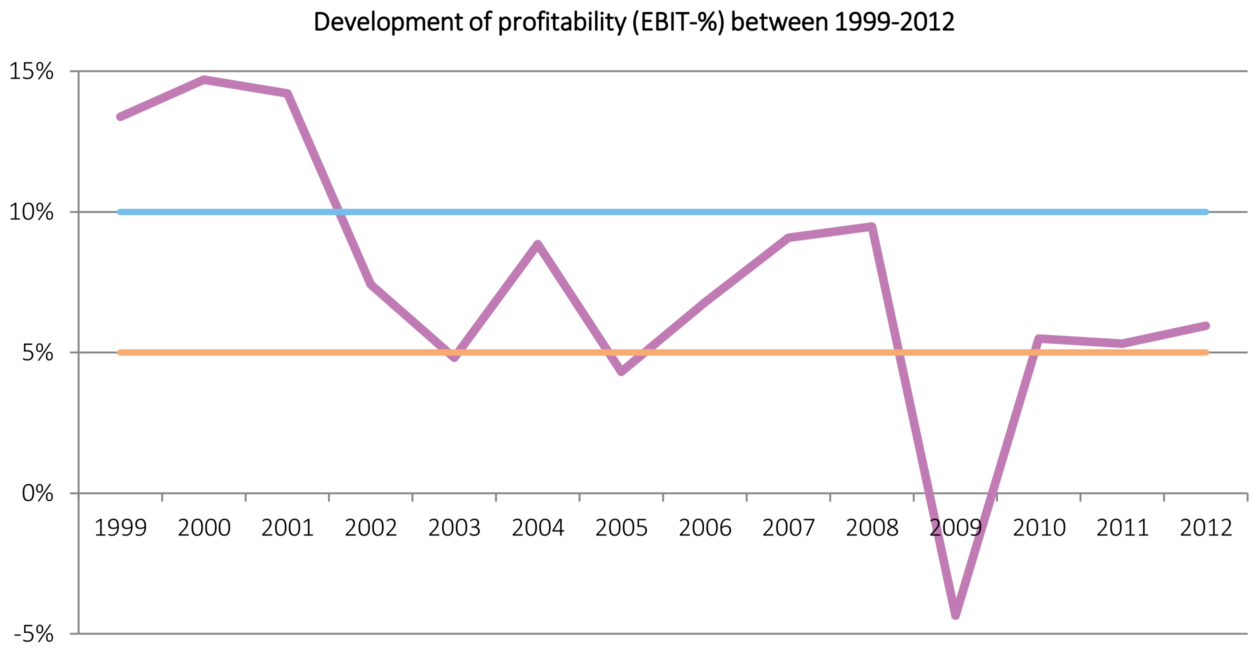
Etteplan still hasn't completely recovered from the financial crisis, and the world has changed in the meantime, so it won't happen without changing the business model. The financial crisis was kind of a watershed: it greatly changed the demand picture and created an overcapacity situation in Etteplan's markets, the competition naturally came much more intense. This put prices under pressure and tested companies' pricing power, which obviously wasn't strong when the clientele was in trouble also. Since the dramatic year 2009 the demand has stabilized and at the same time Etteplan's profitability has risen to a reasonable good level.

Etteplan is currently in the process of changing its business model like discussed earlier, which makes forecasting the future more challenging than it would be normally. In our base case we are expecting incremental improvements. Shortly, we believe that Etteplan is moving in the right direction, but we aren't forecasting any major jumps forward.

When considering the future, our logical reference point is the year 2012, which was already reasonable good for Etteplan. Net sales grew a solid 12.6 %, of which 7.5 % was organic. More importantly EBIT grew by 26.6 % and was 8.7 MEUR. According to the company, the transfer to higher added value services had a positive impact on operating profit, so the direction is right. In 2010 and 2011 Etteplan's EBIT-% was around 5.8 %. In 2012 company's EBIT margin improved to 6.5 %. Overall, 2012 gives a good comparison point since the demand was at a healthy level and the result was reasonable good, but in a way the work is just beginning.

8.1. Margins are improving through efficiency and added value

Our main focus will be on profitability, not only because of more profits but also because through better profitability company will have more resources to invest also to growth. Like said, EBIT-% was 6.5 % in 2012. This is already at a decent level, but far below Etteplan's official target of 10 %. We find this target challenging in the medium-term (3-5 years), but still feasible if company's upgraded business model is successful. However, we haven't made such an assumption in our estimates. The margin expansion would be a great driver for the share price, and we'll following it closely. In the following graph you can see how the EBIT margin has developed in the 21st century. There we can see that normally the EBIT-% has been between 5-10 % during the past 10 years.



Graph 14. *Development of profitability. Source: Capital IQ.*

Etteplan has summarized the actions needed to improving profitability to 1) changing of business model and 2) market leadership. A transfer to solution business model, if successful, should naturally improve the margins significantly. Through larger share of managed services the usage of capacity should improve considerably, which should reflect almost directly also to the margins. This is a major point in the long-term, major scale enhancement. While improving general efficiency is continuous work, the change of business model could naturally provide a major step change. We require more proof of the concept and its effects before we start raising our estimates significantly, but we do see the potential of managed services.

In the graph 15 below we have given our opinion about the three key points to improving profitability. Increasing the share of managed services, as well as adding more value (mostly) through them, are both critical parts of the new business model. In 2012 annual report company stated that higher added value services generally involve continued engineering design services with a higher utilization rate of engineering design capacity than in other business operations. Like we discussed earlier, the pricing of managed services is more based on added value than hours spend, which gives Etteplan much more possibilities.

However, we believe that the key in the short-term is still improving efficiency. The most important factor here is Sweden, where the biggest inefficiencies also are in our opinion. One Etteplan program is very important when it comes to this, because it also aims to find synergies between different operations and offices. In Sweden the competitive situation is tighter than in Finland, but through focus and cost savings the margins should be at least close to Finland. Also the share of managed services is lower in Sweden, which drags down the utilization rates and profitability. Etteplan doesn’t disclose the profitability by country, but we estimate that the Swedish operations EBIT-% are clearly below those of Finland. In 2012 the turnover of personnel burdened the Swedish operations, and if the situation would improve, the margins should follow.

Graph 15. Inderes’ three key points to improving profitability.

If we think about the 2012 level as the starting point, it’s worth noting that in 2012 Etteplan invested heavily in the new ERP system that was launched in 2012 and its roll-out began at the beginning of 2013. Also the development of productized services has been increasing company’s expenses in the past years, and in the future these investments should be visible in net sales. These aspects should also help the profitability in 2013.

While we are confident that these factors will help increasing the profitability of Etteplan significantly, there are other factors working against the company. The biggest factor on the negative side is the increasing competition that brings continuous pricing pressure. This has to be addressed, even though Etteplan has a good offshoring strategy. Another significant factor is the cost pressure that company’s customers are facing; though this is not necessary negative for the demand for Etteplan’s services, it does put pressure on the margins. Etteplan has to be able to provide concrete results and get the pricing through value added, if it wants to improve in this front.

It’s also worth noting that Etteplan will be making amortizations concerning its recent Tedopres acquisition in the coming years. Company said that these will be around 0.2 MEUR on a quarterly level. These will push down the EBIT, though they won’t have an effect on the cash flows. Therefore it’s better to follow the margin improvement through EBITDA-% in general.

8.2. Outlook of Etteplan and its client industries

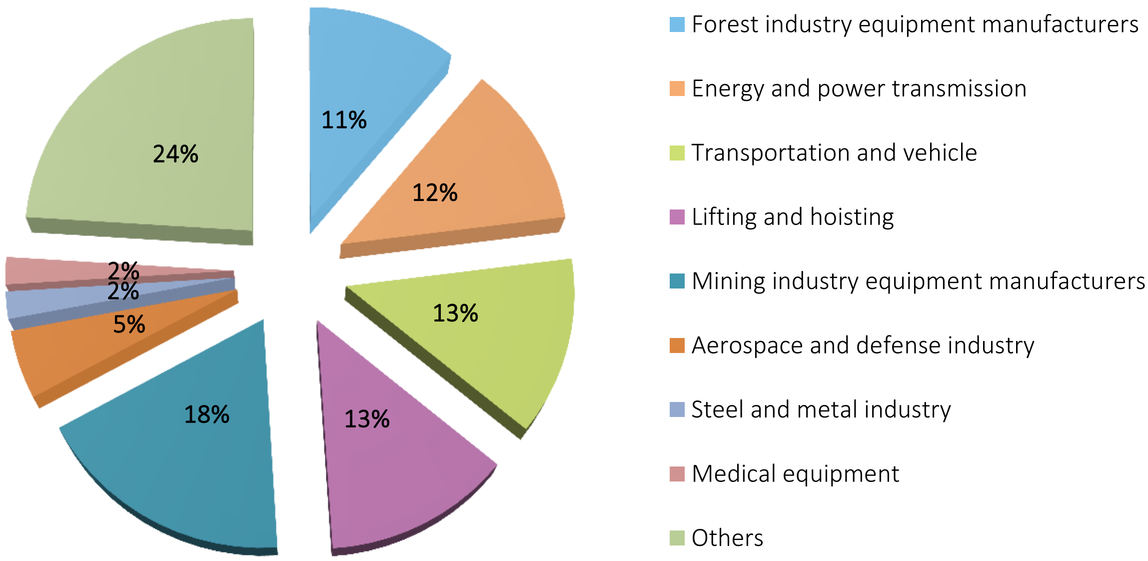
In the **guidance** for 2013 given in the Q4'12 report, Etteplan expected the revenue and operating profit (EBIT) to grow compared to 2012. Based on the recent performance and company's general situation, we would have expected also EBIT-% to improve, not just EBIT. It might be that company just wants to play it safe in the uncertain situation, but if the net sales increase while the cost structure is relatively fixed, one might expect also margins to improve. Company also added that the operating profit will accumulate towards the end of the year. This part of the guidance is slightly worrying, because it indicates that the first part of the year might be weaker than in general. This puts more pressure on the latter half of the year, where the visibility is naturally lower. At the same time possible disappointments regarding profit development and the guidance are more likely, though we believe that company exceeds its guidance.

