# CapMan

## Company update

10/2016

inderes.

# Moving to the right direction

We raise our target price to 1,35 EUR (prev. 1,25 EUR) and maintain our Buy recommendation. We expect CapMan to continue its profit improvement in the upcoming years and the profit mix will continue to move towards the management business which supports the acceptable valuation through a lower risk profile. Despite the recent rally in share price the valuation of the share is still lucrative and a growing almost 7 % dividend yield offers strong return while waiting for the profit improvement to realize.

### Profit growth continues and the mix improves

CapMan has made clear progress with its new strategy during the last 12 months. The most notable achievements have been new revenue streams (i.e. real estate mandates), growth in Services (Scala and CaPS) and improved cost efficiency. Due to the new revenue streams and growth initiatives, CapMan is well positioned to overcome the decline in AUM when the several larger funds will move to exit phase and we expect CapMan's topline to grow at moderate pace. Growth together with a lower cost base have pushed the profitability of the management business' above breakeven level and we believe that CapMan should be able to push the management business' EBIT to a decent level. This is crucial for the company as it lowers the dependency from volatile investments and carry income while increasing the weight of steady and predictable income.

### Excellent cash flow outlook

During the period 2016-2019 CapMan will receive notable cash flow from its own fund investments as several larger funds (initiated 2005-2008) will come to the exit phase. At the same time the commitments to new funds are approximately 5 MEUR per year. Thereby the free cash flow will be significantly above net profit and we expect annualized free cash flow per share to be around 0.20 EUR. Although CapMan will use a major part of this cash flow to pay down debt it used to finance the Norvestia -transaction. However, the strong cash flow also ensures the strong dividend flow and we expect CapMan to grow its dividend steadily through the period.

### Valuation still at lucrative level

Despite the strong rally in share price (2016 +20 %) we still see CapMan's valuation as lucrative. P/E-ratios for 2016 ja 2017 are around 12x while the corresponding EV/EBITDA-ratios are around 10x. P/E-ratios are clearly below peer group level and as the mix of CapMan's profit moves towards the management business this discount should gradually narrow and finally disappear. Due to the strong cash flow outlook CapMan will be able to grow its dividend despite the clear focus on the debt reduction. We expect dividend to grow some +10 % per year and the current almost 7 % dividend yield offers strong yield while waiting for the profit improvement to realize. Overall we still see the CapMan's profit/risk -ratio being clearly on the positive side.

## Analyst

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

## Recommendation and target price

**Buy**
Previous: Buy

**1,35 EUR**
Previous: 1,25 EUR

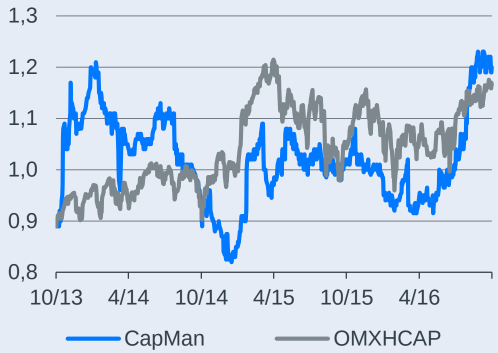
**Share price: 1,19 EUR**
**Potential: +13 %**

## Key Figures

| | 2015 | 2016e | 2017e |
|---|---|---|---|
| Revenue | 31,8 | 33,0 | 35,0 |
| *Management fees* | 24,4 | 25,0 | 26,3 |
| *Carried interest* | 4,4 | 4,0 | 3,2 |
| *Services* | 2,9 | 4,0 | 5,0 |
| EBIT | 9,3 | 13,9 | 13,7 |
| PTP | 6,5 | 10,9 | 11,9 |
| EPS | 0,06 | 0,10 | 0,10 |
| Dividend | 0,07 | 0,08 | 0,09 |
| *Payout ratio-%* | 124,4 % | 82,8 % | 89,1 % |
| | | | |
| P/E | 17,8 | 12,3 | 11,8 |
| P/B | 1,3 | 1,5 | 1,9 |
| Dividend yield-% | 7,0 % | 6,7 % | 7,6 % |

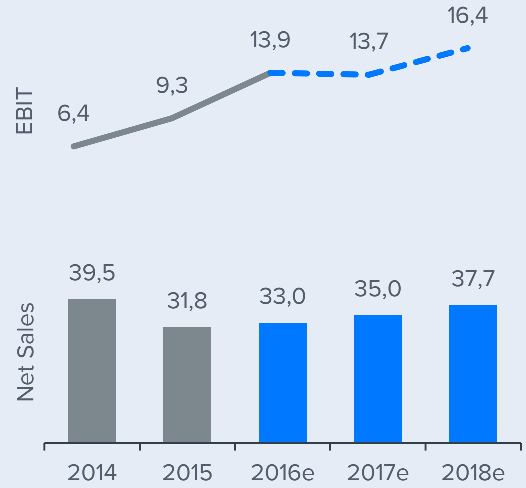
Source: Inderes, CapMan

## Share price

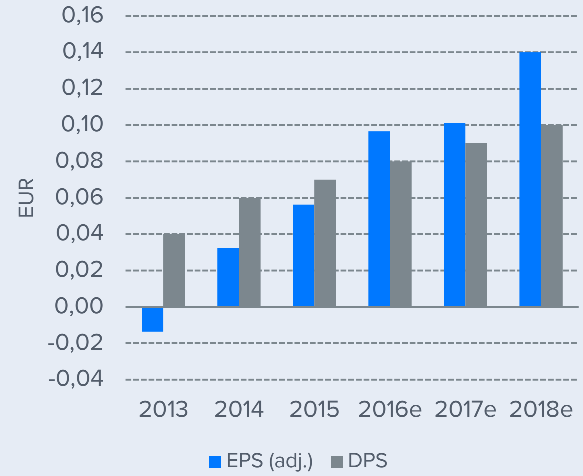



Source: Bloomberg

## Net sales and EBIT (adj.)




## EPS and dividend




**P/E (adj.)**
**12x**
**2016e**

**EV/EBITDA**
**10x**
**2016e**

**P/B**
**1,6x**
**2016e**

**Dividend-%**
**7**
**2016e**

### Drivers

- Improving profitability in management business
- Growth in Services and new revenue streams (i.e. mandates)
- Strong free cash flow outlook

### 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 still at lucrative level
- Clear discount for peers not justified if management business' EBIT improves as expected
- 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 and 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 Nordics and Russia. At the end of 2015 CapMan had roughly 2.8 BEUR capital under management and it employed 101 people. Since May 2015 CapMan has been the largest owner of publicly listed investment company Norvestia with a 28.7 % ownership.

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. Overall, CapMan has some 120 Nordic and international institutional investors in its funds.

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 four partnership based investment teams: Buyout, Russia, Credit and Real Estate. 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 40 % 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. Partnerships are modelled on the page 8.

## Business model

CapMan's business model can be divided in three parts; Management fees, Services and Investments.

## Management fees & carried interest

Management fees are the core of CapMan's business as the visibility for the future fees is extremely good. The fluctuation in capital under management is fairly small as capital under management decreases through exits and increases through new fund raising, where in both CapMan has good visibility. In the equity funds the typical management fee is between 1.0-2.0 % and in real estate funds the typical management fee is between 0.5-1.0 %. In 2015 CapMan earned some 24.4 MEUR in management fees according to our estimates.

Carried interest means the distribution of profits of a successful private equity fund among fund investors and the fund manager. In practice, carried interest means a share of a fund's cash flow received by the fund manager after the fund has transferred to carry. In order to transfer to carry, a fund must return its paid-in capital to investors and pay a preferential annual return on this. The preferential annual return is known as a hurdle rate, which is typically set at 8 % IRR p.a. When a fund has transferred to carry, the remainder of its cash flow is distributed between the fund investors and the fund manager. Investors typically receive 80-90 % of the cash flows and the fund manager 10-20 %. It is important to understand that when the fund is in carry, fund manager receives carried interest income from all of the fund's cash flow generated, even if an exit would be made below its acquisition cost. Also it is worth noticing that carried interest cannot be negative and thereby it can be seen as an option.

Historically an average time for CapMan funds to transfer to carry has been 6.6 years. The carried interest received by CapMan is then divided between actual fund managers and CapMan Plc. Currently distribution ratio between fund managers and CapMan Plc. is 60/40. Carried interests are used to align the interests of investors and fund managers. As the earnings potential represented by carried interest is very significant for a fund manager and its investment professionals, it is in their interest to manage investment activities as profitably as possible. Investors benefit from investment professionals being motivated to maximize everyone's returns. As CapMan starts to receive carried interest only the fund has exceeded the preferential annual return or hurdle rate, the carried interest is heavily weighted towards the exit phase of the fund. We have illustrated the carry potential of the individual fund in the page 9.

# Company overview (2/2)

## Services

CapMan's service 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 2.5 MEUR in 2015. 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.

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 is currently 100 % owned by CapMan which can have some negative impact on its business due to the fact that CapMan is direct competitor for several Scala's potential clients. Thereby we believe that in the long term CapMan could and even should try to reduce its ownership in Scala in order to realize its full potential. The optimal ownership could be i.e. 40-49 % which would give CapMan a clear strategic ownership stake, but would make Scala truly independent. However we do not expect any changes in Scala's ownership in the short term as the business is still in ramp-up phase.

Overall we estimate that the sales of CapMan's service business will be around 4 MEUR in 2016 and with its current business setup the potential of the business would be around 6 MEUR in a few years.

## Investments

CapMan's investment portfolio totaled some 104 MEUR at the end of Q2'16. The portfolio is roughly divided equally between CapMan's stake in Norvestia and its investments in its own funds.

CapMan acquired its 28.7 % stake in Norvestia in May 2015 from Kaupthing. The acquisition price was 10.09 EUR per share (Norvestia's book value). The total acquisition price was 45 MEUR, which CapMan fully financed with a 45 MEUR bank loan. Current value of the Norvestia stake is 50 MEUR.

The logic behind the Norvestia transaction was to expand CapMan's footprint in private equity market as Norvestia's investment scope is much wider than CapMan's due to the minor ownership stakes and smaller portfolio. After the transaction Norvestia announced its new strategy where it aims to increase its private equity investments to 50 % of its total fund. Also CapMan saw potential to increase Norvestia's IRR using various tools i.e. leverage & larger share of private equity investments.

