Suominen

Extended company report

23.06.2021 20:00

Antti Viljakainen
+358 44 591 2216
antti.viljakainen@inderes.fi

From good position to normalizing trading conditions

We retain recommendation to accumulate for Suominen with a target price of 6.25 EUR. We argue Suominen's valuation is low on the short term, and we see upside in multiples when the company proves that gradually normalizing demand and raw-material price increases do not cause a major cut in margins. Therefore, we estimate Suominen's expected TSR is on good level of 10-15 % for the next twelve months, which is sufficient to purchase the stock.

Suominen is a global growth company that focuses on sustainable nonwovens

Suominen had very difficult period in years of 2017-2019 when raw-material price inflation, intensifying competition and internal challenges burdened the margins. However, the management that started in 2019 began to improve efficiency and focus on sustainable (fast rising consumer trend) nonwovens while the pandemics gave a major demand tailwind for wiping products in 2020. Strategically Suominen is a global growth company that focuses on innovative and sustainable nonwovens. In addition, the strategy gives weight also on constant improvement of production efficiency while expansion to Asia (probably M&A) is an option. The growth part of the strategy is also supported by the markets. Suominen's current main markets are expected to grow 3 % p.a in volume over the long term in Americas and Europe even if positive market shock from 2020 adds some uncertainty over market size and near-term growth. We consider the company's main risks raw-material price inflation, typically fierce competition and centralized customer base.

We expect the results remain quite flattish even if operating environment becomes normal

Suominen set an aim to grow above market growth, EBITDA-% of above 12 % by 2025 and 40-80 % gearing level as its financial targets for the strategy period of 2020-2025. Suominen reached all targets easily during the last 12 months in exceptionally good trading environment. We expect demand gradually to normalize and new capacity will also return some competitive pressures after untypically mild environment during the pandemics. In addition, raw-material prices have risen fast lately. However, Suominen is well positioned to manufacture more challenging sustainable grades, bring new products to markets (25 % of sales came from new products in 2020) and the company will get some investment projects ready in H2'21. Given this big picture, we expect Suominen reaches its guidance that indicates flat adjusted EBITDA in 2021 and estimate that results stay flat on good level also on the next years.

Valuation is low and we expect double digit TSR for the next twelve months

Suominen's P/E-ratios based on our estimates are 12x and 14x FY'21 and FY'22, while corresponding EV/EBITDA-ratios are 6x Multiples are below Suominen's 5-year medians, and we consider them attractive especially on EV/EBITDA, which reflects better Suominen's good cash flow (2021e-2022e: P/FCFE 8x-10x). Therefore, we see upside in multiples and some 4 % p.a dividend yield to give 10-15 % p.a expected TSR for the next twelve months even if profit growth is unlikely to be a driver. In addition, our DCF model exceeds the share price with reasonable long-term assumptions while Suominen trades at discount compared to loosely related peers. We expect Suominen's valuation to rise when the company proves that it can reach good margin level even if raw-material prices increase and/or market balance gets more normal.

Recommendation

Accumulate
(prev. Accumulate)