In the annual report of 2012, Etteplan says that the demand for engineering design services has taken off with a slower start in 2013 than in the previous year, which explains the addition to the guidance. According to the company, the deterioration of the economic situation has not significantly reflected on the key customer relationships, although the order backlog of Nordic machine and equipment manufacturers is at a lower level at the beginning of 2013 than at the same time last year.

Etteplan's business is subject to **periodic fluctuation** that is affected by holiday seasons and the timing of product development and investment projects in customer companies, mainly at the beginning of the year as well as in the fall. This seasonality is most visible in third quarter: the revenue in Q3 is typically lower than that of other quarters. In general the amount of "extra" holidays within a financial period has effect on Etteplan; there's a significant difference whether a month has 20 or 22 *efficient* working days, a difference that can derive from the timing of official holidays.

Changes in Etteplan's **customers' order books** quickly influence the development of Etteplan's revenue. Like already said, at the end of the year 2012 the order books of Etteplan's major customers were at a lower level than a year ago. Etteplan anticipated the demand for engineering design services in early 2013 to remain unchanged from the end of 2012 and subsequently improve towards the end of the year. We believe this to be a realistic scenario.

Like we have said before, Etteplan's future outlook is tightly entangled with its clients. The market for Etteplan's services derives either from the growth in clients business or larger share of subcontracting in general. Naturally also Etteplan's **market share** is critical for net sales. Anyway, Etteplan is generally doing well when its clients are doing well. Healthy capacity utilization rates of clients mean healthy demand for Etteplan and the success of Etteplan's clients reflects on the success of Etteplan. Therefore it's important to consider the outlooks of the key customer segments that are shown in the following graph.



Graph 16. *Etteplan's 2012 revenue divided to main customer segments.*

In the following table 6 we have collected the key industries, which account for around two thirds of Etteplan's net sales, and given our short view of their outlooks. We have also listed some key companies from the industries. It's worth noting that one cannot draw direct implications between overall demand in a sector and demand for Etteplan's services from the sector. Negative outlook for transportation doesn't automatically mean that Etteplan's outlook in this sector would be negative, since Etteplan's success depends more on the success of its few key clients in the sector. Of course another key factor is Etteplan's share of the whole pie.

All the comments and opinions about outlooks are views of Inderes, but they are generally supported by outlooks given by companies in the field. We have tried to give a more general comment about the outlook of the industry in the beginning and then specify outlook regarding Etteplan. The same goes for sectors' order development.

Outlooks of key customer industries

Industry	% of revenue	Outlook for 2013	Order development
Forest industry equipment (companies like Metso, Andritz, Raute)	11 %	**Slightly negative.** Demand for new paper machines remains relatively poor, but the situation is slightly better in board and tissue. Pulp is another question mark. Overall the market is satisfactory. There are few investments in new capacity, and we believe that the market will decline in 2013.	Slightly negative / negative
Energy and power transmission (ABB, The Switch)	12 %	**Neutral.** While the long-term outlook is positive for the sector, currently investments in the energy field seem to be somewhat out-of-flavour. We expect the demand to be more or less stable in 2013 compared to 2012.	Neutral
Transportation and vehicle (Volvo, Bombardier)	13 %	**Negative.** Weak European market partly offset by the demand in Asia and other emerging markets, but the overall picture is still negative in 2013.	Slightly negative / negative
Lifting and hoisting (Kone, Konecranes, Cargotec)	13 %	**Positive.** The growth is mostly likely slowing down in 2013, but for example Kone is still going strong especially in Asia. Etteplan's clients in this sector are in good positions and we're confident that this sector will develop favorable. All eyes will be in Asia regarding this group, both in construction and industrial production.	Slightly positive / neutral
Mining industry equipment (Metso, Outotec, Sandvik, Atlas Copco)	18 %	**Relatively positive.** The biggest boom in mining is definitely behind and the growth should slow down, however, we believe that companies like Metso and Outotec will continue on the growth path. Sectors long-term drivers are solid, and as long as the commodity prices stay at healthy levels, we are confident on favorable demand.	Slightly positive

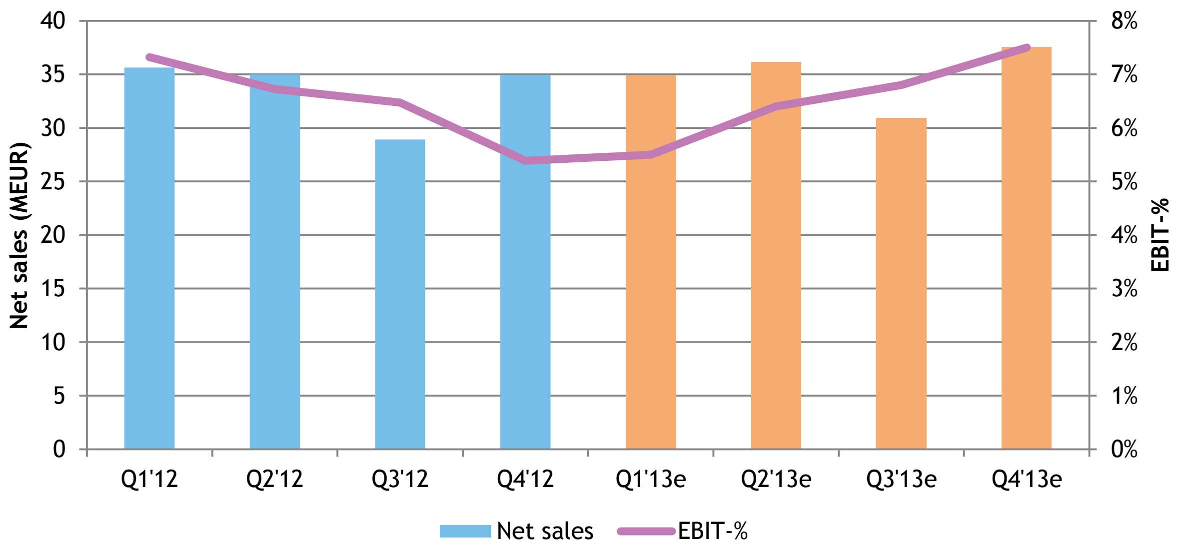
Table 6. Outlooks of key customers based on the views of Inderes.

Outside of these companies the most interesting clients might be John Deere that builds machinery for agriculture, construction and forestry, Saab and Patria in defense sector and Outokumpu and Rautaruukki in metals. Deere is going strong in most of its sectors, though forest machinery is struggling a bit currently. Defense sector is currently under a tight budget due to the belt tightening of many countries, and we would say that the outlook for 2013 is slightly negative. Both Rautaruukki and Outokumpu are under a massive pressure to cut costs, which might provide some opportunities for Etteplan, but in general the situation is still relatively poor in metals.

We can conclude that currently the outlooks of key customer industries are quite neutral. Considering that the negatives and positives mostly offset each other, we end up with a slightly positive market outlook due to the relatively positive outlook in the most important sectors – Mining (18 % of sales in 2012) and Lifting and hoisting (13 %). However, we don't believe that market situation is going to do any favors for Etteplan in 2013; it just provides a reasonable good platform for business. After all these factors are taken into account, we have come up with the following estimates for 2013.

Key Figures	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13e	Q2'13e	Q3'13e	Q4'13e	FY'13e	FY'14e
Net sales	**35.6**	**35.0**	**28.9**	**34.9**	**134.5**	**34.9**	**36.2**	**30.9**	**37.6**	**139.6**	**145.7**
EBITDA	**3.1**	**3.0**	**2.5**	**2.6**	**11.2**	**2.6**	**3.0**	**2.8**	**3.5**	**11.8**	**12.9**
Depreciation	-0.5	-0.6	-0.7	-0.7	-2.4	-0.7	-0.7	-0.7	-0.7	-2.7	-2.4
EBIT	**2.6**	**2.4**	**1.9**	**1.9**	**8.7**	**1.9**	**2.3**	**2.1**	**2.8**	**9.2**	**10.5**
Net financials	-0.3	-0.2	-0.4	-0.2	-1.0	-0.2	-0.3	-0.3	-0.2	-0.9	-0.8
Pre-tax Profit	**2.4**	**2.2**	**1.4**	**1.6**	**7.5**	**1.7**	**2.1**	**1.9**	**2.6**	**8.2**	**9.7**
Taxes	-0.7	-0.5	-0.4	-0.4	-2.0	-0.4	-0.5	-0.4	-0.6	-2.0	-2.3
Net earnings	1.8	1.7	1.1	1.2	5.8	1.3	1.6	1.4	2.0	6.2	7.4
EPS	0.09	0.09	0.05	0.06	0.29	0.07	0.08	0.07	0.10	0.32	0.37
Sales growth-%	20.2 %	14.2 %	9.5 %	6.7 %	12.6 %	-2.0 %	3.3 %	7.0 %	7.5 %	3.8 %	4.4 %
EBITDA-%	8.7 %	8.6 %	8.7 %	7.3 %	8.3 %	7.4 %	8.3 %	9.0 %	9.3 %	8.5 %	8.8 %
EBIT-%	7.3 %	6.7 %	6.5 %	5.4 %	6.5 %	5.5 %	6.4 %	6.8 %	7.5 %	6.6 %	7.2 %

