CapMan

Company update

12/2017

inderes.

All eyes on the management business

We maintain our Accumulate recommendation with 1.85 EUR target price for CapMan. Company is progressing well with its updated strategy and we see that the current strategy is moving company closer to its full potential. Due to the strong rally in share price the valuation is fairly neutral (P/B 1.9x) and the future upside relies heavily on the success of the new strategy. If CapMan is able to turn its management business clearly profitable, it would support the acceptable valuation through a lower risk profile. Strong and fairly low risk dividend yield (6.3 %) together with the upside potential in the management business is enough to justify the positive recommendation.

Strategy guides company in the right direction

CapMan has clearly accelerated its strategy execution during the last 12 months. Under the new strategy CapMan has become much more agile and its ability to tailor products based on the market situation or customer demand has increased notably. As a result CapMan has expanded into a new investment areas (Infra and Growth Equity) and it has already launched several new products. The main goal of the strategy is to turn CapMan back on growth and other cornerstones are profitability of the management business and more active usage of own balance sheet. Overall we believe that the strategy is guiding CapMan in the right direction and that CapMan is currently taking the right steps in order to unlock the potential of its management business.

2018 will be a gap year, growth will accelerate in 2019

2017 will be an excellent year for CapMan due to the exceptionally high investment returns. We expect CapMan's profit to dip temporary in 2018 due to the lower investment income and declining fees in older funds. The new growth initiatives are able to compensate most of this and we expect topline growth to accelerate in 2019 through the growth initiatives. If company is able to maintain its cost discipline, the growth should be very profitable and the profitability of the management business should improve notably. The successful turnaround in the management business would have a clear positive impact on the accepted valuation of the company as the earnings would become more predictable. Due to the strong balance sheet CapMan is able to raise its dividend annually and the risk relating to the dividend is low.

Upside relies on the management business

To determine the fair value of CapMan we have used several valuation methods (DCF, AUM, sum of parts and domestic peers). Overall the weighted average of our valuation is 1.86 euros per share which is also the base for our target price of 1.85 euros. Overall we see the current valuation fairly neutral and the upside potential relies heavily on the turnaround in the management business. Strong and predictable dividend yield (2017e 6,3 %) and the upside potential of the management business keeps the risk/reward-ratio of the share still positive and thereby we retain our accumulate recommendation.

Analyst

Sauli Vilén
+358 44 025 8908
sauli.vilen@inderes.fi

Recommendation and target price

Accumulate

Previous: Accumulate

1.85 EUR

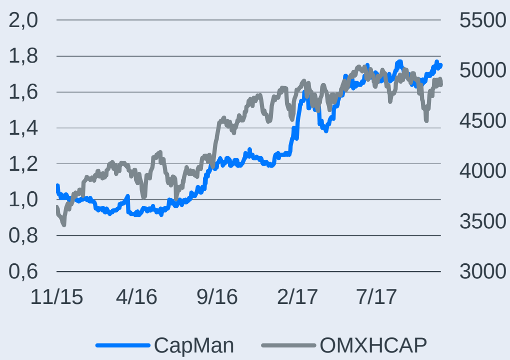
Previous: 1.85 EUR

Share price: 1.76 EUR
Potential: +5 %

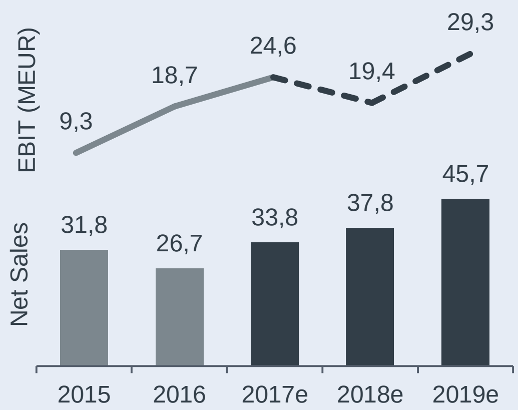
Key Figures

	2016	2017e	2018e
Revenue	26,7	33,8	37,8
Management fees	22,7	21,5	23,1
Carried interest	0,0	3,1	5,1
Services	4,3	5,6	6,5
EBIT	18,7	24,6	19,4
PTP	15,5	21,5	17,8
EPS	0,10	0,13	0,10
Dividend	0,09	0,11	0,12
Payout ratio-%	91,5 %	84,4 %	125,5 %
P/E	12,9	13,5	18,4
EV/EBIT	10,9	11,5	15,0
P/B	1,3	1,9	1,9
Dividend yield-%	7,1 %	6,3 %	6,9 %

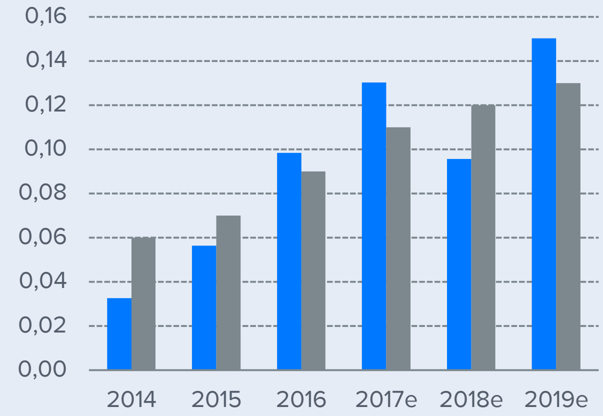
Share price



Dividend yield and EBIT (adj.)



EPS and dividend



P/E (adj.)
13x
2017e

EV/EBITDA
11x
2017e

P/B
1,9x
2017e

Dividend-%
6,3%
2017e

Drivers

- Improving profitability in management business
- New products
- Growth in Services
- Change in investment allocation

Risks

- Management business still at breakeven level
- Discipline in costs when topline starts to grow
- Historically long bull market will not last forever
- Rapid change of the industry

Valuation

- Earnings based valuation at neutral level
- AUM based valuation of management business is low
- Potential relies on the development of the management business
- High and predictable dividend yield

Table of content

Company overview (1/2)

Company description

CapMan is one of the first private equity fund managers in Finland. It was established in 1989. During the past quarter of a century CapMan has grown from a small Finnish private equity fund manager to a major Nordic player in both private equity and real estate fund managing. Currently CapMan has operations in the Nordics and in Russia. At the end of Q3'17 CapMan had roughly 2.7 BEUR capital under management and it employed 112 people. The asset management business is reported in two segments: Private Equity and Real Estate. Services (CaPS and Scala) are both reported in Private Equity segment, but we analyze them separately.

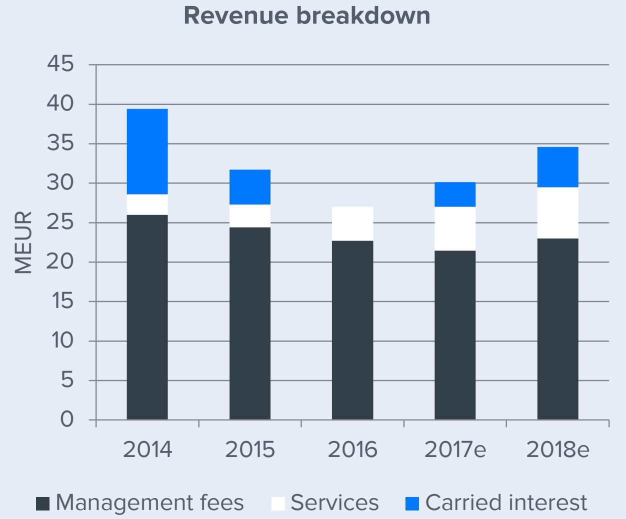
Since the successful acquisition of investment company Norvestia, CapMan has been a major investor itself. CapMan's investment capacity should be approximately 180 MEUR in Q4'17 when we include dividend payment, redemption of Norvestia minority owners and claw back in Real Estate I.

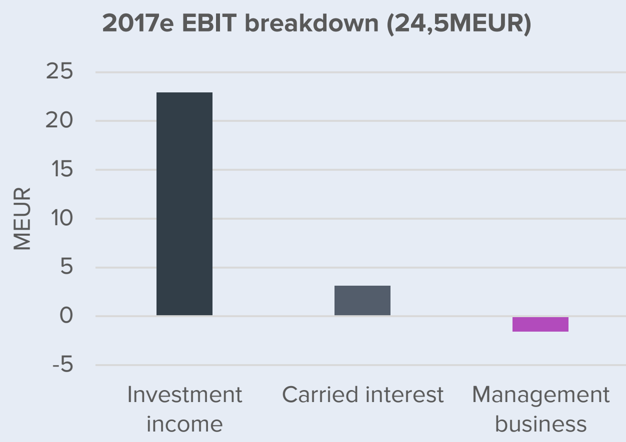
Private equity investment means making direct equity investments in companies and real estate. Investments are made through funds, which raise their capital primarily from institutional investors such as pension funds and foundations. The share of the 10 largest investors is approximately 50 % for the total capital under management of CapMan. One of CapMan's strategic goals is to expand its customer base beyond its typical large institutional customers.

Private equity investors actively develop their portfolio companies and real estate by working closely with the management and tenants. Value creation is based on promoting companies' sustainable growth and strengthening their strategic position. Private equity investment is of a long term nature - investments are held for an average of four to six years and the entire life cycle of a fund is typically around 10 years. Over the long term, private equity funds have generated significantly higher levels of returns compared to other investment classes.

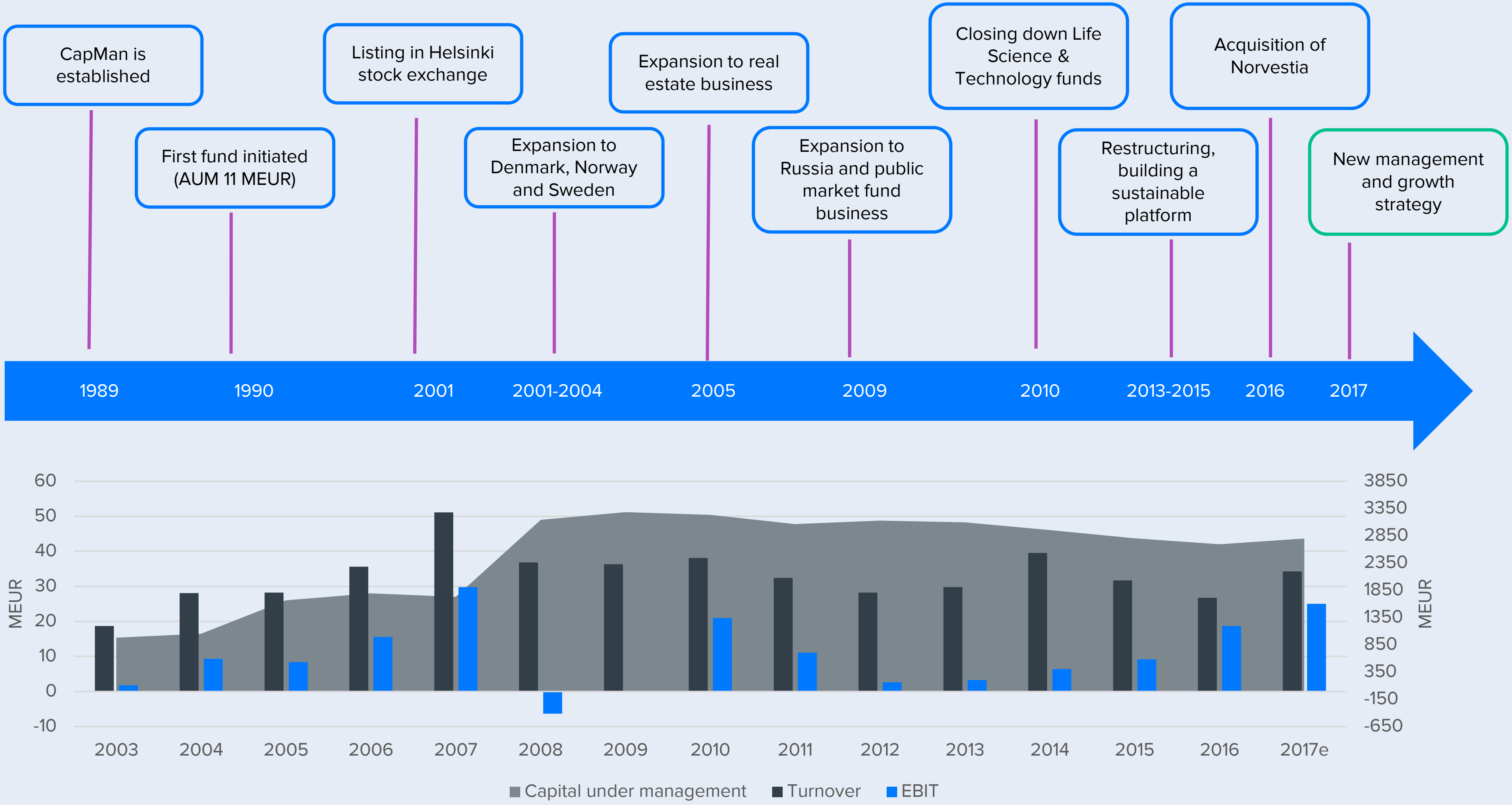
Partnerships

CapMan has six partnership based investment teams: Buyout, Russia, Credit, Real Estate, Infra and Growth equity. All of these investment teams are supported by CapMan's platform, which offers all the necessary support functions for the investment teams. These support functions include services like back office, fundraising, IT and HR. CapMan platform employs some 40 people or roughly 35 % of CapMan's workforce. Each team has a dedicated and autonomous investment team in order to ensure the fast decision making and efficient usage of resources.