6.25 EUR
(prev. 6.25 EUR)

Share price:
5,45

Key indicators

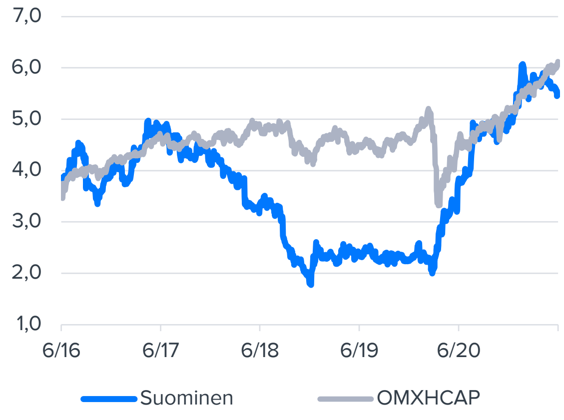
	2020	2021e	2022e	2023e
Revenue	458,9	472,3	488,8	502,0
growth-%	12 %	3 %	3 %	3 %
EBIT adj.	39,5	37,7	34,2	37,2
EBIT-% adj.	8,6 %	8,0 %	7,0 %	7,4 %
Net Income	30,1	29,4	23,0	25,9
EPS (adj.)	0,52	0,46	0,40	0,45
P/E (adj.)	9,7	11,8	13,6	12,1
P/B	2,0	1,9	1,8	1,7
Dividend yield-%	3,9 %	4,0 %	4,4 %	4,8 %
EV/EBIT (adj.)	8,5	8,8	9,2	8,0
EV/EBITDA	5,5	5,6	5,6	5,1
EV/S	0,7	0,7	0,6	0,6

Source: Inderes

Guidance (Unchanged)

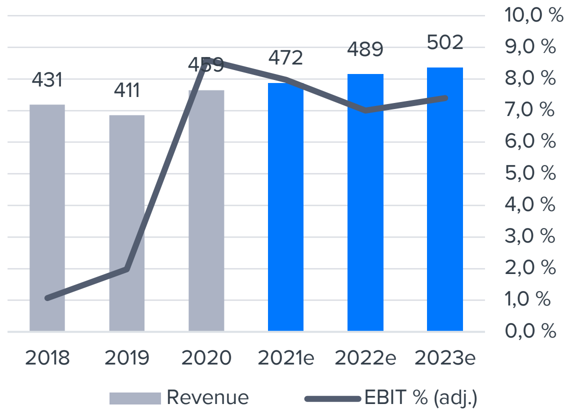
Suominen expects that its comparable EBITDA (earnings before interest, taxes, depreciation and amortization) in 2021 will be in line with 2020. In 2020, Suominen's comparable EBITDA was EUR 60.9 million.

Share price



Source: Thomson Reuters

Revenue EBIT %



Source: Inderes

EPS and DPS

Source: Inderes

MCAP
313
MEUR

EV
330
MEUR

EV/EBIT
9,2
2022e

P/E (oik.)
13,6
2022e

Value drivers

- Profitability turnaround with volume and value growth
- Gradual growth in demanding higher margin products (for example sustainable products)
- Healthy nonwoven demand growth above GDP level
- COVID-19 gives tailwind for demand

Risk factors

- Fierce competition
- Weak pricing power
- Losing a major customer
- Raw-materials price risks

Valuation

- Short term multiples are attractive especially on cash flow basis
- Balance sheet and volume-based valuation have increased but the levels are not alarming on short or long term
- Risk profile has decreased as company has shown its capability to generate good profits in 2020, which supports 12-month risk/reward-ratio
- Expected 12 month TSR is at some 10 % driven by 3 % dividend yield and increasing multiples