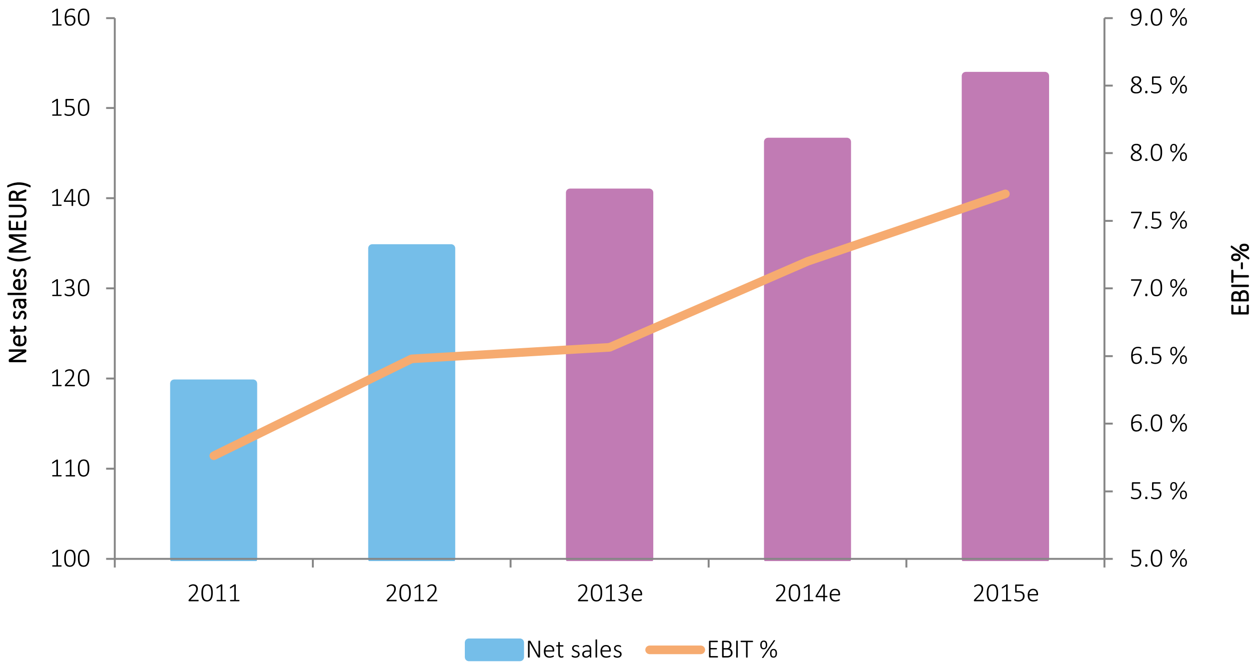
Table 6. Current earnings estimates of Inderes.



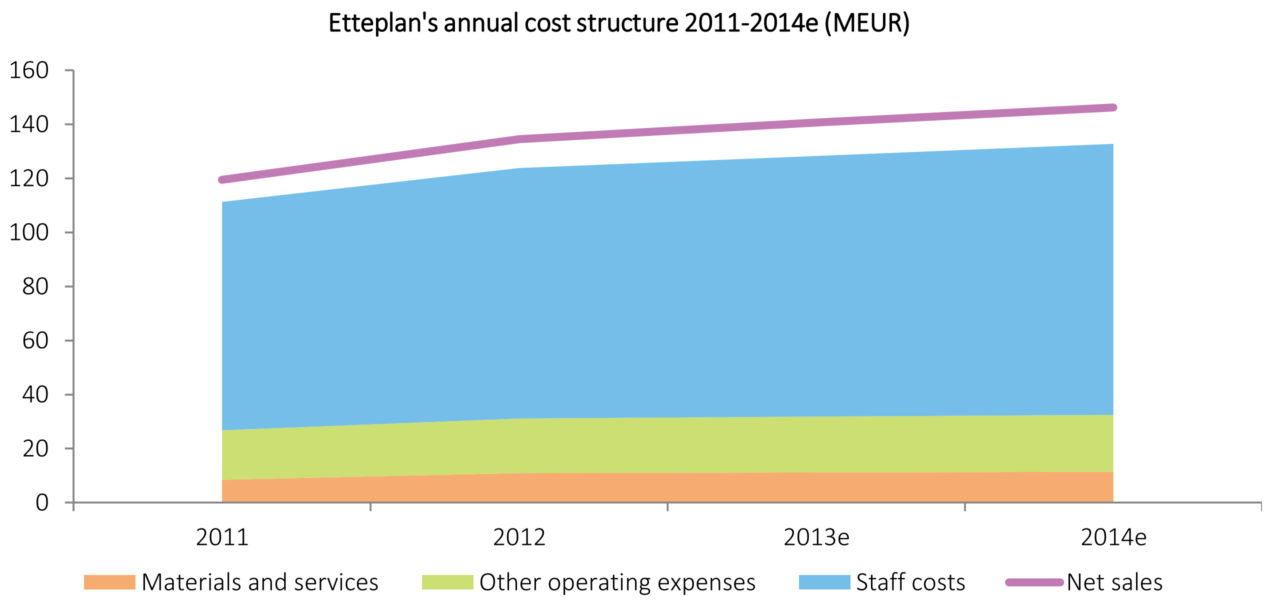
Graph 17. Current earnings estimates of Inderes in a graphical form.

8.1. Medium and long term estimates in a modest level

We are currently estimating clear improvements in profitability in the coming years 2013-2015. At the same time we are expecting Etteplan's net sales to increase around 3-6 %, which is very modest growth estimate and takes into account to poor overall economic situation. However, it's worth noting that we believe that almost all of this growth is coming from capturing larger part of the potential market – not from the market growth in general. We believe that the growth of industrial sector in general will be very slow in the coming few years due to the high economic uncertainty, but this situation could change quickly for example due to changes in the euro crisis. Also it's important to understand that these estimates include only organic growth, not the possible acquisitions.

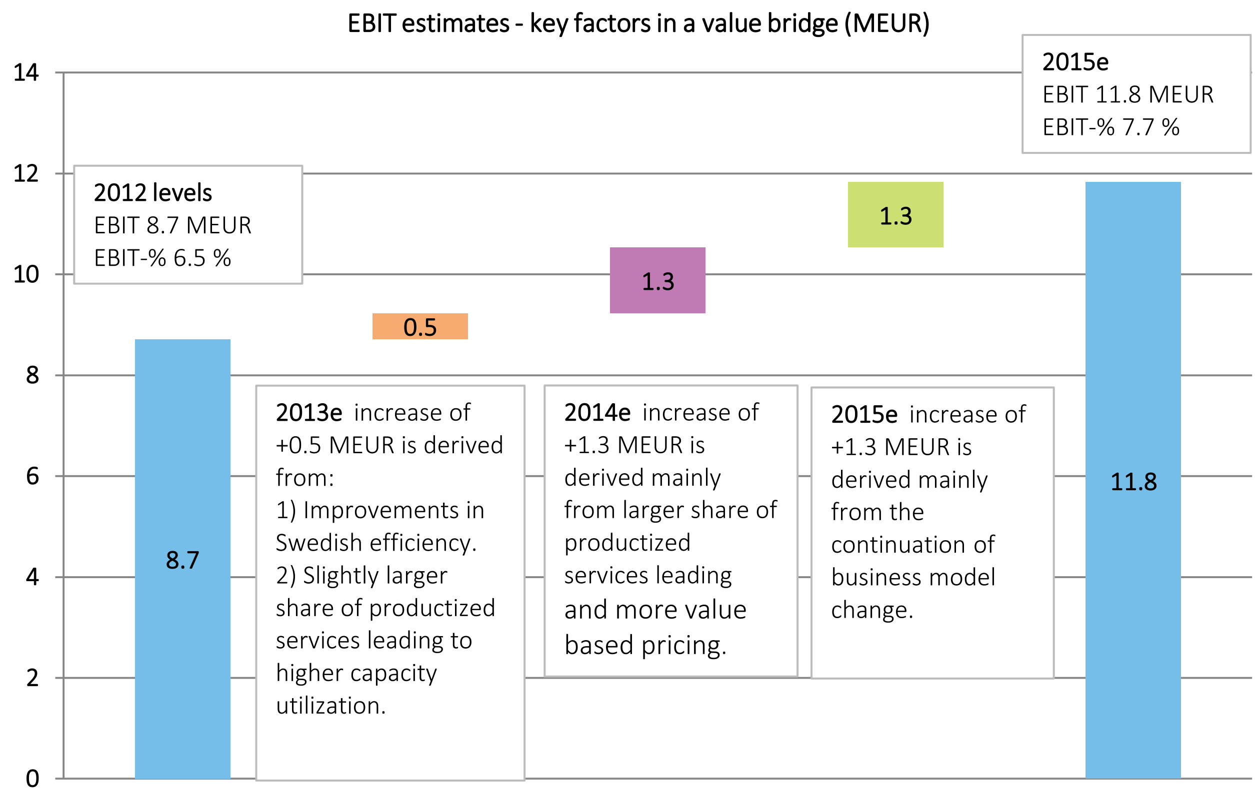


Graph 18. *Key estimates for the years 2013-2015.*



Graph 19. *Etteplan's annual cost structure. Notice that depreciation and amortizations are not visible.*

We already discussed our views about improving the profitability in length in *chapter 8.1*, and we won't be repeating the topic here. However, we believe that it's useful for investors to see at least a rough idea of the profit improvement and where we expect them to come from. We have tried to illustrate this in the following graph.



Graph 20. *Estimated development of EBIT 2012-2015 and expected key drivers.*

In our **long-term estimates** we have created a cautious scenario, where company will grow 3-5 % organically. In our base case profitability (EBT-%) reaches the level of 8 % in 2016, but doesn't go higher than this. Once again we remind investors that Etteplan's own target is EBIT-% of 10 %, and company believes that this is realistic even in the current global competition. In the past company has reached levels clearly higher. Considering the potential that we see in Etteplan, we believe our long-term estimates to be modest. The reason is rather simple: there's currently no evidence that the company's new strategy and business model can produce these kinds of results. However, the current valuation of Etteplan is very easy to justify even with our estimates, so this isn't a focal point in the analysis.

