Rapala VMC

Company report

10/2020

Inderes Corporate customer

Patience may yet be rewarded with a great catch

We are increasing our target price for Rapala to EUR 2.8 (previously EUR 2.6) and changing our recommendation to Accumulate (previously Reduce). We have grown slightly more confident that, in the hands of new management, the execution of Rapala's strategy will start to bear fruit and the EBIT margin may return closer to the company's historical levels and the levels of its competitors. Extracting the latent potential of the brands will take more time, even in a good scenario, but the markets are currently not really pricing in the improvement of profit performance and we believe that the return/risk ratio is now in slightly positive territory.

We estimate that the company is getting back on track

Rapala's EBIT margin was around 10% during the 2004–2011 period, but the company's modest performance since then has been characterised by problems with the fishing lure factory established in Batam, supply chain issues and a sharp decline in sales in Russia, amongst other things. Rapala's key competitive advantage – its strong brands – has been overshadowed by problems for a long time now. The strategy launched by the company in 2017 recognised the problems, but progress in carrying out the necessary changes has been slow. The change process appears to have accelerated under the new CEO who took the helm in March 2020, with the decision to close the Batam factory being the most visible action taken by the company. Following the strong negative impacts of the early days of the restrictions imposed in response to the COVID-19 pandemic in the spring, the outdoor and hiking market has seen a clear boost, which creates good conditions for the recovery of Rapala's demand.

We have made slight adjustments to our forecasts

During the next 12 months, Shimano sales amounting to MEUR 25 will be removed from Rapala's distribution operations. We estimate that this will reduce EBIT by about MEUR 8. The key strategic projects – namely the MEUR 10 cost saving programme, 13 Fishing sales and the start-up of distribution in countries freed up from the Shimano agreement – aim to gradually compensate for the negative impact of the end of the exclusive distribution arrangement with Shimano. In particular, we believe that achieving the cost savings of MEUR 10 by 2022 is a realistic goal. As a whole, Rapala's results for 2020 will be very weak, particularly due to the COVID-19 restrictions, and our forecast for total revenue for the year is MEUR 239 (2019: MEUR 275), adjusted EBIT MEUR 5.6 (EBIT margin 2.3%) and earnings per share (adjusted) EUR -0.07. Our forecast sees 2021e revenue rebound from the COVID-19 drop to MEUR 249 and EBIT to MEUR 14.5 (EBIT margin 5.8%), with the adjusted earnings per share improving to EUR 0.20.

The expected returns are highly dependent on the success of strategy execution

Rapala's 2020e multiples rise to very high levels as COVID-19 weighs heavily on the result, and the multiples do not provide support for the share. However, as early as 2021e, our forecast indicates that the P/E ratio will decline to an attractive level of 13x and EV/EBITDA to 7x in spite of the profits remaining modest. If the execution of Rapala's strategy is successful and the company's profitability starts to recover in earnest (EBIT over 10%), we see substantial upside in the share. If the progress of the change process continues to be slow (EBIT around 5%), the value of the share will be close to the current level, as the current valuation does not, in our view, expect much better from Rapala. In our opinion, for the share price to decline substantially from the current level, the company would need to become mired in crisis, but the probability of that scenario has been reduced now that the company has made it through the restrictions caused by COVID-19 unscathed and its cash flow has remained positive by a clear margin. The middle scenario is the most likely, but we believe the probability of the positive scenario is higher than that of the negative scenario, which pushes the return/risk ratio of Rapala's share to positive territory.

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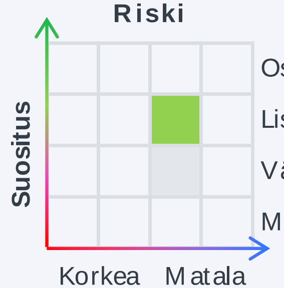
Recommendation



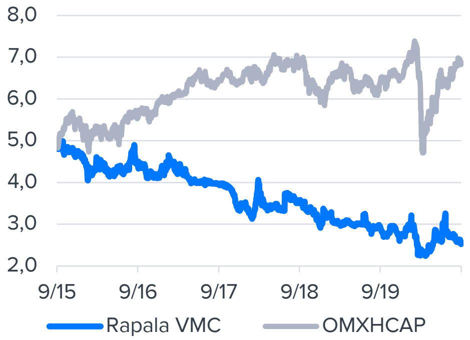
Accumulate
(previously Reduce)
EUR 2.80
(previously EUR 2.60)
Share price:
EUR 2.60
Potential:
7.7%

Key figures

	2019	2020e	2021e	2022e
Revenue	275.4	239.3	249.1	259.4
growth %	5%	-13%	4%	4%
EBIT adj.	17.9	5.6	14.5	17.7
EBIT % adj.	6.5%	2.3%	5.8%	6.8%
Net income	4.4	-7.3	7.1	11.2
EPS (adj.)	0.21	-0.07	0.20	0.26
P/E (adj.)	13.1	neg.	12.7	10.0
P/B	0.7	0.7	0.7	0.7
Dividend yield, %	0.0%	0.0%	3.9%	5.8%
EV/EBIT (adj.)	11.6	33.5	12.6	10.1
EV/EBITDA	8.0	13.8	7.3	5.8
EV/Revenue	0.8	0.8	0.7	0.7

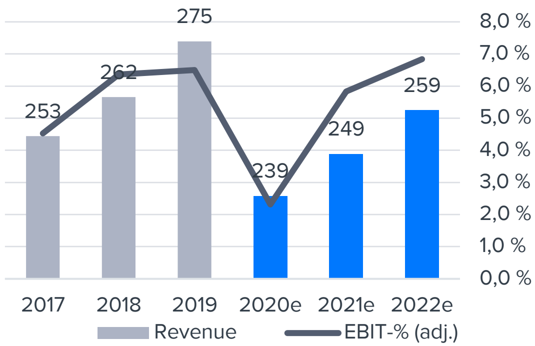
Source: Inderes, EV includes hybrid bond

Share price



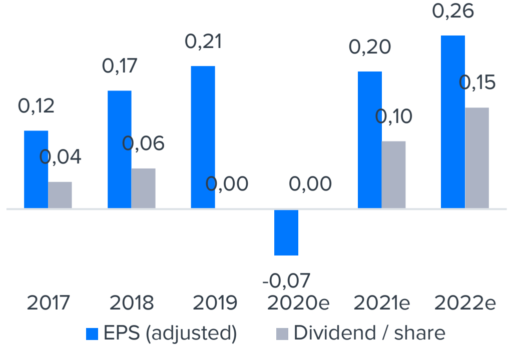
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

Earnings per share and dividend



Source: Inderes

MCAP
100
MEUR

P/E (adj.)
12.7
2021e

EV
187
MEUR

P/E (adj.)
neg.
2020e

Value drivers

- Successful strategy execution
- Revenue turning to growth
- Improving cost-efficiency
- Shutdown of loss-making Batam plant supports profit performance
- Release of capital from warehouses

Risk factors

- Unsuccessful strategy execution
- Rapid digitalisation of distribution channels
- High fixed costs
- Significant seasonal variation in demand
- The end of the Shimano distribution agreement brings uncertainty to forecasts
- COVID-19 related difficulties in Rapala's customer base and potential new shutdown measures if the pandemic worsens

Valuation

- The P/E ratios for 2021e–2022e are low (13x and 10x) and we see a clear upside as Rapala moves forward with the execution of its strategy
- The low P/B valuation of 0.8x relative to the strong brands reflects the market's low confidence
- Dividend payouts in the coming years depend on the success of the turnaround in profitability which the strategy aims to achieve

Contents

Rapala in brief

Rapala is the world's leading manufacturer and seller of fishing lures, treble hooks, fishing accessories and filleting knives

1936
Established

1998
Rapala is listed on the stock exchange

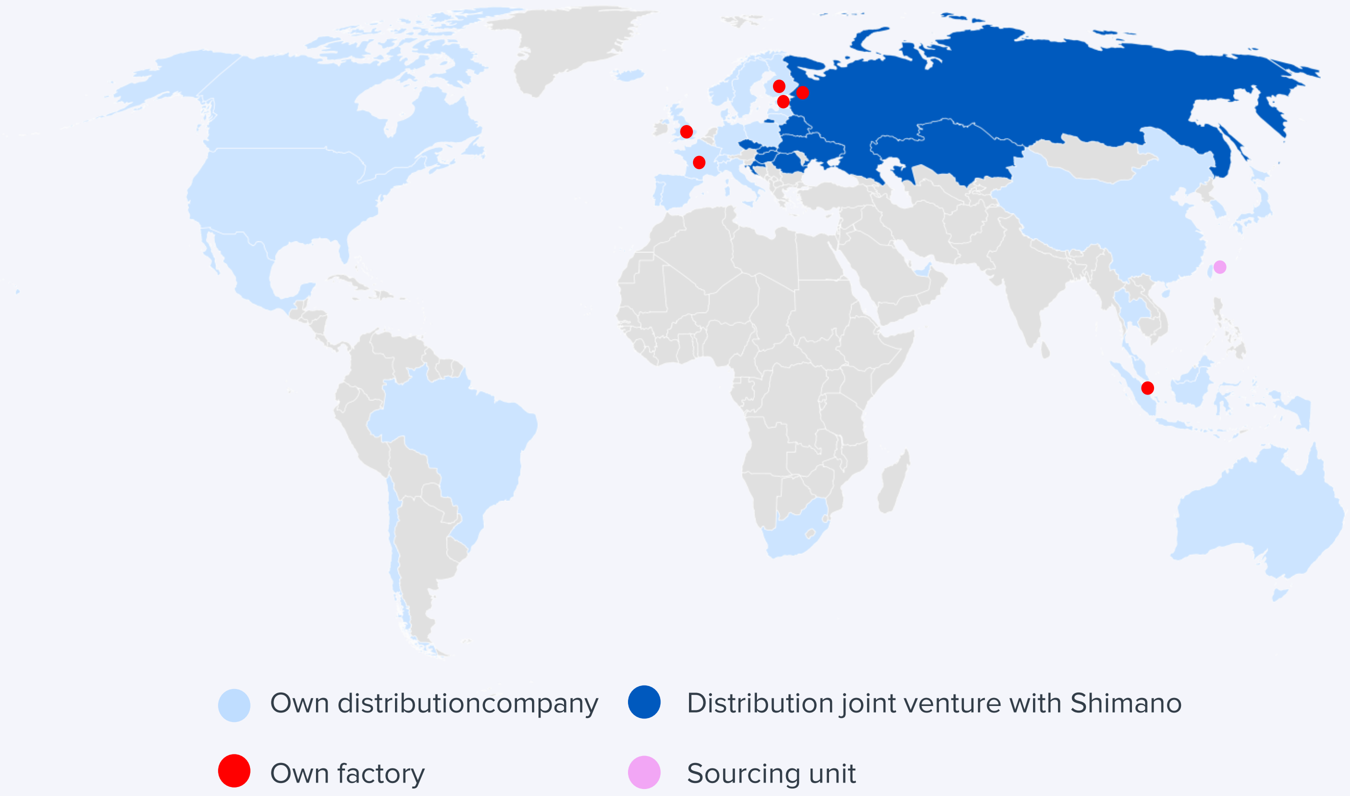
MEUR 275 (+5% vs 2018)
Revenue 2019

MEUR 17.9 (6.5% of revenue)
EBIT (adj.) 2019

35
Countries of operation

2304
Number of employees at year-end 2019

67% / 33%
Own products / Third-party products 2019



Source: Inderes

Company description and business model 1/3

The market leader in fishing lures

Rapala is the world's leading manufacturer and seller of fishing lures, treble hooks, fishing accessories and filleting knives. Rapala's total revenue in 2019 amounted to MEUR 275. The Group's own products accounted for 67% of total sales, with the remaining 33% coming from the distribution of third-party products through the company's global distribution network.

Rapala has a very extensive distribution network that comprises about 35 countries. In addition to its wholly-owned distribution companies, Rapala has jointly owned distribution companies with Shimano (Russia, Kazakhstan, Belarus, Czech Republic, Hungary, Romania, Croatia) in which Rapala exercises control. Rapala also uses external distributors in about 100 countries. Rapala also has an online store targeted directly at consumers in North America (since 2011) and in Europe (since May 2018).

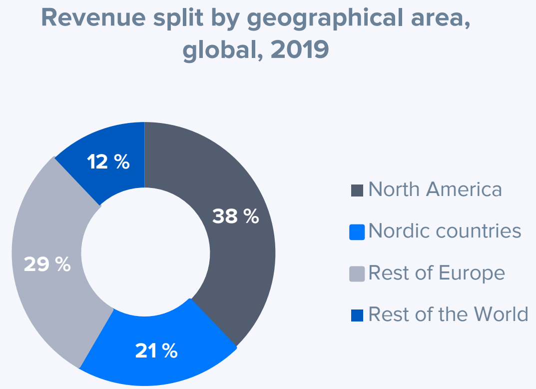
We estimate that approximately 95% of Rapala's B2B revenue from retailers goes through its distribution companies. The share of local distributors is relatively limited in spite of the large number of countries covered. We estimate it comes to about 5% of the company's total revenue. The company's online store sales are directly to consumers (B2C) and we estimate that their share of total sales is still modest at only a few per cent in spite of the increase in online sales caused by the COVID-19 pandemic.

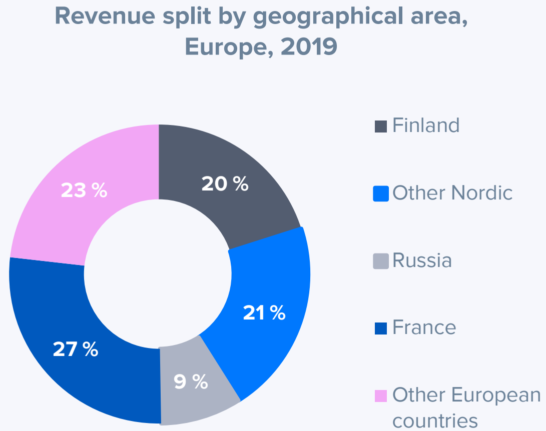
Rapala's largest and most important market is North America, which represented 38% of total revenue in 2019. The company's market position in North America is very strong especially in the fishing lure segment and the company is the clear market leader in hard lures in the region. Rapala's revenue from North America comes primarily from its own products.

The Nordic countries accounted for 21% of Rapala's total revenue in 2019. In the Nordic region, the company has a very strong market position and it fully dominates several product categories. Thanks to its strong distribution chain, the company also sells large amounts of third-party products in the Nordic countries. However, the most significant of the third-party distribution deals, an exclusive agreement for Shimano's fishing products, will end on 1 October 2020.

Rapala's second-largest market is Rest of Europe, which accounted for 29% of total revenue in 2019. It includes all European countries outside the Nordic region. The most significant countries are France, Russia and Spain. The company is currently in the process of carrying out consolidation measures related to its distribution companies in the Rest of Europe market area to improve cost efficiency. This is important, as the distribution of Shimano's product portfolio will end in France, Switzerland, Spain, Portugal and the Baltic countries on one of two dates depending on the country (1 July 2020 and 1 October 2020).

The Rest of the World market area represents about 12% of the company's total revenue. The Rest of the World market area is geographically fragmented and includes business in Asia, South America and Africa, for example.