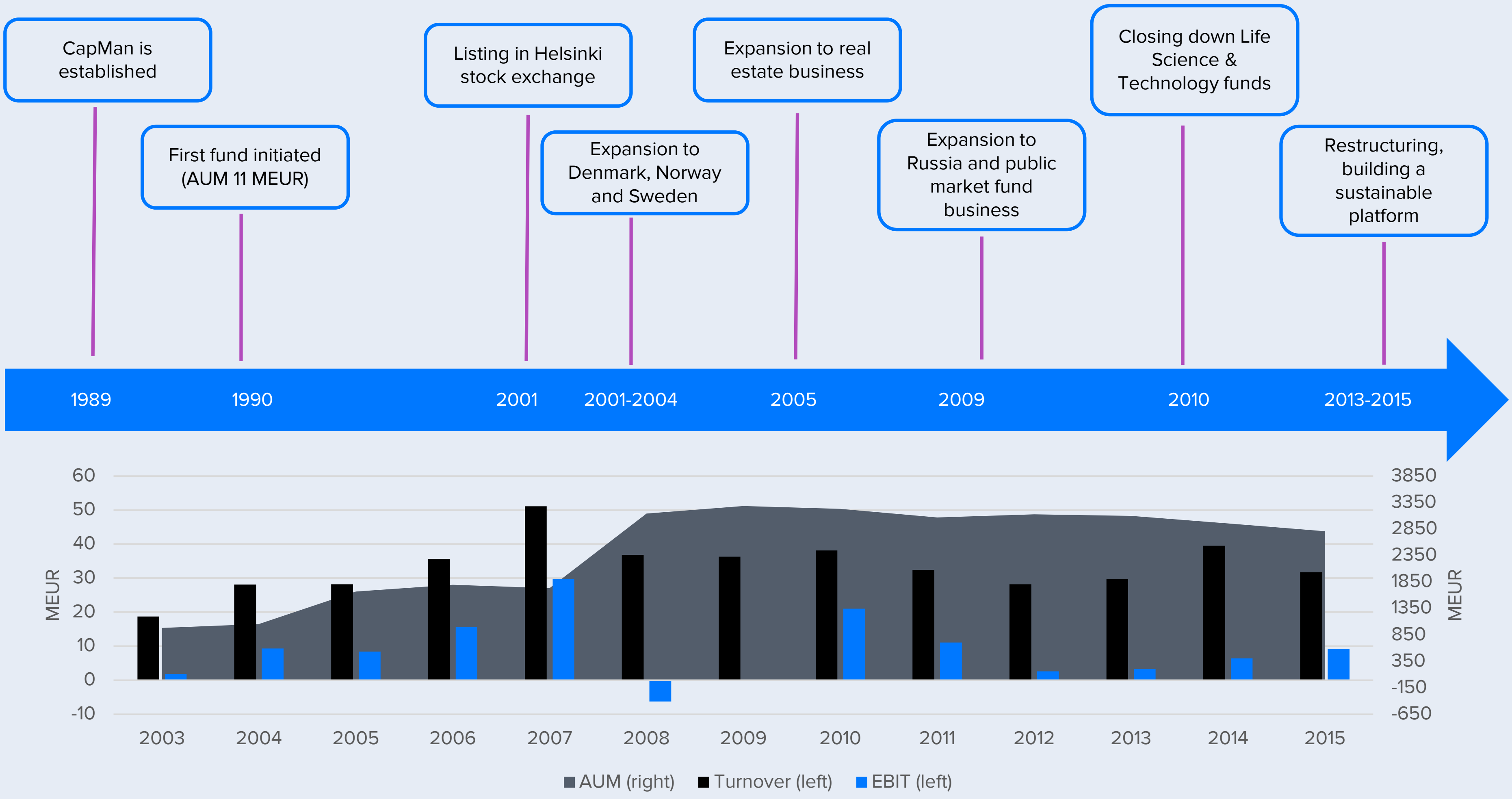
Since 2002 CapMan has made significant investments in its own funds and at the end of Q2'16 CapMan had some 47 MEUR worth of investments made in its own funds. In these funds CapMan is a regular fund investors just like its clients and it does not receive any special benefits. The main idea behind these investments is that it will even out the potential fluctuations in CapMan's financial performance as the income from the investments are realized more steadily than carried interest income. The other idea behind these own fund investments is naturally to allow CapMan's shareholders to get exposure to private equity markets and benefit from CapMan's successful fund managing. In the future CapMan aims to invest between 1-5 % of the original capital of the future fund, depending on the demand for the fund and CapMan's own investment capacity.

Rest of the investments consists of CapMan's holdings in Maneq funds, which amounted to some 7.2 MEUR at the end of Q2'16. Maneq funds are employee compensation and investment vehicles. CapMan has stated that it will not establish new Maneq funds and we are expecting these investment to wind down gradually during the period of 2016-2017 as the underlying funds will be entering the exit phase.

## Income from investments

Investments generate income to CapMan through the changes in fair values of own funds or through the changes in NAV of Norvestia. So basically if Norvestia's NAV increases, CapMan books fair value in its income statement. However, it is worth noticing that these fair value changes do not have a cash flow impact. The cash flow comes from two sources: exits in own fund investments and dividends from Norvestia. The cash flow from own fund investments weighs heavily towards the end of the funds lifecycle and it follows the same pattern as the flow of carried interest income. The amount of cash flow received naturally depends on the success of the investments, but is clearly less sensitive than the carried interest stream.

# CapMan's history




Source: CapMan

# CapMan in brief

**Management business**

| Buyout | Real Estate | Credit | Russia | Other |
|---|---|---|---|---|
| Focus: mid-sized buyouts in Nordics<br>AUM: ~800 MEUR<br>Number of funds: 4<br>Team: 16 ppl<br>Location: Finland, Sweden | Focus: Nordic Real Estate market<br>AUM: ~1700 MEUR<br>Number of funds: 5<br>Team: 20 ppl<br>Location: Finland, Sweden, Denmark, Norway | Focus: Unitrache and mezzanine debt to Nordic SME's<br>AUM: ~200 MEUR<br>Team: 4 ppl<br>Location: Sweden | Focus: Growth financing for Russian SME companies<br>AUM: ~200 MEUR<br>Number of funds: 2<br>Team: 10 ppl<br>Location: Russia | Focus: Technology and Life Science<br>Number of funds: 2, no new funds after 2010<br>AUM: ~50 MEUR<br>Location: Finland |

**CapMan platform**

Management fees & carried interest

**Services**

SCALA

CaPS Exceptional Benefits

Management fees and success fees

**Investments**

**Investments in own funds**

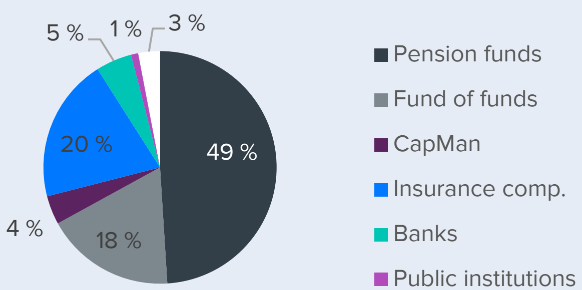
Market value 53,8 MEUR
Commitments: 26,5 MEUR

**Norvestia**

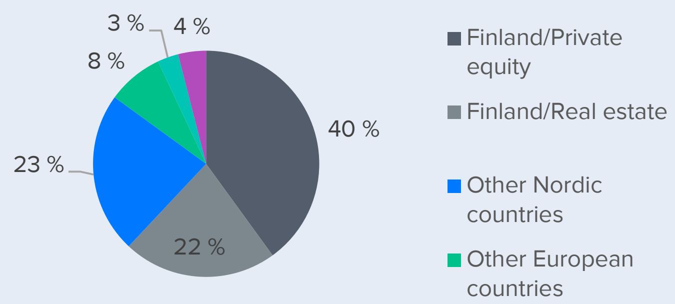
Market value: 49,9 MEUR
28,7 % ownership

Investment income

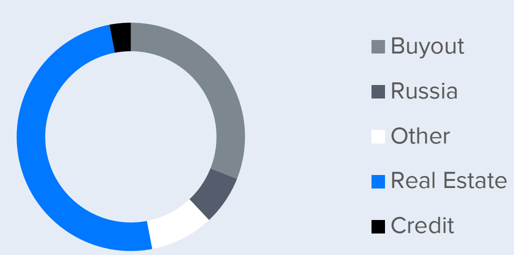
Capital invested per investor type H1'16




Capital commited by region H1'16

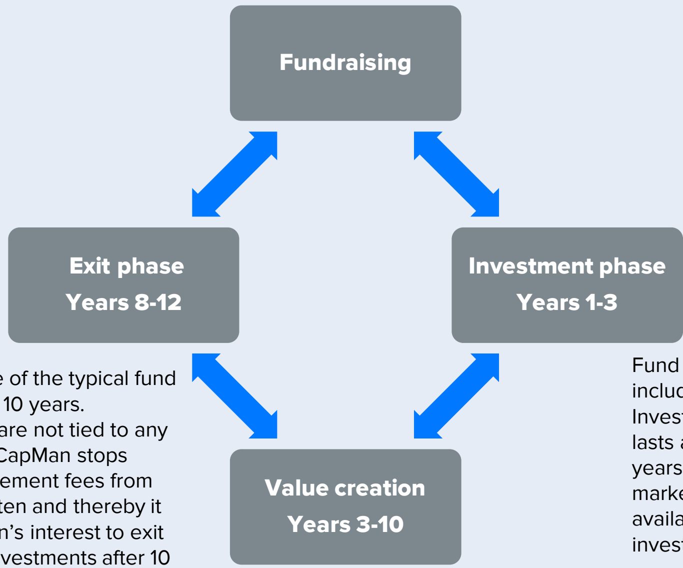



Capital under management by teams 2015




Source: Inderes, CapMan

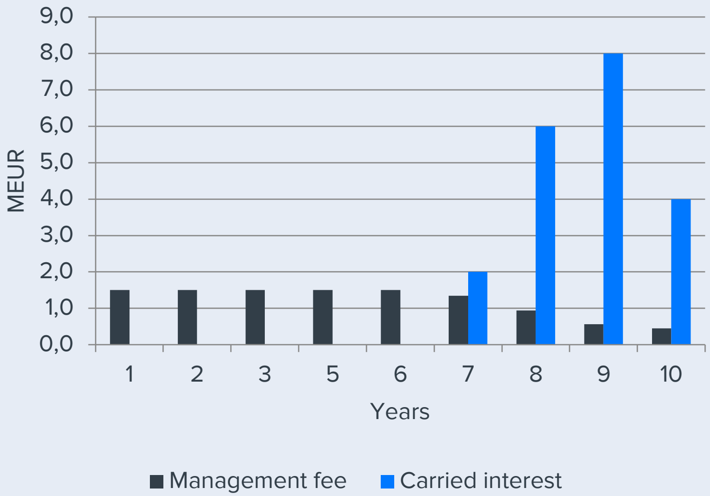
# Fund raising cycle and carry potential




Targeted lifetime of the typical fund is approximately 10 years. However, funds are not tied to any strict timetable. CapMan stops receiving management fees from funds after year ten and thereby it is also in CapMan's interest to exit majority of the investments after 10 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. Steadily growing topline
2. Improving EBIT mix
3. Strong cash flow
4. Limited risk profile
5. High and growing dividend yield

## Potential

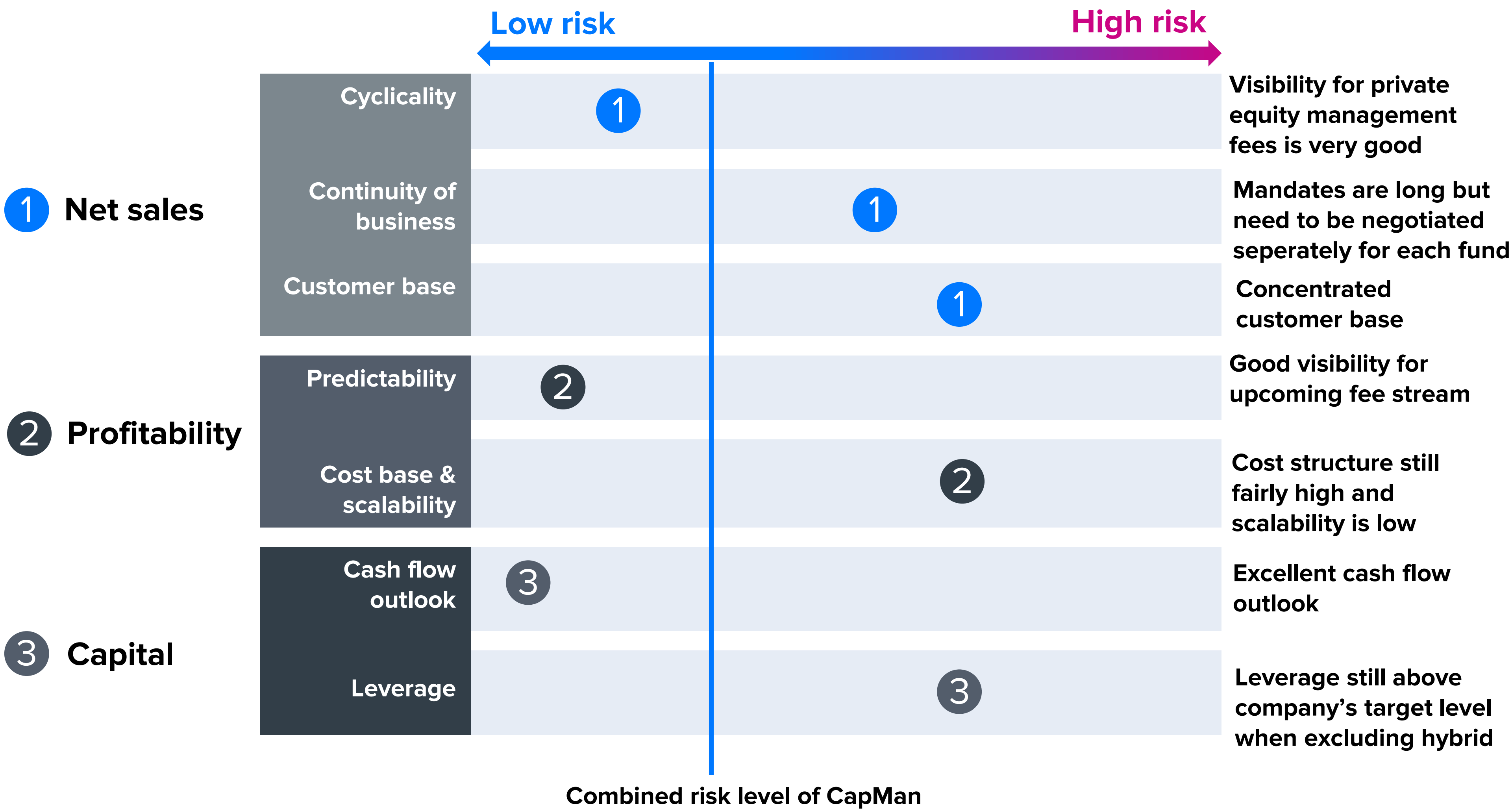
- Growth in Services
- New businesses
- Still potential to lower the cost base
- Strong cash flow enables new investments
- Consolidation of the industry

## 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

Source: Inderes

# Risk profile




Source: Inderes

# Strategy and financial targets (1/3)

## 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.

During the past three years CapMan has been focusing its operations and cutting down costs in order to cover the operational expenses with its management fees. Since 2014 CapMan's costs and management fees have been in balance. According to our view CapMan's current strategic priorities include:

- Expand the current product offering towards more flexible solutions i.e. mandates
- Capitalize the full potential of investment partnerships
- Growth in Services business
- Expand customer base to new customer segments

We believe that CapMan's strategy aims to sustainably move the company back on to the growth path. CapMan has made clear progress with its strategy as the new growth initiatives together with Services business have provided a decent platform for growth. At the same time the cost base has continued to come down which should provide a good foundation for profitable growth in its management business.