Table of contents

Suominen briefly

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

1898
Founded

2011
M&A created “the new Suominen”

459 MEUR
Revenue 2020

60.9 MEUR (13.3 % of revenue)
EBITDA 2020

#1 Market position
In global markets of nonwovens for wiping

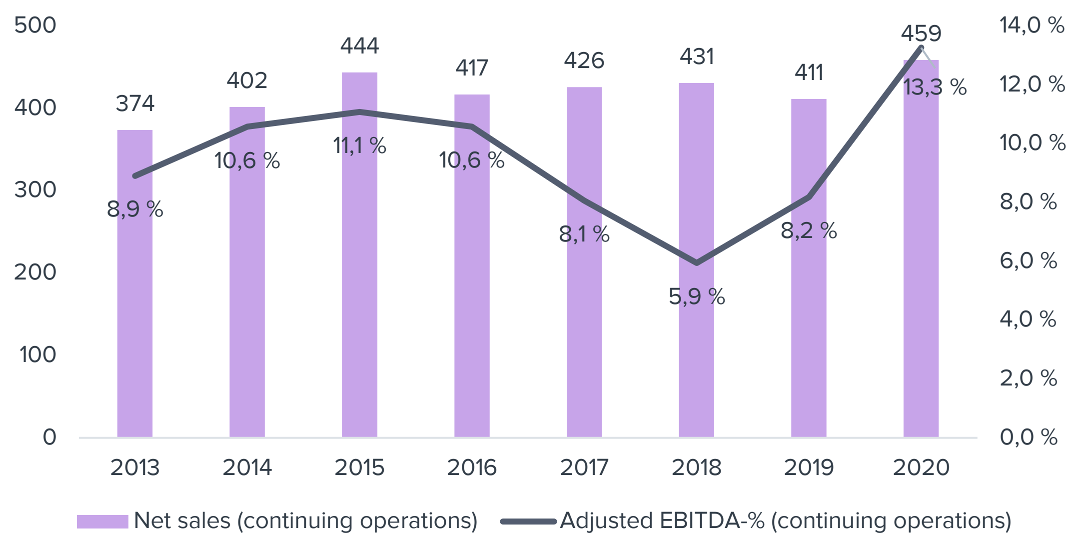
689
Employees on average in 2020

64 % / 34 % / 1 %
Revenue split between Americas / Europe / Other countries in 2020

67 % / 33 %
Share of sales to 10 biggest customers and other customers in 2020

Rebuilding 2011-2015	Investment phase 2016-2018	New start (2019-)
Suominen acquires Home&Personnel business from Ahlstrom at the end of 2011	Product strategy remains but the company focuses on organic growth and diversifying from wipes to medical&hygiene	Total overhaul of the top management team, new organizational model from H2’19 and new strategy in Q1’20
Focus on cost savings, internal efficiency and mix improvement yields clear profit improvement 2011-2015	Significant organic CAPEX of 106 MEUR in 2015-2017 (mainly the new production line in Bethune)	Focus on restoring profitability and profitable growth
Divestment of noncore business in 2013/2014 makes Suominen pureplay nonwovens manufacturer	Profitability deteriorates due to raw-material inflation, competitive pressures and delays in the start-up of the new line in Bethune	Growth through sustainable and other new innovative products
	Mostly good cash flow keeps balance sheet related risks limited	Covid-19 gives major demand tailwind in 2020

Suominen net sales (MEUR) and margins in 2013-2020



Source: Suominen / Inderes

Company description and business model 1/4

Global leader in nonwovens for wiping products

Suominen is a manufacturer of nonwovens as roll goods and consists of two BA's, Americas and Europe. Both geographical areas manufacture mainly nonwovens for wiping products but also selected niches in hygiene and medical nonwovens. However, the company reports financial results only on the group level. The company has almost 700 employees in 5 countries. In 2020 Suominen's net sales were 459 MEUR and comparable EBITDA 60.9 MEUR.

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

Sales come from various mostly consumer driven segments

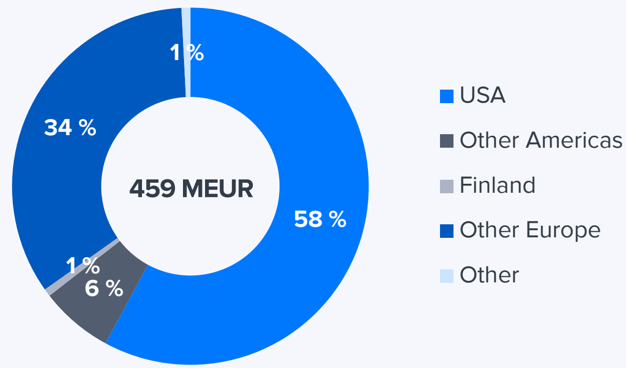
Suominen has historically divided its sales to five revenue streams based on product type. However, end-use based reporting was stopped in 2020 as it does not illustrate the company's existing strategy. However, we think it is important for investors to understand from where revenue derives as basically all major wiping related end-uses are in the core of Suominen's current strategy. We also believe the end-use structure of the products has not yet faced major changes from the 2019.