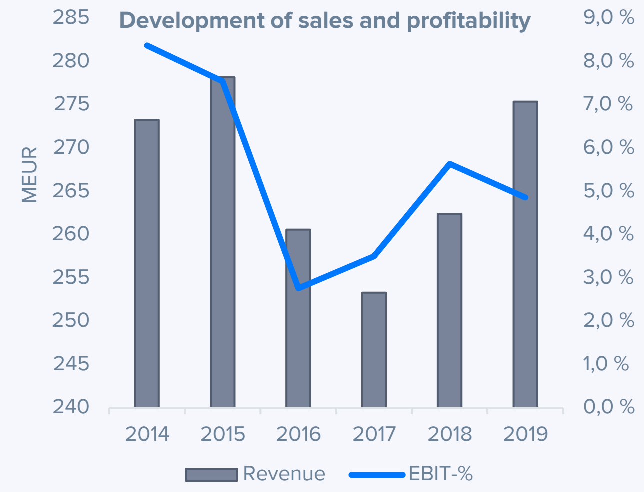


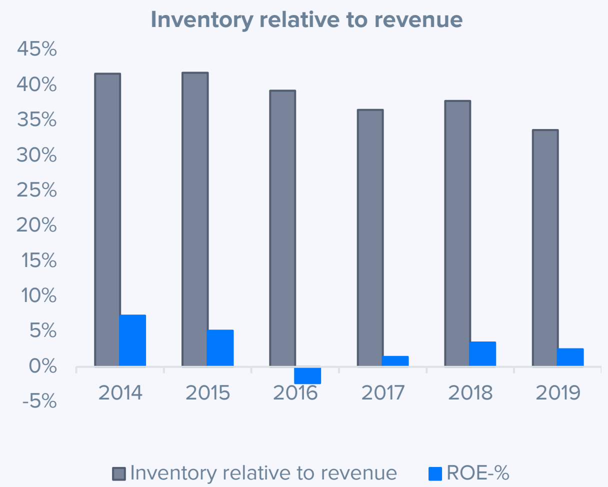
Company description and business model 2/3

Rapala's business model is based on the company's in-house production and local distribution companies. The company's production plants operate as independent profit centres and are largely responsible for their own sourcing activities. The company's in-house production operations include fishing lures (Finland, Russia, Estonia), hooks (France and Indonesia), ice augers (Estonia), knives (Finland), skis (Finland) and bait (UK). The rest of the Group's own products are sourced using subcontracting primarily in Asia. The company's main sourcing unit is located in Taiwan. From the perspective of the Group's operations, the sourcing units can also be viewed as production plants, as they are also separate companies and their operations are comparable to the Group's actual production plants.

Of the 35 country-specific distribution companies, the larger ones operate as independent profit centres and the smaller ones as commission-based agents. The distribution companies order products from the production plants based on their own demand forecasts. They also independently order third-party products directly from suppliers under terms of delivery that are based on the agreements signed by the Group. Unlike many other consumer goods businesses, the Group's involvement in controlling the purchasing activities of the country companies has historically been very minimal. The idea behind the structure is that it enables the Group to make better use of the local expertise of the country companies in decision-making and demand forecasting. At the same time, however, the complexity of the structure has been a significant disadvantage. Product flows and the supply chain are difficult to manage comprehensively when each profit centre in the chain makes its own decisions. Consequently, the country-specific distribution companies have had to order their products from the factories and sourcing units several months in advance to ensure product availability. The lead times of the production plants have occasionally been remarkably long, as the orders from the country companies have been processed by the production plants one at a time. At the same time, the country companies have promised their large retail customers (Walmart, Bass Pro/Cabella) to deliver products in a matter of days, which means that the country companies have had to keep substantial buffer stocks. Accordingly, high inventories have been the most obvious weakness of the business model, as they have tied up a lot of capital and substantially reduced the company's return on equity (ROE %).

As part of the strategy launched by Rapala in 2017, the business model has been developed to better prioritise the interests of the Rapala Group as a whole, with a more comprehensive approach to the supply chain and several projects to streamline the supply chain. These projects are discussed later in the strategy section. The Group has also taken a more centralised approach to supervising the purchasing activities and inventory balances of the country companies. Rapala's inventories have begun to decrease following these changes. Inventory relative to revenue has declined from 41.8% in 2015 to 33.6% in 2019, which indicates that the business model has developed and become more agile. Nevertheless, the organisation remains very complex and the changes are slow. We expect the streamlining efforts to continue at least until 2023.





Rapala’s value chain

Materials

Sub-contractors

- Rapala’s factories source their materials themselves
- For those of Rapala’s products for which in-house production is not sensible (e.g. fishing accessories), subcontracted manufacturers are used, mostly in China

Own factories

Sourcing unit

Manufacturers of third-party products

- Rapala’s factories and the sourcing unit operate as profit centres that manufacture/source orders based on orders received from the distribution companies
- The distribution companies order third-party products directly from manufacturers

Wholly-owned distribution companies

Joint distribution companies with Shimano in Eastern Europe

- The country-specific distribution companies (35 in total) order products and deliver them to their customers
- Previously, the distribution companies have typically had their own inventories, but Rapala is now centralising these
- Rapala has also started to use various centralised purchasing budgets for the distribution companies

Retailers (B2B)

External distributors (B2B)

Rapala online store (B2C)

- B2B sales represent the majority of Rapala’s sales, with retailers accounting for most of these
- The share of the Group’s own B2C sales (Rapala’s online store) remains small

* Source: Inderes

Third-party

The main goal is to increase the utilisation rate of the distribution channel

The common denominator between all of the product categories is the same customer base

Exclusive distribution deal with Shimano will expire in 2020

Functions

- Product development
- Manufacturing, subcontracting and sourcing (third-party)
- Distribution and sales

Business idea

Rapala VMC manufactures and distributes the Group's own products and distributes selected third-party products to retailers.

- Strong brands
- In-house production
- In-house product development
- Extensive in-house B2B distribution:
  +
  Joint ventures with Shimano in Russia and Eastern Europe
  +
  External distributors in about 100 countries

Customer segments

B2B – large retail chains	*Walmart, Bass Pro Shop, Amazon, S Group, Motonet*
B2B – smaller retailers	*Fishing supplies stores, sporting goods stores*
B2C – consumers	*Own online stores: Rapala.com, Marttiini.fi*

Markets

North America
38% of revenue

Rest of Europe
29% of revenue

Nordic
21% of revenue

Rest of the World
12% of revenue

Resources

- Strong brands
- Manufacturing expertise of European production plants
- Local expertise of country companies

Products

- Lures and bait
- Hooks
- Fishing line
- Rods and reels
- Fishing accessories: *Pliers, clothing, ice augers*
- Other products: *Marttiini knives, Peltonen skis*
- Third-party products: *Shimano + others (hunting, outdoor goods, winter sports)*

Cost structure

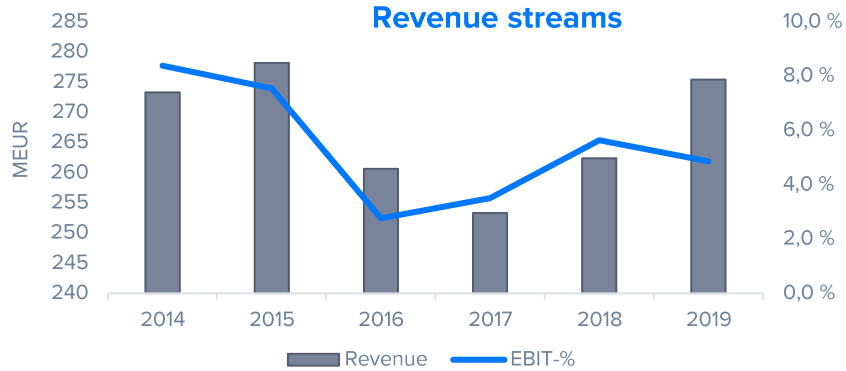
Revenue MEUR 275.4 (2019)

Employees: 2,304 (EOY 2019)

- Materials and services *(47.6%)**
- Personnel expenses *(26.0%)**
- Other expenses *(17.6%)**

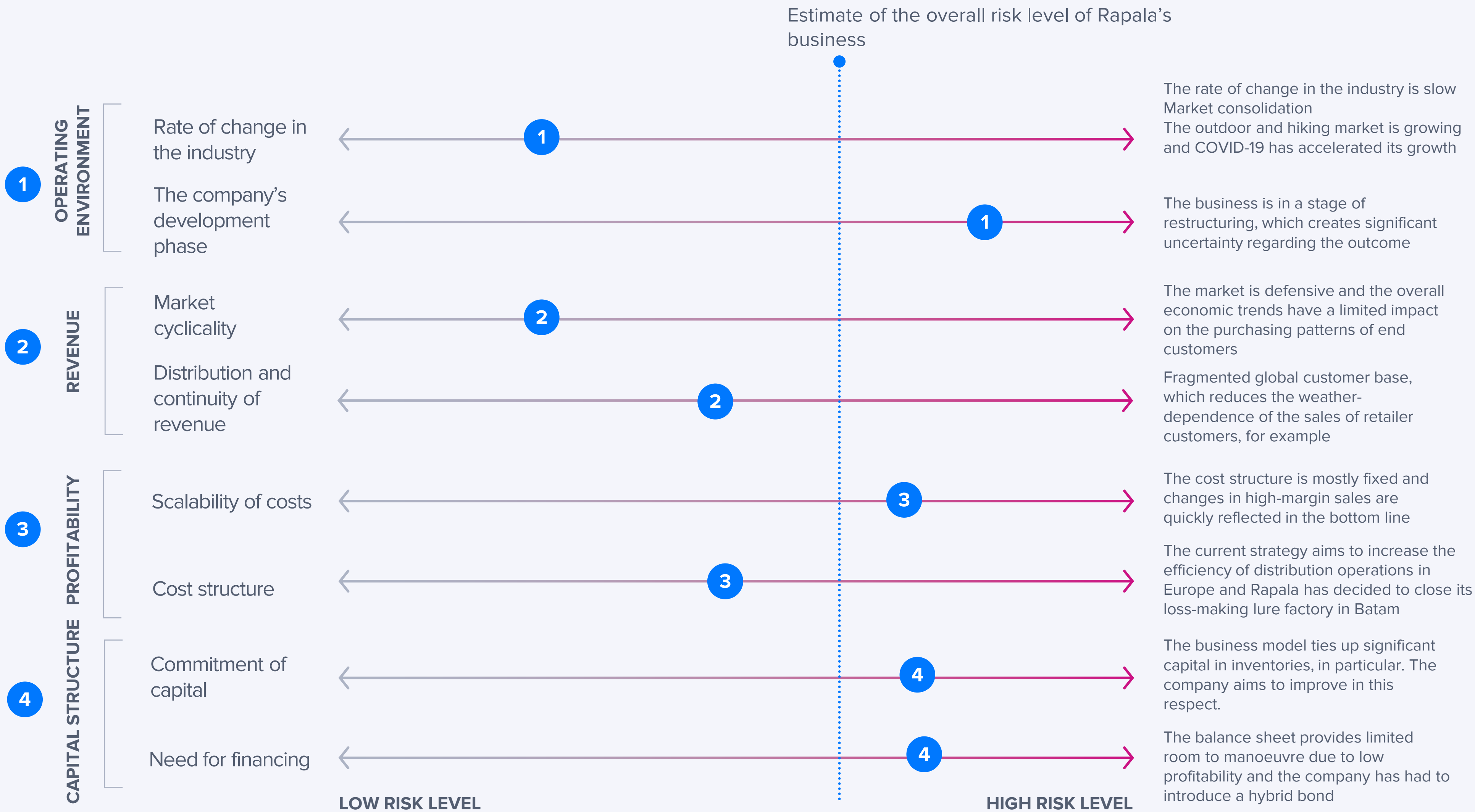
* *% of revenue*

Revenue streams



Source: Inderes

Risk profile of the business model



Source: Inderes

Products

All categories now in Rapala's own portfolio

Rapala's own product portfolio can be divided into six categories: "Lures and bait", "Hooks", "Fishing line", "Fishing accessories", "Other products" and "Rod and reel". In practice, the last of these categories was missing from Rapala's own portfolio for a long time. However, the situation changed following the end of the Shimano partnership announced in 2019 and the acquisition of a minority interest in DQC International that it enabled.

Lures and bait is the most profitable category

Rapala is the world's largest manufacturer of fishing lures by a clear margin, and lures are clearly the Group's most significant product group. The company's most valuable brand is Rapala by some distance. Examples of its other brands include Luhr Jensen, Storm and Blue Fox. The segment also includes bait, which Rapala produces for carp fishing under the brands Dynamite Baits and Carp Spirit. Bait is mostly sold in Central Europe. Rapala's market share in hard lures in the US is about 20% and we believe it is similar in the Nordic region. In these market areas, Rapala's growth in fishing lures largely follows the development of the overall market due to the well-established market positions of the players involved. However, the company has begun to focus its innovation efforts particularly on growing product categories and the commercialisation of microtrends in fishing to exceed the market growth rate.

Rapala last provided information on the Group's product-specific revenue breakdown in 2016. At that time, lures and bait accounted for MEUR 82 in revenue, or 31% of the Group's total sales. We estimate that the share of this category has increased slightly thanks to positive development in North America. Lures are the most profitable of the Group's own products. We estimate their sales margin to be approximately 50–60% depending slightly on the annual sales mix. We believe that the profitability of lures has remained stable due to high brand loyalty and the ability to maintain pricing power, particularly with regard to Rapala hard-bodied lures.

Rapala also has a high market share in hooks

Rapala acquired the French fishing hook manufacturer VMC in 2000. VMC is the global market leader in treble hooks (with an estimated market share of approximately 25-30%). The company also produces single and double hooks, but its market share is smaller in those categories. The VMC acquisition was also partly strategic for Rapala, as nearly half of VMC's production goes into Rapala's own products, with just slightly over half sold outside the Group. The revenue of the hook business was MEUR 20 in 2016 (8% of total revenue). We estimate that hook sales have developed favourably, aided by the sale of fishing lures. Hooks are also a highly profitable product group. We estimate the sales margin to be around 50%. Rapala's competitive advantage in the hook business is based on economies of scale and competencies related to the hook manufacturing process.

The development of fishing line sales has lagged behind expectations

Rapala is a small player in the fishing line category. We believe its global market share to be roughly two per cent. Rapala expanded into the fishing line business in 2008 by acquiring Sufix. At the time of the acquisition, Sufix generated annual revenue of approximately MEUR 10, but Rapala's strategic objective was to pursue strong revenue growth and expand the Sufix product family. The company's goal was to increase the revenue of the fishing line business to MEUR 30–50 over the long term by improving its brand position and expanding distribution. However, the growth of the fishing line business has not met Rapala's expectations. In 2016, it generated revenue of MEUR 18 (7% of total revenue) and we estimate that the segment's sales have not increased significantly thereafter. The fishing line business is also highly profitable. We estimate the sales margin to be approximately 50%.

The fishing accessories category includes a wide range of fishing products

The fishing accessories business consists of smaller fishing-related product groups, such as knives, pliers, clothing, ice augers and storage systems. The revenue of fishing accessories was MEUR 44 in 2016, or 17% of total revenue. The biggest challenge in the fishing accessories business is that many of the product groups have very modest volumes, which means that the Group does not have significant pricing power with subcontractors. Consequently, sales margins in the fishing accessories segment are substantially lower than the other product categories. We estimate them to be approximately 40%. One good example of acquisitions in the fishing accessories category is the expansion into the ice auger business in 2011, which increased the category's revenue substantially (approx. MEUR 10).

Products

Other products (skis and knives)

Sales of the Group's other products amounted to MEUR 8 in 2016, with the main product groups being Marttiini knives and Peltonen skis. Based on the financial figures of the factories (Marttiini Oy and Peltonen Ski Oy), we estimate that the segment's revenue had risen to about MEUR 12 in 2019. Ski sales accounted for just over one-third of that total. We do not see significant longer-term growth potential in these products, and we believe that their impact on the bottom line has been minor. The company recently relocated the knife factory from Rovaniemi to Vääksy in an effort to improve the cost efficiency of manufacturing. Peltonen skis have a market share of about 30% in Finland, with sales and profitability fluctuating mainly based on the snow conditions.