From the balance sheet's perspective we believe that CapMan's short term priority is to lower its leverage and redeem its hybrid bond. Also the company will continue its investments for its new funds. Over the longer term we believe that CapMan will apply a more opportunistic approach towards its balance sheet which could include M&A or investment in single equity mandates.

Overall we see CapMan's current strategy guiding the company to 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.

## Financial targets

CapMan updated its financial targets in 2015 and it currently has following targets:

- Return of equity over 20 % p.a.
- Equity ratio of at least 45-60 %
- Payout ratio of at least 60 %

We see the 20 % ROE target challenging for CapMan under the current balance sheet structure. With a current equity (including hybrid bond) standing at around 65 MEUR, CapMan would need to earn some 16 MEUR in pre-tax profit in order to reach this target. Even though the notable leverage from the Norvestia transaction helps CapMan to achieve this target, the 16 MEUR PTP (with normalized tax rate) would require significant carry income and we believe that normalized profitability levels are below this.

Over the long term the target should be achievable as CapMan redeems its hybrid bond in 2017. If this happens as we expect, the target should become more easily achievable (needed PTP ~13 MEUR) and we see this being in line with normalized profitability of CapMan. In our base case CapMan's normalized PTP would be around 13 MEUR. Our basic assumption is that Norvestia will continue to earn 7 % IRR, fair value gains will be 6 %, management business will earn around 4 MEUR per year and carried interest should be around 4 MEUR per annum. With the current balance sheet structure this would translate to ROE-% of 15 %. However, if we exclude the hybrid bond the ROE-% would exceed the target level.

**Equity ratio -%:** CapMan has stated that its target is to maintain a strong financial position both leverage and liquidity wise. Currently the equity ratio stands at 44 % and it should improve rapidly due to the strong cash flow.

The company's equity ratio will also face pressure during 2017 as we expect CapMan to redeem its 15 MEUR hybrid bond during Q4'17. However due to the strong cash flow and improved profitability the equity ratio should stay in target range. It is worth to notice that the equity ratio does not take Norvestia's shares into consideration. If we treat Norvestia's shares as a cash equivalent the balance sheet would be debt free.

**Payout ratio -%:** In its payout ratio target CapMan says that its average dividend from the past 10 years has been 0.07 euros per share and CapMan aims to exceed this historical level in the future. We expect CapMan to continue its shareholder friendly dividend policy in the future and due to the strong cash flow the company is able to keep its dividend on a growth path despite the ongoing deleveraging.

# Strategy and financial targets (2/3)

## Strategic drivers

- Growing interest for non-listed investments
- Increasing regulation
- Growing asset management market
- Low yields

## Strategic actions

- Increase product offering
- Expand to new customer segments
- Increase operational efficiency
- Capitalize benefits of scale as regulation squeezes smaller players
- Focus on value creation in current funds

## Strategic goals

- Topline back on growth track
- Improved profitability of the management business
- Lower volatility of earnings and better earnings mix
- Improved IRR from the levels achieved during the past few years

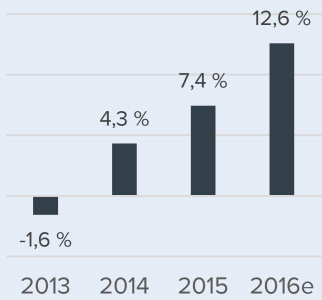
Source: Inderes

# Strategy and financial targets (3/3)

## Profitability

Return of equity > 20 %

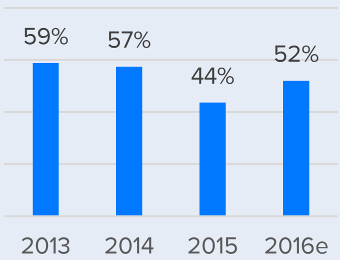
**11 %**
Rolling 12m




## Leverage

Equity ratio between 45-60 %

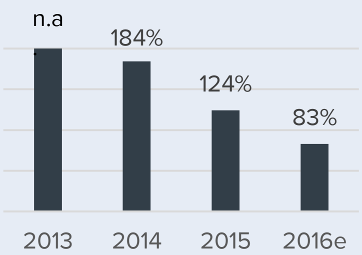
**44 %**
Q2'16




## Payout

Payout at least 60 %

**83%**
2016e

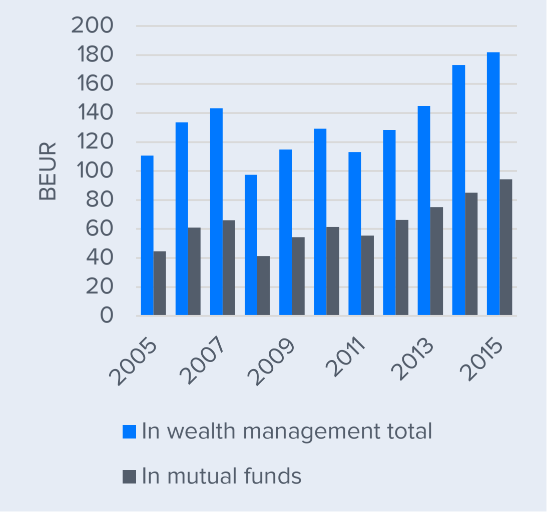



Source: CapMan, Inderes

# Industry overview

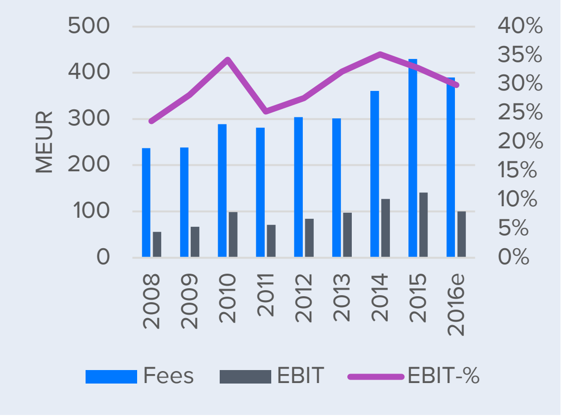
## Finnish asset management industry grows

Despite the gloomy outlook 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 182 BEUR at the end of 2015. Due to the gloomy economic outlook in Finland we expect the creation of new wealth to stay at a low level. However 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.




## 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 tiers.

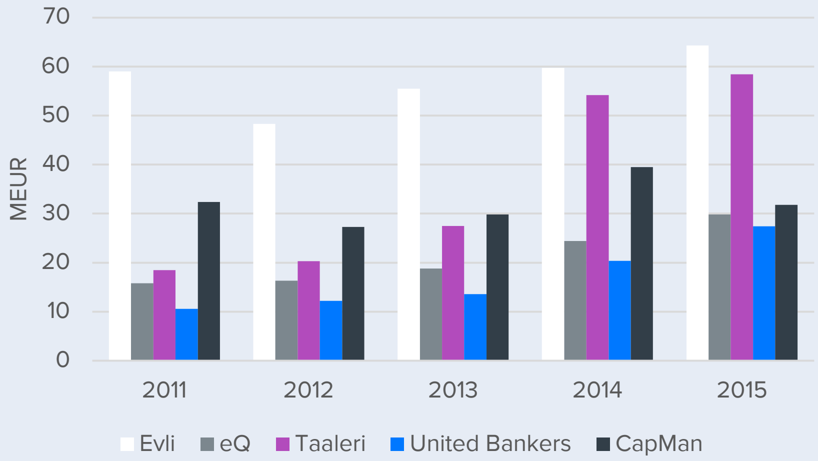
The main implications of these changes are:

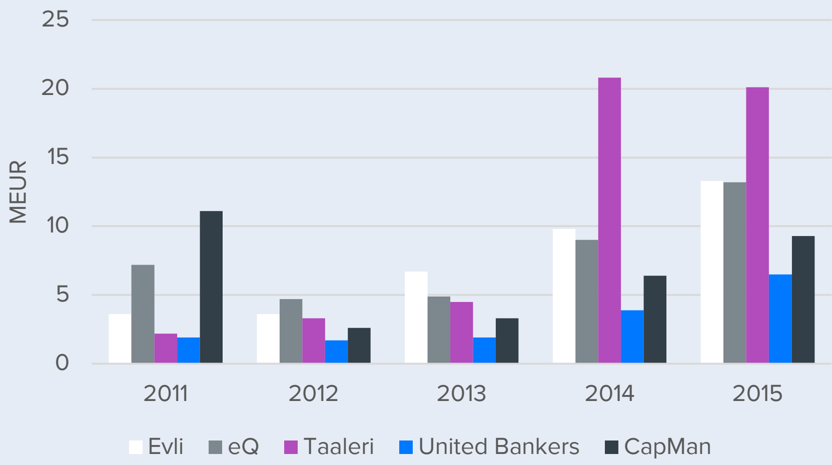
- Increasing price pressure
- Polarization between high and low quality products
- Wider profitability differences between players
- Growing number of new products
- New more flexible and visible business models

Source: Inderes, FiVa, Bank of Finland

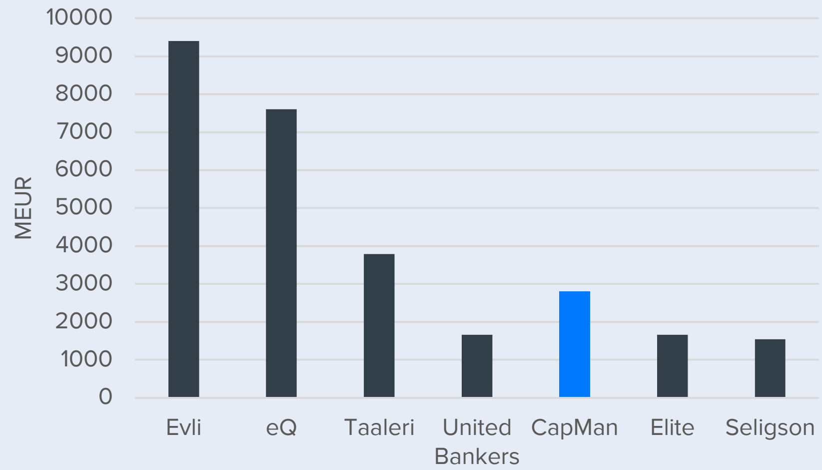
# Comparison to domestic peers

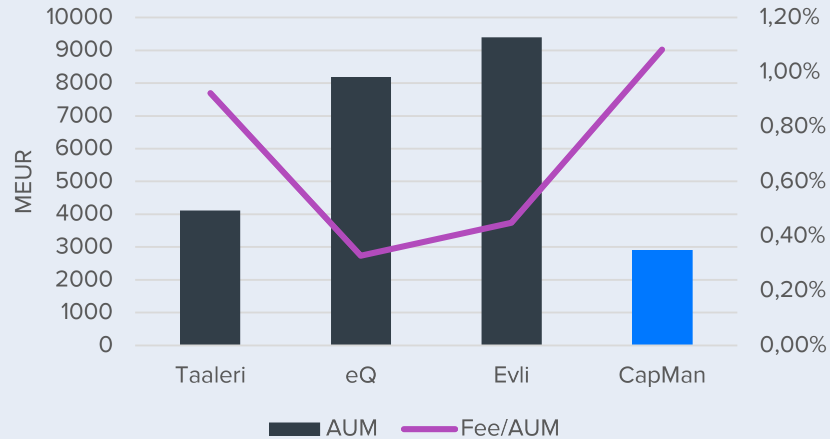
## Sales (upper) and EBIT (lower)