CapMan's history



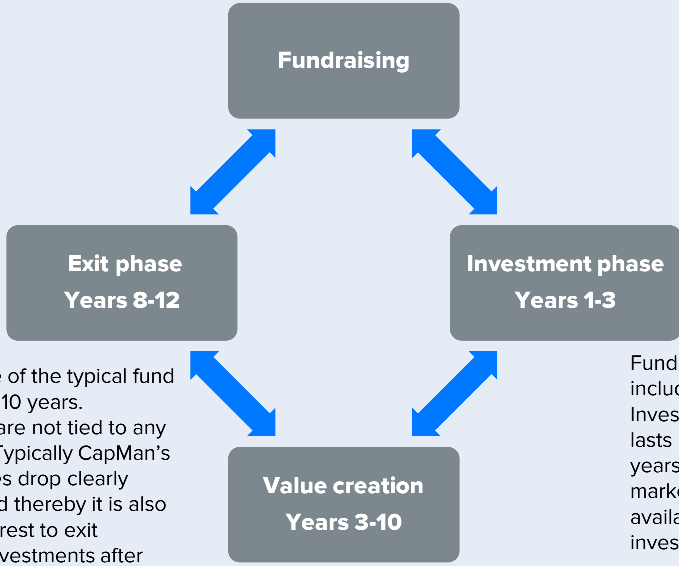
Source: CapMan, Inderes

CapMan’s business model

					Strategic direction
Source of capital	International Investors	Nordic Investors	Local Investors	Own Balance Sheet	*Expand investor base outside tier 1 institutions. Active usage of own balance sheet.*
Products	Open Funds	Closed Funds	Mandates, clubs, etc.	Services	*Expand product offering in order to be more agile and tailor products based on the market situation and investor demand.*
Investing areas & services	Russia	Real Estate	Infra	CaPS	*New investment areas expand CapMan’s product offering. Main focus in value creating private asset solutions. Wider range of investment areas combined with expanded product range significantly improve CapMan’s ability to serve the final investors.*
	Credit	Buyout	Growth Equity	Scala	

Fund raising cycle and carry potential

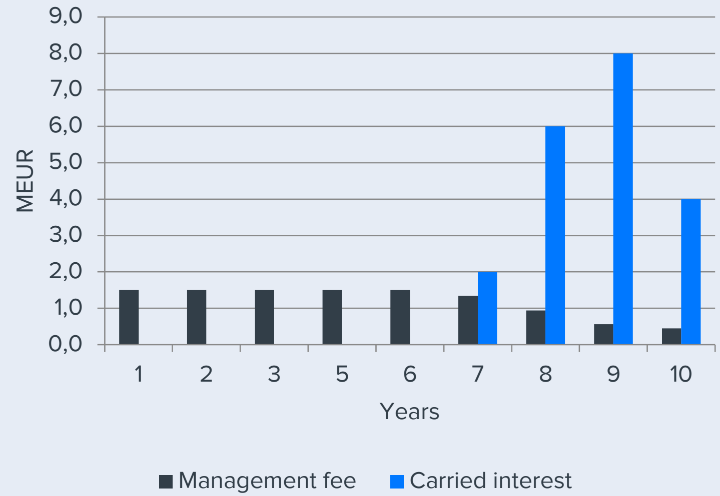
Typical cycle in private equity funds. The cycle differs greatly between product areas.



Targeted lifetime of the typical fund is approximately 10 years. However, funds are not tied to any strict timetable. Typically CapMan's management fees drop clearly after year ten and thereby it is also in CapMan's interest to exit majority of the investments after ten years

Fund investments typically include 10-15 targets. Investment phase typically lasts approximately three years, depending on the market situation and availability of lucrative investment opportunities.

The value creation can be divided in three parts; operational development, usage of leverage and multiple expansion. In rough figures the value creation between these three parts can be divided as following: operational development 50 %, usage of leverage 30 % and multiple expansion 20 %. However, the distribution of these components varies greatly between individual cases.



Assumptions:
Fund size: 100 MEUR
Management fee: 1.5 %
Hurdle rate: 8 %
Fund's IRR: 15 %
CapMan's share of carry: 10 %

Outcome:
Management fees earned: 12.5 MEUR
Carried interest earned: 20 MEUR

As can be seen from the illustrative example, CapMan starts to receive carried interest in year seven and the carried interest earned peaks between years eight and nine, hence the realization of the carry potential takes a lot of time. An other important thing investors should understand is that carried interest is a significant source of income for CapMan. In our illustrative example CapMan would earn some 12.5 MEUR from the management fees during the funds lifetime. The management fees will decline towards the end of fund's lifecycle as exits will shrink the size of the fund. During the same period CapMan would earn some 20 MEUR in carried interest, which is almost twice as much as the total management fees.

Source: Inderes

Investment profile

1. New growth strategy
2. EBIT mix weights towards investment income
3. Management business not profitable
4. Limited risk profile
5. High and growing dividend yield

Potential

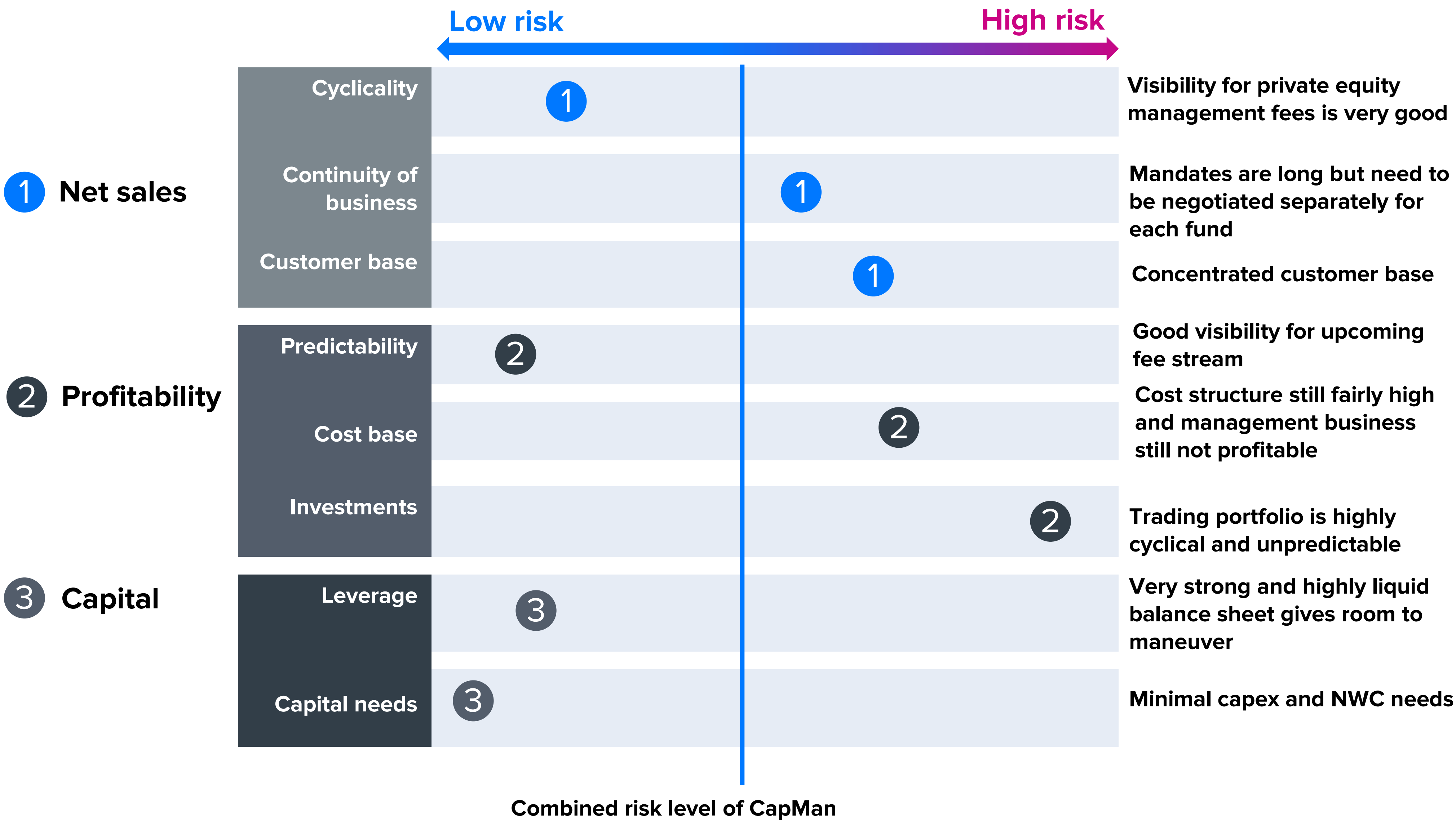
- Growth through new products
- Growth in services
- Cost discipline when topline starts to grow
- Profitability of the management business
- Consolidation of the industry

Risks

- Will cost discipline hold
- Ability to launch new products
- Historically long bull market will not last forever
- CapMan's capability in the digitalization

Source: Inderes

Risk profile



Source: Inderes

Strategy and financial targets (1/2)

Strategy

CapMan's strategy is to combine the strengths of entrepreneurial partnerships and all capabilities within CapMan to provide good return to its investors. In the center of CapMan's strategy are its partnership based investment teams. Through CapMan's platform CapMan's investment teams can fully focus on investment activities as all of the non-core services are taken care through the platform.

After the period of cost cutting and restructuring (2013-2015) CapMan launched new growth strategy in 2016. Strategy has three cornerstones: Growth, profitability and actively managed balance sheet.

With its new strategy CapMan aims to be more agile in its product development and it clearly wants to increase the number of new products launched per year. Also company wants to expand its customer base to smaller institutions. The product offering can be tailored by the investor demand or by the market opportunities which offers much more room to maneuver when compared to traditional private equity fundraising business. Besides the asset management business one of the clear growth area is the Service business, especially CaPS.

Also CapMan clearly aims to boost its profitability in the management business through growth and cost discipline. We believe that main value driver for CapMan during 2018-2019 will be the profitability of the management business. The improved profitability in management business decreases the volatility of CapMan's earnings and increases the accepted multiples of the company.

Final part of the strategy is to achieve high IRR and maintain strong financial flexibility. We believe that CapMan is actively looking for M&A opportunities and CapMan continues to be a major investor in its own funds in the future.

Overall we see CapMan's current strategy guiding the company in the right direction. Boosting profitability of the management business is the key to increase CapMan's value and company is currently taking clear steps towards this. From investors perspective the main things to follow in CapMan are:

- Ability to launch new products
- Cost discipline
- Growth in CaPS
- Ability to allocate own balance sheet capital to private equity

Financial targets

CapMan updated its financial targets in 2016 and it currently has following targets:

- Management and service business growth +10 % p.a.
- Return of equity over 20 % p.a.
- Gearing below 40 %
- Payout ratio of at least 75 %

In order to achieve its **10 % annual growth target** in management business, CapMan would need to raise some 400-500 MEUR of capital annually. Basically this would require a launch of one major product and 2-3 smaller products per year. With the new strategy this target is achievable and we expect CapMan to achieve it from 2018 onwards.

We see the **20 % ROE target** challenging for CapMan. Under the current balance sheet structure. With a current equity (129 MEUR) CapMan would need to earn some 32 MEUR in pre-tax profit in order to reach this target. In order to achieve this target CapMan would need to reach +10 % IRR for its investment portfolio, management business would need to be clearly profitable and decent carried interest should be earned. In upcoming few years we expect IRR to stay below 10 %, but the management business to become clearly profitable through growth. Also carry outlook is decent and we are expecting company to earn carry of 7 MEUR on average through 2018-2020e. This would lead to a ROE of ~16 % which we see as a decent level.

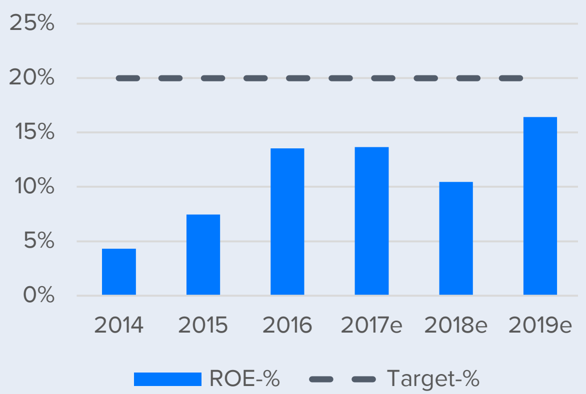
CapMan has stated that its target is to maintain a strong financial position both leverage and liquidity wise. Currently (Q3'17) the gearing stands at 16 % and it provides clear flexibility for CapMan.

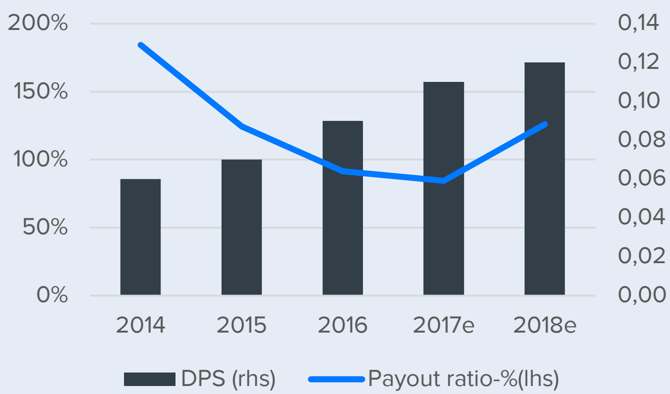
CapMan clearly wants to profile itself as an dividend stock and it aims to **distribute minimum of 75 % of its earnings as dividends**. Dividend has increased each year since 2012 and we believe that CapMan aims to increase its dividend annually, despite the expected fluctuation in its earnings. Due to the strong balance sheet and high amount of liquid assets, CapMan does not have any problems to maintain strong dividend level, even if the market would face a correction which would have a negative impact on CapMan's earnings through investment income.