The rod and reel category is only just getting started

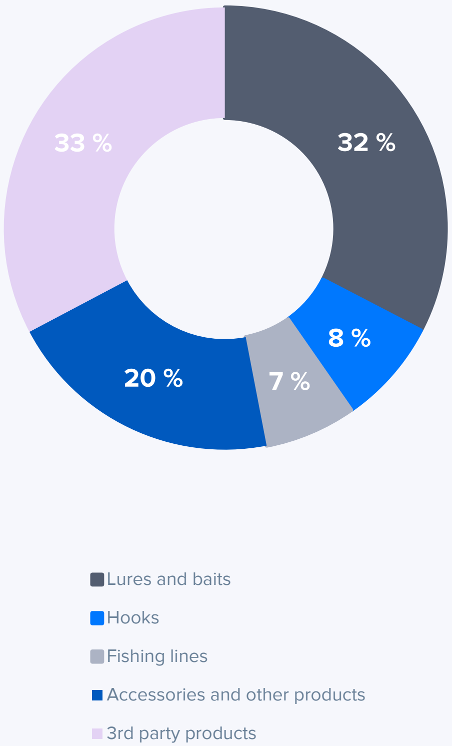
The discontinuation of the exclusive European distribution deal with Shimano finally presented Rapala with the opportunity to add the rod and reel category to its portfolio. Outside Europe, the Group has already previously sold rods and reels under the Rapala brand on a small scale. To accelerate its expansion in the rod and reel category, Rapala acquired a 49% minority interest in the US-based DQC International Corp in autumn 2019. The company owns the 13 Fishing rod and reel brand. The company's production it outsourced to China and it has in-house design and product development teams in Florida and Taiwan.

Established in 2012, DQC has grown quickly in the highly competitive US market. In 2018, it generated most of its revenue of USD 23.5 million in the US. The competitiveness of 13 Fishing products is illustrated by the category awards it won at the US iCast fair (Best Rod and Reel Combination 2013 and Best Rod 2017).

The agreement between Rapala and DQC gives Rapala exclusive rights to the 13 Fishing brand outside the US. The 13 Fishing products sold by Rapala outside the US are included in Rapala's own products and they are comparable to the products subcontracted through the sourcing units. The result of DQC International's US operations is shown in Rapala's income statement under "share of results in associates and joint ventures" and it was MEUR -1 for the past 12 months (with DQC included since September). DQC's US operations have thus far been loss-making, which is understandable due to the initial investments needed to grow sales and capture market share. The company's capital was also strengthened in connection with Rapala's acquisition of a minority interest, with Rapala's share of the cash injection being approximately MEUR 10.

The start-up of Rapala's sales of 13 Fishing rods and reels is still in its early days and its success involves uncertainty. Rapala intends to launch the products globally in its various markets in 2021. The rod and reel market constitutes more than half of the sport fishing market, so there is plenty of potential for growing the sales of 13 Fishing products through Rapala's global distribution network. However, the company will be up against large well-known rod and reel manufacturers (Daiwa, Shimano and Pure Fishing) whose rod and reel revenue is in the range of MEUR 200–400.

Revenue by product category 2019 (Inderes' estimate)



Source: Inderes

Products

Third-party products

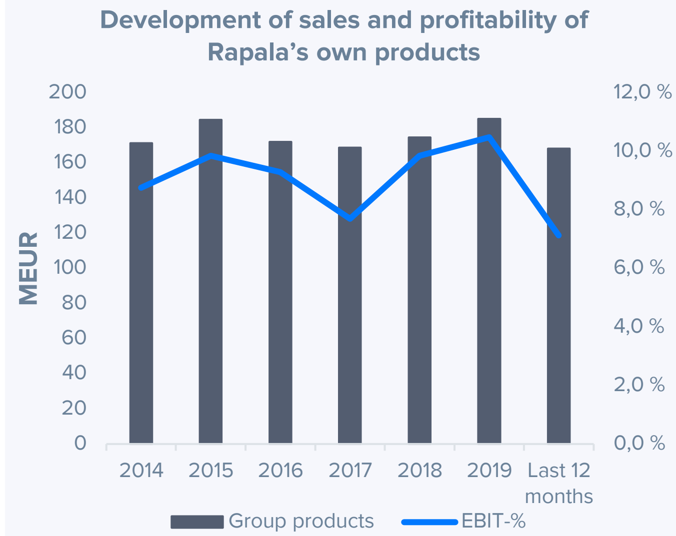
Rapala also makes use of its global distribution network by distributing products from other manufacturers. They include fishing products as well as winter sport, hunting and outdoor products. The common denominator between all of the product groups is the same customer base, which includes e.g. large sporting goods stores and large retail chains. In practice, Rapala purchases the products from the manufacturers and distributes them through its network. This means that Rapala takes on the inventory risk associated with the products. The company's sales margin on third-party products is naturally lower (our estimate: 30%) than the Group's own products. Rapala only earns a distribution margin on these products, whereas it also earns a manufacturing margin on its own products.

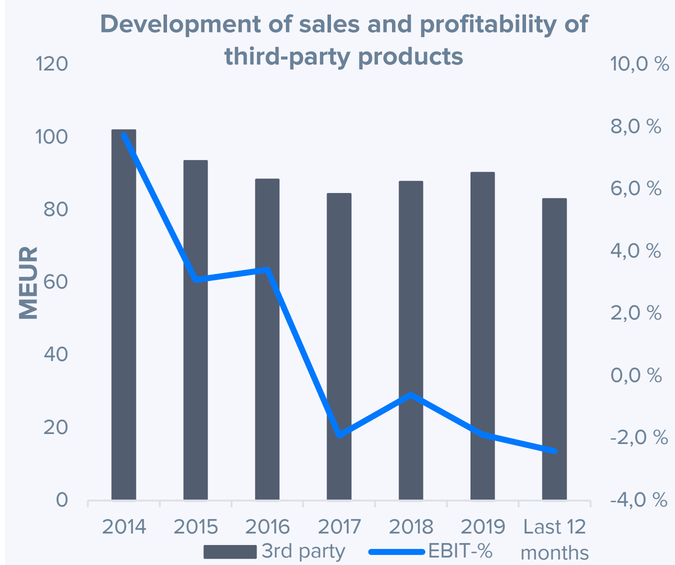
The decline in Rapala's revenue in the past few years has been particularly related to third-party product sales. Revenue has declined sharply since peaking in 2013 (MEUR 110), mainly due to lower sales in Russia. At the same time, the division's profitability has declined, with the EBIT margin falling from approximately 7% to last year's -1.9%. The negative EBIT margin of third-party products does not, however, mean that third-party products generate a loss for the Group. The Group's fixed expenses (distribution+management) are allocated to Rapala's own products and third-party products in proportion to revenue. This means that the distribution of third-party products plays a significant role by allowing the costs of Rapala's distribution channel to be distributed across a higher volume. However, the distribution of third-party products has not been particularly profitable across the board in terms of return on equity, for example, and the company recently discontinued its distribution operations in the hunting category in Sweden. One example of an area where the distribution of third-party products works very well is winter sport equipment distributed alongside Peltonen products in Finland (e.g. Alpina, Rex), with the sales of these products being nearly equal to ski sales. The distribution of Johnson Outdoors products in Finland, Russia, Norway, Denmark and small Eastern European markets are another example of a synergistic product category.

The discontinuation of the Shimano partnership will reduce volumes

Shimano has been a strategic partner for Rapala since 1993. Following the termination of the exclusive distribution agreements, their partnership will be limited to the jointly owned distribution companies in which Rapala exercises control. The most important of these is the joint venture in Russia and Eastern Europe (50/50 ownership), and Shimano also owns a 33% stake in Rapala's distribution companies in Hungary, Romania and Croatia.

Particularly during the next 12 months (H2/20–H1/21), a significant proportion of Rapala's European revenue will be removed (approximately 18%, or MEUR 25) when the distribution agreement for Shimano rods and reels expires on two dates, 1 July 2020 and 1 October 2020. Rapala was previously able to allocate some of the fixed costs of the distribution channel to the volume generated by the Shimano deal. It is partly for this reason that Rapala currently has an extensive cost saving programme under way in its European distribution operations to improve profitability through the centralisation of operations.





Source: Inderes

The Industry

The industry is defensive

The global fishing equipment market can be divided into sport fishing and commercial fishing. Here, we focus solely on sport fishing, which is the key market for Rapala. The availability of concrete data on the global sport fishing market is limited and, as a whole, the industry is fragmented. We estimate that the total size of the market relevant to Rapala is approximately EUR 6–7 billion. Rods and reels account for about half of that market. The next-largest product groups are lures and bait, with fishing line being another large product category.

The industry is highly defensive and the general economic situation has only very limited impact on overall sales, as evidenced by the stable development of Rapala's revenue during the financial crisis. The sharp decline in Rapala's sales during the COVID-19 crisis was primarily due to the closure of the Group's own distribution centres in North America and the closure of customer stores rather than reduced consumer demand.

Geographically, the sport fishing market can be divided roughly in two: developed markets and developing markets. The developed markets (Europe, US and Japan) represent a majority of the global sport fishing market purely due to the large number of fishing enthusiasts and a higher standard of living.

In Rapala's most important individual market, the United States, fishing is one of the most popular outdoor sports. The number of fishing participants had decreased in the US for a long time but, since 2013, the number has returned to a growing trend of approximately 1% per year. In 2018, the total number of fishing participants was 49.4 million. It is worth noting that, in 2018, the number of new fishing participants was high at 9.4 million, but the number of people who stopped fishing was also high at 9.1 million (Source: 2019 Special Report on Fishing). The latest statistics indicate that COVID-19 has increased the number of fishing permits by about 20%. Equally accurate figures are not available for Europe, but it is our understanding that the European market grows at least at a rate equal to GDP growth. The development of the Japanese market is not relevant to Rapala, as its revenue there is very low due to market dominance by the local players. Our overall estimate of the market growth rate in the developing markets is approximately 2–4% per year.

Winning market share in the developing markets is difficult for Rapala because it already has a high market share in several product groups (e.g. hooks and lures). Rapala has also sought growth by expanding its product selection. Previously, growth has mainly been sought through acquisitions. The Rapala brand has also been extended to new product categories, particularly to fishing accessories. Recently, the focus of Rapala's product development has also begun to shift more to growing product categories and the commercialisation of microtrends in fishing.

We estimate that the sport fishing market in the developing markets is growing at an annual rate of approximately 4–6%. The drivers in these markets are an increasing standard of living, growth in the number of fishing participants and increasing awareness. Rapala's sales in developing markets has lagged behind our estimated overall growth rate of those markets. We believe this is due to lower brand recognition compared to the US and European markets.

A fragmented competitive field

The global sport fishing market is highly fragmented. We estimate that Rapala is the fourth-largest player in the industry with annual revenue of MEUR 275. The largest players – Shimano, Daiwa and Pure Fishing – have annual revenues in the range of MEUR 400–500. We estimate that Lew's has grown its revenue close to MEUR 200 following aggressive acquisitions.

Of the largest players in the industry, the Japanese companies Shimano and Globeride (Daiwa) have focused on rods and reels, although they do have other product categories to some extent as well. Amongst the large players, the US-based Pure Fishing has a broader, nearly all-encompassing product portfolio. Behind the five largest players, there are many medium-sized operators (MEUR 25–100) in the industry and countless smaller local operators, which often started out as family companies. In addition, there has been a growing trend in the past decade of retailers' private label brands. Examples of retail chains that have been active on this front include Cabella/Bass Pro (USA) and Decathlon (Europe).

The industry

The brand companies in the industry typically do not have their own stores. Instead, their products are sold through retailers. This is due to the significant seasonal fluctuations that would make it very difficult for the companies to operate their own brick-and-mortar stores. Consequently, the brand manufacturers have limited means of avoiding the competitive pressures created by the retailers' private label brands. While it is difficult to estimate the overall market share of private label brands, we believe it is in the range of 10–20% in the developed markets and considerably lower in the developing markets. We estimate that the large and medium-sized players and the retailers' private label brands combined account for about two-thirds of the total market, with the remainder being held by smaller local players.

A playing field of private equity firms

The market has been consolidating for a long time now and we expect this trend to continue, as small and medium-sized players still play a relatively large role. The industry is characterised by very obvious synergies, with larger volumes providing economies of scale and bargaining power against large retailers. Strong local brands present the larger players with attractive opportunities to use their channels to distribute them more extensively.

Fishing equipment companies owned by private equity firms have led the way in the consolidation of the market in recent years. The synergy potential of mergers and acquisitions has seen acquisition prices rise to high levels at times. In November 2018, the listed company Newell Brands sold the largest player in the market, Pure Fishing, to the US-based private equity firm Sycamore Partners. It is our understanding that Pure Fishing was sold for a debt-free price of USD 1.3 billion, which translates to a high EV/S multiple of 2.4x. We believe the company's profitability was considerably higher than Rapala's, with an EBIT margin of approximately 18%, which would put the transaction's EV/EBITDA multiple at 13x. The company has subsequently gone on to acquire smaller brands, such as Fin-Nor and Van Staal, to complement its strong brand portfolio.

The US-based Lew's is currently majority-owned by the private equity firm BDT Capital. In 2019, it acquired the UK-based Fox International from equity investors for GBP 150 million. Prior to the acquisition, Fox had achieved strong organic and inorganic growth and acquired the Salmo brand in 2016, amongst others. In 2017, Lew's acquired the Strike King brand, whose lures are second in sales in the hard lures category in the US behind Rapala. Accurate financial figures for Fox are not available after 2015, when its annual revenue amounted to approximately GBP 30 million. Calculating the precise multiples for the acquisition price is therefore not possible, but we estimate that the EV/S multiple was in the range of 2–3x.

As an example of a smaller transaction, the private equity firm Maj Invest acquired a majority stake in the Danish fishing tackle brand Svendsen Sport and the German fishing equipment manufacturer D.A.M. for EUR 67 million in late 2015. According to our calculations, the multiples of that transaction in 2015 were EV/S 2.0x and EV/EBITDA 10.6x.

Rapala is also a potential acquisition target

Rapala has previously been an active consolidator in the industry but, except for the acquisition of a minority interest in DQC International in 2019, the last large acquisition happened quite a long time ago (Sufix in 2008). We believe that the company will make a return to the field of acquisitions at the earliest when it has made progress with its strategy, straightened out its profit performance and released capital previously tied up in inventory by increasing the efficiency of its supply chain. We also estimate that the increased uncertainty caused by the COVID-19 crisis reduces the probability of acquisitions.

Rapala is also a potential acquisition target, and we believe that a private equity firm is the most likely buyer candidate. We believe that the probability of that scenario will also only increase if Rapala is able to use its current strategy to improve its performance. There are two reasons for this: 1) It would make the company a more attractive acquisition target by eliminating uncertainties associated with the organisation's ability to adapt. 2) The acquisition price could rise to a level that is considerably higher than the current market value, which could also make the main owners more willing to sell. At the current market value, Rapala's EV/S multiple is only 0.8x due to the company's weak profitability, which is very modest compared to the transaction prices discussed above. However, we see this scenario as more of an option for the investor, as an acquisition is something that has been expected for a long time now.