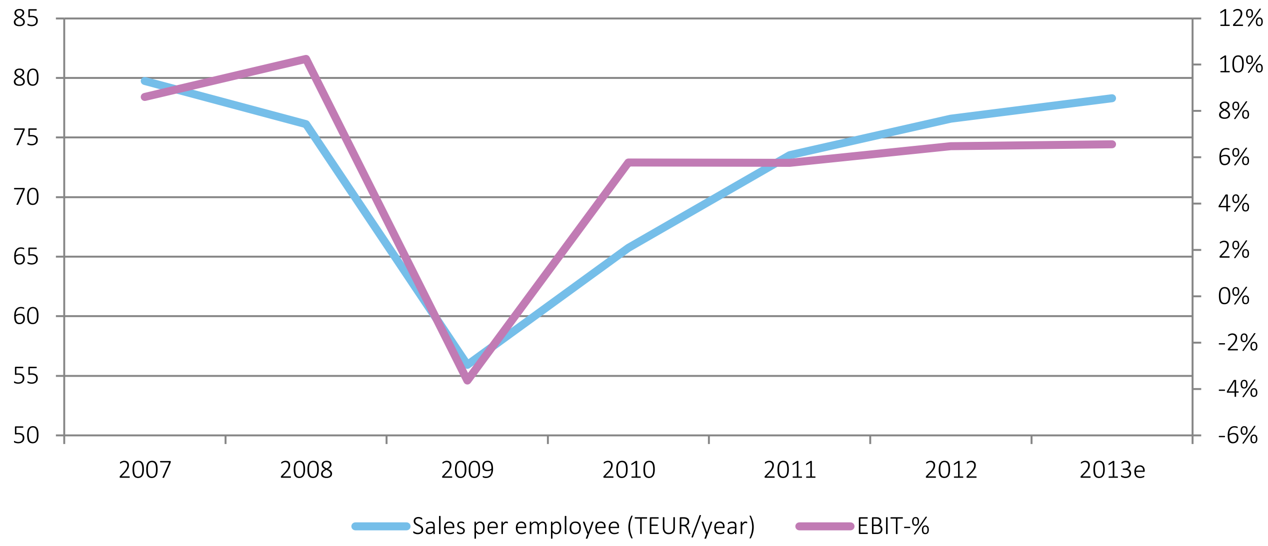
8.2. Key figures to follow

In this chapter we have collected some key figures that we believe will have a significant effect on Etteplan's success in the coming years. The list is hardly conclusive, but we believe that it includes the most important ones. It's worth mentioning that we haven't included obvious figures like development of EBIT-% and net sales growth-%.

First of all, it's critical to follow how Etteplan's strategy progresses, because its success will largely determine the success of the company also. We discussed the strategy in *chapter 2.1.* and there were also some key areas to follow within Customer Focus, Service Solutions, One Etteplan and Engineering Methods. These are all important, but here we focus on quantitative figures. Only one of the key points was more or less quantitative: key customer relationships continued at a greater rate than organic growth (12.9% in 2012). This is a good figure to follow, since it tells what's going on at the heart of Etteplan's business.

Another figure that is at the core of company's strategy, but not mentioned above, is the development of **managed services**. If company isn't able to grow the managed services concept, we believe it's challenging to improve profitability in the future. So the managed services should be able to increase its share of net sales in the coming years. In 2012 the share of managed services exceeded 20 % of total sales. It goes without saying that the most important figure isn't the share of total sales, but the growth in absolute figures. Currently we don't have an estimate for the development of this figure, since there are so many factors to consider and this is also a matter of specification of managed services. Still, it's clear that it's a key figure to follow and there should to be some positive progress almost continuously.

Net sales per employee gives a relatively good proxy for utilization rate of personnel, which again is one of the key factors in profitability. This is also a good figure when thinking about company's efficiency, which we have highlighted many times in this report. In graph 21 we have given an example of this correlation.



Graph 21. *Sales per employee gives a relatively good proxy for utilization rate of personnel.*

Naturally one key factor with some forecasting power is the order development of Etteplan's customers, even though it's difficult to syndicate all the sectors. We'll following the development of **new orders and order backlogs of key clients**. In a more general level the utilization rate of industrial capacity and industrial production in general have some relevance. Considering the cyclical level of most clients, also general economic growth is usually reasonable good indicator for the demand of Etteplan's services.

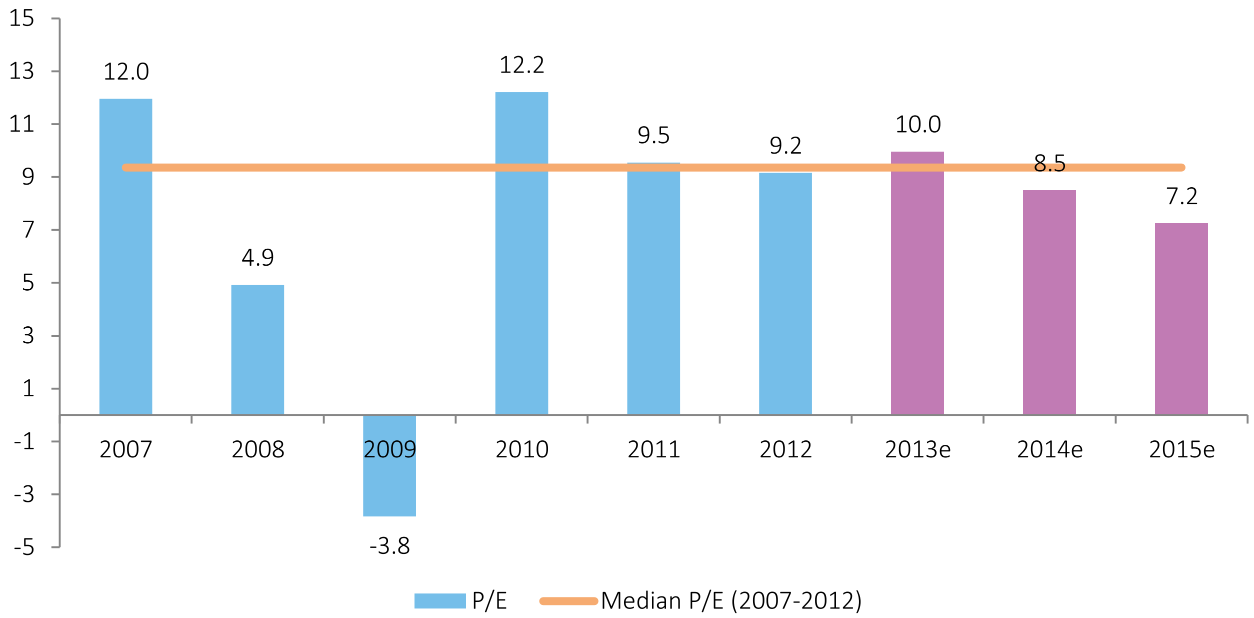
If we think about the **valuation of Etteplan,** we believe that the key figures are probably EV/EBITDA-multiple as well as cash flow. Etteplan's business isn't capital intensive and figures like P/B have little relevance for this reason. EBIT is currently pushed down by the amortizations regarding Tedopres, so EBITDA-% is perhaps the most relevant figure when thinking about profitability.

9. Valuation of the share is at a modest level

Even though we see Etteplan as a quality company and believe in its success also in the future, we believe that Etteplan's share should be valued with reasonable low multiples. Etteplan's business still has limited scalability, though company is aiming for this direction through productized services. Still, the success of productized services is still uncertain. Company's pricing power is also limited in the highly competitive market. In the resource hiring Etteplan is facing pricing pressure from both ends of the value chain; clients want cheaper prices and competent experts want higher salaries. Considering the rising competition coming from developing countries, company has to remain very efficient to keep healthy margins. Key factor here is Etteplan's offshoring possibilities that answer to this toughening competition and open new opportunities in China. All these mean that company's EBIT-% cannot be much higher than 10 % even if everything turns out great.

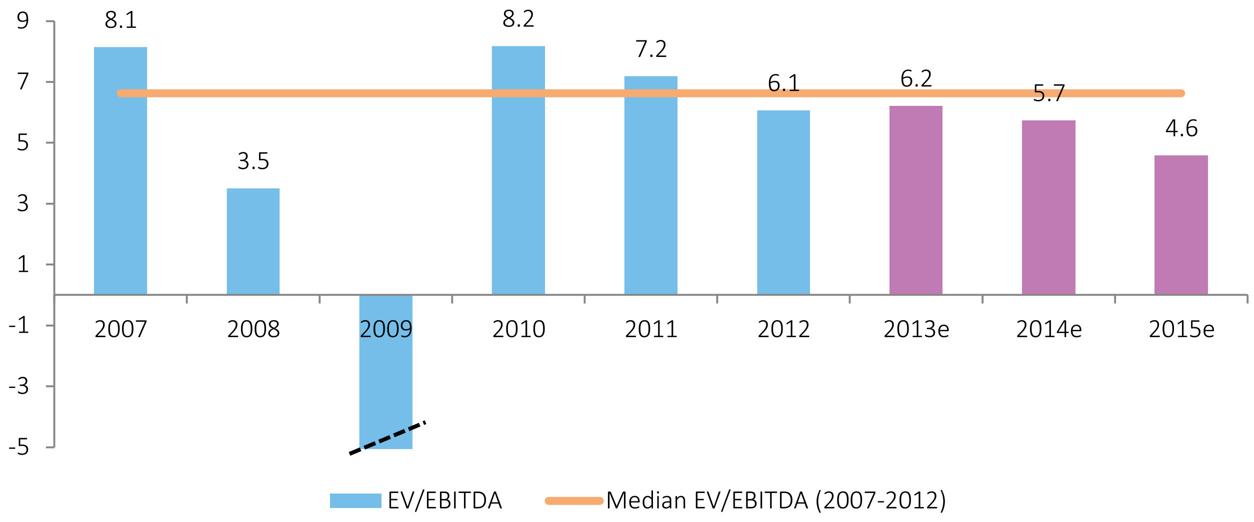
Another key factor regarding the justifiable valuation is the future growth prospects. Even though we believe that in the long run the design service market will outperform GDP growth clearly, the outlook for couple of next years is uncertain. Therefore our growth estimates, which we discussed earlier in *chapter 8*, are in a modest level. We see the potential, but wait for more proof before accepting higher multiples.

When looking at the current multiples, they are in a very modest level. Etteplan's P/E-multiple is currently around 10 for the current year, which is close to the median of 2007-2012. Still Etteplan's future outlook is now better than it has been in years, despite the general uncertainty. We consider the current level to be low, but relatively close to our opinion of the correct pricing. With current outlook and general valuations in Helsinki Stock Exchange, we believe the correct P/E-multiple to be around 12. With our current estimates this would put 2014 P/E around 10.