## AUM (upper) and fee/AUM (lower)




Q2'16 figures, fee = net sales of wealth management business (rolling 12m)

Source: Inderes, CapMan, companies

# 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 0.5 MEUR p.a.).

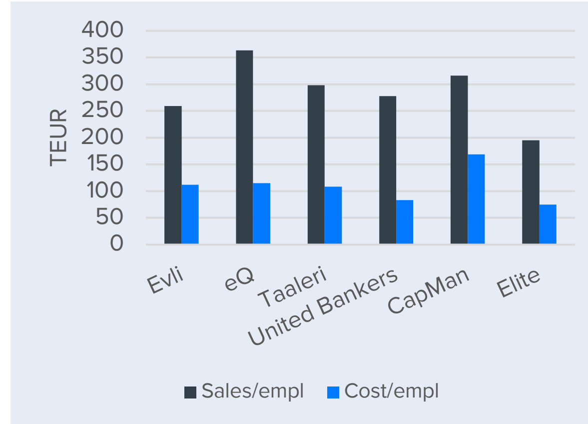

In 2015 personnel costs were 17.1 MEUR and other costs were 10.6 MEUR. In recent years CapMan has been trimming down its cost structure as the cost base increased too much after the financial crisis and management fees were not enough to cover the fixed cost base. As can be seen on the graph above, the total fixed cost base (excl. depreciations) has come down some 10 MEUR since 2010. This comes mainly from personnel costs as CapMan reduced its number of employees from 150 in 2010 to 101 in 2015. 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 150 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 2010-2015. We believe that clearly above average salary base derives from employee mix weighting toward experienced employees and from the higher basic salaries. 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 should come down significantly in 2016 as CapMan will relocate its headquarters to smaller and cheaper premises. In total the other costs should come down ~10 % to around 9.5 MEUR which we see as a normalized level going forward. Although the cost efficiency will continue as the company has clearly implemented new more cost oriented mindset under the current management, the increased spending in IT, mounting regulation burden and growth initiatives will even out these savings.

## Sales per employee at high level

CapMan's average sales per employee was some 316 TEUR in 2015 and it is clearly above peer group's average (285 TEUR). We believe that this is due to the CapMan's employee mix, high quality of AUM and focus on core business.




## Cost structure is now sustainable

Overall we expect the company's cost base to stay fairly flat from 2016 onwards, excluding the fluctuation coming from employee bonuses. 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 implemented by the current managements increases faith toward the sustainability of the profitability improvement in management business.

Source: Inderes, CapMan, companies

# Balance sheet analysis

## Balance sheet structure

Typically in the fund management industry CapMan's business model is extremely light asset wise and only major assets are its investments in Norvestia and own funds.

In Q2'16 CapMan's non-current assets totaled some 119 MEUR. Majority or 102 MEUR of this amount was tied in investments (Norvestia, own fund investments and Maneq). The total amount of investments should come down somewhat during the upcoming years as Maneq investments (H1'16 7.2 MEUR) will wind down and the amount of own fund investments will shrink as the equity calls will fall clearly below the investments in own funds.

Besides these assets CapMan also had 6.6 MEUR of goodwill and intangible assets. 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 (2017-2018). 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.

CapMan's cash position is strong and total cash amounted to some 20.6 MEUR at the end of Q2'16. The amount of liquidity is clearly excess when comparing the day-to-day needs of CapMan and we are expecting the company to use this cash to pay down some of its debt. We believe that the normal liquidity position for CapMan would be somewhere between 10-15 MEUR. Other assets include typical day-to-day business related assets such as receivables (7.2 MEUR) and deferred tax assets (4.4 MEUR).

In Q2'16 CapMan's total equity stood at 64 MEUR. This equity contains 15 MEUR hybrid bond (issued in December 2013). The yield of this bond is 8 % and it matures in December 2017. However, CapMan can call this bond earlier with a penalty fee of some 4 %. Although hybrid bond accounting wise are addressed as an equity instrument, investors should see it as a debt instrument as CapMan pays yield for its holders. We expect CapMan to call this bond in December 2017 and we do not expect CapMan to renew it due to the high yield and improved balance sheet structure.

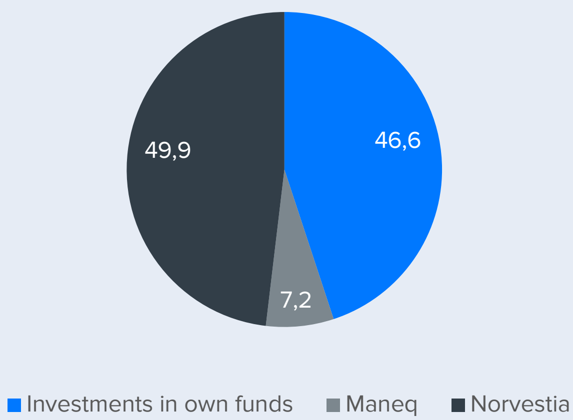
CapMan has 68 MEUR worth of long and short term debt which is partly due to the excess cash position. The average interest of this debt is low and we expect it to be somewhere between 3-4 %. Other liabilities are some 11.7 MEUR including mainly trade payables.

Outside the balance sheet, CapMan has made some 29 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.

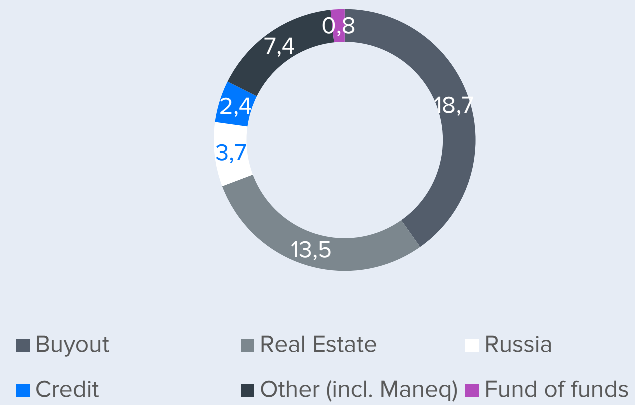
Overall CapMan's balance sheet is strong and if we treat Norvestia's shares as cash comparable, the balance sheet is debt free (excluding the hybrid bond). The company's equity ratio currently stands at 44 % and should improve notably as the cash flow stays at a strong level.

# Financial status summary

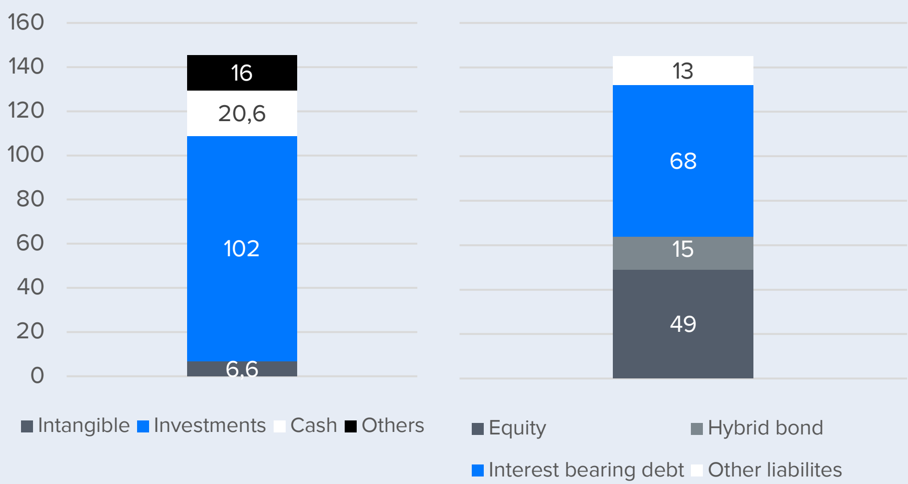
## Investments Q2'16 (MEUR)

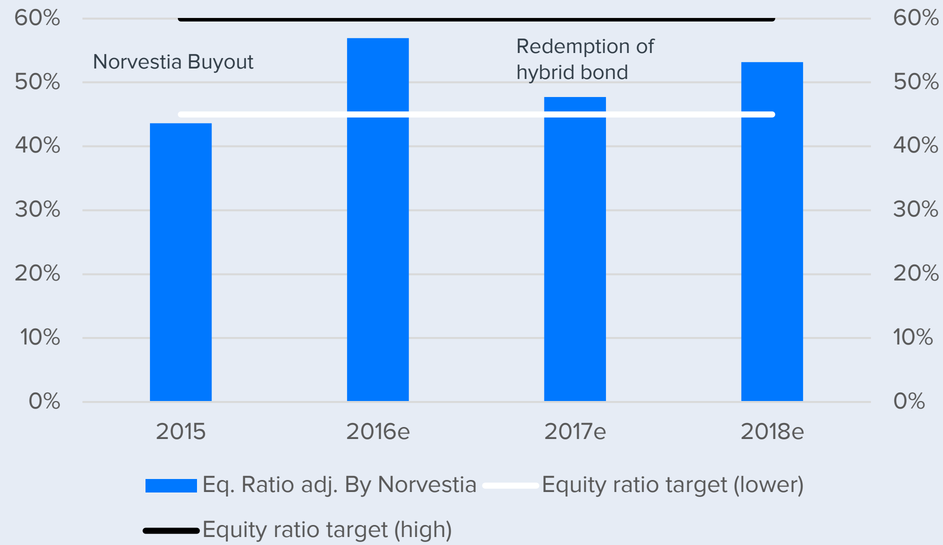



## Distribution of own fund investments (MEUR)




## Balance sheet structure Q2'16




Source: Inderes, CapMan

# Carried interest analysis

### Short term carry outlook is moderate

CapMan currently has 14 active funds under its management. In order to understand the earnings potential relating to the funds, they need to be analyzed one by one. Here we focus on the funds, which would transfer to carry during 2016-2018e.

Historically CapMan's equity funds have achieved annualized IRR of 29 %. This is a superior figure, but it is clearly inflated by the superior performance of older funds during the dotcom boom. Also it does not include Life Science or Technology funds as they are no longer part of CapMan's investment strategy. As a result of this the annualized IRR has been declining steadily during the past decade.

It is now widely accepted that the world's economy and especially developed world has moved to a period of slower economic growth called the new normal. Under this environment the economy will grow below its long term trend as developed countries are struggling with both structural and debt problems. The slower economic growth will have a negative impact on future earnings growth. This will obviously also have an negative effect on the expected returns or IRR's of the private equity industry. Under the new normal economic conditions it is fair to assume that private equity's IRR returns will be below historical 20-30 % level and we expect CapMan's own IRR to be 15-20 % over the long term, which is still a strong level.

Overall the carried interest outlook for the period of 2016-2018e is moderate at best as the potential is diluted by the funds initiated during the boom years of 2006-2008. Thereby we estimate carried interest earned to stay below "normalized" levels over the next few years. Over the longer term the carry potential is clearly above the current levels as the funds initiated in more favorable time starts to yield carry.

### Older equity funds

Finnmezzanine III and CapMan Equity VII are the oldest funds in CapMan's portfolio. These funds were initiated during 2000-2003 and they are on the final stage of their exit phase. These funds are already in carry and they are holding two companies: Connode and Infocare. From these companies Infocare is clearly the largest one with a revenue of 180 MEUR (ownership 82.5 %) and its exit ultimately decides, how much carried interest is earned. The fair value of these funds in Q2'16 was 12.1 MEUR and CapMan's share of the carry is around 15 %. We expect CapMan to exit both companies still during 2016 and earn some 2.5 MEUR worth of carry in Q4.