Competition

Product category	Rapala's brands	Importance in Rapala's business	Growth potential	Competitors	Market share (sport fishing)
Rods and reels		New: Very minor		**Japan:** Shimano, Globeride, Gamakatsu **USA:** Pure Fishing, St. Croix Rod, Eagle Claw, Zebco, Pradco, Cabela's, Lew's **Taiwan:** Okuma	52%
Lures and baits				**USA:** Pure Fishing, Pradco, Cabela's, Lew's (USA)/Fox (UK) **Japan:** Globeride **Denmark:** Svendsen Sport	10%
Hooks				**USA:** Eagle Claw **Japan:** Gamakatsu **Norway:** Mustad	3%
Fishing line				**Japan:** Shimano, Globeride **USA:** Pure Fishing, Zebco	10%
Fishing accessories				**USA:** Pure Fishing, Flambeau, Simms, Plano, Cabela's, Lew's (USA)/Fox (UK) **Japan:** Globeride **Fiskars:** Gerber	25%

Source: Inderes

Rapala's strategy

Rapala needs to get more out of its competitive advantages

Rapala's competitive advantages have been historically built around strong brands, product development, in-house production and distribution. However, following numerous acquisitions, their weak integration and geographical expansion (p. 18), managing the Group as a whole has become difficult. Rapala still aims to build its strategy around its strengths but, at the same time, the Group has sought to eliminate inefficiencies particularly by centralising its operations.

Brands and product development

In our view, Rapala's brands are still its most sustainable competitive advantage by far. The brand portfolio includes many leading fishing tackle brands, which gives Rapala strong pricing power towards consumers. Brand loyalty is very high especially among consumers of fishing lures. We believe that the strength of Rapala's brands and their pricing power have substantially mitigated the company's decline over the past few years. Nevertheless, there is still room for improvement when it comes to sharpening the positioning of various brands, and we understand that this is something Rapala is currently focusing on.

The Group's current strategy has also made the product development process more systematic than before. Rapala's product development efforts are focused on generating additional sales in new fishing segments instead of cannibalising its old products as before. Product development will continue to play a central role in Rapala's future efforts to maintain the appeal of its brands in the eyes of consumers.

Production and subcontracting

The large market shares give the company economies of scale in production and sourcing, which provides a good foundation for their organisation. Rapala has strong manufacturing expertise at its European production plants, which is where the Group manufactures its most important Rapala balsa lures. The current strategy has enabled Rapala to reduce the lead time at its European production plants to four weeks (previously eight weeks).

In 2011, Rapala established the world's largest lure factory in Batam, Indonesia. Lure manufacturing includes a lot of manual labour, and the Group believed it could take advantage of the low wages in Indonesia to reduce unit costs. The factory began manufacturing lures acquired for Rapala's portfolio through acquisitions in particular (soft plastic, hard plastic and metal lures), which had previously been mostly manufactured by subcontractors in China. Nevertheless, there were significant profitability challenges in Batam's manufacturing operations throughout the plant's history due to the small production batches and complex product flows. In 2019, Rapala decided to outsource its entire production of metal lures from Batam back to subcontractors in China. In spring 2020, Rapala decided to close the entire lure factory, leaving only a separate fishing hook factory in Indonesia. 2/3 of the remaining production of Batam will move to Pärnu and 1/3 to subcontractors in China. Closing down the Batam plant was a radical move, but we estimate that it was necessary for restoring the competitiveness of Rapala's manufacturing operations.

Distribution

In our view, Rapala's country-specific distribution companies have previously been a significant competitive advantage for the Group. The company has been forced to take a critical look at their role particularly as the transformation of retail moves forward. The rise of online shopping has created new routes for consumers looking to buy fishing tackle as alternatives to brick-and-mortar stores and the distributors that serve them. Keeping distribution in the Rapala's own hands has been historically justified by the view that it improves the Group's ability to have its own products included in retail selections, provides better insight into end market customer demand, increases the Group's sales margins and enables quick reactions to changes in demand. However, we believe that the Group having its own distribution companies comes with significant disadvantages in the form of high costs and inventories.

As part of its current strategy, Rapala has initiated measures to reduce overlapping costs in its European distribution operations by centralising its warehouses, for instance (page 19). It has also begun to supervise the operations of the country companies much more closely than before and issued centralised purchasing budgets to them, amongst other things. The Group has also outsourced some its warehouses in Asia and Australia, for example.However, we believe that resistance to change arising from the previously highly independent culture of the country companies continues to present a clear risk to the optimal execution of Rapala's strategy.

Rapala's strategy

Key projects of the new strategy

Rapala's new strategy period began in February 2017 under the leadership of the previous CEO Jussi Ristimäki. The strategy launched by Ristimäki saw the Group initiative significant – and, in our view, appropriate – measures to develop its organisation and supply chain. The core objectives of the strategy are to achieve a turnaround in sales growth as well as higher return on equity. The Group has also streamlined its supply chain. Rapala has also increased the share of digital marketing and expanded its European distribution operations to include its own online store. As part of the strategy, the Group has also restructured its internal incentive system (country companies, factories) and the management now also owns shares in Rapala.

Rapala has sought to take significant measures to develop its business model in a direction that reduces the need for large buffer stocks. Rapala has invested in an IT system that allows it to monitor product demand and the product-specific inventory levels of the various country companies through a single centralised system. The Group can now use data to manage orders made by the country companies and better coordinate the production operations of its factories in the intermediary stage. The country companies still do not operate under a centralised sourcing function, but the available data has enabled Rapala to make the country companies' ordering process for the Group's own products more closely supervised. Historically, the country companies have not had typical intermediate inventories. Instead, they have all had their own inventories. As part of the new strategy, Rapala has begun to consolidate its country-specific inventories (e.g. Norway + Sweden), which has reduced inventory levels. The greater geographical coverage of the centralised inventories helps balance out fluctuations in weather-dependent demand and makes it easier to forecast demand. Rapala has also established a buffer stock in the Baltics for the production of the Group's factories, which has improved its delivery reliability. When the country companies can rely on the on-time delivery of supplementary orders, the need for country-specific inventories is reduced.

Rapala needs to accelerate the execution

While the development priorities identified in the current strategy are correct, the execution of the strategy has lagged behind our expectations in 2017–2019. In September 2019, Chairman of the Board Louis d'Alançon replaced Jussi Ristimäki and became interim CEO, and a MEUR 10 efficiency improvement programme was announced under his leadership (next page). In March 2020, Nicolas Warchalowski took the helm as Rapala's new chief executive. The new CEO has a convincing track record in management and the development of consumer brands from his previous posts at Peak Performance, Haglöfs and BabyBjörn. In our view, Warchalowski has taken a much more determined approach to strategy execution than his predecessors, as evidenced by the quick decisions to shut down loss-making units (Batam, ice auger factory, knife factory) and transferring their production operations to other factories in Europe and subcontractors in China. We expect Warchalowski to continue to focus on the development of the brands and sales growth.

Ramp-up of own distribution operations

Shimano has previously distributed Rapala products exclusively in Germany, the Netherlands, Belgium, Luxembourg, Italy, the UK and Turkey. In our view, Shimano's sales volumes of Rapala products in these countries have been disproportionately small (with the combined revenue for Rapala being under MEUR 25) compared to France, for example, where Rapala handles its own distribution and generated revenue of MEUR 34.6 in 2018. Rapala began to distribute its own products in the countries previously handled by Shimano starting from 1 April 2019. Rapala did not have to start its distribution operations from nothing, as the Group has previously had its own distribution operations for carp fishing products in the UK and for VMC hooks in Central Europe.

We believe that Shimano's approach to distribution is very different from Rapala's, as Shimano sells rods and reels through carefully selected sporting goods stores and fishing tackle retailers. The idea behind Shimano's approach is to protect its brand image. Rapala, on the other hand, has chosen to sell its lures and baits through a wide range of outlets, such as service stations, which is understandable since they are consumer goods and their broader availability does not compromise Rapala's strong brand. We estimate that Rapala has good potential for increasing its sales in the region by handling its own distribution operations. Distribution in the new Central and Southern European countries takes place through a central warehouse in France and the sales count towards French revenue. In 2019 the French revenue had grown by MEUR 2.7, and we believe much of this growth came from the new countries.

Rapala's strategy

New rod and reel strategy

Rapala's rod and reel strategy was previously based primarily on the exclusive distribution of Shimano rods and reels in certain countries (the Nordic countries, Spain, Portugal, Switzerland, France, the Baltic countries and South Africa). Outside Europe, Rapala has already previously sold rods and reels under the Rapala brand on a small scale as well as certain smaller brands. It is our understanding that their success has been modest. The termination of the Shimano distribution agreement presented Rapala with the opportunity to make bigger moves with regard to this segment. This led in autumn 2019 to the acquisition of a minority interest in DQC and the acquisition of licensing rights to the 13 Fishing brand outside the US. We believe that, during the past year, Rapala's focus with 13 Fishing has been on developing suitable products to be distributed outside the US market. Rapala has recently begun to launch the products amongst its distribution companies and we expect the sales of 13 Fishing products to show in Rapala's income statement starting from 2021. Nevertheless, our forecasts for the next few years do not expect Rapala's rod and reel sales to replace the lost sales of MEUR 25 in 2020–2021 caused by the termination of the Shimano deal. We also estimate that the ramp-up will initially lead to additional expenses in areas such as brand development and marketing as distribution companies begin to familiarise their customers with entirely new products.

The global ramp-up of Rapala's sales of 13 Fishing rods and reels is still in its early days and its future success is therefore uncertain. The requirements for success are discussed on page 12.

Cost saving programme 2020–2022

In autumn 2019, Rapala launched a MEUR 10 cost saving programme that included Batam efficiency improvement measures (that subsequently turned into the closure of the Batam factory) and enhancing the operational efficiency of the European distribution companies. Under the programme, Rapala has begun to pursue increasing centralisation of its European businesses and distribution operations. We see this as a sensible move, as historical factors (such as acquisitions) have resulted in a number of overlapping functions in different countries (sourcing, warehousing, IT systems, management). Centralising operations will enable Rapala to reduce its fixed costs, which is important considering the fact that a significant volume of Shimano sales will be lost in H2/20.

The local sales power of the country-specific distribution companies will not be reduced so, if the programme is successful, the cost cuts should not have much of a negative impact on Rapala's sales. However, we estimate that this process will take time, as the planned measures will be locally negotiated in each affected country. The second focal point of the efficiency improvement programme is the Batam factory, which will be shut down. We estimate that it will represent approximately half of the cost savings to be achieved, or MEUR 5. Rapala expects the cost savings to be gradually achieved over a two-year period starting from 2020.

Online distribution strategy and B2C

Rapala has had an online store in North America since 2011. As part of the new strategy, Rapala opened an online store in the EU in 2018. We believe the B2C interface presents Rapala with significant advantages. The Group earns higher sales margins on its products sold online, gains access to customer data and achieves better control over its brand. In Rapala's view, consumers choose to shop in the online store especially if they seek a broader selection than they can find at their local retailers. The online store is also part of Rapala's digital brand building campaign. Indeed, Rapala has clearly become more active in using high-quality digital marketing instead of relying strictly on print media as before. The warehousing, packaging and dispatching operations of the European online store are currently outsourced to Estonia. We estimate that the online store operations are still in a relatively early stage, with only a few per cent of Rapala's total revenue coming from direct B2C sales. The online store has also been important during the COVID-19 crisis, as it has slightly mitigated the decline in Rapala's sales during the shutdown measures.

Rapala currently uses Amazon only as a B2B end customer rather than using its platform as a B2C marketplace. We believe Rapala could have B2C sales opportunities in marketplaces such as Amazon and Alibaba, but it is our understanding that the Group has not yet decided to make use of marketplaces in its online sales strategy.

Rapala's strategy

	1998	2017	2018	2019	2020e	2021e
Revenue	MEUR 100	MEUR 253	MEUR 262	MEUR 275	MEUR 249	MEUR 259
EBIT margin	20%	3.5%	5.6%	4.9%	-0.2%	5.0%
EBITDA/net debt (target: under 3.8x*)	Strong	Hybrid bond issue to improve the ratio	Positive development of profitability supported the ratio	Capital released by reduction in inventories 3.5x	Substantially weakened by the COVID-19 crisis (forecast 7.6x)	Gradual recovery (forecast 2.9x)
Trend	↑	↘	→	→	↓	↗
Comment	IPO	New strategy to halt a prolonged decline	Trending slowly in the right direction	Batam savings started to show in H2	Negative impact from the decline in Shimano volumes will begin to show	Requires progress in strategic projects

1998 - 2016

2017 - 2019

2021

Focus on inorganic growth

- Decentrally managed and partially optimised organisation
- Poor integration of acquisitions
- Strong revenue growth (+150%)
- Concurrent decline in EBIT
- Growth in inventories
- Sharp decline in Russia

Improving capital efficiency and profitability

- Improving supply chain management
- Increasing the efficiency of the Batam plant
- Success in product development
- The efficiency of digital marketing
- New digital distribution channels
- "One Rapala" organisational structure

Sharpening the strategy

- Success in the centralisation of production
- Development of the 13 Fishing rod and reel brand and start-up of 13 Fishing product sales
- Growing the distribution of Rapala's own products in Central and Southern Europe
- Adapting the costs of the traditional B2B distribution channel to declining volumes
- Growing the online store's high-margin volume

Source: Inderes, *the ratio excludes the IFRS 16 impact

Historical development

1936
Lauri Rapala starts producing lures for fishermen

1955
50,000 hard-bodied lures manufactured
Rapala's lures spread across Finland and the Nordic region in response to orders

1959
Large-scale marketing in the US begins when Ostrom Marine starts to sell Rapala's hard-bodied lures

1964
Annual production grows from 270,000 hard-bodied lures to 1.6 million over a period of two years

1973
Rapala opens a new factory in Vääksy, Asikkala. The factory is still in operation.

1993
Strategic exclusive Shimano partnership starts in Europe

1995
Rapala's annual production rises to 14 million lures (currently about 20 million)

1998
Rapala is listed on the Helsinki Stock Exchange, Jorma Kasslin becomes Rapala's CEO

1999
Acquisition of the Storm lure brand (USA) business and a Norwegian fishing equipment distributor
Distribution company established in Japan

2000
Acquisition of VMC, a French manufacturer and distributor of fishing hooks
Distribution company established in Estonia

2001–2003
Acquisition of the Willtech lure manufacturing unit
Acquisition of a Swiss fishing equipment distributor

2004
Acquisition of the South African lure brand Williamson
Distribution company established in the Czech Republic
Distribution company established in Latvia Distribution company established in Malaysia

2005
Acquisition of the business operations of the lure and fishing equipment manufacturer Luhr Jensen (USA)
Acquisition of Peltonen Ski Oy and Marttiini Oy

2005
Distribution companies established in China and Thailand and
Acquisition of a South African fishing equipment distributor

2006–2007
Lure factory established in Russia
Distribution partnership with Shimano starts in Eastern Europe, controlled by Rapala

2008–2009
Acquisition of the Sufix fishing line brand, closure of lure factory in Ireland
Distribution company established in Romania

2010
Distribution companies established in Iceland and Belarus
Acquisition of a production plant in the UK that manufactures Dynamite Baits

2011
Distribution company established in Mexico
In partnership with Shimano, establishing a distribution company in Kazakhstan and acquiring a distribution company in the UK

2011
Lure factory, hook factory and distribution company established in Indonesia

2012
Acquisition of Strike Master, a US-based supplier of ice augers
Acquisition of the Mora Ice brand of ice augers and auger cutting blades
Distribution company established in Chile

2013–2016
Distribution company established in the UAE
Acquisition of the Mystic fishing attractant manufacturer (France)
Management company established in Singapore

2016–2017
Jussi Ristimäki becomes Rapala's CEO
A new strategy for Rapala
50% stake in the UK distribution company sold to Shimano