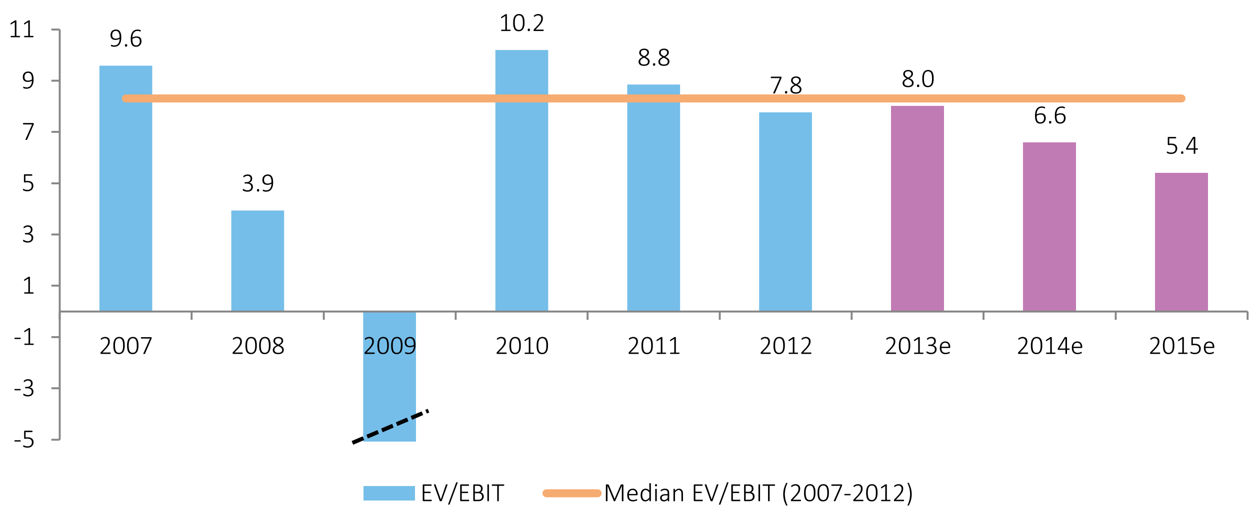


Graph 22. *P/E-multiples of Etteplan. Estimates by Inderes, calculated with the share price of 3.20 EUR.*

When looking at the EV-multiples that are perhaps more relevant in Etteplan's case, the current valuation seems even more attractive. This year's EV/EBITDA is just above 6, which is below the already low median of last six years (see graph 23). Since EBITDA is relatively close to Etteplan's cash flow, we consider EV/EBITDA to be perhaps the most important valuation multiple. Median EV/EBITDA-multiple of Etteplan's peer group, which is discussed more in the next chapter, is currently around 8 if we exclude Etteplan. We could justify EV/EBITDA multiple of 8 relatively easily for Etteplan, and it's important to notice that there's also profit improvements expected in the coming years. EV/EBIT-multiple paints a similar picture, though the amortizations of Tedopres adjust it slightly up. Expected profit improvements are more visible with EV/EBIT (graph 24).



Graph 23. *EV/EBITDA-multiples of Etteplan. Estimates by Inderes, calculated with the share price of 3.20 EUR.*



Graph 24. *EV/EBIT-multiples of Etteplan. Estimates by Inderes, calculated with the share price of 3.20 EUR.*

9.1. Peer group analysis

Etteplan is currently valued clearly below its Swedish peers, which can be seen in the table 7. Only Semcon, which is focused heavily in Automotive industry, is currently valued with lower multiples. Also Rejlers has reasonable multiples, but otherwise the multiples are noticeably higher than those of Etteplan. One reason for this might be that this business in general is well-known among the Swedish investors, but both the industry and Etteplan are relatively unknown in Finland outside of the industry. Pöyry is currently going through a transformation period and is struggling with its profitability, which weakens the comparability of its figures.

We see no reason why Etteplan should be valued below the median of the peer group. Actually productized services and position in China should make Etteplan more attractive company than the average. Company's sales growth is expected to be slightly below the peers in the next few years, but it might be that our estimates are just more modest about the general market growth than those of Reuters consensus. We don't believe that Etteplan would be losing market share. Of course there's a mix question regarding the Swedish and Finnish market expectations in general, but we don't see this as a drag for Etteplan either.

Peer group: Etteplan

25.3.2013				EV/EBITDA		P/E		Dividend-%	P/BV
	Share price	MCAP (M€)	EV (M€)	2013e	2014e	2013e	2014e	2013e	2013e
Etteplan	***3.19 €***	***63.1***	***86.9***	***6.2***	***5.7***	***10.0***	***8.5***	***4.7 %***	***2.2***
ÅF	189 SEK	834.2	776.3	8.2	7.3	14.0	12.6	3.3 %	2.0
Semcon	56 SEK	121.0	122.5	4.8	4.3	7.4	6.4	4.5 %	1.5
Prevas	19 SEK	20.9	27.0	6.6	5.0	13.9	9.0	0.0 %	-
Sweco	77 SEK	838.3	796.9	8.0	7.5	13.8	12.6	4.5 %	3.7
Rejlers	92 SEK	107.6	105.0	6.8	5.8	12.6	10.8	3.8 %	2.7
Rucker	16.72 €	264.0	269.7	17.5	14.9	19.2	16.6	3.3 %	-
Pöyry	4.39 €	256.8	345.0	23.0	18.5	21.0	12.4	1.4 %	1.6
Average				10.1	8.6	14.0	11.1	3.2 %	2.3
Median				7.4	6.6	13.8	11.6	3.6 %	2.1

Table 7. Peer group valuation. Estimates: Thomson Reuters expect Etteplan by Inderes.

According to the figures in table 7, Etteplan is undervalued compared to its peers in every key aspect. In our opinion Etteplan's share should be at least at the median level, if not higher than median. For example Etteplan's EV/EBITDA-multiple is around 16 % below the median (and clearly more below average). P/E-ratio is almost 30 % lower than the median. Etteplan also has a solid dividend yield of 4.7 %, highest among the group. This should support the share during the current uncertain economic times.

Peer group: Etteplan

25.3.2013	EBIT-%			Net sales-%			ROE-%
	2012	2013e	2014e	2012	2013e	2014e	2013e
Etteplan	***6.5 %***	***6.6 %***	***7.2 %***	***12.6 %***	***4.6 %***	***4.0 %***	***23.7 %***
ÅF	8.4 %	9.0 %	9.4 %	13.6 %	45.6 %	8.6 %	15.0 %
Semcon	7.5 %	7.3 %	7.8 %	11.2 %	2.5 %	5.4 %	23.7 %
Prevas	2.7 %	3.1 %	4.3 %	14.8 %	8.1 %	6.9 %	8.0 %
Sweco	9.0 %	8.9 %	9.2 %	34.7 %	6.6 %	5.7 %	27.9 %
Rejlers	6.2 %	7.6 %	8.0 %	18.3 %	13.0 %	12.6 %	22.4 %
Rucker	5.1 %	5.8 %	6.3 %	9.2 %	5.0 %	4.0 %	17.0 %
Pöyry	1.7 %	3.2 %	4.6 %	-0.1 %	-6.5 %	3.7 %	8.0 %
Average	5.9 %	6.4 %	7.1 %	14.3 %	9.9 %	6.4 %	18.2 %
Median	6.3 %	6.9 %	7.5 %	13.1 %	5.8 %	5.6 %	19.7 %

Table 8. Some key figures of peer group. Estimates: Thomson Reuters expect Etteplan by Inderes.

Just to give an idea of the financial development of peers, we have collected data about profitability and net sales growth. One can see that the most companies are doing relatively well and only Prevas and Pöyry are struggling with profitability currently. Etteplan is close to middle also in these factors. We remind investors that high EBIT-% make it more challenging to improve them in this industry; this is not a reason to justify higher valuation multiples.

9.2. *Cash flow analysis and assumptions behind it*

Our cash flow analysis gives Etteplan's share a value of over 5 euros even with our relatively modest future estimates. We use the DCF valuation more as a reality check than the absolute truth, because the cash flow model is easy to manipulate and subject to many assumptions. Still, DCF model plainly suggests that Etteplan's share is currently evidently undervalued. According to it, company's value would be over 100 MEUR, while company's current market value is around 63 MEUR and Enterprise Value (EV) around 74 MEUR. DCF suggests that there's more than 60 % upside potential, but like said, this is just one method of valuation.

DCF Valuation (MEUR)	2012	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	TERM
EBIT (operating profit)	**9**	**9**	**11**	**12**	**13**	**13**	**13**	**13**	**12**	**12**	**13**	
+ Depreciation	2	3	2	2	2	2	2	2	2	2	3	
- Paid taxes	-1	-2	-2	-3	-3	-3	-3	-3	-3	-3	-3	
- Tax, financial expenses	0	0	0	0	0	0	0	0	0	0	0	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	2	-1	0	0	0	0	0	0	0	0	0	
Operating cash flow	**12**	**9**	**10**	**11**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	
+ Change in other long-term liabilities	3	0	0	0	0	0	0	0	0	0	0	
- Gross capex	-11	-2	-1	-3	-3	-2	-3	-3	-3	-3	-3	
Free operating cash flow	**4**	**7**	**8**	**9**	**10**	**10**	**10**	**10**	**9**	**9**	**10**	
Other items	0	0	0	0	0	0	0	0	0	0	0	
FREE CASH FLOW TO FIRM	4	7	8	9	10	10	10	10	9	9	10	147
Discounted FCFF		7	7	7	7	6	6	5	5	4	4	60
Sum of discounted FCFF		**118**	**111**	**104**	**97**	**91**	**84**	**78**	**73**	**69**	**64**	**60**

- Interest-bearing debt		-21
+ Cash and cash equivalents		5
+ Market value of associated companies		0
- Market value of minorities		1
- Previous year dividend correction		0
Value of equity, DCF		**104**
Enterprise Value DCF		**118**

Cost of capital (WACC)	
Tax rate, WACC	24.5 %
Target debt ratio D/(D+E)	15.0 %
Cost of debt	6.0 %
Equity beta	1.30
Market risk premium	4.8 %
Liquidity premium	0.3 %
Riskfree interest rate	4.0 %
Cost of equity	10.4 %
Weighted Average Cost of Capital (WACC)	9.5 %