### Buyout 8

The largest Buyout fund CapMan has initiated and its initial size was 440 MEUR. The fair value of the portfolio in Q2'16 was 96 MEUR and the cash flow required for investors was 261 MEUR. Portfolio holds four companies: Walki, Fortaco, Komas and Maintpartner. We don't expect the fund to generate any carry due to the difficult situation in Fortaco and wide gap between fair value and cash flow needed.

### Buyout 9

Fund was established in 2009 and it is still in the value creation phase. The timing of the fund was excellent as the valuation levels were at historical low levels. Fund is still at value creation phase and its fair value at the end of Q2'16 was 163 MEUR, while the cash flow required in order the fund to carry was 261 MEUR. We see notable potential in this fund due to the excellent timing of the initiation of the fund and we are expecting it to start generate carry in 2018.

### Nordic Real Estate

CapMan has divested some 50 % of its holdings in Nordic Real Estate during Q3'16. We believe that CapMan will divest rest of the holdings most likely during 2017 as CapMan wants to take advantage from the overheated property market in the Nordics. The carry potential of the fund should be decent as the timing of the fund has been excellent. However as the visibility is still limited we are cautious with our estimates.

### Other Real Estate funds

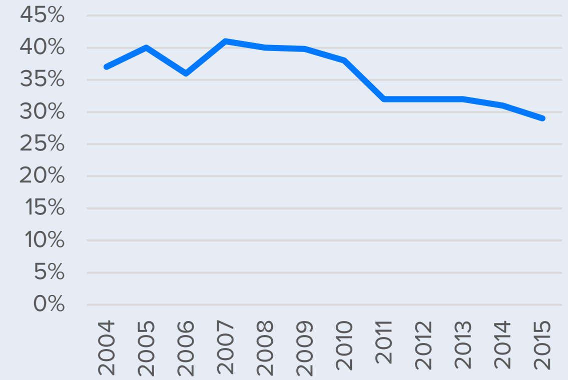
CapMan has three large Real Estate funds established between 2005-2008 (RE I, II and Hotels). We expect CapMan to exit these funds during the period of 2016-2019. The Finnish real estate market is currently booming as the actions of ECB have pushed yields lower. From this perspective the environment for exits is excellent. Real Estate I won't be generating any carry. For Real Estate II we see carry to be fairly unlikely and it would require notable boost from the market to reach that. Hotels fund could generate carry, but the large size of the portfolio will make the divestment difficult. Thereby we are cautious with our real estate carry estimates and we currently do not expect them to generate any carry.

# Carry outlook summary

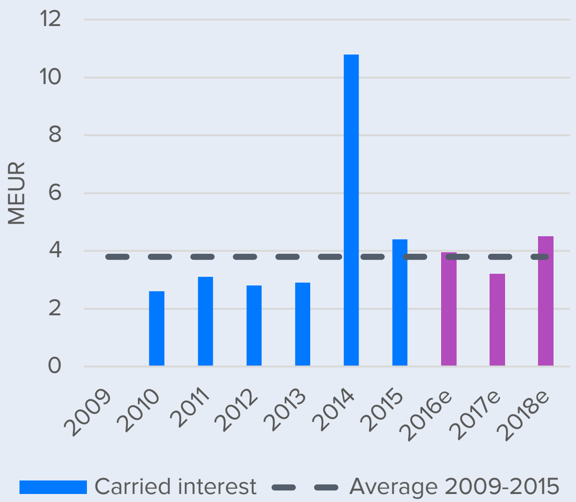
| Q2'16 (MEUR) | Established | Original size | Fund's current portfolio | | Amount needed for fund to transfer in to carry | Carry potential for CapMan (Inderes estimate) | Timing of potential carry |
|---|---|---|---|---|---|---|---|
| | | | At cost | At fair value | | | |
| **Buyout funds** | | | | | | | |
| **Funds in carry** | | | | | | | |
| FV V, FM III, CME VII, CME Sweden, CPM | 2000-2003 | 710 | 37 | 12 | In carry | Mediocore 2-5 MEUR | 2016-2017 |
| **Funds in exit/ value creation phase** | | | | | | | |
| Buyout VIII | 2006 | 440 | 110 | 96 | 261 | No potential | 2017 |
| Russia I | 2007 | 118 | 69,5 | 74 | 148 | No potential | 2018 |
| Buyout IX | 2009 | 295 | 171 | 142 | 249 | Significant | 2018-2020 |
| Mezzanine V | 2010 | 95 | 41 | 47 | 58 | Mediocore | 2018-2020 |
| **Funds in investment phase** | | | | | | | |
| Buyout X | 2013 | 245 | 138 | 150 | | Significant | 2020 onwards |
| Russia II | 2013 | 99 | 20 | 9,9 | | TBA | TBA |
| Nest Capital 2015 | 2015 | 101 | | | | TBA | TBA |
| **Real Estate Funds** | | | | | | | |
| **Funds in exit/ value creation phase** | | | | | | | |
| Real Estate II | 2006 | 600 | 297 | 296 | 183+173 debt | No potential | 2017-2018 |
| Hotels | 2008 | 950 | 886 | 800 | 471+448 debt | No potential | 2017-2018 |
| Kokoelmakeskus Ky | 2016 | 19,3 | 19,3 | 19,3 | | Small | In next decade |
| **Funds in investment phase** | | | | | | | |
| Nordic Real Estate | 2013 | 273 | 165 | 200 | | Significant | 2018 onwards |
| **Fund with no carry potential** | | | | | | | |
| SWE LS, SWE Tech, CMM IV, CMLS IV, CMT 2007, RE I | 2000-2008 | ~1000 | 140 | 130 | | | |

The CapMan Real Estate I fund transferred into carry in 2007. Of the 27.4 MEUR carried interest paid in 2007, some MEUR 5 was not entered in CapMan's profit in 2007 but instead left in reserve in case that some of the carried interest would have to be returned to investors in future. CapMan's share of the entered carried interest was approx. 13.5 MEUR and the share of minority owners was approx. 7.5 MEUR. According to CapMan the remaining accrual of 5 MEUR (including the minority owners' share) is adequate to cover the possible return of carried interest. From investors perspective this basically means that if the Real Estate I doesn't reach to carry phase, CapMan could possibly be forced to pay 13.5 MEUR of which some 8 MEUR is uncovered (reserves 5 MEUR). Base case for our estimates is that the reserves will be enough and that CapMan won't need to return more capital back to investors.

Historical IRR development




Carry history and estimates




Source: Inderes, CapMan

# Future estimates (1/2)

### Strong earning outlook driven by mix improvement

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.

### 2016 - expecting a good result

CapMan has not given out any guidance for 2016. However, we believe that the internal goal of the company is to increase EPS. In H1'16 CapMan's EBIT has climbed to 7.2 MEUR (H1'15: 3.7 MEUR) due to the strong development in fair values and declining cost base. More importantly the company has progressed well in its strategic initiatives and as a result it has announced private real estate mandates worth some 500 MEUR and it has expanded its client base more towards the tier2 institutions. According to our knowledge the company is also planning various other growth initiatives (i.e. expansion of its real asset management business and private equity buyout mandates).

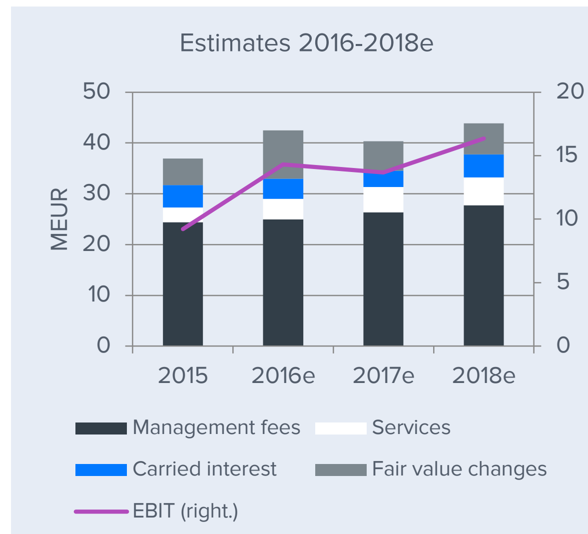
These growth initiatives together with a declining cost base (new office leases and overall cost control) should help the company lift the profitability of the management business notably from the current breakeven level. We expect good development to continue in the latter half of the year and overall we expect CapMan to earn some 13.9 MEUR EBIT in 2016. Our forecast relies on the assumption that CapMan will divest InfoCare in 2016 which is the largest investment in Equity VII fund. Our EPS estimate is 0.10 EUR and it is weighted down by the high interest of the hybrid bond. We expect CapMan to boost up its dividend to 0.08 EUR (0.07 EUR).

### 2017 - management business should achieve decent profitability

In 2017 we expect CapMan's topline to grow some 6 % as the Services business continues to grow and the AUM increases slightly due to the new real estate mandates which should overcome the winding down of the older real estate funds. We also expect CapMan to start fundraising for new Nordic Real Estate fund which should support AUM in 2018. The cost base should continue to decrease due to the new office leases and continuous cost control. We are not expecting any major growth in the number of employees in upcoming years as the goal of the new growth initiatives is to extract more efficiency from the current workforce.

Overall we expect management business EBIT to be some 4.2 MEUR or some 13 %. The level is high when comparing the historical level of CapMan (negative or breakeven), but still low when comparing to peers in the fund management industry overall. According to our estimates the average profitability (EBIT-%) of Finnish fund management industry is some 25-30 % and the best peers (i.e. eQ) currently achieve profitability levels of ~50 %. Thereby we still see a lot room to improve for CapMan if the company is able to decrease the cost base and new growth initiatives are successful.

We expect investment income to decline in 2017 to 5.8 MEUR (2016e 9.5 MEUR) due to the declining equity market returns (Norvestia) and major one-offs in 2016 (Esperi & Samsa). Also carry stays at a mediocre level and leans on the older funds. The improving profitability of the management business should be enough to overcome the decline in investments and carried interest and we expect EBIT to be at 13.7 MEUR. The hybrid bond still continues to weight down the EPS and we expect it to be 0.10 EUR. Dividend will continue its gradual increase and we expect a dividend of 0.09 EUR.




Source: Inderes

# Future estimates (2/2)

### 2018 - profitability close to current potential

In 2018 we expect CapMan's topline to continue to grow some 8 % as the AUM increases slightly and the AUM's mix improves (new private mandates, Nordic Real Estate II, Buyout XI). Also the Services business should continue to grow.

We expect cost base to increase only slightly and thereby the profitability of the management business should continue to improve (2018e: 5.7 MEUR). Investment income will suffer from weakening market environment. Carried interest earned should increase from 2017 level as the Buyout IX should start to generate carry together with Mezzanine V.

Overall we expect EBIT of 16.4 MEUR which in our view demonstrates quite well the current earnings potential of CapMan. As we expect CapMan to redeem its hybrid bond in 2017 the EPS will climb notably to 0.14 EUR.

### Cash flow outlook is strong

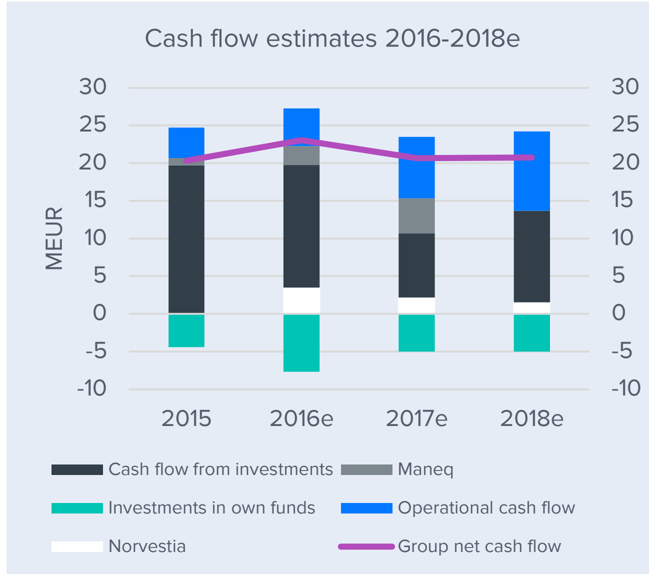
CapMan's cash flow outlook for the period 2016-2018e is strong and cash flow should exceed net result notably in upcoming years. The major drivers for the cash flows are:

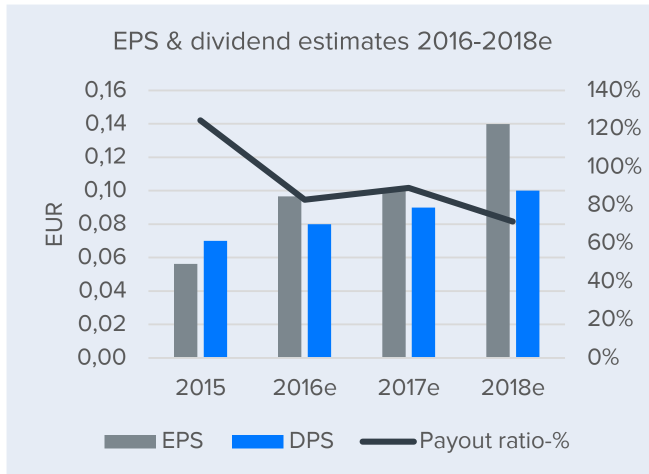
As the older funds where CapMan has major investments continues to wind down (i.e. Buyout 8 and Maneq), they should provide major cash flow for CapMan in upcoming years. We estimate that the average cash flow from investments will be around 17 MEUR during the period of 2016-2018e. At the same time investment to own funds will stay significantly below this level at around 6 MEUR p.a. and thereby the net cash flow from investments should be around 11 MEUR p.a.