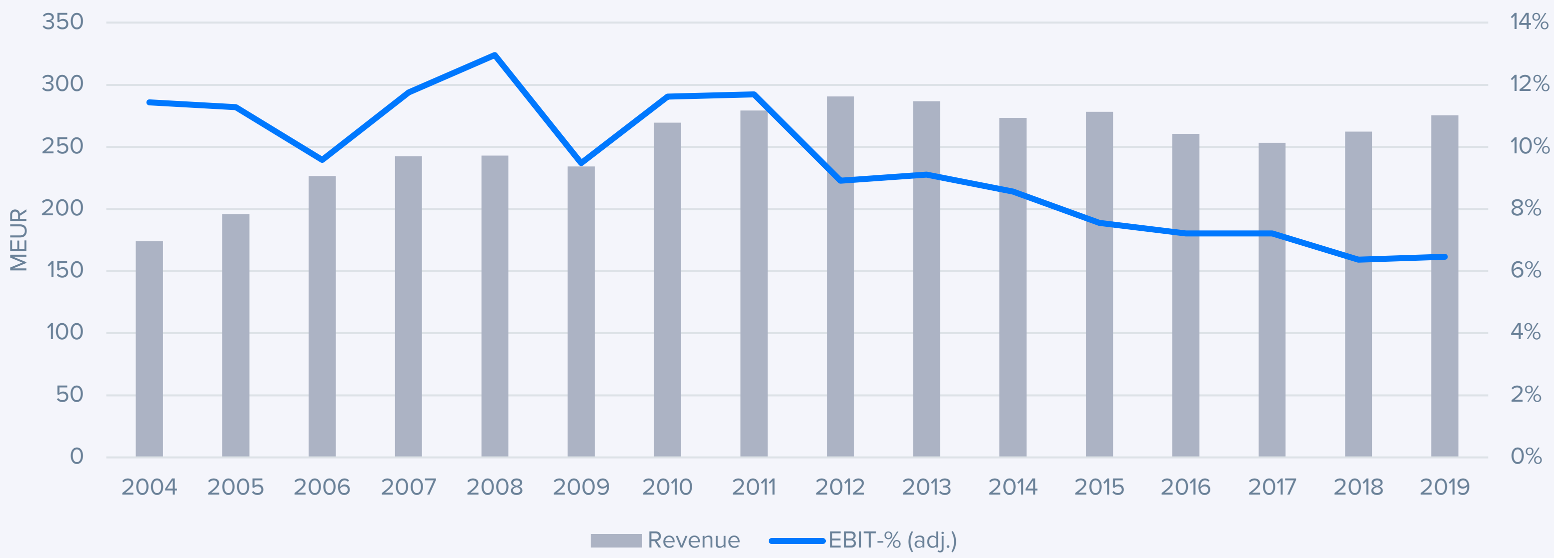
2018–2019
Distribution company established in Belarus
Distribution company established in Italy Distribution company established in Germany
Distribution company established in Croatia
Batam outsourcing moves forward

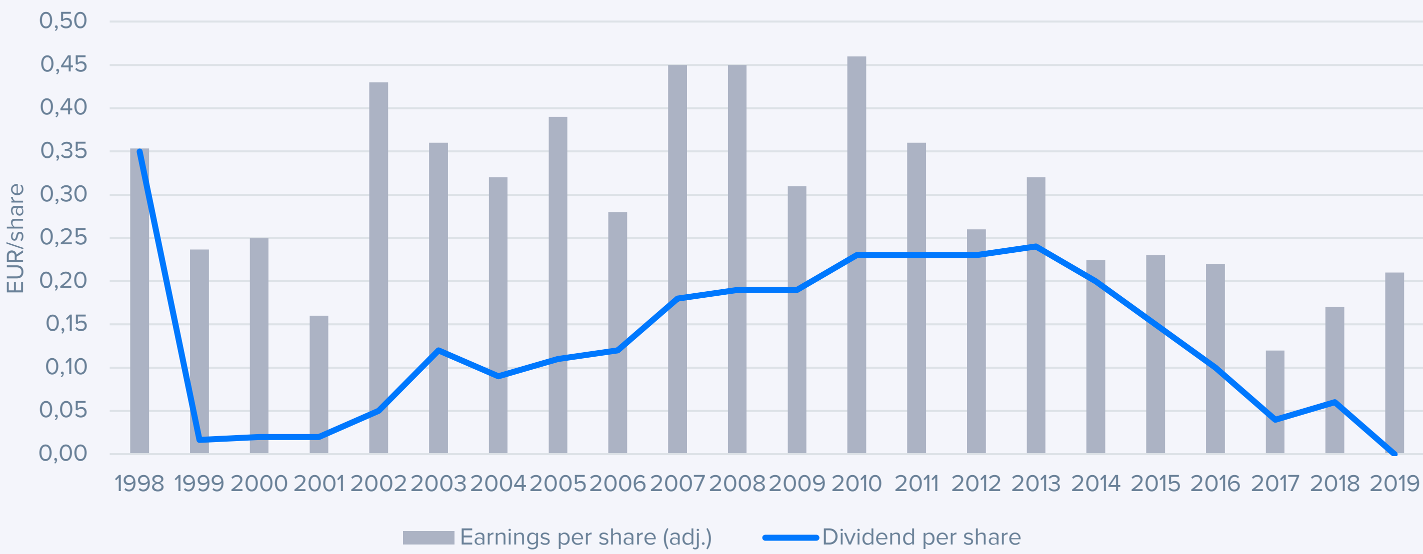
2019
Exclusive Shimano partnership ends
Acquisition of a 49% stake in the US-based rod and reel manufacturer 13 Fishing
Chairman of the Board Louis d'Alançon replaces Ristimäki as CEO

2020
New CEO Nicolas Warchalowski joins the company in March
The COVID-19 crisis has a very negative impact on the company's sales in the spring due to shutdown measures

2020
Decision made on the closure of the Batam lure factory
Production centralised in Pärnu and with subcontractors in China
Rapala's exclusive distribution deal for Shimano rods and reels ends in July and October

Historical development





Source: Inderes, Rapala

Financial position and balance sheet

Profit performance must improve

Rapala's financial targets are related to its capital structure. They are:

- Gearing ratio lower than 150%
- Net debt/EBITDA (rolling 12 months, excl. IFRS 16) under 3.8x

The use of leverage on the balance sheet is currently very conservative, with Rapala's net gearing being 43.7% at the end of H1/20 (adjusted for the hybrid bond: 74%), which is under the maximum level of 150% by a clear margin. However, the net debt/EBITDA ratio, which illustrates Rapala's ability to repay its liabilities, rose in H1/20 to a level that is well above the target (to 6x). The COVID-19 crisis drove Rapala's profit performance to an exceptionally low level, leading to a sharp increase in the ratio in spite of net debt remaining moderate at MEUR 63.5 (excluding the hybrid bond). Until Rapala's profit performance recovers, the current balance sheet provides it with very little room to maneouvre with regard to taking on additional debt at a low interest rate. If the execution of strategy moves ahead in line with our forecasts (improved profits and lower inventories), this ratio will fall relatively quickly, which would again make the use of borrowed capital a realistic possibility to finance acquisitions or the redemption of the existing hybrid loan, for example.

The balance sheet held up well through the COVID-19 crisis in the spring

Rapala's most significant non-current assets are intangible assets, which totalled approximately MEUR 74 in H1/20. The intangible assets include approximately MEUR 49 in goodwill and MEUR 25 in trademarks related to past acquisitions. The goodwill and trademarks do not include Rapala's own brand, which we estimate to be substantially higher in value than the intangible assets recognised in the balance sheet. Accordingly, we do not see a significant risk of impairment associated with Rapala's goodwill and trademarks.

Non-current tangible assets amounted to MEUR 24 (including machinery and equipment), in addition to which the balance sheet shows right-of-use assets related to IFRS 16 lease liabilities amounting to approximately MEUR 12. Interest-bearing receivables rose during the past year by about MEUR 9, reaching MEUR 16, due to Rapala lending money to DQC (13 Fishing) in connection with the acquisition.

Inventories are by far the largest item under current assets. They totalled MEUR 84 at the end of H1/20 (33% of the total revenue for the previous 12 months). Rapala was able to clear out inventories during the COVID-19 crisis, which helped protect cash flow during the first half of the year (MEUR +13) in spite of net profit falling to negative territory by a clear margin. In our forecasts, we expect inventories to decrease to about 30% of revenue as the execution of Rapala's strategy moves forward.

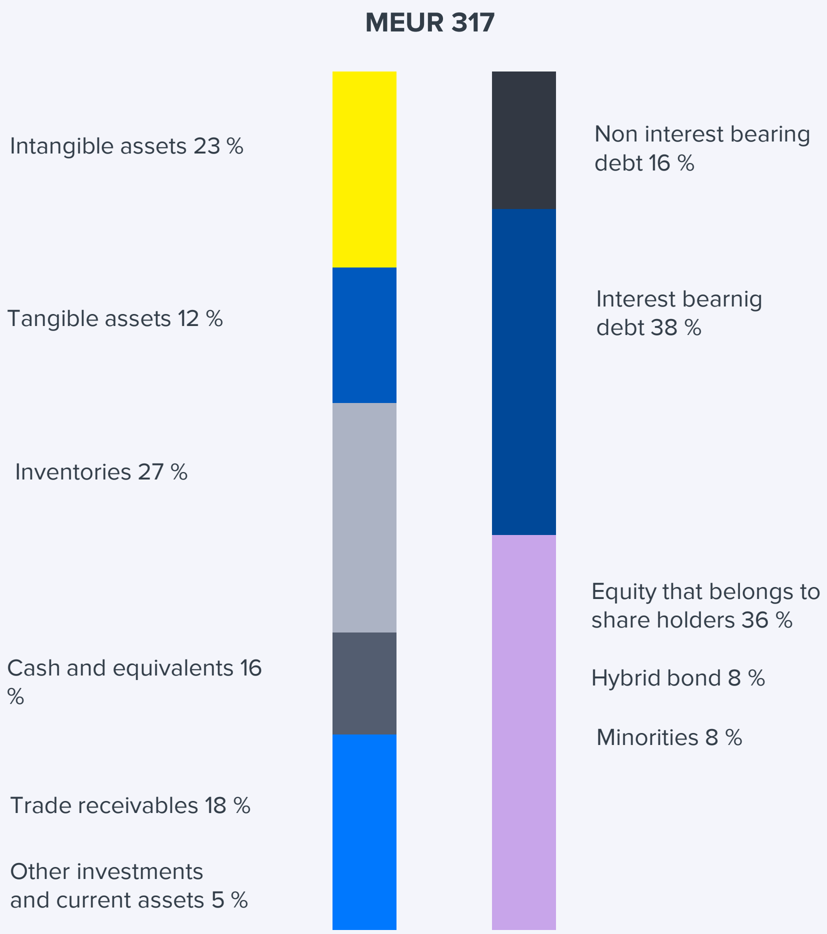
In addition to inventories, trade receivables are another significant item under Rapala's non-current assets. At the end of H1/20, trade receivables totalled MEUR 56 (22% of the total revenue of the previous 12 months) and they did not increase during the COVID-19 crisis. We expect the ratio to be about 18% of revenue at the end of the year, as trade receivables are typically much higher in the summer. In our opinion, there is not much room for long-term improvement in the level of trade receivables due to the negotiating power of Rapala's large customers. The Group also had an exceptionally high level of cash and cash equivalents in its H1/20 balance sheet thanks to good cash flow, but it is our understanding that most of it has been spent in H2/20 on maturing commercial papers and trade payables.

Rapala's equity at the end of H1/20 totalled MEUR 145, of which MEUR 4.9 was attributable to non-controlling interests relating in practice to Shimano's share in the joint venture in Eastern Europe. Equity also included a hybrid bond of MEUR 25. The interest rate on the hybrid bond is 5.25% and it can be redeemed in November 2021 at the earliest. We currently forecast that Rapala will renew the hybrid bond when it matures, as our forecast sees the Group's result improve more substantially only in 2022–2023, and redeeming the hybrid bond will only be possible once profit performance has recovered.

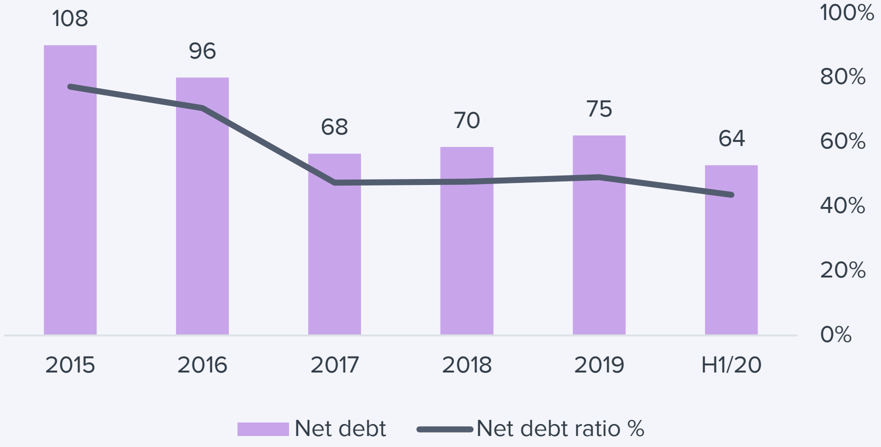
In addition to the hybrid bond, Rapala has approximately MEUR 109 in interest-bearing liabilities on its balance sheet as well as approximately MEUR 12 in lease liabilities related to IFRS 16 lease obligations. The average interest rates at the end of 2019 were 2.7% for interest-bearing loans from financial institutions and 4.5% for IFRS 16 lease liabilities. At the end of H1/20, Rapala had trade payables of MEUR 40, or approximately 29% of revenue. This item typically also declines substantially towards the end of the year. In light of the historical figures, we expect it to be around 13% of revenue at the end of the year, and we believe that level to be maintained.