Baby care wiping is probably the biggest segment, and we estimate it brings some 40 % of Suominen's sales. In big picture, Baby care wipes is an extremely competitive low growth and high-volume value for money segment in developed North America and Europe (demand in baby care wiping reflect birth rates) under normal conditions. In emerging world (incl. South America) baby care is a well growing segment due to higher birth rates and lower penetration rate of nonwovens products.

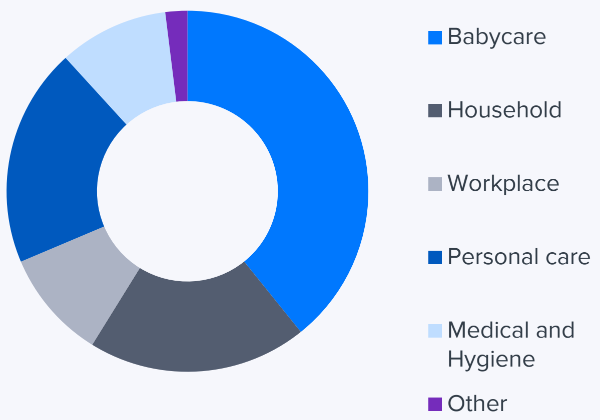
Personal care wiping such as wipes for facial cleaning, makeup removal, refreshing and intimate care, travel & catering end-use and flushable WC products constitutes some 20 % of group sales according to our analysis. Personal care is mostly a value-added segment that exists currently primarily in developed countries. Growth in personal care has recently slowed down due to fast commoditization and corresponding price erosion in flushable toilet products.

Home wiping is a value-added segment that we estimate brings another some 20 % of Suominen's sales. This segment includes cleaning related wiping products that are used in developed western world at homes. Thus, home wiping is mostly value-added business.

Geographical sales mix in 2020



Estimated product based sales mix



Company description and business model 2/4

Workplace wiping consist of Suominen's wiping products to B2B end-customers, which we believe generates some 10 % of Suominen's sales. These products are used from fast food restaurants to factories. Thus, the portfolio consists of a wide range of value-added products. The main markets are US and Europe.

Medical&Hygiene is probably smallest of Suominen's end uses and makes less than 10 % of the company's sales currently. Unlike other segments Medical&Hygiene does not include any wiping products but solely nonwovens components to other products. In this segment, Suominen has focused on certain niche areas, where its technology is competitive. Thus, the company does not try to be all over in the large hygiene and medical market, and we believe this strategy did not change in 2020 when medical markets got tailwind from Covid-19. Currently, the main markets of Medical&Hygiene locate in North America and Europe.

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

Suominen is a traditional manufacturing company

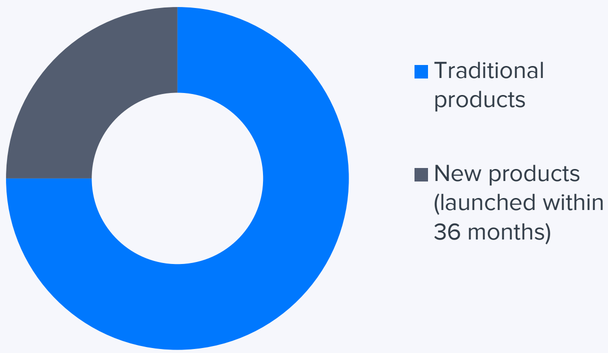
Suominen operates in the manufacturing industry, which transforms fiber materials to nonwovens. In addition to manufacturing, the company takes internally care of product development, marketing and sales. Therefore, the business model is typical for a company in this type of manufacturing industry. Raw-materials (i.e. viscose, pulp, polyester, polypropene) the company purchases from the market. We believe that the company has various suppliers for its raw materials from different geographical locations. This distributes risks currently as pandemics has disturbed global supply chains and limited raw-material availability.