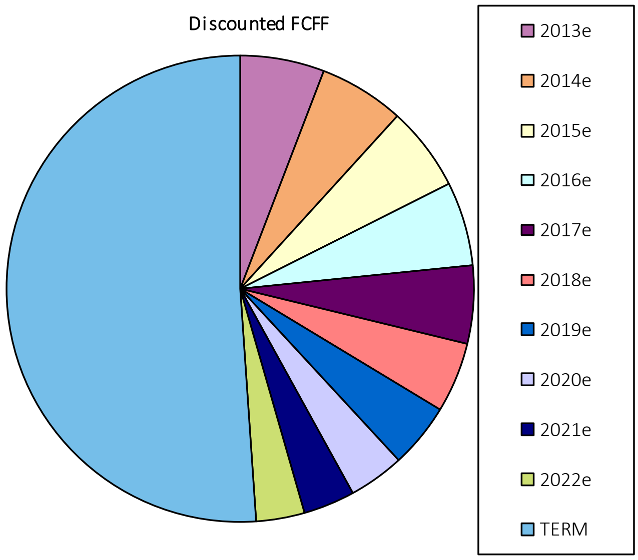
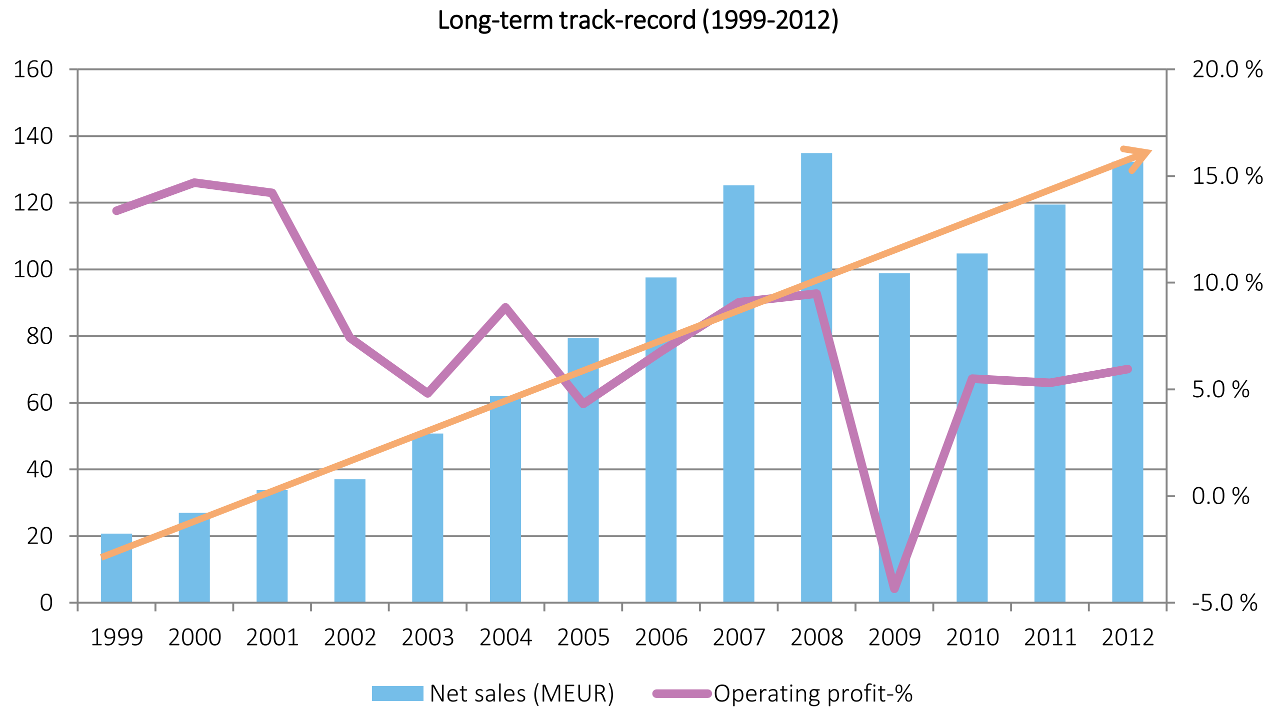


Table 9. DCF analysis and the assumptions behind it. Estimates by Inderes.

10. Company has a solid long-term track record

Etteplan had a very strong period of profitable growth before the financial crisis. Actually company's result was negative for the first time in history in 2009 that was naturally extremely difficult operating environment for Etteplan's clients. Etteplan had also made some rather foolish acquisitions in the boom years, which didn't perform well during the crisis. It's worth mentioning that the graph below only includes continuing operations, not those discontinued during the financial crisis. However, overall track-record of Etteplan after the listing in 2000 is solid like one can see in the graph below.



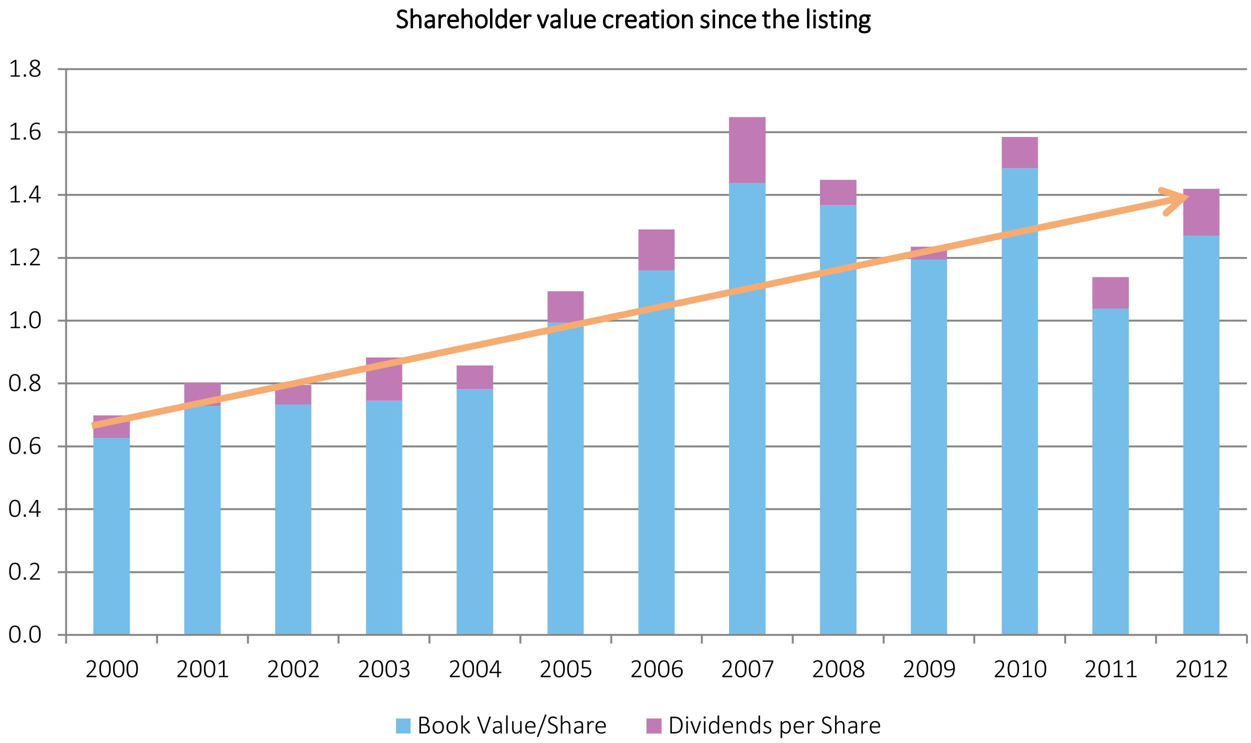
Graph 25. *Long-term track record of Etteplan. Note that figures are for continuing operations. Source: Capital IQ.*

Etteplan's net sales have grown from just above 20 MEUR to 134.5 MEUR between 1999 and 2012. This means CAGR of around 15.5 % for the period. Growth has been boosted by acquisitions Finland and Sweden in 21st century, but also the organic growth has been strong.

It's also easy to see the effect of boom years in the graph, though the figures have been reclassified to exclude some of the acquisitions sold later. Years 2007 and 2008 were exceptional in the positive way, while the year 2009 was terrible. This naturally echoes the development of Etteplan's clients.