Financial position

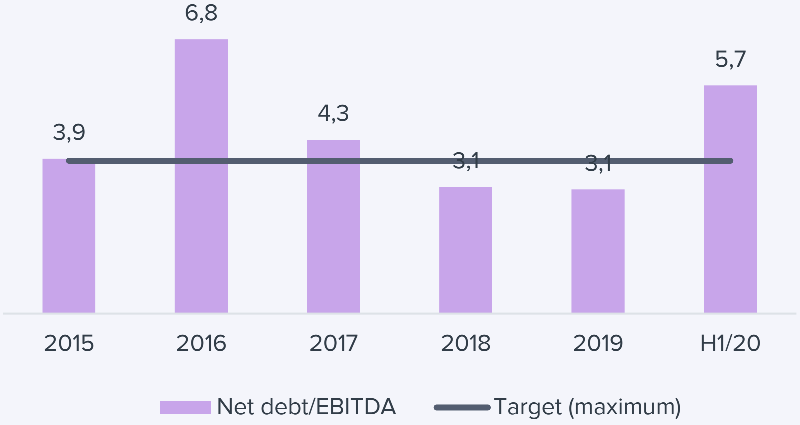
Balance sheet structure, H1/20



Net debt and net gearing %*



Development of net debt/EBITDA (excl. IFRS 16)*



Source: Inderes, Rapala *The MEUR 25 hybrid bond is included in equity according to accounting standards, which improves the balance sheet indicators from the perspective of creditors in spite of the hybrid bond being an interest-bearing liability from the perspective of shareholders

Investment profile

1. **Successful strategy execution**
2. **Competitive advantage from brands**
3. **Defensive business**
4. **How the transformation of retail will affect distribution**
5. **Structurally high inventories**

Potential

- Resuming revenue growth through organic projects
- Improving the sales mix
- Improving cost-efficiency
- Eliminating the significant losses of Batam
- Release of capital
- Growth in B2C sales

Risks

- Customer difficulties caused by COVID-19
- Rapid digitalisation of distribution channels
- Unsuccessful strategy execution
- High fixed costs
- Significant seasonal variation in demand
- Drop in revenue caused by the termination of the Shimano partnership

Source: Inderes

Forecasts

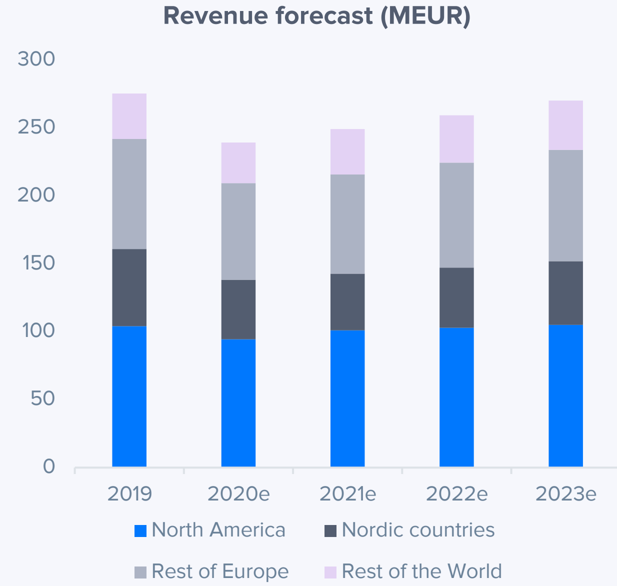
2020 will be very weak

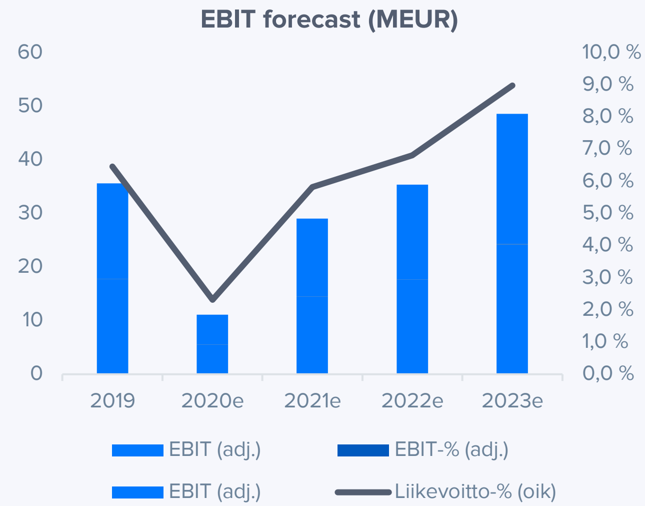
Rapala's financial results for H1/20 were weak, with revenue decreasing by 17% to MEUR 117 and adjusted EBIT falling by 65% to MEUR 4.2. Rapala's reported EPS declined sharply, to EUR -0.13 (2019: EUR 0.17) The most obvious reason for the lower sales was the COVID-19 crisis, but Rapala's sales of winter sports goods (Peltonen skis, third-party winter sports goods and ice augers) also suffered from the mild winter. The negative impact of COVID-19 on Rapala in H1 mostly resulted from Rapala's North American warehouses being shut down for just over a month as well as the closure of customer retailers in the Rest of Europe market area and the US. The possibility of new COVID-19 restrictions poses a clear risk going forward, although we estimate that the threshold of introducing shutdowns has risen substantially since the spring. Cash flow in H1 was strong (MEUR 13) in spite of the sharp decline in earnings due to Rapala's tight control of working capital and the clearing out of inventories. Rapala also scaled back its production and sourcing activities.

Rapala does not currently have a valid guidance for its revenue or earnings for the financial year 2020. Rapala withdrew its previous guidance, which indicated a decrease in revenue and EBIT, at the end of March due to the COVID-19 pandemic. In the H1 report published in July, Rapala noted that the consumer demand for recreational fishing products had recovered to a good level in the Group's key markets. Rapala also pointed out that the supply chain is functioning well. Nevertheless, the COVID-19 pandemic still added significant uncertainty to the outlook.

We forecast that Rapala's revenue in H2 will continue to decline substantially, in spite of good customer demand, to MEUR 122 (H2/19: MEUR 134). Our forecast for adjusted EBIT in H2 is MEUR 1.4 (H2/19: MEUR 5.9). The expected decline in sales is particularly attributable to the termination of the exclusive representation deal with Shimano. Rapala's sales of Shimano products in the large markets, such as France and Spain, ended on 1 July, with the Nordic region and the Baltic countries to follow on 1 October. We estimate that the termination of the Shimano deal will have an effect of about MEUR -7 on revenue in H2/20 and approximately MEUR -2 on EBIT. We expect that Rapala's new distribution operations in Europe will provide slight support to our revenue forecast (approximately MEUR 1.5), but the impact on EBIT will be minimal. We also estimate that customer inventories in the winter sports business are still high, which will keep the sales of winter sport products lower than in the comparison period.

According to our forecast, total revenue in 2020 will be MEUR 239, with adjusted EBIT declining by nearly 70% year-on-year to MEUR 5.6 (adjusted EBIT margin 2.3%). Our EPS forecast for the 2020 financial year is EUR -0.22 per share (2019: EUR 0.09). The reported earnings per share in 2019 and 2020 were weighed down by high non-recurring costs, which were largely related to the production plant in Batam. It is our understanding that there are no further non-recurring costs expected in relation to the closure of the Batam plant. Adjusted for non-recurring costs, our EPS forecast for 2020 is EUR -0.07 per share (2019: EUR 0.21). We do not expect Rapala to distribute dividends from its earnings in 2020 due the result showing a loss.





Source: *Inderes*

Forecasts

Revenue will start to recover from the COVID-19 impact in 2021

In 2021, we expect Rapala's revenue to recover from the COVID-19 impact to reach MEUR 249 (2020: MEUR 239), with adjusted EBIT improving to MEUR 12.5 (EBIT margin 5.8%). Our EPS forecast for 2021 is EUR 0.14 per share and our adjusted EPS forecast is EUR 0.20 per share, as we expect Rapala to report non-recurring expenses of approximately MEUR 2 related to the continued execution of its strategy.

Amongst Rapala's strategic projects, we expect the new distribution operations in Europe to bring additional sales of about MEUR 4 and the start-up of 13 Fishing sales to also generate new revenue of MEUR 4. Nevertheless, the profitability of 13 Fishing sales will not be much above the break-even point due to the start-up costs involved. The elimination of the remaining exclusive Shimano representation will reduce sales in our forecast by MEUR 18 and EBIT by about MEUR 6. The impact of the termination of the Shimano deal is the most pronounced here, as the seasonally busiest first half of the year accounts for about two-thirds of the total annual sales of fishing tackle.

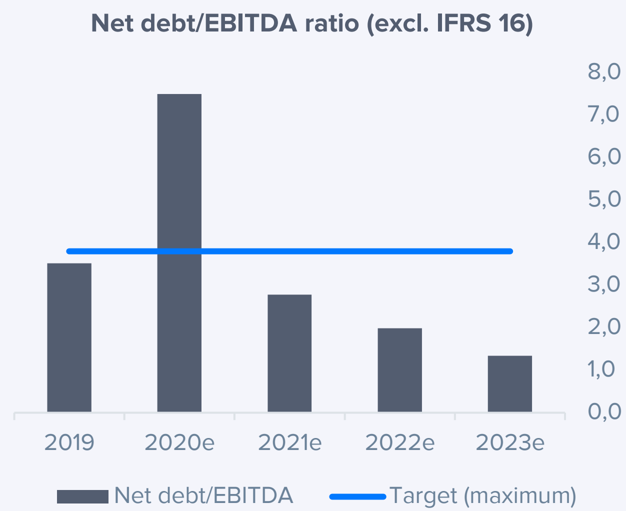
Rapala's dividend payouts will depend on the success of the turnaround in profitability which the strategy aims to achieve and whether the net debt/EBITDA ratio will subsequently fall below the target level. We expect Rapala to distribute dividends of EUR 0.10 per share from its earnings in 2021, but we also expect the Group to renew its maturing hybrid bond.

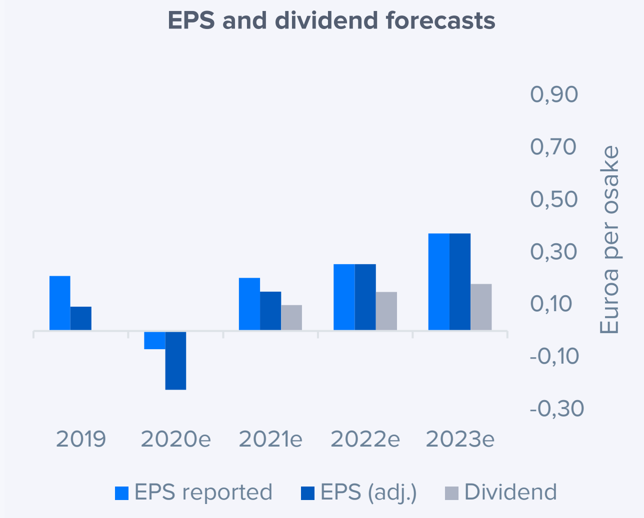
Our forecasts depend on Rapala's strategy execution in 2022–2023

Rapala does not have long-term financial targets for revenue or profitability. From the investor's perspective, it is unfortunate that the Group does not disclose what it believes it can achieve. The successful execution of strategy is the key factor in our forecasts. In our view, the MEUR 10 efficiency improvement programme discussed in the strategy section is realistic, and the cost savings are gradually realised by 2023 in our forecasts (page 28). In other respects, the new revenue generated by the key strategic projects is in line with our forecasts shown on page 28.

We expect revenue in 2022 to increase to MEUR 259, with the EBIT margin recovering to 6.8% as the cost savings are gradually achieved. In 2023, we expect revenue to rise to MEUR 270 and the EBIT margin to 9.0%. We believe the profit performance suggested by our forecasts is realistic for Rapala for three reasons: 1) Rapala's EBIT margin has historically been above 10% (p. 22). 2) Rapala's competitors are still achieving EBIT margins above 10%. 3) The execution of Rapala's strategy appears to have accelerated substantially under the new CEO. However, the slow progress seen in the past few years keeps our forecast cautious relative to our estimate of Rapala's full profit potential (EBIT margin approx. 15–20%), as it takes time for a large organisation like Rapala to turn itself around.

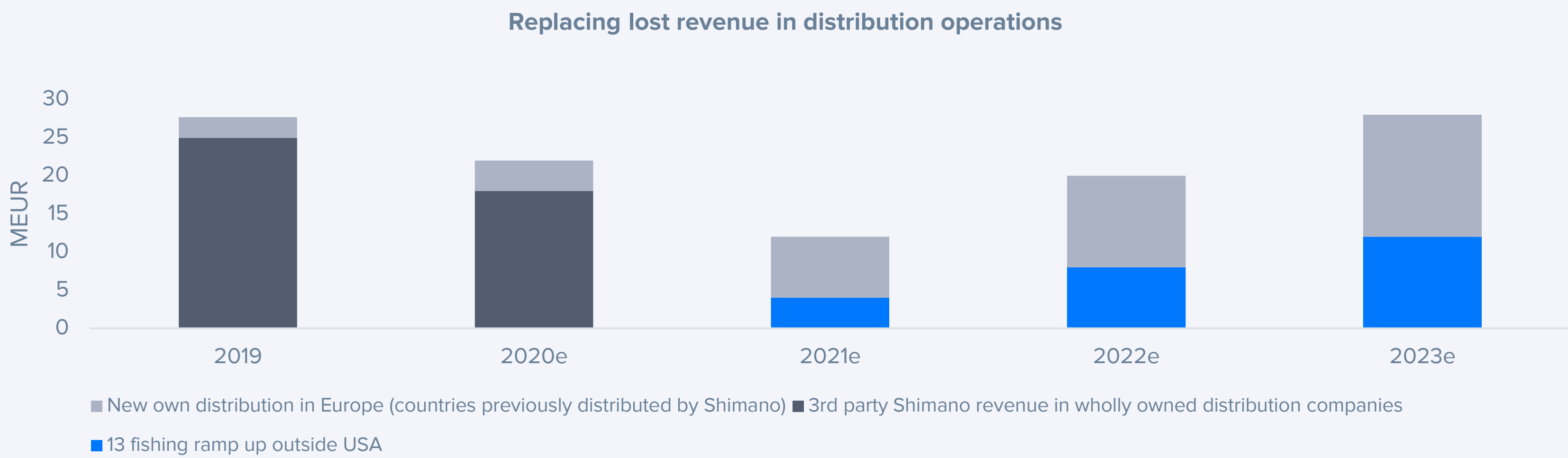
Our dividend forecasts for 2022–2023 are EUR 0.15 and EUR 0.18 per share, corresponding to about 60% and 50% of net earnings per share (2022: EUR 0.26 and 2023: EUR 0.37).