Norvestia should continue to maintain the high payout ratio and thereby the net earnings should be in close correlation with the actual cash flow CapMan receives. Finally the improving profitability of the management business will improve the cash flows.

Overall we expect CapMan's net cash flow to be around 21 MEUR or 0.24 EUR per share during the period of 2016-2018e. The majority of this cash flow will be channeled towards the debt repayments. We expect CapMan not to renew its expensive hybrid bond which should be redeemed in 2017. Despite this the equity ratio should stay in CapMan's target range (45-60 %) during the estimate period. We believe that over the long run CapMan aims to have an equity ratio close to the upper end of its target range as it would give the company more flexibility to use its balance sheet in more opportunistic way i.e. attend the consolidation of the industry or make investments in its new products (i.e. single private buyout mandates).

We also expect CapMan to continue its generous dividend policy and we expect dividend to increase gradually per year.



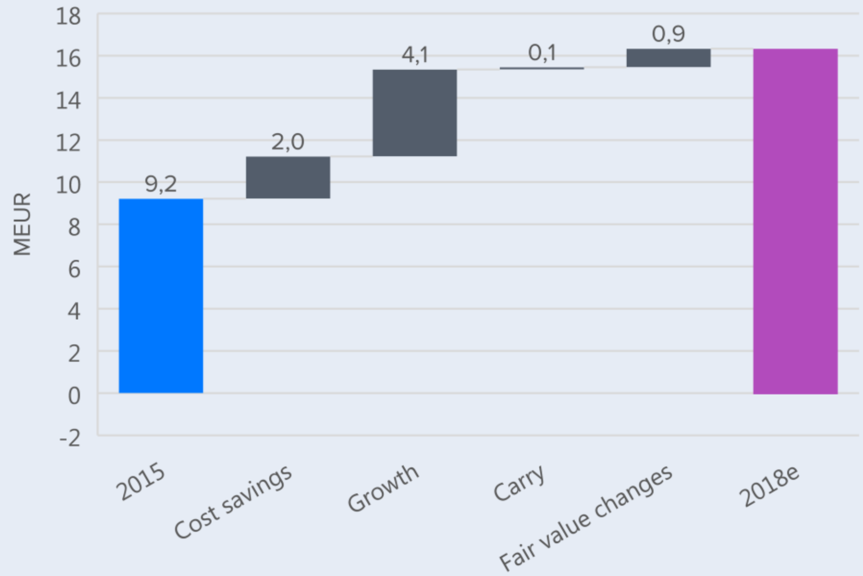



# Estimates overview

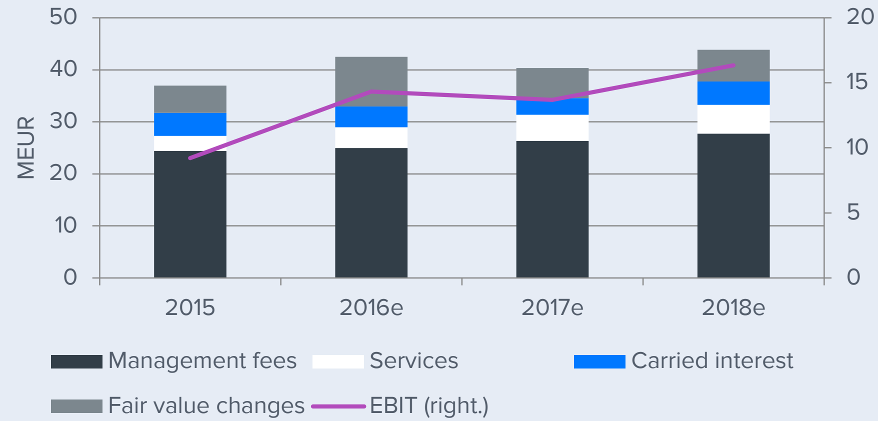
| Key figures (MEUR) | 2014 | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|---|
| AUM | 2956 | 2805 | 2900 | 3000 | 3100 |
| Investment in own funds | 56 | 47 | 39 | 35 | 29 |
| Fair value change -% (own funds) | 0,7 % | 0,3 % | 7,0 % | 6,0 % | 6,0 % |
| Carry | 10,8 | 4,4 | 4,0 | 3,2 | 4,5 |
| Profitability of the management business* | -0,7 | 0,6 | 0,8 | 4,2 | 5,7 |
| Service business revenue | 2,6 | 2,9 | 4,0 | 5,0 | 5,5 |
| | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Operative cash flow | 6,0 | 4,0 | 5,0 | 8,2 | 10,5 |
| Cash flow from fund investments | 10,5 | 16,3 | 14,6 | 10,3 | 8,7 |
| Cash flow from Maneq | 1,0 | 1,0 | 2,5 | 4,7 | 0,0 |
| Dividend from Norvestia | - | 0,0 | 3,5 | 2,2 | 1,5 |
| Investments to own funds | -4,0 | -4,4 | -7,7 | -5,0 | -5,0 |
| Total cash flow | 13,5 | 20,3 | 23,0 | 20,6 | 20,8 |
| Cash flow per share (EUR) | 0,16 | 0,24 | 0,27 | 0,24 | 0,24 |
| | | | | | |
| **Norvestia** | | | | | |
| Investment return -% | 4,4 % | 17,3 % | 7,4 % | 7,0 % | 8,0 % |
| Dividend (EUR) | 0,30 | 0,79 | 0,49 | 0,35 | 0,35 |
| NAV | 149 | 170 | 169 | 174 | 182 |
| CapMan's dividend (MEUR) | - | 0,0 | 3,5 | 2,2 | 1,5 |
| CapMan's share of net result | - | 3,9 | 2,9 | 2,8 | 3,4 |

*Fees excluding carry and fair value changes

EBIT bridge 2015-2018e




Estimates 2016-2018e




Source: Inderes, CapMan

# Valuation and recommendation (1/2)

## Valuation is lucrative

We believe that the best way to analyze CapMan's potential is through a sum of parts analysis. Under the current management CapMan has been taking determined steps towards a more sustainable business model and the clear goal of the management has been to bring out the value in CapMan's parts.

Besides sum of parts we have applied relative and absolute multiple analysis together with a DCF-model. Overall in our valuation we give the major weight for sum of parts and absolute multiples. The average value of the six valuation methods we have used is 1.56 EUR or some 15 % below our target price of 1.35 EUR. This is arguable as the transformation process toward the more sustainable model is still in progress.

Overall we see CapMan's current valuation as lucrative as the share is undervalued with almost every parameter we have used. We believe that the current multiples do not reflect the full value of CapMan's sum of parts and if the transformation of its business model is successful there should still be major upside in the share price. At the same time the high and growing dividend yield provides major support for the share which clearly limits the downside.

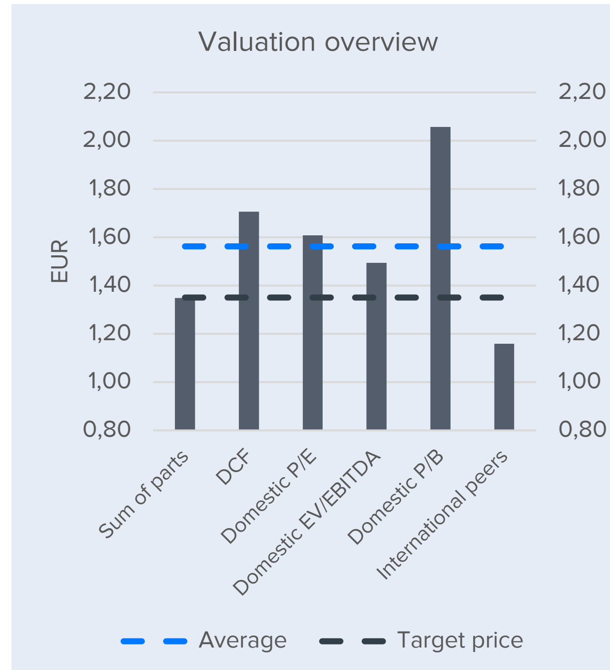
## Sum of parts

Management business is the most valuable part of CapMan. The visibility towards future earnings is high and due to the long commitments of AUM the volatility of CapMan's earnings is exceptionally low. 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 in Services and decline in cost base. 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 should be valued with neutral multiples and we apply the multiple of EV/EBIT 11x. With 11x multiple and 2017 estimated EBIT of 4.2 MEUR the value of the management business is 46 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 2016-2019e is around 4 MEUR which would imply the valuation of 20-32 MEUR. However we believe that the 4 MEUR carry level does not reflect the true potential of CapMan's business and over the long term the carry potential should be clearly higher. We have demonstrated the sensitivity of the change in the EBIT mix in the page 28.

Investments should be valued with their NAV value which at the end of Q2'16 stood at 102 MEUR. When we extract net debt (hybrid included) of 62 MEUR, the net value of sum of parts stands at 116 MEUR or 1,35 EUR per share.




Source: Inderes
Domestic peer group: Taaleri, UB, Elite, Evli, eQ, Privanet
Domestic P/E & EV/EBITDA: 2016e & 2017e average multiple
Domestic P/B: 2016e
International peer group: page 29
International peers: average of 2016&2017 P/E & EV/EBITDA and 2016 P/B

Source: Inderes

# Valuation and recommendation (2/2)

### Multiples still at an attractive level

Despite the recent rally in the share price, the valuation of CapMan still looks attractive. P/E-ratios for 2016 ja 2017 are 12x while the corresponding EV/EBITDA-ratios are around 10x. Dividend yield stands at robust 6,6 % level for 2016 and we expect it to grow some +10 % p.a. during the upcoming years. Multiples are still reflecting market's suspicion regarding the success of the transformation. As the transformation progresses and the company is able to get more land under its feet in the management business, we see clear upside in these multiples. Current multiples reflect a neutral valuation for CapMan in a scenario where management business' profitability stays at the breakeven level and profitability leans heavily on uncertain carried interest. In a scenario where the transformation is successful we see the neutral P/E-ratio being around 15x.

### Peer group valuation

CapMan's multiples are clearly below its domestic peers. We believe that some of this discount is acceptable due to CapMan's ongoing transformation and high dependence on carry/investment income. However as the transformation proceeds we believe that this discount should gradually narrow and eventually diminish. If CapMan is able to lift its management business' profitability to the level we expect, then CapMan's multiples should be in line with its domestic peers. Thereby the domestic peer group valuation supports our view regarding the clear upside potential of CapMan if the company is able to continue its transformation.

The current valuation is in line with the international peers. However, the international peer group contains a large variety of companies and they provide only a loose indication regarding the acceptable valuation level.

### DCF-model

We give relatively low weight for our DCF-analysis due to the its high sensitivity for terminal period and WACC-% parameters. Our DCF value for CapMan is 1.71 EUR per share which supports our view regarding the potential of the company highlighted by our other valuation methods. We estimate CapMan topline to grow steadily and profitability to improve in its management business and carry outlook to remain stable. We expect profitability to spike in 2019 and from thereon to decline towards the average of the industry.

In our model the weight of the terminal period is only 42 % as the cash flow will be exceptionally high in 2016-2020 due to the strong cash flow from own fund investments. We apply a WACC of 8.1 % and equity cost of 9.3 % which both reflect the uncertainty regarding the earnings improvement and current business model which is heavily weighted towards carry/investment income.