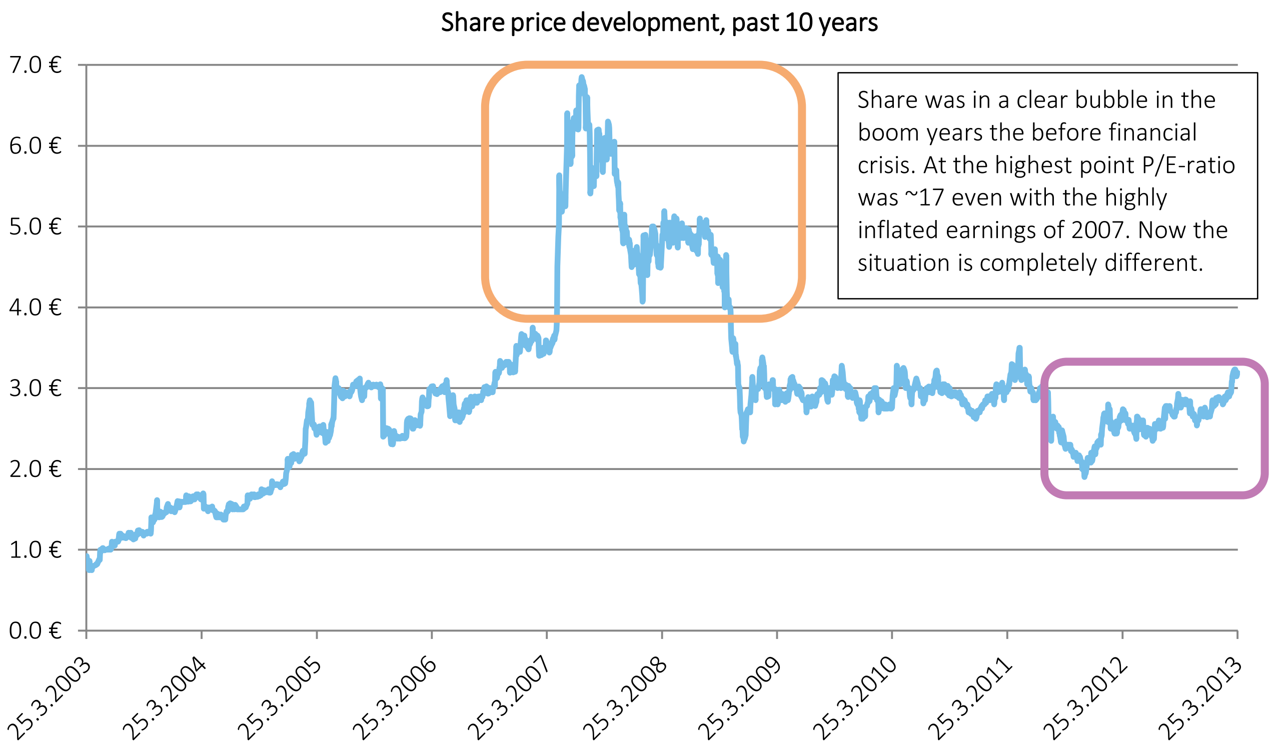
Although the growth has been profitable excluding the extraordinary year 2009, it's clear that the profitability (EBIT-%) has been trending down. There are naturally multiple factors behind this, but we believe that the most important ones are increasing competition in general as well as company's international growth mainly to Sweden. The profitability in operations outside of Finland has never been as good as in Finland, which can still be considered as the home market of Etteplan. However, the biggest pressure has probably been coming from increasing and more global competition.

Like one would expect from the earnings development, Etteplan has been also a good creator of value for its shareholders. Company has been paying dividends every year since the initial public offering in 2000 and still the book value per share has been growing nicely at least most of the time. This is demonstrated in the following graph 26, where the data is split adjusted.



Graph 26. Etteplan has a solid track record in shareholder value creation. Source: Capital IQ

When looking at the share price development, we see an interesting through somewhat typical picture. Etteplan's share was in a clear bubble in the boom years the before financial crisis. At the highest point P/E-ratio was ~17 even with the highly inflated earnings of 2007. In 2012 the situation was completely different: P/E is well lower 10 with clearly below average profitability. Currently the share price has recovered a bit, but it's still clearly undervalued in our opinion.



11. Risks and other factors to consider

While we are positive about the future of Etteplan, there are naturally also risks to consider. In this chapter we are going to discuss some of the biggest risks. While the word risk is generally associated with negative downside risks, we are also considering at least one positive risk for investors here. Our point of view regarding risks is that of investors, just like in general in this report. Therefore our focus is on risks outside of typical strategic and operational risks. It doesn't mean that there wouldn't be any, but these are risks that are always part of doing business.

The main (negative) risks for investors are in our opinion the following:

- **Increasing global competition** in the Nordics markets, mostly from China and India
- **Constant pricing pressure** created by both increasing competitions as well as challenges in resource hiring business model
- **Goodwill from Sweden** in the balance sheet.
- **Losing a key customer** for example due to data security problem.

The two first ones are related to profitability of the company and are happening all the time. The risk for investors is that Etteplan isn't able to keep itself efficient enough to maintain healthy margins. These are not the kind of risks that suddenly realize, but nevertheless they can be destructive for shareholders over time.

In the other hand, the goodwill is naturally a risk that either is realized or not. Currently we don't believe that Etteplan would be forced to make goodwill impairments, but it's not completely out of question regarding Sweden. Since the amount of goodwill is so large (39.9 MEUR in total, of which ~25 MEUR is allocated to Sweden) in respect to the balance sheet, even a minor risk of impairment should be covered. Since the possible impairments have no cash flow effect, they are relevant mostly through balance sheet strength and especially if there are covenants tight to these.

Etteplan has two different kind of financial covenants related to different loans. Breaching 25% and 30% equity ratio linked covenants calls for renegotiations of loan terms (mainly interest) with the banks. In addition breaching interest-bearing debt/EBITDA (excluding onetime costs) covenant has an effect on margin level of debts. Breaching the limit of 2.5 would increase margin level by 0.2-0.4 per cent and breaching the limit of 3.5 calls for renegotiations of the loan terms (mainly interest) with the bank. In 2012 the terms of these covenants are not breached; equity ratio in the end of 2012 was 32.4 % and it should be increasing in the coming years. Since goodwill impairments would weaken the equity ratio, this could cause some problems, but it's still relatively far-fetched.

Losing a key customer is naturally also a completely normal business risk; however, we wanted to add it to risks mostly due to the offshoring strategy in China. Etteplan has been very good in managing the IPRs and data security in general, but of course it takes only one mistake in these critical issues to lose clients' confidence. China is always a risk in this regard, even though company has handled security issues very well for now. Of course this is not the only scenario how a key client could be lost. Etteplan's client portfolio is quite well diversified, but there are still some client's that would cause a clearly visible dent in the net sales (and EBIT) if lost.

With the rise of managed services also the amount of risk than company takes on increases. Still, we don't believe that Etteplan's risk profile is increased by the managed services. The relatively small operational risk is more than compensated by the more stable nature of managed services business in general.

In the end, we want to mention also a **positive "risk" in the view point of shareholders**. This is the possible acquisition of Etteplan. Company is relatively small, holds significant potential and at least currently has a modest valuation. Company has few very large shareholder (namely Ingman Group with over 25 % and Veli Mönkkönen with over 20 %), but the shareholder or corporate structure wouldn't exclude an acquisition. Therefore it wouldn't be far-fetched to say that company would be interesting for many larger competitors, possible as a way to enter Finnish and Chinese markets.

Naturally the buyer could be also an investor. Ingman Group, which has been increasing its ownership, certainly would have enough firepower to buy Etteplan if it would choose to. This is just speculating at this point, but it's still worth following how the share of Ingman develops in the future. One of the critical levels, 30 %, isn't that far away after all.

INTERIM FIGURES

mEUR	2012Q1	2012Q2	2012Q3	2012Q4	2012	2013Q1e	2013Q2e	2013Q3e	2013Q4e	2013e	2014e	2015e
Net sales	36	35	29	35	134	35	36	31	38	140	146	153
EBITDA	3	3	3	3	11	3	3	3	3	12	13	14
EBITDA margin (%)	*8.7*	*8.6*	*8.7*	*7.3*	*8.3*	*7.4*	*8.3*	*9.0*	*9.3*	*8.5*	*8.8*	*9.1*
EBIT	3	2	2	2	9	2	2	2	3	9	10	12
EBIT margin (%)	*7.3*	*6.7*	*6.5*	*5.4*	*6.5*	*5.5*	*6.4*	*6.8*	*7.5*	*6.6*	*7.2*	*7.7*
Net financial items	0	0	0	0	-1	0	0	0	0	-1	-1	-1
Pre-tax profit	2	2	1	2	8	2	2	2	3	8	10	11
Tax	-1	0	0	0	-2	0	0	0	-1	-2	-2	-3
Tax rate (%)	*28.0*	*22.9*	*26.8*	*24.1*	*25.5*	*24.0*	*24.0*	*24.0*	*24.0*	*24.0*	*24.0*	*23.0*
Net profit	2	2	1	1	6	1	2	1	2	6	7	9
EPS	0.09	0.09	0.05	0.06	0.29	0.07	0.08	0.07	0.10	0.32	0.37	0.44
EPS adjusted (diluted no. of shares)	0.09	0.09	0.05	0.06	0.29	0.07	0.08	0.07	0.10	0.32	0.37	0.44
Dividend per share	0.00	0.00	0.00	0.00	0.15	0.00	0.00	0.00	0.00	0.15	0.18	0.21
SALES, mEUR												
Group	36	35	29	35	134	35	36	31	38	140	146	153
Total	36	35	29	35	134	35	36	31	38	140	146	153
SALES GROWTH, Y/Y %												
Group	*20.2*	*14.2*	*9.5*	*6.7*	*12.6*	*-2.0*	*3.3*	*7.0*	*7.5*	*3.8*	*4.4*	*5.0*
Total	*20.2*	*14.2*	*9.5*	*6.7*	*12.6*	*-2.0*	*3.3*	*7.0*	*7.5*	*3.8*	*4.4*	*5.0*
EBIT, mEUR												
Group	3	2	2	2	9	2	2	2	3	9	10	12
Total	3	2	2	2	9	2	2	2	3	9	10	12
EBIT margin, %												
Group	*7.3*	*6.7*	*6.5*	*5.4*	*6.5*	*5.5*	*6.4*	*6.8*	*7.5*	*6.6*	*7.2*	*7.7*
Total	*7.3*	*6.7*	*6.5*	*5.4*	*6.5*	*5.5*	*6.4*	*6.8*	*7.5*	*6.6*	*7.2*	*7.7*