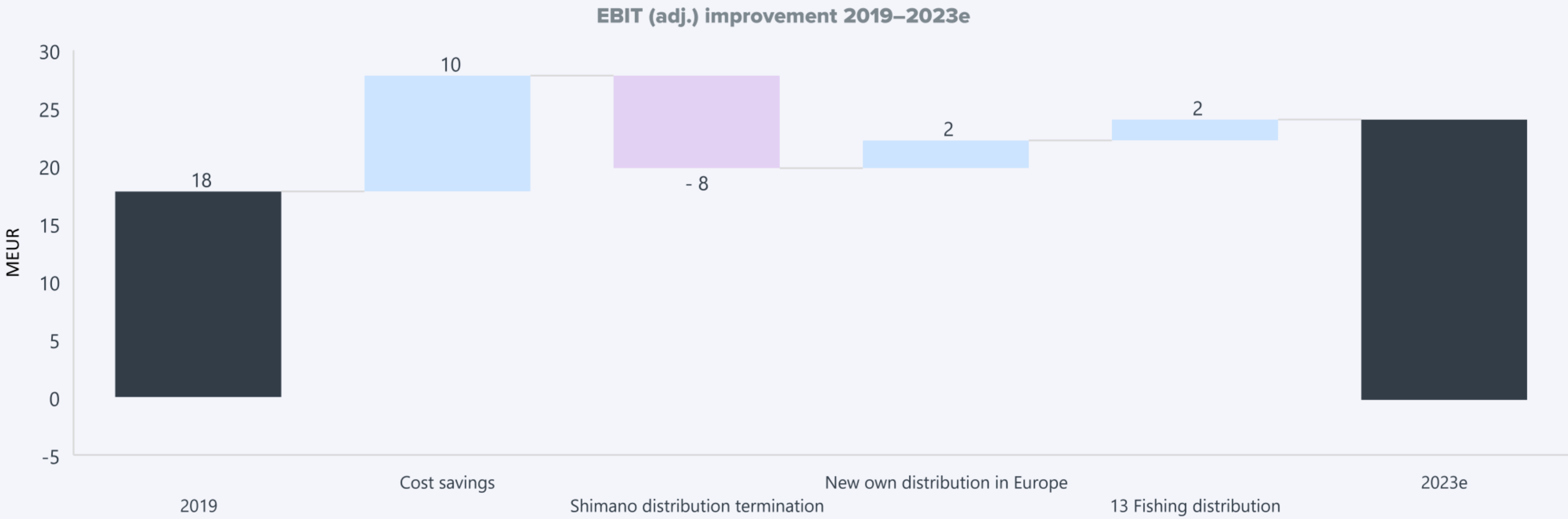




Source: Inderes

Forecasts





Source: *Inderes*

Quarterly key figures

Income statement	H1'18	H2'18	2018	H1'19	H2'19	2019	H1'20	H2'20e	2020e	2021e	2022e	2023e
Revenue	**143**	**120**	**262**	**141**	**134**	**275**	**117**	**122**	**239**	**249**	**259**	**270**
Group products	94,5	80,1	175	95,2	89,9	185	78,3	87,7	166	189	199	210
3rd party products	48,0	39,8	87,8	46,0	44,3	90,3	38,8	34,5	73,3	60,0	60,0	60,0
EBITDA	**18,5**	**3,9**	**22,4**	**17,7**	**8,3**	**26,0**	**6,8**	**6,7**	**13,5**	**25,0**	**30,6**	**37,5**
Depreciation	-3,2	-4,4	-7,6	-6,3	-6,3	-12,6	-7,6	-6,3	-13,9	-12,4	-12,9	-13,2
EBIT (excl. NRI)	**15,2**	**1,5**	**16,7**	**12,0**	**5,9**	**17,9**	**4,2**	**1,4**	**5,6**	**14,5**	**17,7**	**24,3**
EBIT	**15,3**	**-0,5**	**14,8**	**11,4**	**2,0**	**13,4**	**-0,8**	**0,4**	**-0,4**	**12,5**	**17,7**	**24,3**
Group products	14,0	3,2	17,2	11,2	7,7	18,9	4,3	4,4	8,7	18,7	21,9	27,3
3rd party products	1,2	-1,7	-0,5	0,2	-1,9	-1,7	-0,1	-3,0	-3,1	-4,2	-4,2	-3,0
Eliminations & NRI	0,1	-2,0	-1,9	0,0	-3,8	-3,8	-5,0	-1,0	-6,0	-2,0	0,0	0,0
Net financial items	-1,2	-0,9	-2,1	-1,3	-2,3	-3,6	-1,9	-2,0	-3,9	-2,6	-2,5	-2,3
PTP	**14,1**	**-1,4**	**12,7**	**10,1**	**-0,3**	**9,8**	**-2,7**	**-1,6**	**-4,3**	**10,4**	**16,2**	**23,0**
Taxes	-4,4	-1,8	-6,2	-2,7	-3,1	-5,8	-1,1	-1,5	-2,6	-3,3	-5,0	-7,2
Minority interest	-0,2	-0,2	-0,4	-0,4	0,8	0,4	-0,4	0,0	-0,4	0,0	0,0	0,0
Net earnings	**8,8**	**-4,0**	**4,8**	**6,4**	**-2,8**	**3,6**	**-4,9**	**-3,8**	**-8,7**	**5,8**	**9,9**	**14,4**
EPS (adj.)	**0,23**	**-0,05**	**0,17**	**0,18**	**0,03**	**0,21**	**0,00**	**-0,07**	**-0,07**	**0,20**	**0,26**	**0,37**
EPS (rep.)	**0,23**	**-0,10**	**0,13**	**0,17**	**-0,07**	**0,09**	**-0,13**	**-0,10**	**-0,22**	**0,15**	**0,26**	**0,37**

Key figures	H1'18	H2'18	2018	H1'19	H2'19	2019	H1'20	H2'20e	2020e	2021e	2022e	2023e
Revenue growth-%			3,6 %	-0,9 %	11,9 %	5,0 %	-17,1 %	-8,9 %	-13,1 %	4,1 %	4,1 %	4,1 %
Adjusted EBIT growth-%	33,3 %	2043 %	45,6 %	-20,9 %	292 %	7,2 %	-65,1 %	-77,0 %	-69,0 %	161,6 %	22,1 %	37,1 %
EBITDA-%	13,0 %	3,3 %	8,5 %	12,5 %	6,2 %	9,4 %	5,8 %	5,4 %	5,6 %	10,0 %	11,8 %	13,9 %
Adjusted EBIT-%	10,7 %	1,3 %	6,4 %	8,5 %	4,4 %	6,5 %	3,6 %	1,1 %	2,3 %	5,8 %	6,8 %	9,0 %
Net earnings-%	6,2 %	-3,3 %	1,8 %	4,5 %	-2,1 %	1,3 %	-4,2 %	-3,1 %	-3,6 %	2,3 %	3,8 %	5,3 %

Source: Inderes

Balance sheet

Assets	2018	2019	2020e	2021e	2022e
Non-current assets	**110**	**133**	**132**	**133**	**134**
Goodwill	47,9	49,1	49,1	49,1	49,1
Intangible assets	26,6	26,4	26,3	26,1	26,0
Tangible assets	29,5	40,2	39,3	40,9	42,0
Associated companies	0,0	4,4	4,4	4,4	4,4
Other investments	0,0	7,8	7,8	7,8	7,8
Other non-current assets	0,0	0,2	0,2	0,2	0,2
Deferred tax assets	5,8	4,6	4,6	4,6	4,6
Current assets	**167**	**157**	**136**	**139**	**142**
Inventories	99,1	92,6	79,0	79,7	80,4
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	54,8	51,8	45,0	46,9	48,8
Cash and equivalents	13,4	12,3	12,0	12,5	13,0
Balance sheet total	**277**	**289**	**268**	**272**	**276**

Source: Inderes

Liabilities & equity	2018	2019	2020e	2021e	2022e
Equity	**147**	**152**	**143**	**149**	**155**
Share capital	3,6	3,6	3,6	3,6	3,6
Retained earnings	97,0	102	93,2	99,1	105
Hybrid bonds	25,0	25,0	25,0	25,0	25,0
Revaluation reserve	0,0	0,0	0,0	0,0	0,0
Other equity	16,4	16,4	16,4	16,4	16,4
Minorities	5,1	4,6	5,0	5,0	5,0
Non-current liabilities	**18,2**	**63,5**	**59,9**	**58,4**	**56,5**
Deferred tax liabilities	0,0	0,0	0,0	0,0	0,0
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	10,1	55,0	46,4	44,9	43,0
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	8,1	8,5	13,5	13,5	13,5
Current liabilities	**112**	**74,4**	**64,6**	**64,8**	**64,7**
Short term debt	73,7	39,7	33,5	32,4	31,0
Payables	38,1	34,7	31,1	32,4	33,7
Other current liabilities	0,0	0,0	0,0	0,0	0,0
Balance sheet total	**277**	**289**	**268**	**272**	**276**

Valuation

Earnings-based multiples are declining rapidly

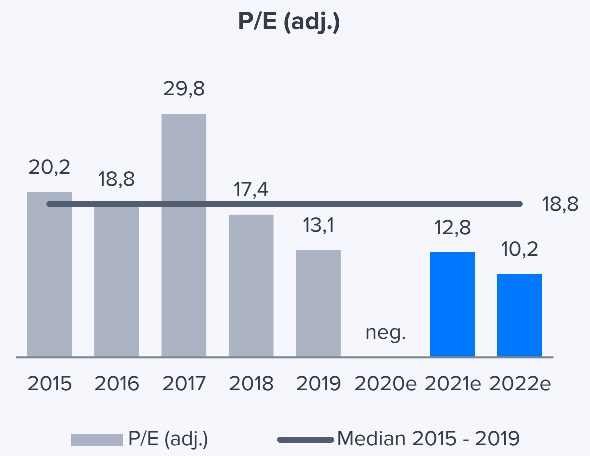
Rapala's profit performance will be substantially weaker than normal this year due to the COVID-19 pandemic having caused shutdowns at Rapala's North American warehouses and many of its customer retailers globally. The 2020e P/E ratio will fall into negative territory due to net earnings showing a loss. With the EV/EBITDA being simultaneously high at 14x, these multiples do not provide support for the share. As Rapala's profit performance normalises, our 2021e forecasts of P/E 13x and EV/EBITDA 7x indicate a quick return to very reasonable territory, although our predicted profitability (adjusted EBIT margin 5.8%) is still rather modest. At the 2022e multiples, the share price is cheap (P/E 10x), but reaching that far at this stage is not sensible due to the uncertainty involved in the improvement of Rapala's profitability. Investors should note that our forecasts for the next few years are still far from our estimate of Rapala's full potential (adjusted EBIT margin 15–20%). Relative to Rapala's peers, the earnings-based multiples for 2021 represent a discount of 30–40%.

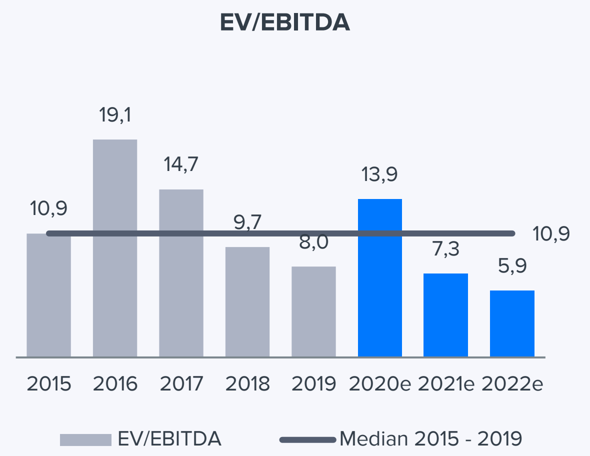
Historical valuation

The historical valuation accepted by the market for Rapala based on its actual profits in 2015–2019 were a P/E ratio of 19x and an EV/EBITDA multiple of 11x. Market confidence in Rapala has gradually declined and the accepted valuation multiples have followed suit. Calculated using the adjusted 2019 earnings and the current share price, Rapala's P/E ratio is only 12x and EV/EBITDA 7.4x. However, when assessing the historical multiples, it should be noted that Shimano's products were still part of the Group's distribution portfolio in Europe at the time. For Rapala to return to its historical valuation levels, it is essential for the execution of its strategy to be reflected on the bottom line. If Rapala's profit performance improves in line with our forecasts, we expect the share to find support from higher multiples and higher earnings.

DCF valuation

Our DCF model (p. 36) puts the value of the share at EUR 3.0 (previously EUR 2.6), indicating upside if earnings improve in line with our conservative forecasts. Rapala's revenue will rise to MEUR 270 by 2023 once the negative impacts of the COVID-19 pandemic and the termination of the Shimano deal are a thing of the past (cf. 2019: revenue MEUR 275). We expect annual sales growth to level off to 2.0% thereafter. At the same time, the EBIT margin will gradually rise from -0.2% in 2020 to 9.0% of revenue in 2023, amounting to 8.5% in the terminal period. In this model, the terminal period's weight of cash flow is neutral at 55%. The terminal period's weight in the cash flow model remains moderate due to the relatively high level of capital costs we have used and also in part due to our conservative expectations regarding the improvement of Rapala's profit performance.We have lowered the cost of equity we use for Rapala to 10.3% (previously 10.7%), which leads to the weighted average cost of capital (WACC) being lower at 8.6% (previously 8.9%). This change is attributable to a slight increase in our confidence in the successful execution of Rapala's strategy (which reduces the risk level) now that the new CEO has accelerated the organisation's process of change. The cost of equity we use is nevertheless still much higher than what is generally used for defensive consumer brand companies when low interest rates are expected.





Source: Inderes

Valuation

Low EV/S and P/B indicate latent potential

Rapala's revenue-based valuation 2020e EV/S 0.8x represents a low level, in absolute terms, for a defensive consumer brand company. Relative to Rapala's peers, the difference is -50%, which is explained by the Group's profitability being substantially lower than its peers in the past few years. We do not see obstacles to Rapala's EV/S multiple rising to the level of its peers if the execution of its strategy and its current cost saving programmes produce an improvement in profitability.

Rapala's P/B multiple of 0.8x (adjusted for the hybrid bond and non-controlling interest) is also low, which underscores Rapala's high potential if the strategy produces the desired improvement in return on equity. Dividend payouts in the coming years also depend on the success of the turnaround in profitability that the strategy aims to achieve. With dividends being temporarily at zero, they do not provide support for the share.

Recommendation and target price

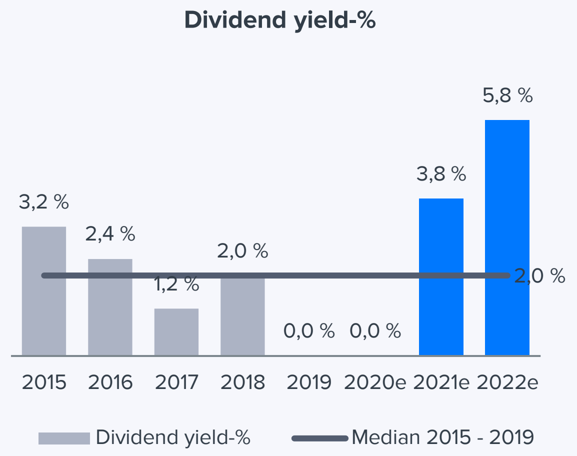
We increase our target price for Rapala to EUR 2.8 (previously EUR 2.6) and change our recommendation to Accumulate (previously Reduce). Our investor perspective is that the return/risk ratio of Rapala's share is slightly positive at the current price. However, the expected returns are highly dependent on the success of Rapala's strategy execution. With this in mind, we have outlined three possible scenarios.

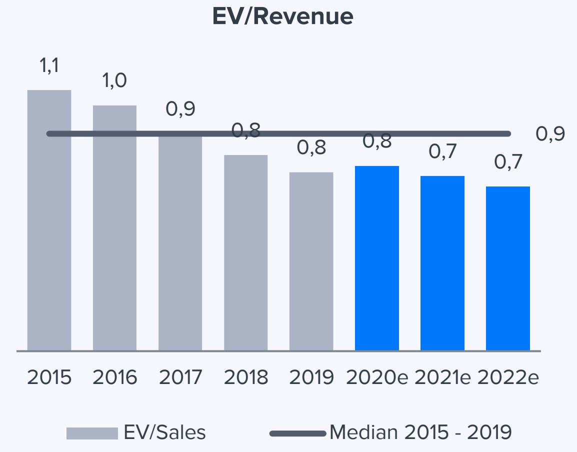
1) If the execution of Rapala's strategy is successful and the company's profitability starts to recover (EBIT over 10%), we see substantial upside in the share and it is possible that its value would grow many-fold. However, the probability of this scenario is reduced by Rapala's prolonged underperformance. Still, we believe the likelihood of this scenario has increased slightly under the new CEO, as the execution of Rapala's strategy appears to have accelerated substantially. One positive option for shareholders is also the possibility of a tender offer for Rapala, which could allow shareholders to benefit from the value of Rapala's brands faster. The probability of this scenario is still low, but we expect it to increase if the restructuring programme continues as planned.

2) If the progress of Rapala's change remains slow, we believe the share's downside to be limited at the current price. In this scenario, Rapala should be in a position to improve its EBIT after the impact of COVID-19 to a modest level of 5% (2018–2019: adjusted EBIT averaged 6.5%). In our view, the current valuation does not expect much better from Rapala and, in this sense, the bar set by the market is not high.

3) For the share price to decline substantially from the current level, Rapala would need to become mired in crisis. The probability of this is low, as Rapala made it through the first wave of COVID-19 shutdowns unscathed and its cash flow remained positive by a clear margin. The demand for Rapala's products has remained good – and even increased – thereafter. Barring new significant shutdowns, Rapala should not experience a repeat of the difficult circumstances of the spring.

The drivers of Rapala's shareholder return are illustrated in the chart on the following page.