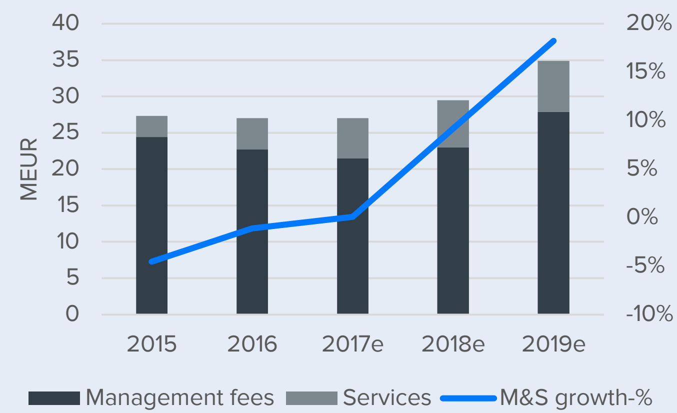
Strategy and financial targets (2/2)

Strategic drivers	Strategic actions	Strategic goals
Growing interest for non-listed investments Increasing regulation Growing asset management market Low yields	• Wider product offering • Expansion to new customer segments • Increase operational efficiency • Capitalize benefits of scale as regulation squeezes smaller players • Focus on value creation in current funds • Allocate own capital to private equity	• Topline back on growth • Improved profitability of the management business • Lower volatility of earnings and better earnings mix • High IRR for own investments

Financial targets







Source: Inderes, CapMan

Industry overview

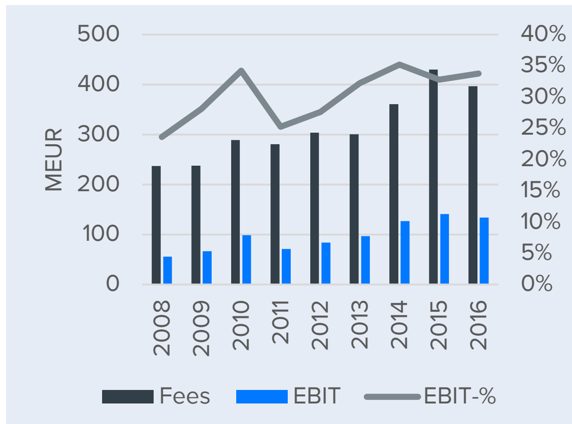
Finnish asset management industry grows

Despite the poor performance of the Finnish economy, the asset management business has been growing steadily since the financial crisis. The main driver for this growth has been the growth in asset prices which have been boosted by central banks. Due to the poor economic growth the accumulation of new wealth in Finland has been low. The whole wealth management market in Finland was some 202 BEUR at the end of 2016.

As the asset prices continue to rise and money will continue its steady flow from bank accounts to investments, we expect the wealth management market to continue to grow some 5 % p.a. during the upcoming years. The growth is supported by the revived economic growth.

Average profitability of the industry is high

As the massive monetary expansion by central banks has been pushing down yields, it has forced bond investors to seek higher yields from equities. This has improved the AUM mix of asset managers and pushed up fee levels. Also the historically long bull market has increased AUM and pushed up success fees. Thereby the overall profitability of the industry has been good in recent years and the average EBIT-% in Finnish investment service industry has been around 30 % after the euro crisis.



Major trends in asset management sector

Increasing regulation pushes up the administrative burden, pushes up costs and increases barriers to entry. Especially for the smaller players the current regulatory environment is difficult due to the relatively large costs.

Investors will demand more. As the visibility and comparability of different financial products increases the quality standards of the products will increase. Investors are either focusing on minimizing the costs or demanding more value for their fees.

New product innovations. New products (i.e. ETF, real asset funds, non-listed investments etc.) will continue to increase their market share through increasing offering and superior risk/return ratio.

Low yields. Low yield environment creates demand for new kind of "hybrid products" which offer decent predictable yields with fairly low risks. Real yield assets are an example of this.

Digitalization. Digitalization offers major cost saving potential on the back-office side. It also creates whole new ways to reach out and serve new customer groups in lower net wealth segments.

The main implications of these changes are:

- Increasing price pressure
- Polarization between high and low quality products
- Wider profitability differences between players
- Growing number of new products
- New more flexible and visible business models

Source: Inderes, FiVa, Bank of Finland

Private Equity 1/2

Core of the business

CapMan has five investment areas under private equity: Buyout, Russia, Infra, Growth Equity and Credit. In total CapMan has 7 active private equity funds and several older funds which are close to the end of their lifecycle. In Q3'17 CapMan had AUM of 1125 MEUR in these funds. Majority of this AUM is in Buyout funds while the other investment areas are clearly smaller. According to our estimates the total fees in Private Equity business (excl. Services) is around 14 MEUR in 2017.

Buyout

Buyout is the original core business of CapMan. In Buyout funds CapMan buys mid-sized Nordic companies, develops them and finally exits then. CapMan currently has three active Buyout funds. Buyout 8 (est. 2006) is in exit phase and will be exited during 2018. Buyout 9 (est. 2010) is moving to the exit phase and we expect it to divest its holdings during 2018-2020. Despite being established during the period of favorable valuations, the fund's performance has been mediocre and we currently don't expect it to generate carry. Buyout 10 (est. 2013) has been performing well and it is already technically in carry despite still being in the investment phase. Buyout 10 should generate major carry for CapMan during 2020-2021.

We expect CapMan to launch its new Buyout fund in H2'18 and due to the strong performance of Buyout 10, the fundraising should not be an issue. We also wouldn't be surprised if CapMan would establish club mandates around individual cases during 2018-2019.

Credit

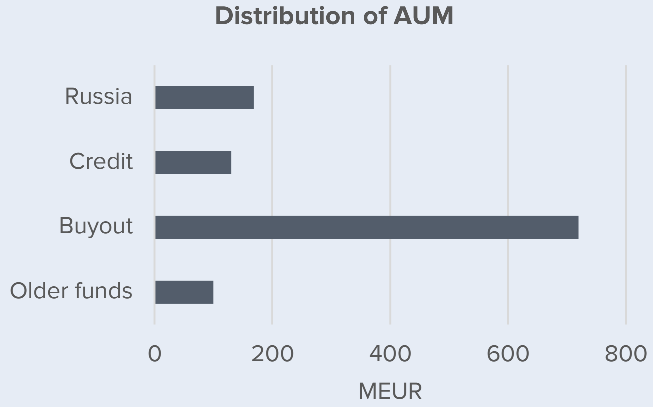
In Credit CapMan currently has two funds. Mezzanine 5 (est. 2010) is already in exit phase and it has performed well. We expect Mezzanine 5 to be fully divested during 2018 and to generate carry for CapMan. Nest Capital (est. 2015) is still in fairly early stage of its investment phase as the current bond market environment makes is difficult to find attractive yields. We expect CapMan to launch its next Credit fund in 2019 once the Nest Capital is fully invested.

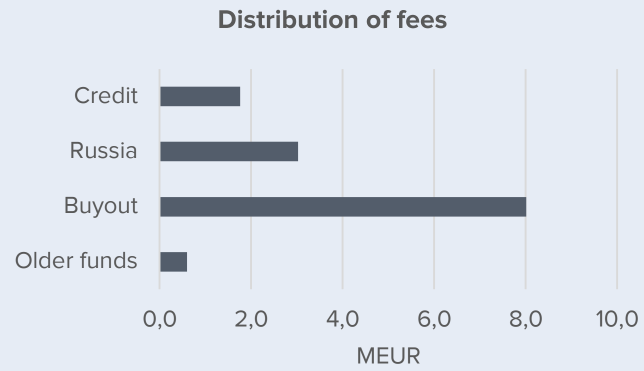
Russia

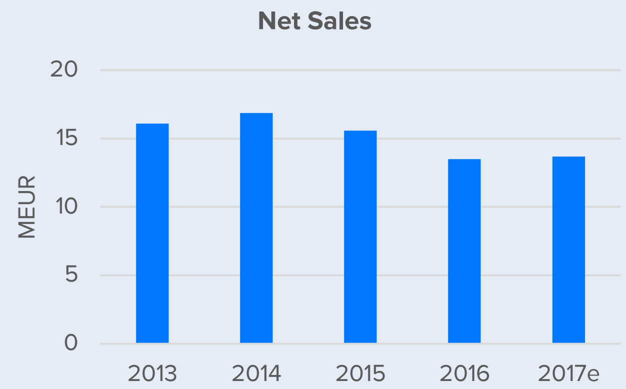
CapMan entered Russia in 2009 through an acquisition and has two Russian funds. Russia I fund (est. 2007) is in exit phase and the newer Russia II fund (est. 2013) is still in investment phase. Both funds are suffering from the poor market situation in Russia and the M&A activity in both funds has been low in recent years. We do not expect CapMan to earn any carry from its Russian funds. Also it will be difficult to launch the next Russia fund if the market conditions won't improve. We see a real possibility for CapMan to withdraw from Russia during the upcoming years. We do not expect any new Russian funds in our estimates and the possible withdrawal wouldn't have negative effect on our estimates.

Infra

Infra was established in 2017 and CapMan currently does not have any funds in it. We expect CapMan to launch its first Infra fund during 2018. The fund will most likely be made as an club deal around an individual investment target (i.e. port, railway, electric grid etc.). The potential size of the business is large due to the large size of the investment targets. In the longer term Infra has potential to become the major business area for CapMan.







Private Equity 2/2

Growth equity

Growth equity is the newest investment area of CapMan. Growth equity is build on the non-listed investments of Norvestia and first Growth Equity fund was launched in December 2017 with AUM of 86 MEUR. CapMan will transform its growth equity investments to the fund and thereby become a major investors for the fund. The target market for Growth equity is lucrative and Norvestia's IRR is excellent (although Norvestia has only made handful of investments in the area). Thereby we expect CapMan to launch second growth equity fund in 2019 once the current fund is fully invested. Overall the growth equity supplements CapMan's overall selection. Over the long term Growth equity gives CapMan more flexibility towards the execution of its strategy and the number of investment cases (mandates, clubs, closed funds etc.) could be significant as the deal flow in this area is wide.

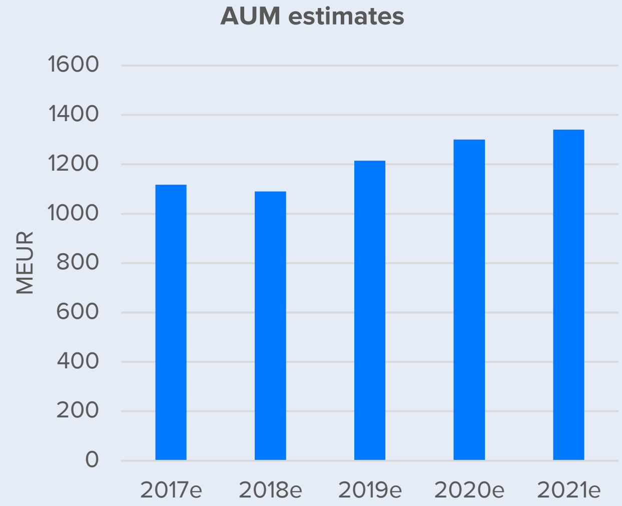
Carry potential

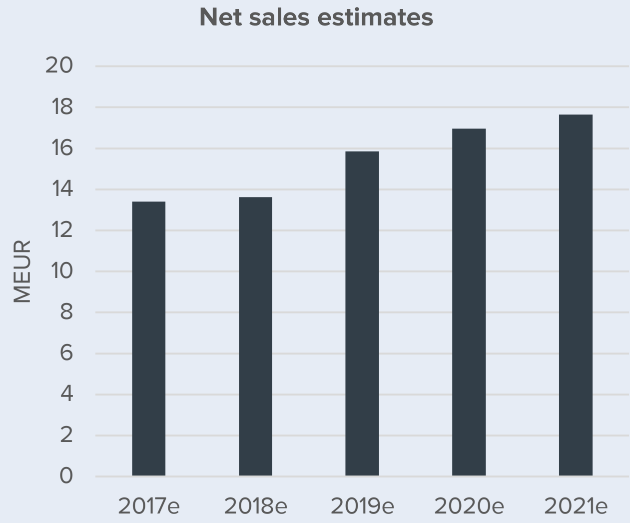
Short term carry outlook in Private Equity is mediocre. In 2018 CapMan should earn decent carry from its older funds (Equity VII, Access) and from Mezzanine V and in total we expect 2018 carry from Private Equity to be some 5 MEUR. We currently do not expect Buyout 9 to reach carry and thereby 2019 we do not expect any carry from Private Equity funds. In 2020 and 2021 CapMan could earn significant carry from Buyout 10. As the fund is still in the investment phase, we are cautious with our estimates and expect total carry of Buyout 10 to be some 10 MEUR dividend 50/50 between 2020-2021.

Future estimates

According to our estimates the net sales of Private equity has come down in recent years as the larger funds have been exited and the capital raised has been fairly limited. Through its new strategy we expect CapMan to increase the number of products launched per year notably and the capital raised should exceed the capital returned to investor by a clear margin. Major growth components are Infra investment area, new Buyout fund and Growth Equity. We also expect CapMan to launch equity fund which invests in listed companies. The fund would be based on the current trading portfolio and CapMan would be a major investor in the fund. This would limit CapMan's exposure for listed market notably which we see as a positive thing, since we do not see the allocation of capital in OMXH from its own balance sheet being as a core function of CapMan.

Overall we expect Private equity to return to growth from 2019 onwards. The 2018 the growth will be flat as the fee generation of several older funds (i.e. Russia I and Buyout 8) will deplete the topline notably. The major thing for investors to follow in private equity is CapMan's ability to launch new products. The new strategy together with new investment areas offers CapMan significantly more agility to create new products based on investor demand. If CapMan is able to execute its strategy successfully, the lead time for new products should decrease notably and CapMan should be able to roll out several new products annually. This would clearly improve the profitability of the management business.





Real Estate (1/2)

Aiming to become a Nordic player

In Real Estate CapMan currently has some 1700 MEUR of capital under management (GAV). Majority of this capital is invested in CapMan's closed funds. We have divided the business in three parts: older funds, new funds and mandates. During the past few years CapMan has expanded its product offering and moved its focus towards the Nordic real estate market.

Older funds

CapMan has three older funds: Real Estate I (2005) & II (2006) and Hotels (2008). RE I and RE II are both in exit phase and they both have only minor amount of capital left. Also neither one are not earning any management fees and neither does not have any carry potential for CapMan. CapMan has booked 7.5 MEUR clawback provision for RE I due to the major carry paid out back in 2006. The 7.5 MEUR has been booked in CapMan's balance sheet and once the fund exits its final targets, CapMan will pay that 7.5 MEUR to RE I investors. The final amount could vary from current estimate of 7.5 MEUR but we do not expect any major deviation as the fund only has few properties left.

With Hotels fund CapMan has made an new agreement with its investors and through the new agreement CapMan will keep earning management fees after the fund reaches its age limit (2018). Also under the new agreement CapMan has carry potential if the exit is successful.

New funds

CapMan has four new funds: Nordic Real Estate I (2013), Kokoelmakeskus (2016), Nordic Real Estate II and Nordic Property Income. Nordic Real Estate I is still in the investment phase, but due to the expectational market situation in the Nordic real estate market, the fund has also made several exits. The track record of the fund is extremely good and the current IRR is around 15-20 % in our estimates. The fund still generates major fees for CapMan and its carry potential is notable.