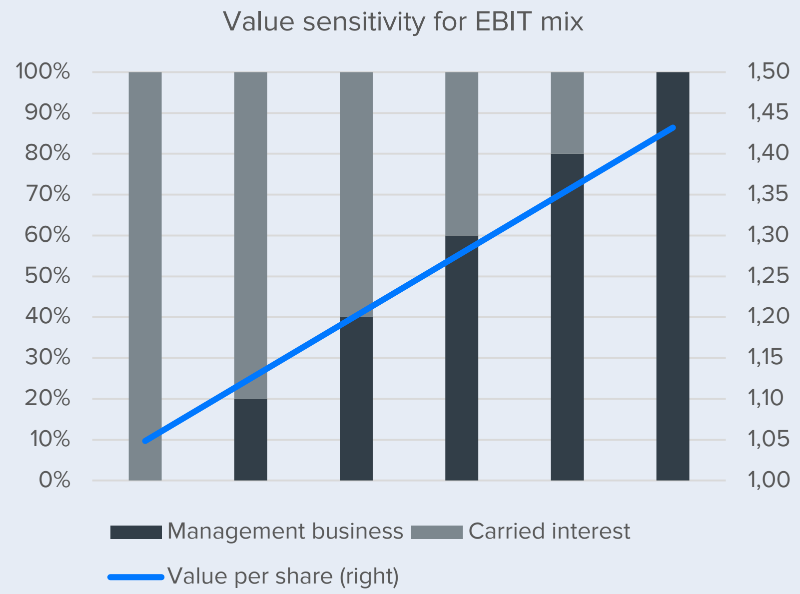
| | P/E 2016 | P/E 2017 | EV/S 16 | P/B 16 | EV/EBIT 16 | EV/EBIT 17 | Div-% 16 |
|---|---|---|---|---|---|---|---|
| Evli | 13,3 | 15,8 | 2,2 | 2,6 | 11,3 | 10,1 | 6,0 % |
| eQ | 17,6 | 15,2 | 5,9 | 3,7 | 12,6 | 10,5 | 7,5 % |
| Taaleri | 16,0 | 13,4 | 4,2 | 2,7 | 13,5 | 11,6 | 3,0 % |
| United Bankers | 58,1 | 13,6 | 2,6 | 4,0 | 19,4 | 8,3 | 6,5 % |
| Privanet | 8,9 | 9,2 | 2,5 | 3,1 | 7,6 | 6,5 | 8,2 % |
| Elite | 34,6 | 20,1 | 2,0 | 3,1 | 33,0 | 16,5 | 2,1 % |
| CapMan | 11,9 | 11,9 | 3,9 | 1,5 | 9,4 | 9,5 | 6,7 % |
| **Average** | **22,9** | **14,2** | **3,3** | **3,0** | **15,3** | **10,4** | **5,7 %** |
| **Median** | **16,0** | **13,6** | **2,6** | **3,1** | **12,6** | **10,1** | **6,5 %** |

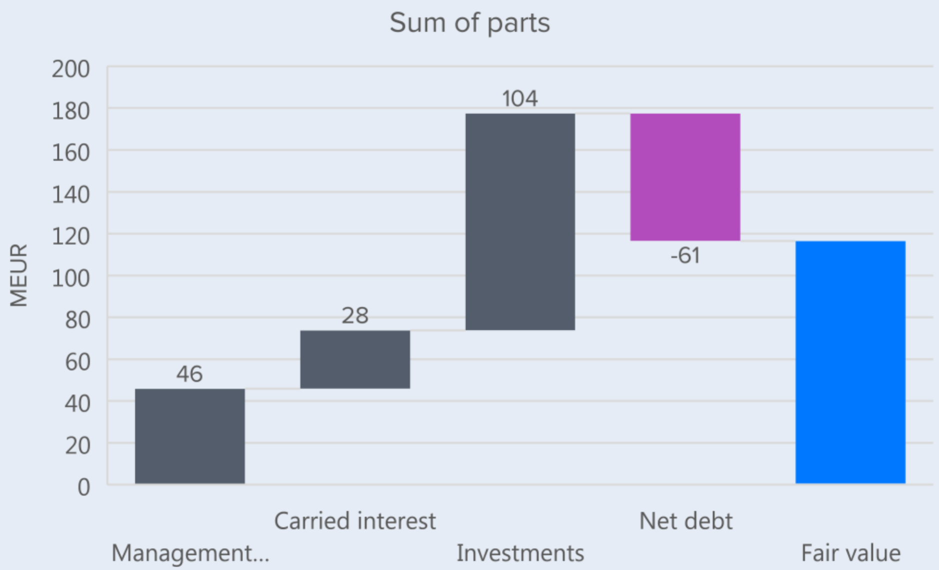
*Source: Inderes 13.10.2016*

# Valuation summary

| Multiples | 2014 | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|---|
| MCAP | 72 | 86 | 104 | 104 | 104 |
| EV | 75 | 133 | 132 | 142 | 133 |
| P/E (adj.) | 25,5 | 17,8 | 12,5 | 12,0 | 8,6 |
| P/Cash flow | 4,8 | 3,9 | 3,8 | 5,7 | 5,0 |
| P/B | 1,1 | 1,3 | 1,6 | 1,9 | 1,8 |
| EV/S | 1,9 | 4,2 | 4,0 | 4,1 | 3,5 |
| EV/EBITDA | 11,1 | 13,9 | 9,4 | 10,2 | 8,0 |
| EV/EBIT | 11,8 | 14,4 | 9,5 | 10,4 | 8,1 |
| Payout-% | 184,5 % | 124,4 % | 82,8 % | 89,1 % | 71,5 % |
| Dividend -% | 7,2 % | 7,0 % | 6,6 % | 7,5 % | 8,4 % |

Source: Inderes



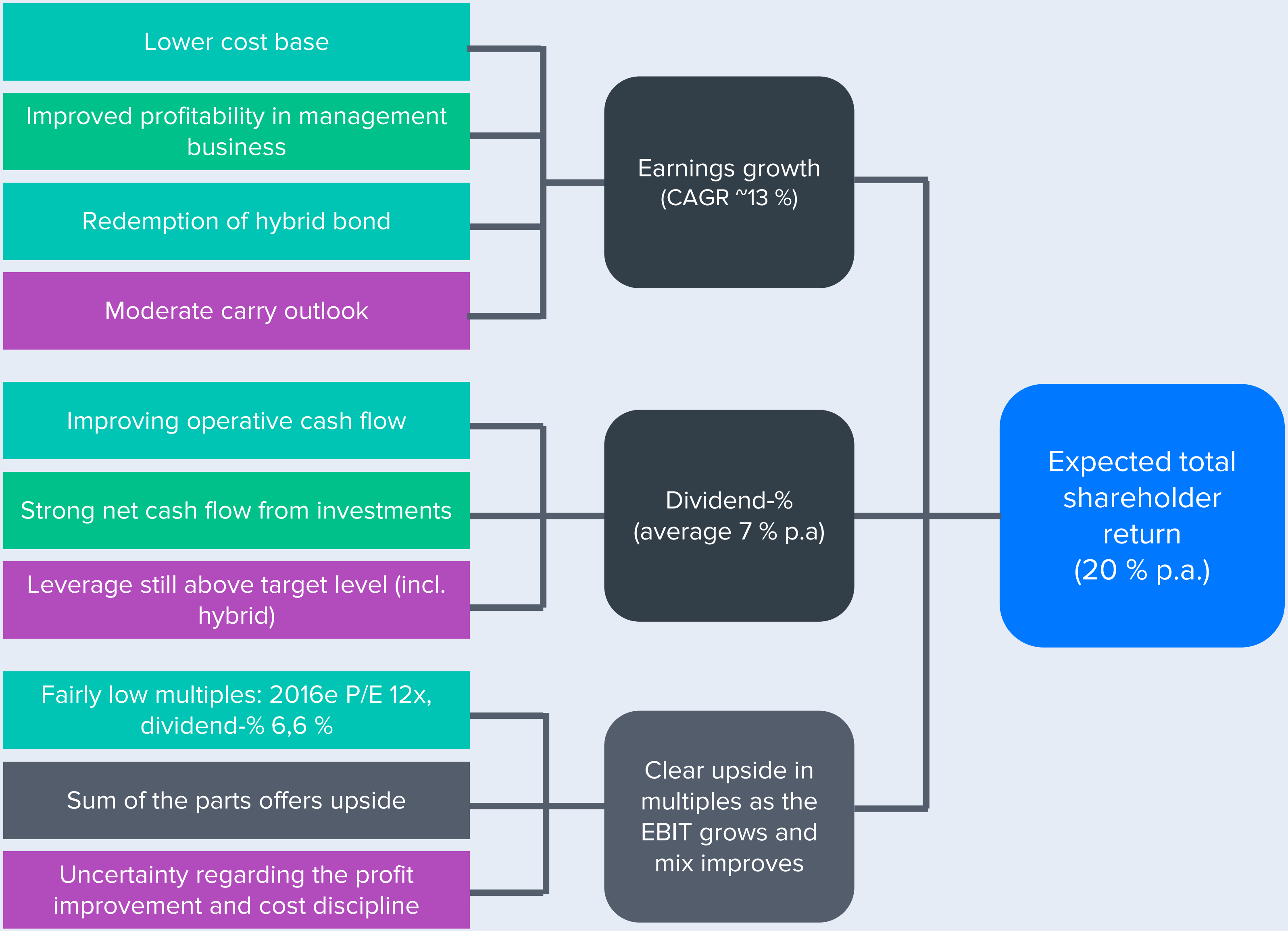




In this scenario we use 2017 EBIT (reasonable level for CapMan) and demonstrate how the value changes when the EBIT mix changes between carried interest and management business. For management business we use EV/EBIT multiple of 11x and for carried interest 6,5x.

Although this is just a rough demonstration, the graph clearly shows that the value of CapMan rises rapidly as the EBIT mix moves towards the higher multiple management business. With this example we want to emphasize the importance of the management business' profitability from investors perspective.