ETTEPLAN

26 March 2013

Industrials - Finland

INCOME STATEMENT, mEUR	2008	2009	2010	2011	2012	2013e	2014e	2015e
Sales	134	99	105	119	134	140	146	153
Sales growth (%)	*7.2*	*-26.5*	*6.2*	*14.0*	*12.6*	*3.8*	*4.4*	*5.0*
Costs	-119	-101	-97	-111	-123	-128	-133	-139
Reported EBITDA	15	-2	8	8	11	12	13	14
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*11.5*	*-2.0*	*7.2*	*7.1*	*8.3*	*8.5*	*8.8*	*9.1*
Depreciation	-2	-2	-1	-2	-2	-3	-2	-2
EBITA	14	-4	6	7	9	9	10	12
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	14	-4	6	7	9	9	10	12
EBIT margin (%)	*10.2*	*-3.6*	*5.8*	*5.8*	*6.5*	*6.6*	*7.2*	*7.7*
Net financials	-1	-1	0	-1	-1	-1	-1	-1
Pre-tax profit	13	-4	6	6	8	8	10	11
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	-4	1	-1	-2	-2	-2	-2	-3
Minority shares	0	0	0	0	0	0	0	0
Net profit	8	-14	4	5	6	6	7	9
BALANCE SHEET, mEUR								
Assets								
Fixed assets	5	3	3	4	9	8	8	8
Goodwill	33	31	36	36	40	40	40	40
Inventory	0	0	0	0	0	0	0	0
Receivables	39	20	23	22	22	24	25	27
Liquid funds	2	7	5	3	5	5	5	6
Total assets	79	62	68	66	76	78	78	81
Liabilities								
Equity	27	24	29	20	25	28	32	38
Deferred taxes	2	0	0	0	1	1	1	1
Interest bearing debt	17	12	12	20	21	17	12	8
Non-interest bearing current liabilities	33	24	25	24	25	27	28	30
Other interest free debt	0	2	1	0	4	4	4	4
Total liabilities	79	62	68	66	76	78	78	81
CASH FLOW, mEUR								
+ EBITDA	15	-2	8	8	11	12	13	14
- Net financial items	-1	-1	0	-1	-1	-1	-1	-1
- Taxes	-4	1	-1	-2	-2	-2	-2	-3
- Increase in Net Working Capital	-1	11	-4	0	2	-1	0	0
+/- Other	-1	-11	0	0	0	0	0	0
= Cash flow from operations	9	-1	2	6	10	8	10	11
- Capex	-6	2	-6	-2	-11	-2	-2	-3
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	3	1	-4	4	-2	6	8	8
+/- Change in interest-bearing debt	2	-5	1	8	1	-4	-5	-4
+/- New issues/buybacks	-6	14	2	-12	1	0	0	0
- Paid dividend	-4	-3	-1	-2	-2	-3	-3	-4
+/- Change in loan receivables	0	0	0	0	3	0	0	0
Change in cash	-5	7	-2	-2	1	-1	0	1

KEY FIGURES	2009	2010	2011	2012	2013e	2014e	2015e
M-cap	55	54	44	53	61	61	61
Net debt	5	7	17	16	12	7	2
Enterprise value	61	62	61	68	73	68	63
Sales	99	105	119	134	140	146	153
EBITDA	-2	8	8	11	12	13	14
EBIT	-4	6	7	9	9	10	12
Pre-tax	-4	6	6	8	8	10	11
Earnings	-14	4	5	6	6	7	9
Book value	24	29	20	25	28	33	38
Valuation multiples							
EV/sales	0.6	0.6	0.5	0.5	0.5	0.5	0.4
EV/EBITDA	-30.4	8.2	7.2	6.1	6.2	5.3	4.5
EV/EBITA	-16.9	10.2	8.8	7.8	8.0	6.5	5.3
EV/EBIT	-16.9	10.2	8.8	7.8	8.0	6.5	5.3
EV/operating cash flow	7.4	19.4	9.2	5.8	8.0	6.5	5.5
EV/cash earnings	-15.8	9.6	9.4	7.4	8.2	6.9	5.8
P/E	-3.8	12.2	9.5	9.2	9.8	8.3	7.1
P/E (adj.)	-3.8	14.2	9.5	9.2	9.8	8.3	7.1
P/B	2.3	1.8	2.2	2.1	2.2	1.9	1.6
P/sales	0.6	0.5	0.4	0.4	0.4	0.4	0.4
P/CF	6.8	17.0	6.7	4.6	6.7	5.8	5.4
Target EV/EBIT	*0.0*	*12.7*	*7.1*	*1.4*	*9.1*	*7.4*	*6.2*
Target P/E	*0.0*	*24.5*	*9.1*	*0.0*	*11.4*	*9.6*	*8.2*
Target P/B	*0.0*	*2.5*	*1.4*	*0.0*	*2.5*	*2.2*	*1.9*
Per share measures							
Number of shares	19 659	19 709	19 708	19 708	19 708	19 708	19 708
Number of shares (diluted)	19 659	19 709	19 708	19 708	19 708	19 708	19 708
EPS	-0.73	0.22	0.23	0.29	0.32	0.37	0.44
EPS (adj.)	-0.73	0.19	0.23	0.29	0.32	0.37	0.44
Cash EPS	-0.20	0.33	0.33	0.46	0.45	0.50	0.55
Operating cash flow per share	0.41	0.16	0.34	0.59	0.46	0.53	0.58
Capital employed per share	1.46	1.85	1.89	2.03	2.04	2.01	2.02
Book value per share	1.20	1.48	1.04	1.27	1.44	1.66	1.92
Book value excl. goodwill	-0.39	-0.34	-0.81	-0.75	-0.59	-0.36	-0.10
Dividend per share	0.04	0.10	0.10	0.15	0.15	0.18	0.21
Dividend payout ratio, %	-5.5	44.6	42.6	51.3	47.3	48.0	47.8
Dividend yield, %	1.4	3.6	4.5	4.8	4.8	5.8	6.8
Efficiency measures							
ROE	-57.1	16.7	18.6	25.3	23.4	24.2	24.5
ROCE	-9.3	15.1	17.6	20.4	20.3	23.5	26.3
Financial ratios							
Capex/sales, %	-2.3	6.1	2.0	8.4	1.6	1.3	1.6
Capex/depreciation excl. goodwill,%	-13.4	101.4	128.9	314.4	83.4	76.2	117.0
Net debt/EBITDA, book-weighted	-2.5	0.9	2.0	1.4	1.0	0.6	0.2
Debt/equity, market-weighted	0.2	0.2	0.5	0.4	0.3	0.2	0.1
Equity ratio, book-weighted	38.9	43.6	31.1	32.5	36.3	41.7	46.8
Gearing	0.2	0.2	0.8	0.6	0.4	0.2	0.1
Number of employees, average	1 544	1 569	1 659	1 569	1 613	1 684	1 768
Sales per employee, EUR	63 925	66 785	72 000	85 710	86 544	86 544	86 544
EBIT per employee, EUR	-2 323	3 859	4 150	5 554	5 677	6 231	6 664

ETTEPLAN
26 March 2013
Industrials - Finland

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	3.11	PV of Free Cash Flow	58	Long-term growth, %	2.8	Risk-free interest rate, %	4.00
DCF share value	5.27	PV of Horizon value	61	WACC, %	9.5	Market risk premium, %	4.8
Share price potential, %	69.4	Unconsolidated equity	1	Spread, %	0.0	Debt risk premium, %	2.0
Maximum value	5.3	Marketable securities	5	Minimum WACC, %	9.5	Equity beta coefficient	1.30
Minimum value	5.3	Debt - dividend	-21	Maximum WACC, %	9.5	Target debt ratio, %	15
Horizon value, %	51.1	Value of stock	104	Nr of shares, Mn	19.7	Effective tax rate, %	25

DCF valuation, mEUR	2012	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	Horizon
Net sales	134	141	147	154	162	168	175	180	186	191	197	202
Sales growth, %	*12.6*	*4.6*	*4.4*	*5.0*	*5.0*	*4.0*	*4.0*	*3.0*	*3.0*	*3.0*	*2.8*	*2.8*
Operating income (EBIT)	9	9	11	12	13	13	13	13	12	12	13	13
EBIT margin, %	*6.5*	*6.6*	*7.2*	*7.7*	*8.0*	*7.8*	*7.4*	*7.2*	*6.6*	*6.5*	*6.5*	*6.5*
+ Depreciation+amort.	2	3	2	2	2	2	2	2	2	3	3	
- Income taxes	-1	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3	
- Change in NWC	2	-1	0	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-3.2*	*-2.7*	*-2.7*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.5*	*-2.5*	*-2.5*	
+ Change in other liabs	3	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-11	-2	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3
Investments / Sales, %	*8.4*	*1.6*	*1.2*	*1.6*	*1.6*	*1.5*	*1.5*	*1.5*	*1.5*	*1.5*	*1.4*	*1.4*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	4	7	9	9	10	10	10	10	9	9	10	148
= Discounted FCF (DFCF)		6	7	7	7	6	6	5	5	4	4	61
= DFCF min WACC		6	7	7	7	6	6	5	5	4	4	61
= DFCF max WACC		6	7	7	7	6	6	5	5	4	4	61

COMPANY DESCRIPTION:

Etteplan is a specialist in industrial equipment engineering and technical product information solutions and services. Etteplan's engineering expertise and service products cover the entire life cycle of the client's products. Our customers are global leaders in their fields and operate in areas like the automotive, aerospace and defense industries as well as the electricity generation and power transmission sectors, and material flow management.

Etteplan has comprehensive competence in electronics and embedded systems development, automation and electrical design, mechanical design and technical product information solutions and services.

In 2012, Etteplan had turnover of EUR 134,5 million. The company currently has almost 1,800 experts in Finland, Sweden, the Netherlands and China. Etteplan's shares are listed on NASDAQ OMX Helsinki Ltd under the ETT1V ticker.

Source: Etteplan

OWNERSHIP STRUCTURE	SHARES	mEUR	%
Ingman Group Oy Ab	4 932 940	15.341	25.0%
Mönkkönen Veli Tapani	4 057 900	12.620	20.6%
Oy Fincorp Ab	2 098 914	6.528	10.7%
Hornborg Heikki	1 062 267	3.304	5.4%
Danske Fund Finnish Small Cap	904 602	2.813	4.6%
Varma Mutual Pension Insurance Company	802 120	2.495	4.1%
Etteplan Oyj	461 170	1.434	2.3%
Tuori Klaus	342 921	1.066	1.7%
Tuori Aino Mirjami	250 293	0.778	1.3%
Webstor Oy	218 760	0.680	1.1%
Ten largest	15 131 888	47.060	77%
Residual	4 576 224	14.232	23%
Total	19 708 112	61.292	100%

EARNINGS CALENDAR	
May 03, 2013	Q1 report
August 15, 2013	Q2 report
October 30, 2013	Q3 report
OTHER EVENTS	
March 27, 2013	AGM

COMPANY MISCELLANEOUS	
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Recommendations of Inderes are divided in the following categories and given based on the estimated upside potential of the share in the next 6 months. Note that possible dividends are also included in the potential.

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

* Potential regarding to 6 month target price

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