CapMan finished the fundraising for NRE II during Q3'17 and the size of the fund is 425 MEUR. NRE II will be a major fee generator for CapMan from 2018 onwards due to the healthy management fee and large size. Major worry regarding NRE II is the overheated market situation in the Nordic real estate sector, which makes it hard to find decent returns for fund investors.

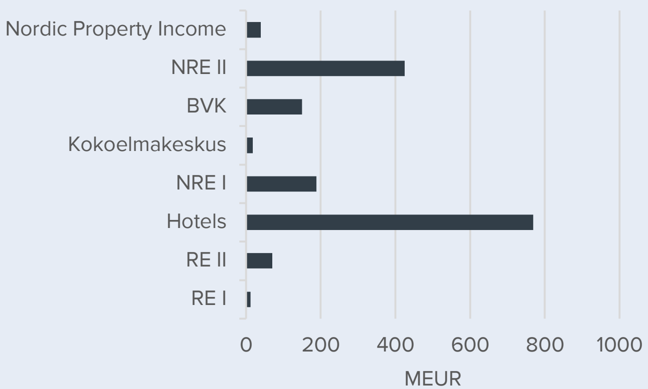
Nordic Property Income is CapMan's first open end fund. The fundraising is still ongoing and CapMan is expecting to kick off the fund with some 50 MEUR AUM during Q4'17. CapMan's goal is to raise AUM to 200 MEUR during the next 24 months. As the fund is targeted toward smaller institutions its management fee level is better than NRE funds.

Kokoelmakeskus is a small fund and its fee generation for CapMan is minor.

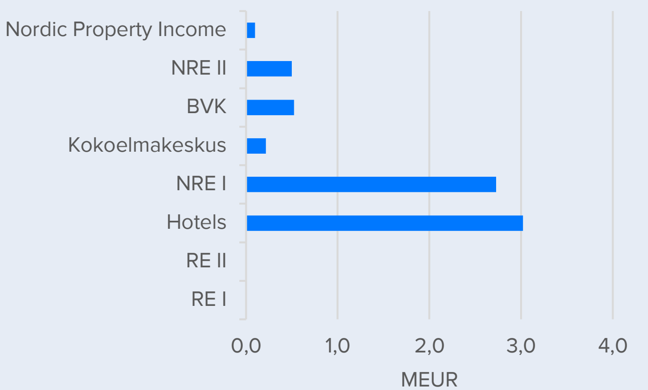
Mandates

CapMan currently has one Real Estate fund advisory mandate from Germany's largest pension scheme group BVK. The mandate was originally 400 MEUR and its was increased to 500 MEUR in 2017. Under the mandate CapMan invests the capital to Nordic real estate markets and receives management fee from this. In Q3'17 some 100 MEUR of this 500 MEUR was deployed. The fee-% is fairly low, but due to the large size of the mandate it will have material impact on CapMan's figures as the capital deployed grows.

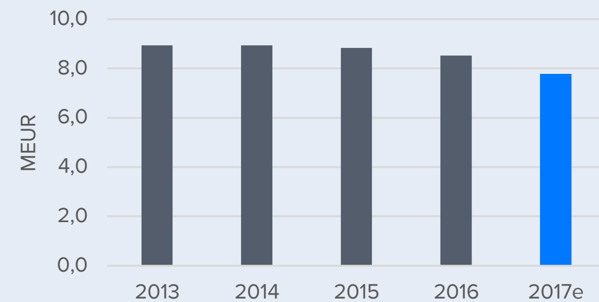
Distribution of GAV in RE (2017e)



Distribution of fees in RE (2017e)



Net sales of Real Estate



Real Estate (2/2)

Carry potential

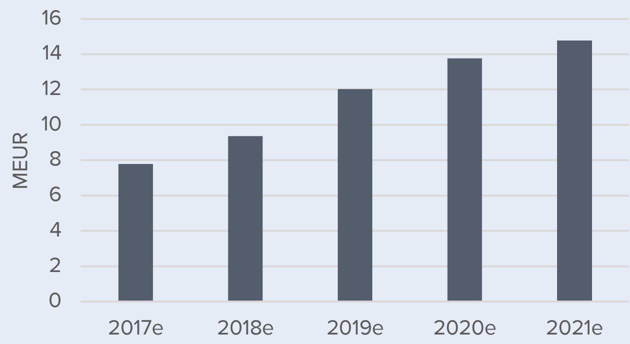
In Real Estate the major carry potential is in NRE I fund. The NRE I's track record has been excellent and it is highly likely that the IRR will exceed its hurdle rate. The potential carry for CapMan is in range of 7-20 MEUR depending on final IRR. We are still fairly cautious with our estimates due to the low visibility and we expect NRE I to earn some 8.8 MEUR carry. We expect NRE I to reach carry in 2019.

Other potential Real Estate fund to earn carry is Hotels. Under the new agreement with fund investors CapMan has clear carry potential if the fund's exit is successful. The Hotels portfolio will be hard to exit due to the its massive size and large market share. The visibility towards the carry potential is very low but in positive scenario it could earn 5-10 MEUR. Thereby we do not include this carry in our estimates and see it more like an option for shareholders.

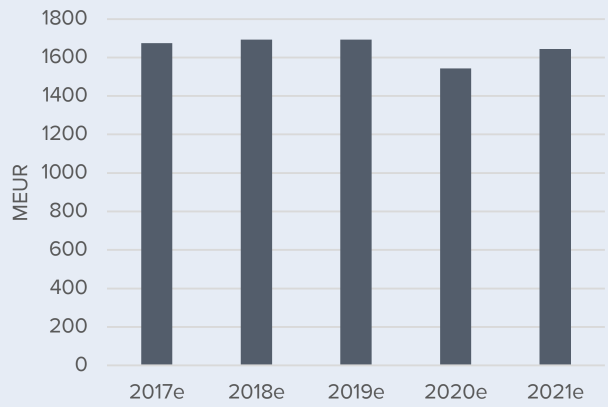
Future estimates

Real Estate's net sales have declined in recent years as the management fees from older funds have come down and CapMan has not been launching new products. In 2018 the topline should clearly pick up as the new products (NRE II, BVK and NPI) will start to generate fees. The AUM will stay flat as the Hotels fund will be exited during the upcoming two years, but the average fee% level will increase as the new products will carry out higher management fee levels than the older ones. We expect BVK's mandate to reach 500 MEUR in 2019 and to expand for 600 MEUR in 2020. NPI will achieve its 200 MEUR target and will continue to grow after that. Overall we expect CapMan to raise some 300 MEUR of new capital per year during 2018-2021e. In order to reach this CapMan should initiate one new product every year from 2019 onwards. This should not be an issue as company's current platform is much more flexible than before and the new products can be tailored based on the market situation and investor appetite.

Net sales of Real Estate 2017-2020e



Capital under management in Real Estate



Summary of the asset management business

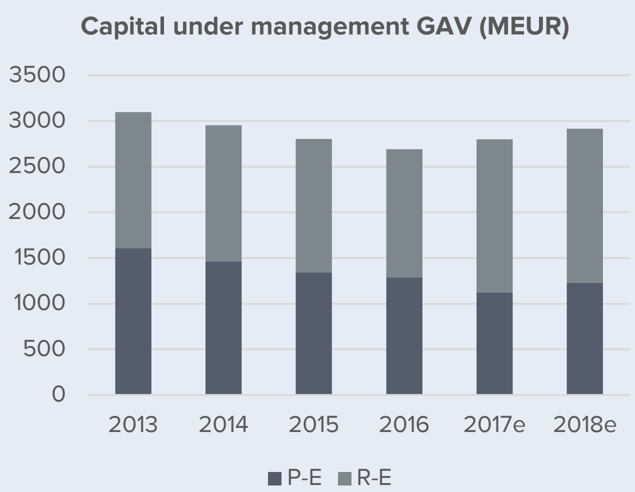
Fund	Est.	Size	AUM	Status	Carry potential
Private Equity					
Older funds	2000-2007	1014	80,5	All funds in exit phase	**Equity 7 already in carry, small carry potential**
Buyout 8	2006	440	200	In exit phase	Unlikely to deliver carry
Buyout 9	2009	295	275	Close to exit phase	Decent change to reach carry. Moderate carry potential
Buyout 10	2013	245	245	Investment phase	**Likely to reach carry, high carry potential**
Mezzanine 5	2010	95	19	Exit phase	**Technically in carry, small carry potential**
Nest Capital	2013	101	101	Investment phase	Remains to be seen
Russia I	2007	99	69	Exit phase	Unlikely to deliver carry
Russia II	2013	118	118	Investment phase	Unlikely to deliver carry
Real Estate					
Real Estate I	2005	500	15,3	Final stages of the exit phase	Clawback risk
Real Estate II	2006	600	90	Final stages of the exit phase	Unlikely to reach carry
Nordic Real Estate	2013	273	147	Close to exit phase	**Likely to reach carry, high carry potential**
Nordic Real Estate II	2017	425	425	Investment phase	Remains to be seen
Hotels	2008	875	863	Exit phase	**Propability of carry is fairly low, but the potential is major**
Kokoelmakeskus	2016	19	19	Exit in 3-5 years	Minor carry potential at best

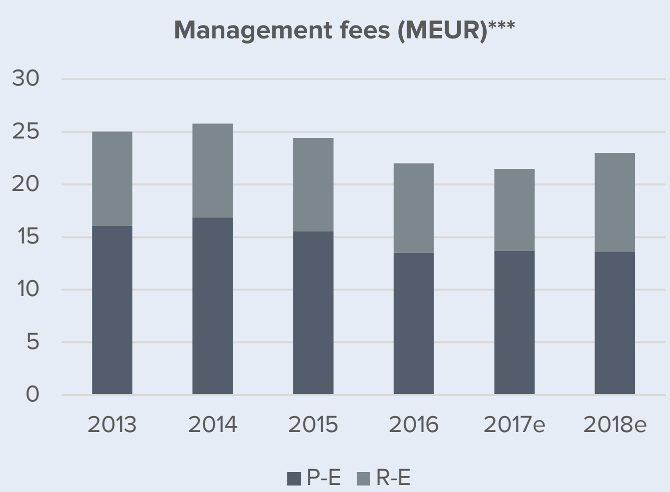
Fund	Est.	Carry	IRR-%
Equity 7	2002	Yes	>12%
Buyout 8	2006	No*	5-7%
Buyout 9	2009	No*	7-10%
Buyout 10	2013	Pending	
Nordic I	2013	Yes*	15-20%
Nordic 2	2017	Pending	
Hotels	2008	Pending	
RE 1	2005	Yes**	15%**
RE 2	2006	No*	0 %
Kokoelmakeskus	2016	Pending	
Nest Capital	2016	Pending	
Mezzanine 5	2010	Yes*	>10%
Mezzanine 4	2004	No	5 %
Mezzanine 3	2000	Yes	>10%
Russia 1	2007	No*	5 %
Russia 2	2013	No*	5 %
Public Market	2008	Yes	>20%
Technology	2007	No*	0 %
Life Science	2006	No*	0 %
Equity Sweden 7	2002	Yes	>12%
Swedestart Life Science	2000	No	<0%
Swedestart Tech	2000	No	<0%

**Inderes estimate, fund not fully exited yet*

***Includes clawback*

IRR estimates by Inderes





Source: Inderes, CapMan
*** Estimates by Inderes. Does not include Services

Services

Growth business

CapMan's Services business offering includes fund advisory services business Scala and CapMan Purchasing Scheme (CaPS). CapMan also provides fund management services but the size of this business is small. The main part of the Service business is CaPS which is a service platform that aims to drive down costs on non-strategic products and services. CaPS was established in 2010 and we estimate that its revenue was around 4.0 MEUR in 2016. CapMan's goal is to grow the business notably in upcoming years and due to the fairly small size of the business we believe that there should be notable potential to grow the business in the future. The profitability of CaPS is unknown, but according to our estimates it is highly profitable as it only requires small amount of operating expenses.

Scala's net sales were some 1.0-1.5 MEUR in 2016 according to our estimates. Scala's fee stream consist mainly on success fees depending heavily on the amount of funds raised. With its team of 7 employees we believe that Scala should be able to raise some 200-400 MEUR besides CapMan's own fundraising needs. Thereby we estimate that the achievable net revenue level in a few years would be around 2-3 MEUR.

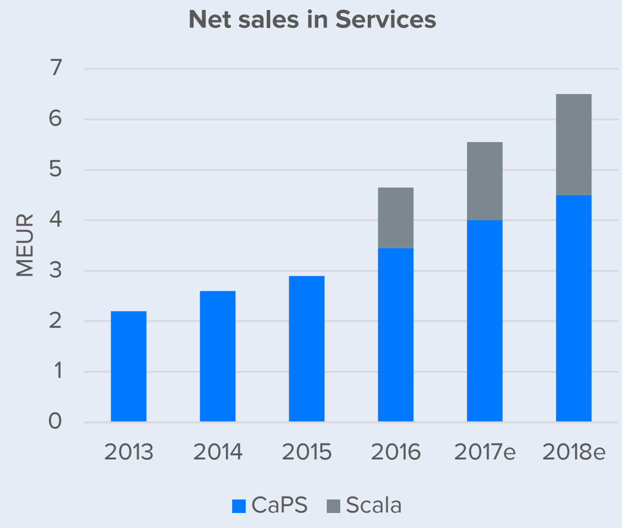
Scala was established in early 2016 and it is currently 100 % owned by CapMan. CapMan has announced that it will incorporate Scala. In practice this means that Scala will become truly independent (own office, independent board etc.) and CapMan will most likely sell a minority stake of Scala to its employees. We expect CapMan to remain as a major shareholder and CapMan's ownership to be some 50-70 %.

We welcome the incorporation as we believe that it is necessary in order to realize the full potential of Scala. CapMan is direct competitor for several Scala's potential clients and incorporation will definitely help Scala in client acquisition. The incorporation will only have a minor impact on CapMan's income statement as the size of the business is still small in CapMan's perspective.

Outlook is strong

We expect Services business to continue its rapid growth. Main driver will be CaPS which we expect to continue to grow some 10 % per annum. Scala will reach 2 MEUR topline in 2018 and we expect this to be the sustainable level going forward. For fund management services we do not model any revenue as the business proposal is still unclear.