Source: Inderes

Drivers of Rapala's shareholder return 2020–2023e

Positive driver

Neutral

Negative driver

Progress with the start-up of 13 Fishing rod and reel sales and Rapala's own distribution operations in Central Europe

Profit growth is driven particularly by the MEUR 10 cost saving programme

COVID-19 shutdowns and the termination of the Shimano distribution deal will dampen profit performance in 2020–2021

Profit growth 2019–2023e

~15%
per year

Dividend payouts in the coming years depend on the success of the turnaround in profitability which the strategy aims to achieve

Net debt/EBITDA is high in spite of the favourable development of inventory levels

Resources are needed for the continued implementation of strategic projects, which will keep dividends at zero

Dividend yield

~3%
per year
(2020e dividends are still at zero)

At the current level of profits, Rapala's valuation is low for a consumer brand company (2019 adj. P/E 13x)

At the 2020 forecasts, the valuation would be clearly above the peer group

The past few years' weak profit performance and the many challenges in Rapala's businesses have reduced investor confidence and the accepted valuation

Valuation multiples

The 2019 multiples have upside if profitability improves

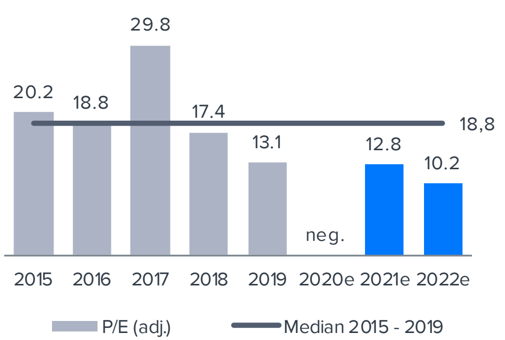
In our view, the risk-adjusted total shareholder return will turn positive

Valuation table

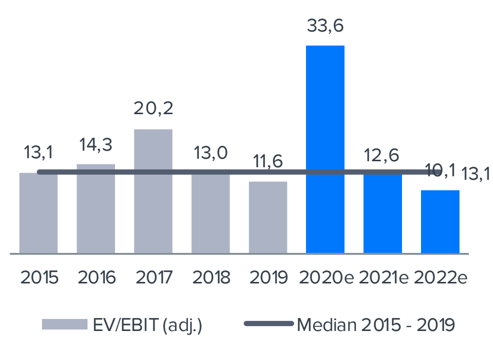
Valuation	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Share price	4,74	4,21	3,45	3,05	2,77	**2,60**	**2,60**	**2,60**	**2,60**
Number of shares, millions	38,4	38,3	38,3	38,3	38,3	**38,6**	**38,6**	**38,6**	**38,6**
Market cap	182	161	132	117	106	**100**	**100**	**100**	**100**
EV	305	269	232	216	207	**187**	**183**	**179**	**173**
P/E (adj.)	20,2	18,8	29,8	17,4	13,1	**neg.**	**12,8**	**10,2**	**7,0**
P/E	27,1	neg.	71,9	24,3	29,6	**neg.**	**17,2**	**10,2**	**7,0**
P/FCF	91,9	5,5	4,9	neg.	11,4	**5,8**	**23,2**	**12,1**	**7,7**
P/B	1,4	1,3	1,0	0,8	0,7	**0,7**	**0,7**	**0,7**	**0,6**
P/S	0,7	0,6	0,5	0,4	0,4	**0,4**	**0,4**	**0,4**	**0,4**
EV/Sales	1,1	1,0	0,9	0,8	0,8	**0,8**	**0,7**	**0,7**	**0,6**
EV/EBITDA	10,9	19,1	14,7	9,7	8,0	**13,9**	**7,3**	**5,9**	**4,6**
EV/EBIT (adj.)	13,1	14,3	20,2	13,0	11,6	**33,6**	**12,6**	**10,1**	**7,1**
Payout ratio (%)	85,9 %	neg.	83,3 %	47,9 %	0,0 %	**0,0 %**	**66,2 %**	**58,6 %**	**48,2 %**
Dividend yield-%	3,2 %	2,4 %	1,2 %	2,0 %	0,0 %	**0,0 %**	**3,8 %**	**5,8 %**	**6,9 %**

Source: Inderes

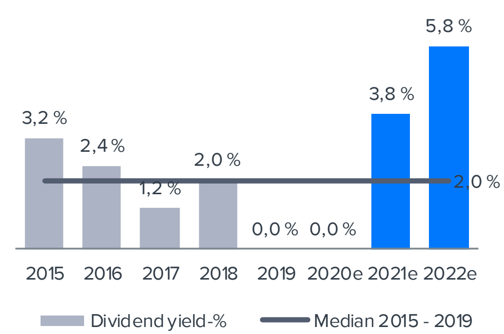
P/E (adj.)



EV/EBIT



Dividend yield-%



Peer group valuations

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/Liikevaihto		P/E		Dividend yield-%		P/B
Company		**MEUR**	**MEUR**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**	**2021e**	**2020e**
Globeride Inc	3095,00	300	500			10,2	9,6	0,7		18,1	17,8	2,1	2,1	1,5
Shimano Inc	20720,00	15520	13344		25,4	19,4	16,5	4,7	4,0	34,3	32,7	0,8	0,8	3,6
Fiskars Oyj Abp	11,60	952	1244	15,5	15,2	9,3	9,0	1,1	1,0	16,3	13,8	4,3	4,7	1,3
Fenix Outdoor International AG	1000,00	1047	1111	21,2	11,6	11,4	7,8	2,0	1,0	31,8	17,1	1,2	1,3	3,6
Johnson Outdoors Inc	82,20	705	550					1,2	1,0	17,3	14,8			
Deckers Outdoor Corp	233,80	5261	4723	17,0	17,0	15,2	14,6	2,6	2,0	24,0	23,4			5,5
Callaway Golf Co	19,30	1538	1990	31,0	16,1	17,8	11,8	1,6	1,0	42,4	20,8	0,1	0,1	
361 Degrees International Ltd	1,00	225								4,6	4,1	8,2	10,7	0,3
Columbia Sportswear Co	88,20	4910	4506	32,4	15,7	18,7	12,2	2,1	1,0	45,0	21,4	0,3	1,0	3,1
Mizuno Corp	1896,00	407	442			4,6	17,0	0,3			644,0	2,6	2,6	0,5
Yonex Co Ltd	629,00	476	424			12,5	50,9	0,8	1,0	29,0		0,8	0,6	1,4
MIPS AB	399,80	998	980	74,8	45,6	69,3	43,4	30,2	20,0	95,4	58,6	0,8	0,9	28,4
Rapala VMC (Inderes)	**2,60**	**100**	**187**	**33,6**	**12,6**	**13,9**	**7,3**	**0,8**	**0,7**	**-37,7**	**12,8**	**0,0**	**3,8**	**0,7**
Average				**32,0**	**20,9**	**18,8**	**19,3**	**4,3**	**3,6**	**32,6**	**79,0**	**2,1**	**2,5**	**4,9**
Median				**26,1**	**16,1**	**13,9**	**13,4**	**1,6**	**1,0**	**29,0**	**20,8**	**1,0**	**1,2**	**2,3**
Diff-% to median				***29 %***	***-22 %***	***0 %***	***-45 %***	***-51 %***	***-26 %***	***-230 %***	***-38 %***	***-100 %***	***229 %***	***-69 %***

Source: Thomson Reuters / Inderes

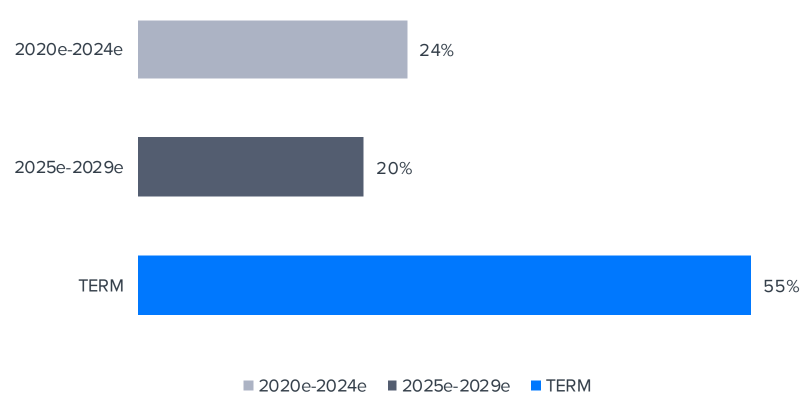
DCF

DCF	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	TERM
EBIT (operating profit)	**13,4**	**-0,4**	**12,5**	**17,7**	**24,3**	**23,4**	**23,9**	**24,4**	**24,9**	**25,3**	**25,9**	
+ Depreciation	12,6	13,9	12,4	12,9	13,2	13,5	13,6	13,7	13,8	13,9	14,0	
- Paid taxes	-4,6	-2,6	-3,3	-5,0	-7,2	-6,0	-6,1	-6,3	-6,5	-6,7	-6,9	
- Tax, financial expenses	-1,1	-1,2	-0,9	-0,9	-0,8	-0,6	-0,6	-0,5	-0,5	-0,4	-0,4	
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Change in working capital	6,1	16,8	-1,3	-1,3	-1,3	-1,9	-2,0	-2,0	-2,1	-2,1	-2,1	
Operating cash flow	**26,4**	**26,5**	**19,5**	**23,5**	**28,3**	**28,4**	**28,8**	**29,3**	**29,7**	**30,0**	**30,5**	
+ Change in other long-term liabilities	0,4	5,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-32,3	-12,9	-13,9	-13,9	-13,9	-13,9	-13,9	-13,9	-13,9	-14,3	-14,3	
Free operating cash flow	**-5,5**	**18,6**	**5,6**	**9,6**	**14,4**	**14,5**	**14,9**	**15,4**	**15,8**	**15,7**	**16,1**	
+/- Other	14,8	-1,3	-1,3	-1,3	-1,3	-1,3	-1,3	-1,3	-1,3	-1,3	-1,3	
FCFF	9,3	17,3	4,3	8,3	13,0	13,2	13,6	14,0	14,4	14,4	14,8	229
Discounted FCFF		**17,0**	**3,9**	**6,9**	**10,0**	**9,3**	**8,9**	**8,4**	**8,0**	**7,3**	**6,9**	**107**
Sum of FCFF present value		194	177	173	166	156	147	138	129	121	114	107
Enterprise value DCF		**194**										
- Interesting bearing debt		-94,7										
+ Cash and cash equivalents		12,3										
-Minorities		-3,6										
-Dividend/capital return		0,0										
Equity value DCF		**118**										
Equity value DCF per share		**3,0**										

Wacc	
Tax-% (WACC)	30,0 %
Target debt ratio (D/(D+E)	25,0 %
Cost of debt	5,0 %
Equity Beta	1,10
Market risk premium	4,80 %
Liquidity premium	3,00 %
Risk free interest rate	2,0 %
Cost of equity	**10,3 %**
Weighted average cost of capital (WACC)	**8,6 %**

Source: Inderes

Cash flow distribution



Summary

Income statement	2017	2018	2019	2020e	2021e
Revenue	253,3	262,4	275,4	**239,3**	**249,1**
EBITDA	15,7	22,4	26,0	**13,5**	**25,0**
EBIT	8,9	14,8	13,4	**-0,4**	**12,5**
PTP	5,6	12,7	9,8	**-4,3**	**10,4**
Net Income	1,8	4,8	3,6	**-8,7**	**5,8**
Extraordinary items	-2,6	-1,9	-4,5	**-6,0**	**-2,0**

Balance sheet	2017	2018	2019	2020e	2021e
Balance sheet total	265,7	277,1	289,4	**267,7**	**272,2**
Equity capital	142,8	147,1	151,5	**143,2**	**149,1**
Goodwill	47,9	47,9	49,1	**49,1**	**49,1**
Net debt	92,8	95,4	107,4	**92,8**	**89,8**

Cash flow	2017	2018	2019	2020e	2021e
EBITDA	15,7	22,4	26,0	**13,5**	**25,0**
Change in working capital	14,5	-9,1	6,1	**16,8**	**-1,3**
Operating cash flow	26,0	6,3	26,4	**26,5**	**19,5**
CAPEX	3,4	-4,0	-32,3	**-12,9**	**-13,9**
Free cash flow	27,1	-0,3	9,3	**17,3**	**4,3**

Largest shareholders	% of shares
Viellard Migeon & Cic	38,4 %
Sofina S.A	19,2 %
Nordea Nordic Small Cap	12,3 %
Valtion Eläkerahasto	3,3 %
Shimano	2,3 %

Per share data	2017	2018	2019	2020e	2021e
EPS (reported)	0,05	0,13	0,09	**-0,22**	**0,15**
EPS (adj.)	0,12	0,17	0,21	**-0,07**	**0,20**
OCF / share	0,68	0,16	0,69	**0,69**	**0,51**
FCF / share	0,71	-0,01	0,24	**0,45**	**0,11**
Book value / share	3,55	3,71	3,84	**3,59**	**3,74**
Dividend / share	0,04	0,06	0,00	**0,00**	**0,10**

Growth and profitability	2017	2018	2019	2020e	2021e
Revenue growth-%	-3 %	4 %	5 %	**-13 %**	**4 %**
EBITDA growth-%	12 %	42 %	16 %	**-48 %**	**86 %**
EBIT (adj.) growth-%	-39 %	46 %	7 %	**-69 %**	**162 %**
EPS (adj.) growth-%	-48 %	51 %	21 %	**-133 %**	**-394 %**
EBITDA-%	6,2 %	8,5 %	9,4 %	**5,6 %**	**10,0 %**
EBIT (adj.)-%	4,5 %	6,4 %	6,5 %	**2,3 %**	**5,8 %**
EBIT-%	3,5 %	5,6 %	4,9 %	**-0,2 %**	**5,0 %**
ROE-%	1,4 %	3,5 %	2,5 %	**-6,1 %**	**4,1 %**
ROI-%	3,7 %	6,6 %	5,7 %	**-0,1 %**	**5,9 %**
Equity ratio	53,8 %	53,1 %	52,3 %	**53,5 %**	**54,8 %**
Gearing	47,5 %	47,9 %	54,4 %	**47,4 %**	**43,5 %**

Valuation multiples	2017	2018	2019	2020e	2021e
EV/S	0,9	0,8	0,8	**0,8**	**0,7**
EV/EBITDA (adj.)	14,7	9,7	8,0	**13,9**	**7,3**
EV/EBIT (adj.)	20,2	13,0	11,6	**33,6**	**12,6**
P/E (adj.)	29,8	17,4	13,1	**neg.**	**12,8**
P/B	1,0	0,8	0,7	**0,7**	**0,7**
Dividend-%	1,2 %	2,0 %	0,0 %	**0,0 %**	**3,8 %**

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Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

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

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Recommendation history (>12 months)

Date	Recommendation	Target	Share price
16/5/2016	Reduce	€4.30	€4.20
25/7/2016	Reduce	€4.30	€4.25
31/10/2016	Reduce	€4.30	€4.29
23/1/2017	Accumulate	€4.70	€4.21
17/2/2017	Accumulate	€4.90	€4.45
29/4/2017	Accumulate	€4.70	€4.19
22/5/2017	Reduce	€4.20	€4.00
23/7/2017	Reduce	€4.20	€4.07
30/10/2017	Reduce	€4.20	€3.92
18/12/2017	Reduce	€3.60	€3.45
19/2/2018	Reduce	€3.10	€3.20
6/5/2018	Reduce	€3.50	€3.44
23/7/2018	Accumulate	€4.00	€3.70
10/9/2018	Accumulate	€4.00	€3.50
14/1/2019	Accumulate	€3.80	€3.33
17/2/2019	Reduce	€3.30	€3.21
23/4/2019	Accumulate	€3.30	€3.05
21/7/2019	Reduce	€3.10	€3.15
9/1/2020	Reduce	€2.90	€2.73
27/1/2020	Accumulate	€3.10	€2.86
13/2/2020	Accumulate	€3.10	€2.94
18/3/2020	Reduce	€2.30	€2.38
26/5/2020	Reduce	€2.40	€2.60
10/6/2020	Reduce	€2.60	€2.67
20/7/2020	Reduce	€2.60	€2.80
2/10/2020	Accumulate	€2.80	€2.60

Analysis belongs to everyone.