Source: Inderes, CapMan

# Value drivers for 2016-2018e




Source: Inderes

# Peer group valuation

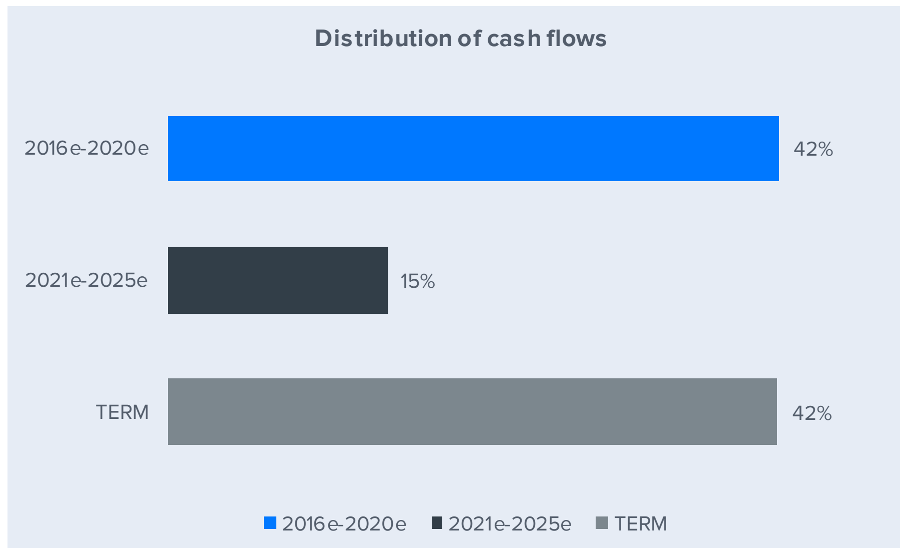
| | Share price | MCAP | EV | EV/EBIT | | EV/EBITDA | | EV/S | | P/E | | Dividend-% | | P/B |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MEUR | MEUR | 2016e | 2017e | 2016e | 2017e | 2016e | 2017e | 2016e | 2017e | 2016e | 2017e | 2016e |
| CapMan | 1,20 | 104 | 151 | 11,4 | 10,7 | 11,2 | 10,4 | 4,6 | 4,3 | 13,5 | 12,0 | 7,1 | 8,4 | 1,5 |
| Eurazeo | 50,67 | 3639 | 4424 | 6,1 | 5,9 | 4,8 | 4,7 | 2,3 | 2,2 | 37,0 | 54,1 | 2,5 | 2,5 | 0,8 |
| 3I Group | 7,39 | 7167 | 7015 | 7,0 | 11,6 | 8,5 | 10,3 | 10,1 | 9,1 | 7,6 | 9,7 | 3,1 | 3,5 | 1,3 |
| IDI | 25,95 | 187 | 189 | 10,9 | 9,5 | 10,7 | 9,4 | 8,2 | 7,5 | 14,3 | 12,5 | 4,6 | 4,6 | 0,7 |
| Mutares | 13,60 | 211 | 201 | 29,1 | 10,5 | 9,3 | 5,8 | 0,3 | 0,2 | 82,6 | 19,6 | 2,2 | 2,2 | 1,7 |
| Deutsche Beteiligungs | 29,97 | 451 | 414 | 10,1 | 8,6 | 10,1 | 8,6 | 5,7 | 5,7 | 11,0 | 10,1 | 3,7 | 4,2 | 1,2 |
| Taaleri | 8,50 | 241 | | | | | | | | 16,1 | 13,5 | 3,5 | 4,1 | 2,5 |
| Panostaja | 0,92 | 48 | 51 | 4,8 | 3,4 | 2,9 | 2,4 | 0,3 | 0,3 | 12,6 | 9,5 | 6,5 | 6,5 | 1,2 |
| Blackstone Group | 21,90 | 25839 | 33143 | 14,8 | 10,3 | 13,8 | 12,5 | 7,3 | 5,7 | 12,2 | 8,3 | 9,1 | 9,8 | 3,2 |
| United Bankers | 36,61 | 56 | 57 | 18,1 | 7,9 | 14,1 | 6,8 | 2,4 | 1,9 | 59,0 | 13,9 | 7,2 | 7,7 | 4,1 |
| **CapMan (Inderes)** | **1,19** | **103** | **130** | **9,4** | **10,3** | **9,2** | **10,1** | **3,9** | **4,0** | **12,3** | **11,8** | **6,7** | **7,6** | **1,5** |
| **Average** | | | | **12,5** | **8,7** | **9,5** | **7,9** | **4,6** | **4,1** | **26,6** | **16,3** | **5,0** | **5,4** | **1,8** |
| **Median** | | | | **10,9** | **9,5** | **10,1** | **8,6** | **4,6** | **4,3** | **13,9** | **12,3** | **4,1** | **4,4** | **1,4** |
| **Difference to median-%** | | | | **-14 %** | **8 %** | **-8 %** | **17 %** | **-15 %** | **-7 %** | **-11 %** | **-4 %** | **62 %** | **73 %** | **6 %** |

Source: Bloomberg 13.10.2016

# DCF-model

| DCF | 2015 | 2016e | 2017e | 2018e | 2019e | 2020e | 2021e | 2022e | 2023e | 2024e | 2025e | TERM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EBIT** | **9,3** | **13,9** | **13,7** | **16,4** | **18,0** | **14,1** | **13,7** | **12,8** | **12,2** | **12,5** | **12,7** | |
| + Depreciation | 0,3 | 0,2 | 0,3 | 0,3 | 0,3 | 0,3 | 0,3 | 0,3 | 0,3 | 0,3 | 0,3 | |
| - Taxes | -0,7 | -1,4 | -2,0 | -2,4 | -2,7 | -2,1 | -2,1 | -1,9 | -1,8 | -1,9 | -1,9 | |
| - Change in working capital | -4,0 | 1,5 | 0,5 | 0,7 | 0,4 | 0,3 | 0,3 | 0,3 | 0,2 | 0,2 | 0,2 | |
| **Operative cash flow** | **4,7** | **13,8** | **12,3** | **14,7** | **15,7** | **12,4** | **12,1** | **11,4** | **10,7** | **10,9** | **11,2** | |
| - CAPEX | 7,9 | 8,2 | 3,0 | 6,3 | -0,3 | -0,3 | -0,3 | -0,3 | -0,3 | -0,3 | -0,5 | |
| **Operative free cash flow** | **12,6** | **22,0** | **15,3** | **20,9** | **15,4** | **12,1** | **11,8** | **11,1** | **10,4** | **10,6** | **10,6** | |
| +/- Other | 9,5 | 5,5 | 3,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | |
| Free cash flow | 22,1 | 27,5 | 18,3 | 20,9 | 15,4 | 12,1 | 11,8 | 11,1 | 10,4 | 10,6 | 10,6 | 178,7 |
| Discounted free cash flow | | 32,6 | 16,6 | 17,6 | 12,0 | 8,7 | 7,8 | 6,8 | 6,0 | 5,6 | 5,2 | 87,3 |
| **Discounted cumulative free cash flow** | | **200,8** | **173,7** | **157,1** | **139,5** | **127,5** | **118,8** | **110,9** | **104,1** | **98,1** | **92,5** | **87,3** |
| **DCF EV** | | **200,8** | | | | | | | | | | |
| - Debt | | -69,4 | | | | | | | | | | |
| + Cash | | 21,9 | | | | | | | | | | |
| - Minority | | 0,0 | | | | | | | | | | |
| - Dividend | | -6,0 | | | | | | | | | | |
| **Equity value DCF** | | **147,6** | | | | | | | | | | |
| **Equity value per share DCF** | | **1,71** | | | | | | | | | | |

| Weighted average cost of capital (WACC) | |
|---|---|
| Tax-% (WACC) | 20,0 % |
| Target leverage D/(D+E) | 20,0 % |
| Cost of debt | 4,0 % |
| Beta | 1,05 |
| Market risk premium | 4,75 % |
| Liquidity premium | 1,00 % |
| Risk free interest rate | 3,3 % |
| Cost of equity | 9,3 % |
| WACC | 8,1 % |



# Income statement

| MEUR | 2014 | Q1'15 | Q2'15 | Q3'15 | Q4'15 | 2015 | Q1'16 | Q2'16 | Q3'16e | Q4'16e | 2016e | 2017e | 2018e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 39,4 | 7,3 | 8,4 | 8,9 | 7,1 | 31,7 | 7,5 | 7,9 | 7,3 | 10,3 | 32,9 | 35,0 | 37,7 |
| *Management fees* | 26,0 | 6,0 | 5,7 | 6,4 | 6,3 | 24,4 | 5,6 | 6,5 | 6,4 | 6,5 | 25,0 | 26,3 | 27,7 |
| *Carried interest* | 10,8 | 0,5 | 2,0 | 1,9 | 0,0 | 4,4 | 1,0 | 0,5 | 0,0 | 2,5 | 4,0 | 3,2 | 4,5 |
| *Services (Inderes estimate)* | 2,6 | 0,8 | 0,7 | 0,6 | 0,8 | 2,9 | 0,9 | 0,9 | 0,9 | 1,3 | 4,0 | 5,0 | 5,5 |
| Personnel costs | -18,0 | -4,0 | -4,6 | -4,5 | -4,0 | -17,1 | -4,4 | -3,9 | -4,1 | -4,8 | -17,2 | -17,5 | -17,8 |
| Other costs | -11,9 | -2,8 | -2,7 | -2,5 | -2,6 | -10,6 | -2,3 | -3,5 | -2,4 | -2,5 | -10,7 | -9,4 | -9,4 |
| Depreciation | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 |
| Fair value changes | -3,1 | 0,4 | 1,6 | -1,5 | 4,7 | 5,2 | 3,1 | 2,9 | 1,2 | 1,9 | 9,5 | 5,8 | 6,1 |
| **EBIT** | **6,3** | **0,8** | **2,8** | **0,5** | **5,1** | **9,2** | **3,8** | **3,3** | **1,9** | **4,8** | **13,9** | **13,7** | **16,4** |
| Net financials | -1,4 | -0,4 | -0,6 | -0,7 | -1,1 | -2,8 | -0,8 | -0,9 | -0,6 | -0,6 | -2,9 | -1,7 | -1,7 |
| Associate companies | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **PTP** | **5,0** | **0,5** | **2,2** | **-0,2** | **3,9** | **6,5** | **3,0** | **2,5** | **1,3** | **4,2** | **10,9** | **11,9** | **14,6** |
| Taxes | -1,0 | 0,0 | -0,4 | -0,1 | 0,1 | -0,4 | -0,1 | -0,2 | -0,3 | -0,8 | -1,4 | -2,0 | -2,4 |
| **Net profit** | **2,8** | **0,2** | **1,5** | **-0,6** | **3,8** | **4,9** | **2,5** | **2,0** | **0,7** | **3,1** | **8,3** | **8,8** | **12,2** |
| | | | | | | | | | | | | | |
| EPS (adj.) | 0,03 | 0,00 | 0,02 | -0,01 | 0,04 | 0,06 | 0,03 | 0,02 | 0,01 | 0,04 | 0,10 | 0,10 | 0,14 |
| EBIT-% | 16,0 % | 11,2 % | 33,2 % | 5,9 % | 71,6 % | 29,1 % | 50,7 % | 42,4 % | 26,0 % | 46,7 % | 42,1 % | 39,0 % | 43,3 % |

# Balance sheet

| Assets | 2014 | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|---|
| Goodwill | 6,2 | 6,2 | 6,2 | 6,2 | 6,2 |
| Other intangible rights | 0,8 | 0,5 | 0,4 | 0,4 | 0,4 |
| Tangible assets | 0,2 | 0,3 | 0,4 | 0,5 | 0,5 |
| Associated companies | 9,1 | 56,4 | 48,6 | 49,9 | 52,4 |
| Other investments | 55,3 | 47,2 | 38,7 | 35,4 | 28,8 |
| Other non-current assets | 0,1 | 0,1 | 0,1 | 0,1 | 0,1 |
| Deferred tax assets | 4,1 | 4,4 | 4,4 | 4,4 | 4,4 |
| Inventories | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Other current assets | 6,0 | 6,4 | 6,4 | 6,4 | 6,4 |
| Receivables | 3,6 | 6,1 | 3,0 | 3,2 | 3,4 |
| Cash and cash equivalents | 28,7 | 21,9 | 9,9 | 7,0 | 7,5 |
| **Total** | **113,9** | **149,5** | **118,2** | **113,5** | **110,2** |

| Liabilities | 2014 | 2015e | 2016e | 2017e | 2018e |
|---|---|---|---|---|---|
| Share capital | 0,8 | 0,8 | 0,8 | 0,8 | 0,8 |
| Retained earnings | -1,5 | -2,0 | 0,2 | 2,1 | 6,5 |
| Shares repurchased | 0,0 | 0,1 | 0,1 | 0,1 | 0,1 |
| Asset revaluation reserve | 39,0 | 39,0 | 39,0 | 39,0 | 39,0 |
| Other equity | 27,2 | 27,4 | 27,2 | 12,2 | 12,2 |
| Minority interest | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Deferred tax liabilities | 2,0 | 2,0 | 2,0 | 2,0 | 2,0 |
| Provisions | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Long-term debt | 27,2 | 69,4 | 37,4 | 45,1 | 36,4 |
| Convertibles | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Other long-term liabilities (non-interest bear.) | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Short-term debt | 5,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Non-interest bearing current liabilities | 13,8 | 13,1 | 11,5 | 12,3 | 13,2 |
| Other current liabilities (non-interest bear.) | 0,4 | 0,0 | 0,0 | 0,0 | 0,0 |
| **Total** | **113,9** | **149,6** | **118,2** | **113,5** | **110,2** |

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## Recommendation history

| Date | Recommendation | Target price | Share price |
|---|---|---|---|
| 6.11.2014 | Accumulate | 1,05 € | 0,93 € |
| 17.12.2014 | Accumulate | 1,00 € | 0,88 € |
| 6.2.2015 | Accumulate | 1,10 € | 1,00 € |
| 8.5.2015 | Accumulate | 1,15 € | 1,01 € |
| 13.5.2015 | Buy | 1,20 € | 1,03 € |
| 4.6.2015 | Accumulate | 1,20 € | 1,07 € |
| 7.8.2015 | Accumulate | 1,20 € | 1,04 € |
| 5.11.2015 | Reduce | 1,05 € | 1,04 € |
| 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 € |

# Inderes Oy

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**2014, 2016**
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**2014, 2015, 2016**
#1 Earnings estimator

**2012, 2016**
#1 Stock picking

**2012, 2016**
#2 Stock picking

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**Inderes Oy**
Itämerenkatu 5
00180 Helsinki
+358 10 219 4690
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