Overall we estimate that the sales of CapMan's service business will grow from current 5 MEUR to 8 MEUR in 2020. Although CapMan does not disclose the profitability of the Services business we believe that it is highly profitable and the corresponding operating margin to be currently somewhere between 30-50 %.



Cost structure analysis

Cost discipline is the key

CapMan's cost structure is very straightforward and it mainly consist of two parts, personnel expenses and other costs (i.e. rents, support functions etc.). As the business itself has very low capital requirements, the depreciation level is also very moderate (less than 0.3 MEUR p.a.).

In 2017 we expect personnel costs to be 19.1 MEUR and other costs 9.3 MEUR. In recent years CapMan has been trimming down its cost structure as the cost base increased too much after the financial crisis and management fees were not enough to cover the fixed cost base. As can be seen on the graph above, the total fixed cost base (excl. depreciations) has come down over 10 MEUR since 2010. This comes mainly from personnel costs as CapMan reduced its number of employees from 150 in 2010 to 112 in Q3'17. The average employee cost has stayed fairly flat and the historical fluctuation comes from carried interest earned by partnerships. The normalized average employee cost is around 170 TEUR per employee.

The average employee cost is clearly higher than the average in the Finnish peer group which, has been around 100 TEUR during the period of 2010-2016 (current peer level above average due to the increased bonuses). We believe that clearly above average salary base derives from employee mix weighting toward experienced employees and larger share of workforce outside Finland where basic salaries are higher. We expect CapMan's employee turnover to stay low and thereby we are not expecting any major changes in the average pay per employee figure. In addition, as the employee costs are clearly above market average there definitely should not be any salary inflation.

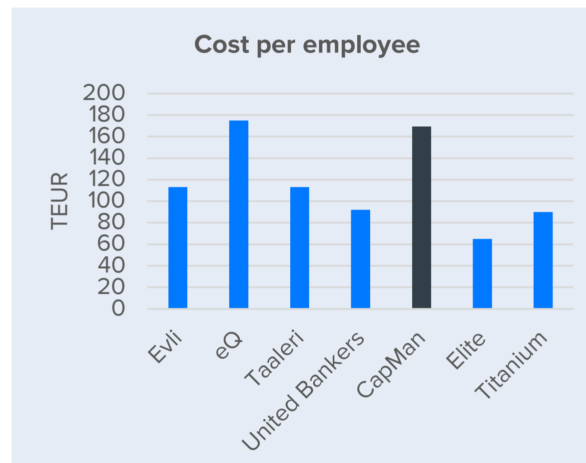
Other costs have come down significantly as CapMan has been trimming down costs i.e. relocating its HQ to smaller and cheaper premises. We see the current +9 MEUR other cost level as a normalized level going forward and there should not be any upside pressure.

Cost structure is now sustainable

Overall we expect the company's cost base to stay fairly flat from 2017 onwards, excluding the fluctuation coming from employee bonuses. Company will need to recruit some more employees as it expands its product range. The number of new employees will stay low and the effect for the group level figures will stay low.

Although the current cost structure is still fairly high on industry standards (mainly due to the average employee cost), it is now at a sustainable level and CapMan should have a decent platform to build profitable growth from here on.

We believe that the key to unlock the potential of the business is to increase the sales per employee (i.e. service business, new products etc.) as the deeper cost savings would require larger structural changes which we see unlikely. If CapMan is able to maintain cost discipline, the increased topline should have a notable leverage on the profitability of the management business, hence notable leverage to CapMan's share price. Although the cost discipline has not been the strength of CapMan historically, the new mindset and culture implemented by the current managements increases faith toward the sustainability of the profitability improvement in management business.



Investments and balance sheet 1/2

Balance sheet structure

After the Norvestia transaction CapMan's balance sheet grew notably and in the end of Q3'17 CapMan's total assets were 237 MEUR. Majority of this consists of investments which accounted some 170 MEUR at the end of Q3'17. CapMan also had a major cash position (Q3'17: 54 MEUR) as company is prepared to redeem its 15 MEUR bond, pay out the clawback of carry in Real Estate I (5.4 MEUR) and redeem the minority shareholders of Norvestia (8.2 MEUR). After these transactions the balance sheet should total some 200 MEUR.

We will analyze CapMan's investments in the next page. Besides the investments, CapMan's business model is extremely light asset wise.

In Assets CapMan has 6.6 MEUR of goodwill and intangibles. Goodwill (6.2 MEUR) is based on the acquisition of Norum, a fund manager operating in Russia. As the Russian crisis has weakened the economic outlook of the country notably, we believe that CapMan will evaluate the continuum of the Russian business before it starts to raise funds for its Russia III fund (2018-2019). If CapMan would decide to discontinue the fund managing business in Russia, it would probably lead to a write-down in goodwill. It is worth to remember that the goodwill is only roughly 10 % of CapMan's equity and thereby even a full write-down would not affect CapMan's financial position.

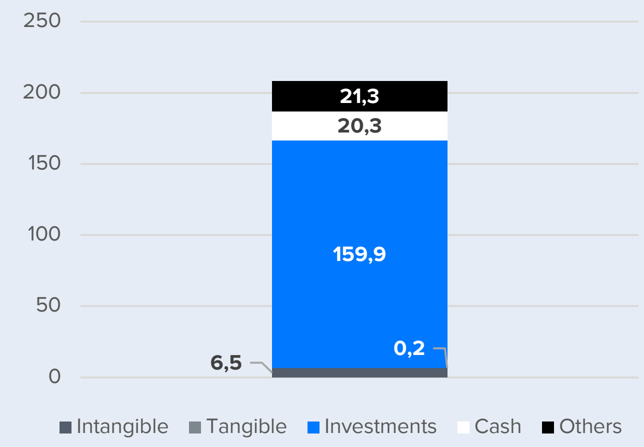
Other assets include typical day-to-day business related assets such as receivables (15 MEUR) and deferred tax assets (2.3 MEUR). In Q3'17 CapMan's total equity stood at 130 MEUR in the end of Q3'17 and the total debt was 65 MEUR. Total debt will come down in coming quarters as CapMan will redeem the 15 MEUR bond.

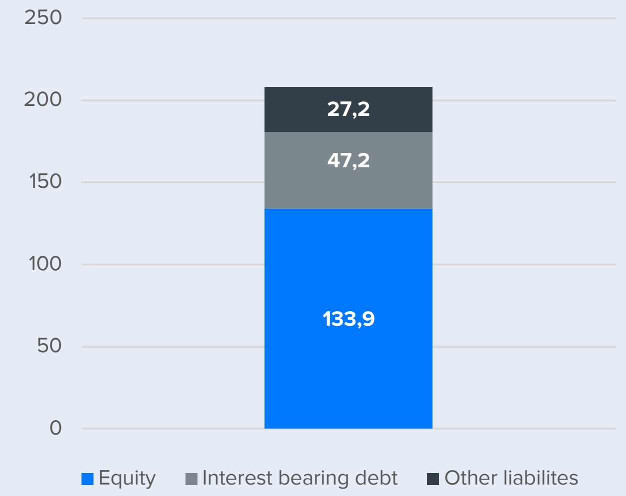
Other liabilities are some 40 MEUR including mainly trade payables.

Outside the balance sheet, CapMan has made some 42 MEUR worth of commitments to invest in its own funds. Basically this means that CapMan has committed to invest in its future funds that are in the fundraising phase. This is part of CapMan's strategy and CapMan's aim is to invest 1-5 % of the fund's total value. Although these commitments could technically be avoided, it would be a severe indication of distrust regarding the future performance of the fund, which could have negative effects on CapMan's fundraising. Therefore we believe that CapMan must fulfill these commitments and they can be seen as liabilities.

Overall CapMan's balance sheet is strong and net gearing and equity ratio were 16 % and 56 % in the end of Q3'17. As the balance sheet contains mostly liquid assets (cash and listed stocks), it provides major leeway for CapMan when considering i.e. M&A.

Balance sheet 2017e (MEUR)





Investments and balance sheet 2/2

Investments

At the end of Q3'17 CapMan's investment portfolio was 170 MEUR. Almost 50 % of this portfolio was invested in trading portfolio, which mainly contains listed stocks from OMXH. The growth equity investments (old Norvestia non-listed investments) accounted some 17 % and investments in CapMan's own funds some 32 %. The rest 3 % was in joint ventures (old Maneq funds). Maneq funds should be divested completely during 2018.

Own investments have been a major contributor for CapMan's earnings and during the past few years majority of group's earnings have come from the own investments.

CapMan's strategic target is to increase the amount of private equity investments to 80 % in a few years. Basically this means that CapMan will increase its investments to its own PE funds and reduce its holdings in listed companies. CapMan will sell its growth equity investments to new Growth Equity fund and will become an anchor investor for the fund. Also we expect CapMan to become an anchor investor for various new funds i.e. Infra and listed equity fund.

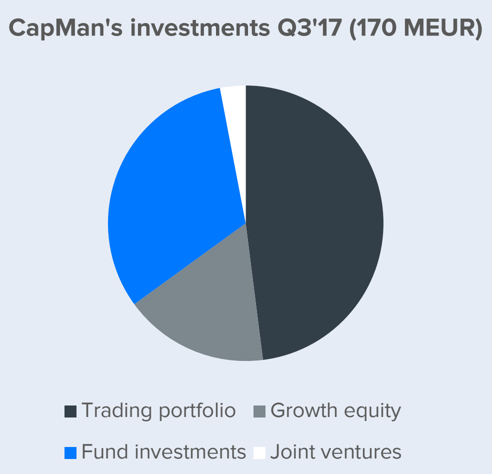
We welcome the transformation from listed equities towards private equity investments. The IRR levels are higher in private equity field and we do not see that running a major own balance sheet based trading portfolio would be a core business for CapMan.

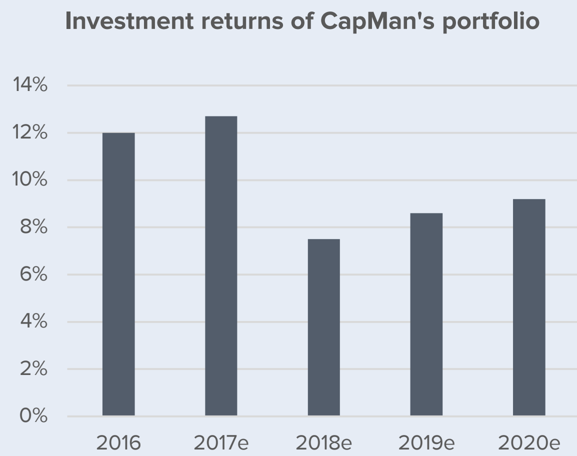
Future estimates

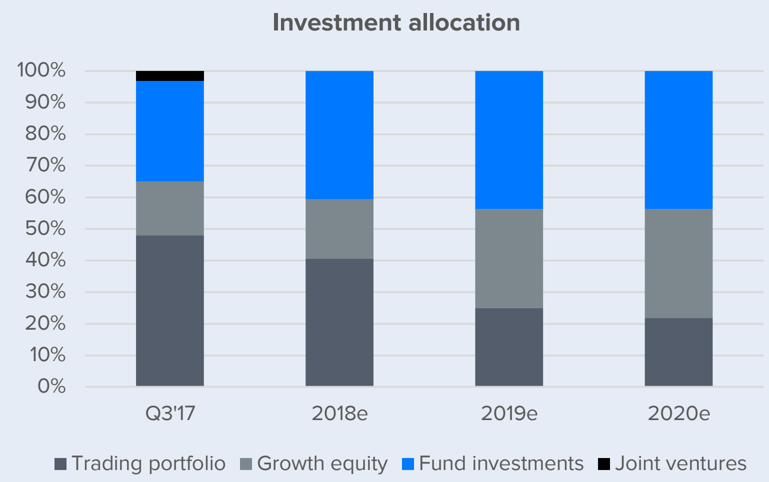
We expect CapMan's investment returns to decline in upcoming years as the mature bull market and high valuations will make it harder to earn decent returns. The allocation will drift toward CapMan's own targets and we see 80 % private equity weight to be achieved in 2020. In 2018 the investment returns will drop to 7.5 % due to the transaction where CapMan will sell its growth equity investments to Growth Equity fund. This will temporary decrease CapMan's investments in growth equity as majority. The amount of growth investment will increase as the Growth Equity fund will deploy its capital during 2018-2019.

Over the period 2019-2021 we expect CapMan's investment returns to stay slightly below 9 % and it is weighted down by the high valuation levels and ongoing change in allocation. Over the long term we believe that CapMan has a good change to sustainably achieve this level and with higher share of private equity in its portfolio the annual IRR for its own investments should be +10 %.

Despite the lower investment returns the investments will still play a major part in CapMan's earnings.







Future estimates (1/2)

All eyes on the management business

From an investors perspective the most important thing to notice in our future estimates is that the mix of CapMan's earnings is expected to improve notably. We estimate that the profitability of the management businesses will improve significantly from current breakeven level as the topline grows and the cost base continues to come down. As the EBIT mix moves towards the management business the predictability of earnings improves and the volatility declines which supports the acceptable valuation.

2017 will be an excellent year

CapMan's earnings have developed favorably during the first nine months of 2017 due to the strong performance of its investments. Main drivers have been the growth investments and especially the exit from Idean during Q1'17. We expect Q4 to be the weakest quarter of the year due to the fluctuation in capital markets and lack of carry. Despite this CapMan will achieve an excellent result from 2017 and we expect its EBIT to be 24,6 MEUR and EPS 0.13 EUR. We expect CapMan to respect its payout target and to hike its dividend to 0.11 EUR (2016: 0.09 EUR).

2018 investment income will decline significantly

2018 will be sort of a gap year for CapMan and the profitability will temporary dip. We expect investment income to come down significantly from an excellent levels we have seen in 2015 and 2016. This is due to the high equity market valuations and temporarily lower allocation in private equity (portfolio transfer for Growth Equity fund).

The declining fees in several older funds (i.e. Hotels and Russia) overwhelms significant part of CapMan's growth initiatives and thereby the growth in management business will stay below 10 % target level. The growth initiatives together with cost discipline should help the company lift the profitability of the management business and we expect management business to post black figures for the first time in more than a decade.

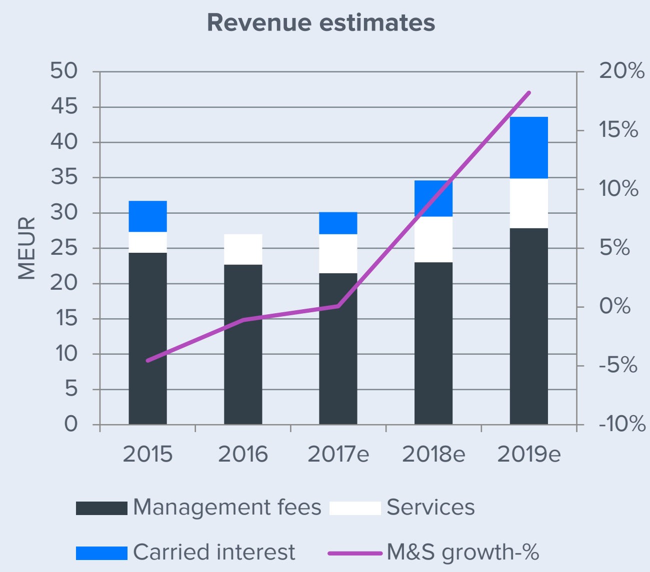
CapMan will receive carry from several older funds (Equity 7, Mezza 5, and Access) and these should yield decent carry income (2018e: 5,1 MEUR).

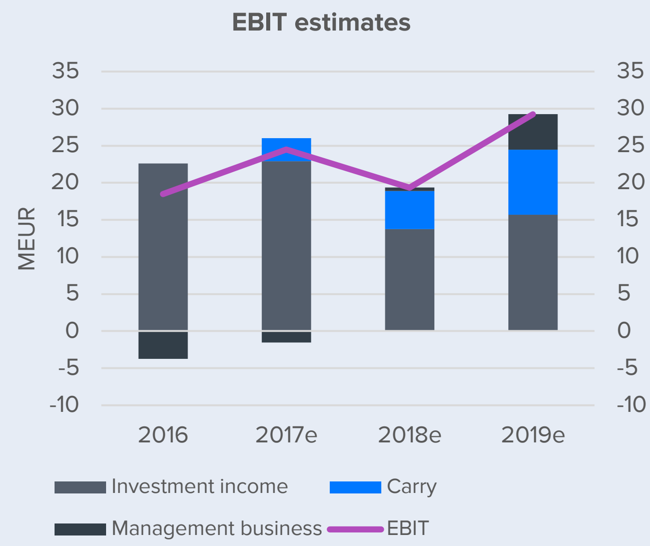
Capital under management will grow slightly to 2.9 BEUR due to the growth in Real Estate (BVK mandate and NPI fund) and new products (Infra, listed equities funds). CapMan should also start fundraising for Buyout 11 in H2'18 but it won't affect 2018 numbers.

Overall we expect CapMan sales to grow 11 % to 38 MEUR and EBIT to be 19.4 MEUR. Corresponding EPS will be 0.10 EUR. Despite the lower EPS we expect CapMan to continue to grow its dividend and our dividend estimate is 0.12 EUR.

2019 – Management business needs to deliver strong profitability

In 2019 we expect CapMan's topline to grow some 21 % as the new products will have a full impact on its topline and NRE I fund will yield notable carry income. Services business will also continue to grow providing support for the overall growth. Management business will grow some 21 % and as the cost discipline holds, management business should reach good profitability for the first time in history.





Future estimates (2/2)

Investment income should improve as the allocation weights more towards the higher yielding private equity assets (own fund investments).

AUM will grow to 3.1 BEUR thanks to growth in products launched in 2018 and new products (Buyout 11, new Credit fund).

We expect 2019 EBIT to be some 29.2 MEUR. It is important to understand that the EBIT mix continues to move towards the highly predictable management business and the role of the investment income will decline. From the shareholder value perspective the EBIT from management business is significantly more valuable than the investment income due to its strong predictability and continuity. EPS will climb to 0.15 EUR and dividend will be raised to 0.13 EUR.

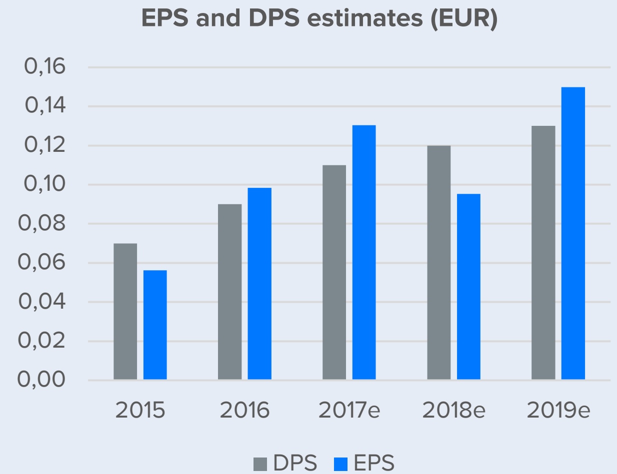
Earnings potential still clearly higher

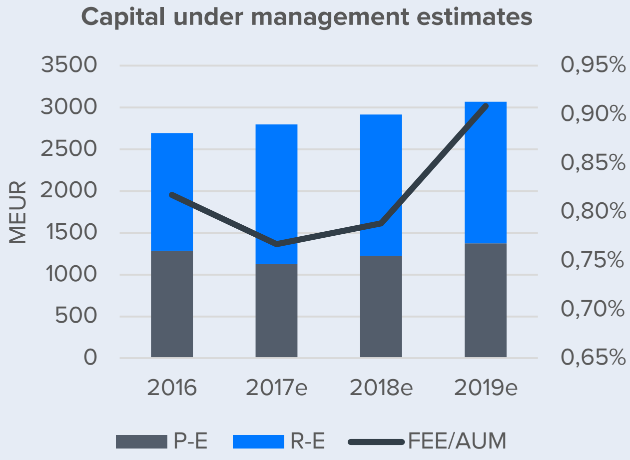
Over the long term we expect CapMan's earnings potential to be clearly higher than our 2019 estimate. With our 2019 estimates the EBIT-% of the management business is 17 %. Comparing to CapMan's historical performance, the 17 % can be seen as a good level, but when comparing to peers or to industry overall the level is still moderate at best. Due to the high quality capital under management (high fee/AUM-%) CapMan should be able to reach similar margin levels with its peers. The average adjusted EBIT margin of CapMan's main listed peers is currently around 30 % which is in line what the investment service companies in Finland are generating. If CapMan would be able to achieve 30 % EBIT margin, the EBIT level of the management business would be some 10 MEUR. According to our estimates CapMan should also be able to achieve normalized carry level of some 7 MEUR (requires good development in target companies). In investment income CapMan should sustainably achieve +10 % IRR once the allocation is moved towards the private equity. Thereby the potential investment income should be some +20 MEUR.

Overall the EBIT potential of CapMan would be some 37 MEUR. This would translate as an EPS of 0.20 EUR which is significantly higher than our current 2019 estimate of 0.15 EUR. This estimate is also in line with CapMan's own ROE-% target (+20 %) as the corresponding ROE-% would be 22 %. In order to reach this potential CapMan would need to:

- Increase the topline of management business significantly (requires continuous flow of new products)
- Maintain cost discipline
- Improve the returns of its products (carry potential)
- Increase private equity allocation significantly

Obviously these are also the main drivers which we are focusing on when we monitor CapMan's performance.



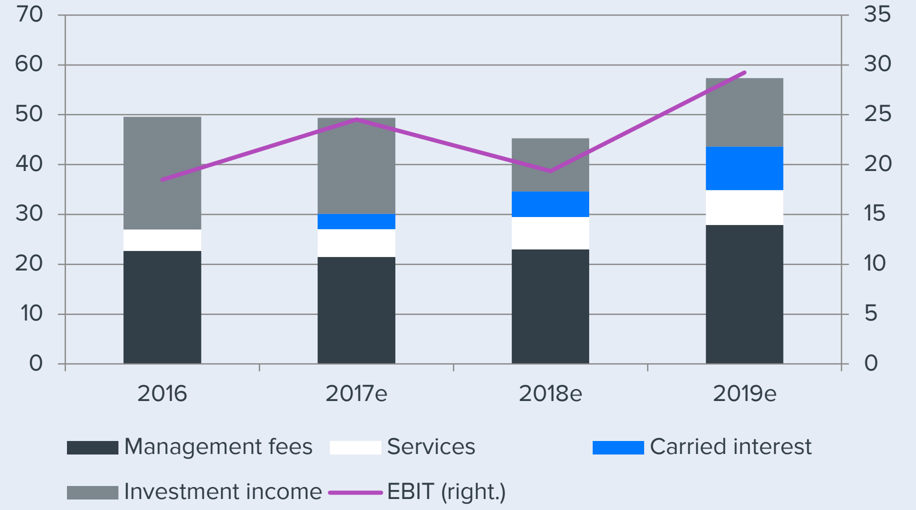


Estimates overview

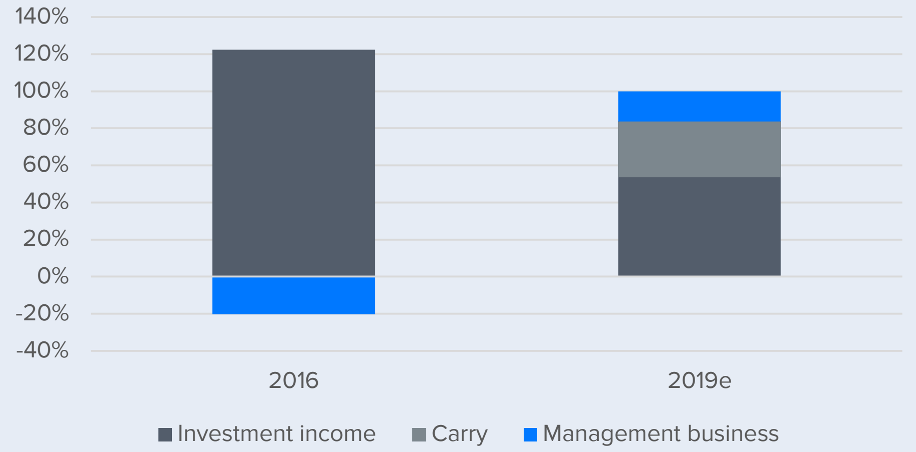
MEUR	2016	2017e	2018e	2019e	2020e
Net sales	**26,7**	**33,8**	**37,8**	**45,7**	**45,0**
Management fees*	22,7	21,5	23,1	27,9	30,7
*Private Equity**	*13,5*	*13,7*	*13,7*	*15,9*	*17,0*
*Real Estate**	*8,5*	*7,8*	*9,4*	*12,0*	*13,8*
Services*	4,3	5,6	6,5	7,0	7,5
Carry	0,0	3,1	5,1	8,8	4,8
Investments		3,6	3,1	2,0	2,0
Personnel costs	-18,3	-19,1	-19,7	-20,4	-20,9
Other costs	-12,2	-9,3	-9,2	-9,5	-9,7
Depreciation	-0,3	-0,2	-0,1	-0,2	-0,2
Investment income	22,6	19,3	10,7	13,7	14,1
EBIT	**18,7**	**24,6**	**19,4**	**29,3**	**28,3**
Management business**	-3,8	-1,6	0,6	4,9	7,4
EPS	0,10	0,13	0,10	0,15	0,14
DPS	0,09	0,11	0,12	0,13	0,14
Payout ratio-%	91 %	84 %	125 %	86 %	97 %
ROE-%	13,5 %	13,6 %	10,5 %	16,5 %	15,5 %
Equity per share	1,00	0,92	0,90	0,93	0,94
Investment income-%	12,5 %	12,7 %	7,5 %	8,6 %	8,8 %
GAV	2692	2799	2918	3068	2968
Private Equity	1285	1125	1225	1375	1425
Real Estate	1408	1675	1693	1693	1543
Allocation*					
Trading portfolio	33 %	56 %	41 %	25 %	22 %
Growth Equity	17 %	6 %	19 %	31 %	34 %
Cash	20 %	13 %	14 %	14 %	14 %
Own funds	23 %	34 %	41 %	44 %	44 %
JV	2 %	3 %	0 %	0 %	0 %

* Historical figures also estimates by Inderes

** Historical figures also estimates by Inderes, formula: net sales (incl. Services) - carry - investment income - total expenses



EBIT mix 2016 vs 2019e



Management business outlook summary

Fee level increases:
NPI grows significantly
Capital in BVK mandate will be deployed
NRE II
Growth Equity
New Infra fund
New Listed equities fund
Services will continue to grow

Fee level increases:
NPI grows
Capital in BVK mandate will be deployed
Buyout 11
New Credit fund
Second Infra fund/mandate
Listed equities fund grows
Services will continue to grow

2018 Management & Services growth 7 %

2019e M&S growth 21 %

Fee level declines in:
Hotels (new contract)
Russia I (fund's age)
Russia II (investment phase ends)
Buyout 8 (age and exits)
Older funds (age and exits)
NRE I (investment phase ends)

Fee level declines in:
Buyout 9 in exit phase
Hotels exit
Older funds exit
NRE I exit
Russia I in exit phase

Source: Inderes

Valuation and recommendation (1/3)

All eyes on the management business

To determine the fair value of CapMan we have used several valuation methods (DCF, AUM, sum of parts and domestic peers). Overall the weighted average of our valuation is 1.86 euros per share which is also the base for our target price of 1.85 euros.

In our analysis we have given 20 % weight for DCF, AUM and sum of the parts while multiples account the rest 40 %.

We see that the current share price is fairly neutral and the future upside potential of the share relies heavily on the development of the management business. If CapMan is able to improve the profitability of the management business, the earnings would become more predictable and acceptable multiples would climb.

Under the current management CapMan has accelerated its strategy execution and we believe that the management business should become clearly profitable, once the topline will start to grow. This positive development together with a strong and predictable dividend yield (2017e 6.3 %) keeps the risk/reward-ratio still positive and thereby we retain our accumulate recommendation.

Peer group valuation

For the peer group we have used the domestic listed financial service sector. Even though CapMan differs significantly from the group due to its major own balance sheet investments, we believe that the overall peer group gives a good overview of the accepted valuation levels in the sector. More detailed peer group can be found on a page 32.

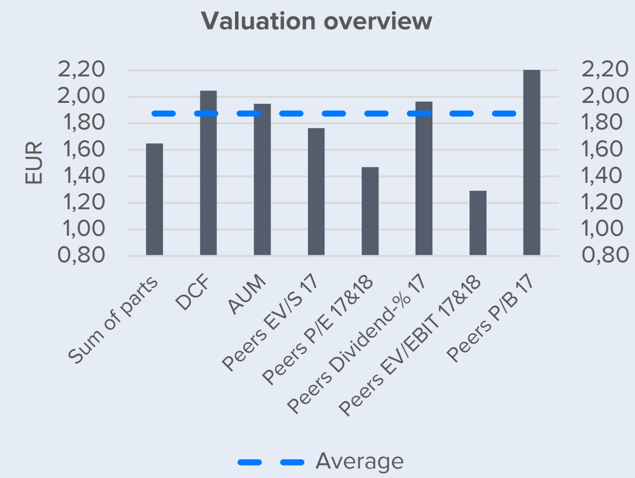
In our valuation we have given the multiples 40 % weight. We have given 10 % weight for EV/S, P/E and dividend yield-% and 5 % weight for EV/EBIT and P/B.

As we can see from the table on the right hand side, CapMan's current earnings multiples are above its peers and it is hard to justify the current value based on the earnings alone. We want to emphasize that in the earnings wise the 2018 will be a gap year for CapMan and the normalized earnings level should be above 2018. Thereby we are willing to accept temporarily higher multiples as the company is moving in the right direction.

CapMan's dividend yield is above its peers and the dividend yield multiple based value is clearly above the current share price. EV/S multiple does not take into account CapMan's major investments and we believe that the premium EV/S multiple would be justifiable for CapMan. We give only minor weight for P/B-multiple. CapMan should trade with clearly lower P/B compared to its peers due to its massive own balance sheet investments.

Overall the multiples support our view that the current share price is fairly neutral and in order the share price to increase, CapMan needs to boost its bottom line and improve the predictability of its earnings (the profitability of the management business).

Method	Eur/share	Weight	Value
Sum of parts	1,65	20 %	1,86e/share
DCF	2,05	20 %	
AUM	1,95	20 %	
Peers EV/S 17	1,76	10 %	
Peers P/E 17&18	1,47	10 %	
Peers Dividend-% 17	1,96	10 %	
Peers EV/EBIT 17&18	1,29	5 %	
Peers P/B 17	2,86	5 %	



	Multiple (x)	CapMan's value (EUR)
P/E 17&18	12,9	1,47
P/B 17	3,1	2,9
EV/EBIT 17&18	9,6	1,29
Dividend-% 17	5,60 %	1,96
EV/S 17	3,4	1,76

Valuation and recommendation (2/3)

AUM based valuation

Besides earnings based valuation we have also valued CapMan's management business through its AUM. We have estimated the fair multiple for AUM and applied it to CapMan's current AUM levels for each segment separately. We have also given out rough value for CapMan's Service business in order to get a better sense for the value of the management business.

Typically the multiple used in AUM based valuation is between 1-5 % depending on the predictability, maturity and fee potential. Overall CapMan's AUM is high quality as its predictability is high through long commitments and the management fee level is healthy. Also the fee potential is significantly boosted by carried interest.

We have applied multiple of 6 % for CapMan's Private Equity AUM. Its fee level is healthy (1.2 % + carry), maturity long (average maturity some 5 years) and predictability high. 6 % multiple would value CapMan's Private Equity AUM to 67 MEUR. For Real Estate we have applied multiple of 2,5 MEUR It is important to notice that in Real Estate CapMan actually reports GAV and not NAV and thereby the average fee level is clearly lower (0.5 % for GAV). Although the predictability is also good, the high dependence on the individual funds lowers the acceptable multiple. We have applied multiple of 3 % which would value Real Estate AUM at 50 MEUR.

For Service business we have applied cautious EV/S multiple of 2x which translates into EV of 11 MEUR.

The total value of the management business through our AUM calculation is some 129 MEUR. The difference with the value we got for management business in our sum of parts calculation is significant as the AUM based valuation does not take into account the profitability problems. We believe that our AUM based value gives good indication regarding the current potential of CapMan's management business.

When we add investments and extract net debt we get net value of 282 MEUR or 1.95 euros per share.

DCF-model

Our DCF value for CapMan is 2.05 EUR per share which supports our view regarding the potential of the company highlighted by our other valuation methods. Our cost of equity is 8.1 % which is slightly above the average cost of equity for OMXH. WACC is 7.2 % due to the moderate leverage of the company.

In our model the weight of the terminal period is fairly high 56 %. This is justifiable as the investments account the majority of CapMan's current value. The more detailed DCF-model can be found on page 33.

MEUR	AUM	Fee-%	Multiple	Value	EV/S
P-E	1125	1,20 %	6,0 %	67	4,9
R-E	1675	0,50 %	3,0 %	50	6,4
Services				11,1	2,0
Management business value				129	
Investments				180	
Net debt				-27	
Total				282	
Per share (EUR)				**1,95**	

Valuation and recommendation (3/3)

Sum of parts

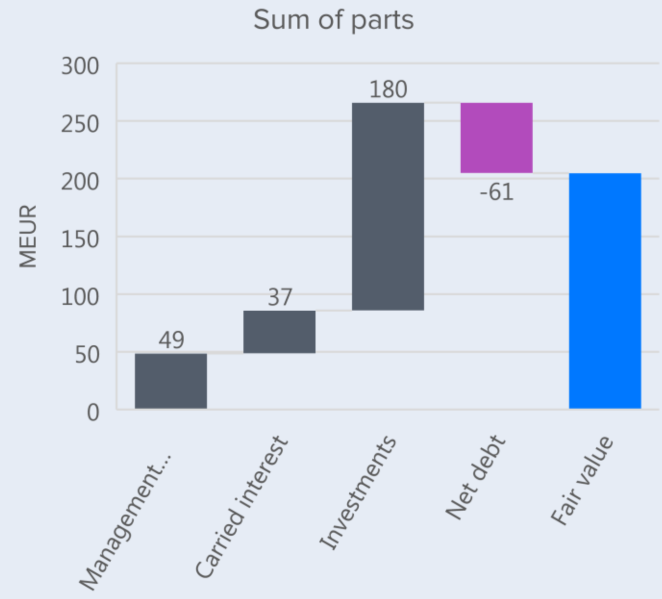
Currently the investments are clearly the most valuable part of CapMan. Investments should be valued with their NAV and according to our estimates CapMan's investments will total some 180 MEUR at the end of 2017 (includes claw back for RE1 and redemption of Norvestia shareholders).

In the management business the visibility towards future fees is high due to the long commitments of AUM. Historically CapMan has not been able to earn profit through its management business as the cost base has been too high and thereby the value of the management business has been low. We are expecting CapMan's Management business' profitability to improve significantly in upcoming years through the growth and cost discipline. We estimate that CapMan has a decent chance to earn some 5 MEUR p.a. through its management business in a few years. Typically fund management businesses are valued with a high EV/EBIT-ratio as the predictability of the business is good and scalability is high. Currently typical ratio for fund management business is around 10-13x depending mainly on the quality of AUM and business overall.

In CapMan's case the volatility is lower than typically in the fund management business but at the same time there is a clear uncertainty regarding the profitability improvement. Therefore, we believe that CapMan's management business should be valued with lower multiples and we apply the multiple of EV/EBIT 10x. With 10x multiple and 2019 estimated EBIT of 4.9 MEUR the value of the management business is 49 MEUR.

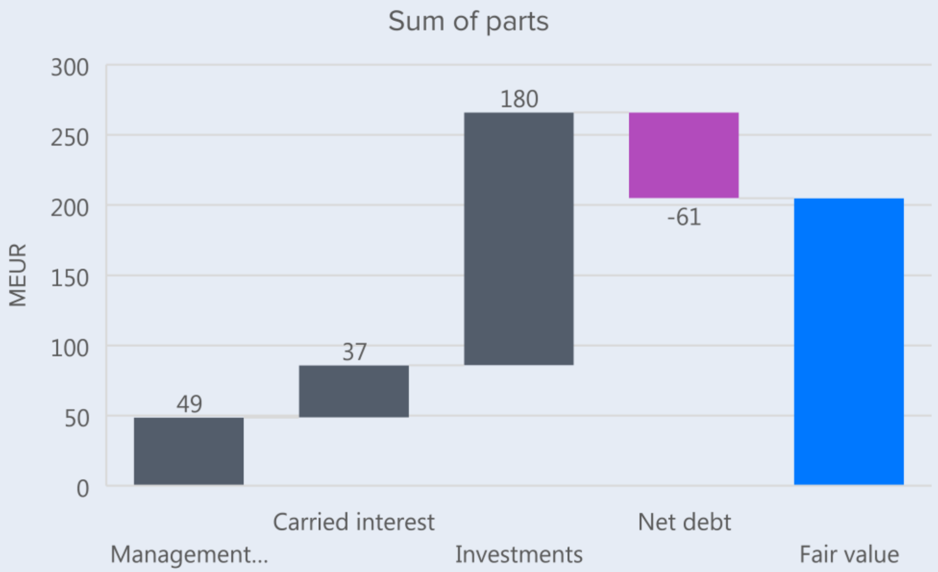
Carried interest: We believe that carried interest business should be valued with the same multiples as highly volatile project business (i.e. corporate finance) and the acceptable EV/EBIT-multiple would be 5-8x. Our average carried interest estimate for the period 2017-2021e is around 5.3 MEUR which would imply the valuation of 27-42 MEUR. We have applied multiple of 7x as the visibility towards the upcoming carried interest has improved due to the good development in key funds (i.e. NRE1).

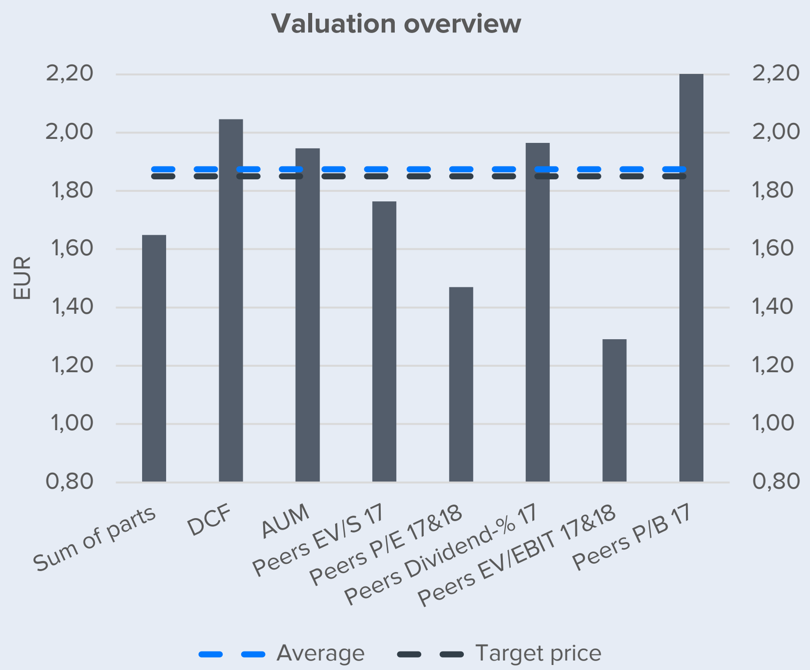
The value Investments and the Management business totals some 266 MEUR. When we extract the estimated Q4'17 net debt of 27 MEUR, the net value of sum of parts stands at 239 MEUR or 1,65 EUR per share.



Valuation summary

Multiples	2016	2017e	2018e	2019e
MCAP	182	251	251	251
EV	203	278	286	283
P/E (adj.)	12,9	13,3	18,1	11,5
P/E	12,9	13,3	18,1	11,5
P/B	1,3	1,9	1,9	1,8
EV/S	7,6	8,2	7,6	6,2
EV/EBITDA	10,7	11,2	14,6	9,6
EV/EBIT	10,9	11,3	14,7	9,7
Payout-%	91,5 %	84,4 %	125,5 %	86,5 %
Dividend-%	7,1 %	6,4 %	7,0 %	7,6 %

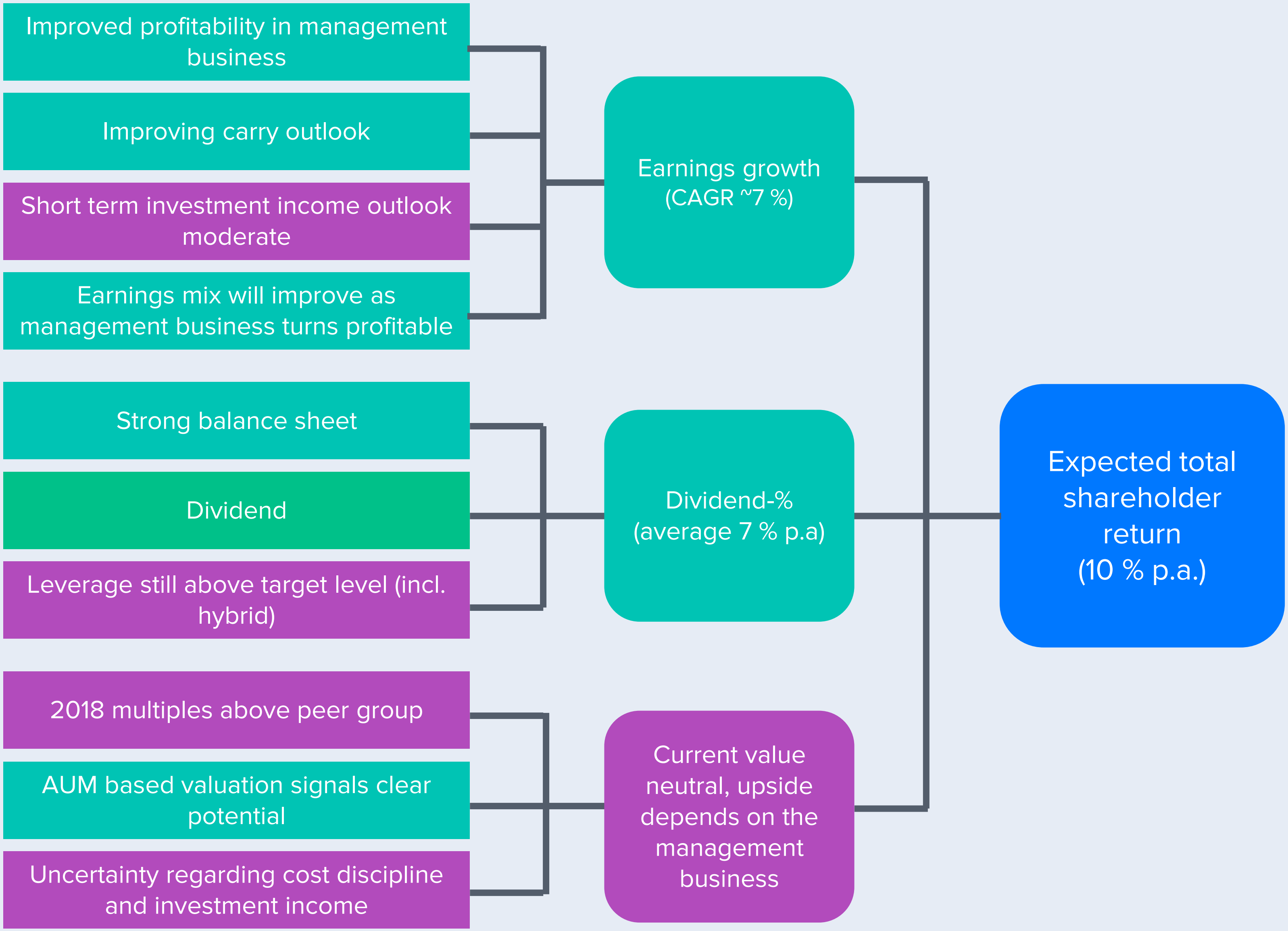




Method	Eur/share	Weight	Value
Sum of parts	1,65	20 %	1,86e/share
DCF	2,05	20 %	
AUM	1,95	20 %	
Peers EV/S 17	1,76	10 %	
Peers P/E 17&18	1,47	10 %	
Peers Dividend-% 17	1,96	10 %	
Peers EV/EBIT 17&18	1,29	5 %	
Peers P/B 17	2,86	5 %	

Source: Inderes, CapMan

Value drivers for 2017-2019e



Source: Inderes

Peer group valuation

	P/E (adj.)		EV/EBIT (adj.)		EV/S	P/B	Dividend	
	2017e	2018e	2017e	2018e	2017e	2017e	2017e	2018e
Evli	14,2	13,6	8,7	8,5	2,6	3,1	5,3 %	5,8 %
eQ	19,5	17,0	14,5	12,8	7,1	4,9	6,3 %	6,3 %
Taaleri	11,9	13,0	9,6	10,0	3,7	2,5	2,5 %	3,0 %
United Bankers	17,3	10,9	13,2	9,6	2,4	3,0	4,2 %	5,6 %
CapMan	**13,5**	**18,4**	**11,5**	**15,0**	**8,3**	**1,9**	**6,3 %**	**6,9 %**
Elite	36,4	11,4	300,0	8,3	1,5	3,3	1,0 %	3,5 %
Privanet	13,0	9,6	7,7	6,5	3,1	2,5	8,0 %	8,0 %
Titanium	11,6	9,5	9,8	7,2	3,8	3,1	7,1 %	8,1 %
Average	**17,2**	**12,9**	**46,9**	**9,7**	**4,1**	**3,0**	**5,1 %**	**5,9 %**
Median	**13,9**	**12,2**	**10,7**	**9,0**	**3,4**	**3,1**	**5,8 %**	**6,0 %**
CapMan vs. median	**-3 %**	**51 %**	**8 %**	**66 %**	**145 %**	**-38 %**	**9 %**	**15 %**

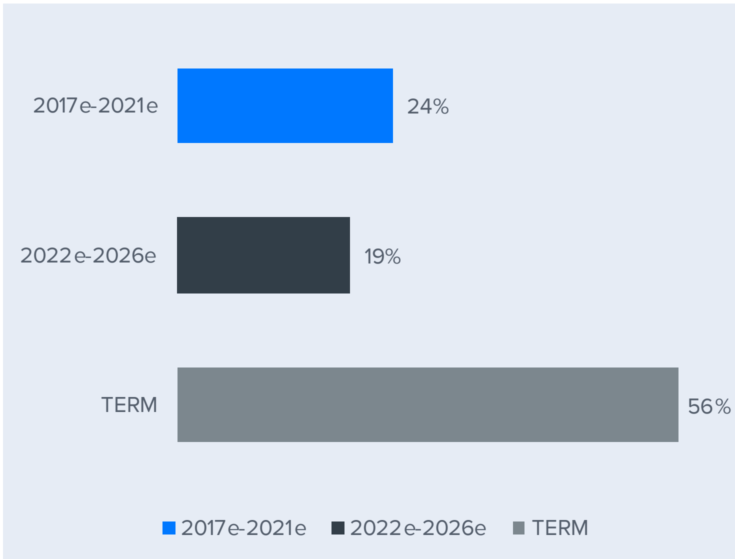
Source: Inderes

DCF-model

DCF	2016	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	TERM
EBIT	**18,7**	**24,6**	**19,4**	**29,2**	**28,3**	**30,1**	**31,1**	**29,2**	**24,8**	**22,8**	**23,3**	
+ Depreciation	0,3	0,2	0,1	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	
- Taxes	7,2	-2,1	-3,9	-5,5	-5,3	-5,7	-5,9	-5,5	-4,7	-4,3	-4,3	
- Change in working capital	18,3	-18,2	-6,4	-1,4	0,0	0,1	0,1	0,1	0,1	0,1	0,1	
Operative cash flow	**164,4**	**-9,1**	**8,9**	**22,1**	**22,8**	**24,4**	**25,1**	**23,7**	**20,2**	**18,5**	**18,9**	
- CAPEX	-128,3	15,5	-0,3	-0,3	-0,2	-0,2	-0,2	-0,3	-0,3	-0,2	-0,8	
Operative free cash flow	**36,2**	**6,4**	**8,6**	**21,9**	**22,6**	**24,2**	**24,9**	**23,4**	**19,9**	**18,3**	**18,1**	
+/- Other	2,0	6,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Free cash flow	38,2	12,4	8,6	21,9	22,6	24,2	24,9	23,4	19,9	18,3	18,1	369,7
Discounted free cash flow		18,3	8,0	19,0	18,3	18,4	17,7	15,5	12,4	10,6	9,8	200,2
Discounted cumulative free cash flow		**342,2**	**329,9**	**321,9**	**302,8**	**284,5**	**266,2**	**248,5**	**233,0**	**220,6**	**210,0**	**200,2**

DCF EV	**342,2**
- Debt	-66,1
+ Cash	45,0
- Minority	0,0
- Dividend	-12,9
Equity value DCF	**308,5**
Equity value per share DCF	**2,13**

Weighted average cost of capital (WACC)	
Tax-% (WACC)	20,0 %
Target leverage D/(D+E)	15,0 %
Cost of debt	3,0 %
Beta	100,0 %
Market risk premium	4,8 %
Liquidity premium	0,0 %
Risk free interest rate	3,3 %
Cost of equity	8,1 %
WACC	7,2 %



Income statement

MEUR	2014	2015	2016	2017e	2018e	2019e
Sales	39,4	31,7	26,6	33,8	37,7	45,6
Management fees	26,0	24,4	22,7	21,5	23,0	27,9
Carried interest	10,8	4,4	0,0	3,1	5,1	8,8
Services	2,6	2,9	4,3	5,6	6,5	7,0
Investments	0,0	0,0	0,0	3,6	1,1	1,8
Personnel costs	-18,0	-17,1	-18,3	-19,1	-19,7	-20,4
Other costs	-11,9	-10,6	-12,2	-9,3	-9,2	-9,5
Depreciation	-0,1	-0,1	-0,1	-0,1	-0,1	-0,1
Investment income	-3,1	5,2	22,6	19,3	10,7	13,7
EBIT	**6,3**	**9,2**	**18,7**	**24,6**	**19,4**	**29,2**
Net financials	-1,4	-2,8	-3,1	-3,1	-1,6	-1,7
Associate companies	0,0	0,0	0,0	0,0	0,0	0,0
PTP	**5,0**	**6,5**	**15,5**	**21,5**	**17,8**	**27,5**
Taxes	-1,0	-0,4	-0,2	-2,1	-3,9	-5,5
Net profit	**2,8**	**4,9**	**14,1**	**18,9**	**13,9**	**22,0**
EPS (adj.)	0,03	0,06	0,10	0,13	0,10	0,15
EBIT-%	16,0 %	29,1 %	70,1 %	72,8 %	51,3 %	64,1 %

Balance sheet

Assets	2015	2016	2017e	2018e	2019e
Goodwill	6,2	6,2	6,2	6,2	6,2
Other intangible rights	0,5	0,3	0,3	0,4	0,5
Tangible assets	0,3	0,2	0,2	0,2	0,2
Associated companies	56,4	5,4	0,0	0,0	0,0
Other investments	47,2	175,6	159,9	160,0	160,0
Other non-current assets	0,1	0,1	0,1	0,1	0,1
Deferred tax assets	4,4	4,9	4,9	4,9	4,9
Inventories	0,0	0,0	0,0	0,0	0,0
Other current assets	6,4	9,8	9,8	9,8	9,8
Receivables	6,1	5,2	6,6	7,4	8,9
Cash and cash equivalents	21,9	45,0	20,3	22,6	22,8
Total	**149,5**	**252,7**	**208,3**	**211,6**	**213,4**

Liabilities	2015	2016	2017e	2018e	2019e
Share capital	0,8	0,8	0,8	0,8	0,8
Retained earnings	-2,0	6,2	12,2	10,2	14,7
Shares repurchased	0,1	-0,1	-0,1	-0,1	-0,1
Asset revaluation reserve	39,0	39,0	39,0	39,0	39,0
Other equity	27,4	97,1	82,0	82,0	82,0
Minority interest	0,0	0,0	0,0	0,0	0,0
Deferred tax liabilities	2,0	9,9	9,9	9,9	9,9
Provisions	0,0	0,0	0,0	0,0	0,0
Long-term debt	69,4	48,1	33,0	40,7	38,7
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long-term liabilities (non-interest bear.)	0,0	0,1	0,1	0,1	0,1
Short-term debt	0,0	18,0	14,2	17,4	16,6
Non-interest bearing current liabilities	13,1	33,7	16,9	11,3	11,4
Other current liabilities (non-interest bear.)	0,0	0,3	0,3	0,3	0,3
Total	**149,6**	**253,1**	**208,3**	**211,6**	**213,4**

Disclaimer

Inderes Oy (henceforth Inderes) has produced this report for customer's private use. The information used in report is gathered from publicly available information from various sources deemed reliable. Inderes's goal is to use reliable and comprehensive information, but Inderes cannot guarantee that the information represented is flawless. Possible contentions, estimates or forecasts are based on the presenter's point of view. Inderes does not guarantee the content or the reliability of the data. The primary information source of the report is information published by the target company unless otherwise mentioned. Inderes uses its own database for the financial figures tables presented in the report unless otherwise mentioned. Historical figures are based on numbers published by the company and all future forecasts are Inderes' analysts' assessment.

Inderes or their employees shall not be held responsible for investment decisions made by based on this report or other damages (both direct and indirect damages) what usage of this report might have caused. The information presented in this report might change rapidly. Inderes does not commit to inform for the possible changes in the information / contention of the report.

This report has been produced for information purposes and the report should not be taken as an investment advice, offer or request to buy or sell a particular asset. The client should also understand that the historical development is not a guarantee of the future. When making investment decisions, client must base their decisions on their own research and their own estimates on the factors affecting the value of the investment object and also to consider their own financial goals, financial status and when necessary they shall use advisor. Customer is always responsible for their own investment decisions and the possible causes of them.

The recommendations and target prices of Inderes are examined at least four times a year after company's quarterly reports. However, it is possible to change recommendation and / or target price at any time it is necessary. The amount of changes in recommendations or target prices is not limited.

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

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

Potential regarding to 12 month target price

No one is allowed to modify this report, copy it or to distribute it with third parties without written agreement from Inderes. Any parts of this report shall not be distributed or delivered in USA, Canada or Japan or to residents of any these countries mentioned above.

There also might be restrictions in legislations in other countries about distributing this information and person who might be under these restrictions shall consider the possible restrictions. Inderes has signed an agreement that includes producing equity research reports with the company that is a subject of this report. More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Recommendation history

Date	Recommendation	Target price	Share price
20.1.2016	Accumulate	1,05 €	0,95 €
4.2.2016	Accumulate	1,05 €	0,94 €
4.5.2016	Accumulate	1,10 €	0,97 €
11.8.2016	Buy	1,25 €	1,08 €
24.10.2016	Buy	1,35 €	1,20 €
3.11.2016	Accumulate	1,40 €	1,28 €
18.1.2017	Accumulate	1,40 €	1,27 €
5.2.2017	Accumulate	1,55 €	1,46 €
8.3.2017	Accumulate	1,70 €	1,55 €
5.5.2017	Accumulate	1,80 €	1,69 €
11.8.2017	Accumulate	1,85 €	1,77 €
2.11.2017	Accumulate	1,85 €	1,77 €
19.12.2017	Accumulate	1,85 €	1,76 €

Inderes Ltd

Awards

STARMINE
A THOMSON REUTERS COMPANY

2015
Estimates

2014, 2016, 2017
Recommendation

2014, 2015, 2016
Recommendation and estimates

2012, 2016
Recommendation

2012, 2016, 2017
Recommendation and estimates

2017
Recommendation

2017
Recommendation

Inderes Ltd is a Finnish independent equity research and digital investor service provider. We pick the best stocks for investors and make the stock exchange more efficient by matching investors with companies through best-in-class research. Inderes morning letter, model portfolio and award-winning research reach over 30 000 Finnish investors daily. We have the most comprehensive and active coverage of the Helsinki Stock Exchange with our team of 12 analysts following almost 100 companies.

Inderes Oy

Itämerentori 2

00180 Helsinki

+358 10 219 4690

twitter.com/inderes

Award winning research at www.inderes.fi

Award-winning
research.