Nonwovens can be produced by several technologies, but Suominen utilizes mostly spunlace technology in its production. In addition, the newest line in Bethune and one line in Windsor Locks is based on wet-laid technology resembling somewhat the paper-making process. We consider these technological choices adequate as spunlace and wet-laid technologies enable production of soft, smooth, stretch, absorbent, resilient, plastic free and/or liquid repellent products. These are some key characteristics in sustainable and correspondingly high value-added grades where demand is expected to move for. In addition, major production technology spunbond can only produce plastic based nonwovens. Thus, we do not believe Suominen aims to expand into new technologies soon but is determined to develop its current technology portfolio.

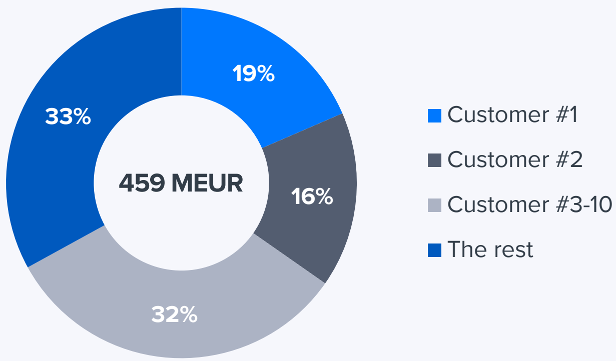
Consumers drive the business, customer base is centralized

The company's key customers are global brand owners and private label trademarks, which sell converted nonwovens products to consumers with their brands or private label trademarks. Thus, Suominen sells only B2B even if consumers are the end-users of the products. As a consumer

Revenue distribution in 2020



Customer structure in 2020



Company description and business model 3/4

driven business, demand of nonwovens is also quite stable over the economic cycles. Traditionally consumers do not stop using nonwovens products during economic slowdown or recession but tend to switch their products to lower quality (i.e. cheaper price). Thus, economic cycles have some impact on Suominen from value and volume perspective but in general we consider the defensive and stable nature of demand as positive factors from an investors' perspective. In addition to previous economic cycles, COVID-19 has given a major boost for demand as the pandemics increased clearly consumers' interest in cleaning, hygiene and disinfection.

The biggest 10 key accounts brought 67 % of Suominen's sales in 2020 (65 % in 2019). Given the size of the key accounts (global sourcing) and the company's centralized customer base, we argue that Suominen and other nonwovens manufacturers have limited pricing power against their clients under normal circumstances. Neither does the mostly homogeneous nature of the products (especially in products with traditional syntetic raw-material mix) aid in this sense as tangible differentiation is difficult excluding certain value-added segments. On the other hand, raw-material prices are determined by supply (controlled by few large players) and demand in global markets, thus there is neither pricing power to the opposite side of the value chain. However, currently demand is very strong due to COVID-19, thus we believe Suominen has better than normal opportunity to compensate currently increasing raw-materials price inflation relatively well and fast.

Despite imbalanced distribution of pricing power in the value chain, typical supplier-client relationships between nonwovens manufacturers and brand houses or retailers are relatively long (up to 10-15 years). This indicates that brand owners and retailers are not very keen to change their suppliers despite their pricing power, which could be due to the indirect costs (i.e. product auditions) and/or uncertainty (delivery reliability and product qualifications) that changes in well-established relationships with suppliers can cause. Also, the delivery contracts are long, typically 2-3 years. Therefore, customers are not continuously bidding their contracts despite the pricing power advantage.

Nonwovens are not very capital intensive in the scale of manufacturing industry

Due to characteristics of the industry, Suominen's GM-% is low. However, the company is efficient as the rebuilding phase (in 2011-2015) pushed SGA-costs down and the management has kept SGA well in control. We argue that some 25 % of costs are fixed and 75 % variable. We estimate that raw-materials (variable) consists of some 65 % of total costs. The other main variable items are energy and logistics equalling some 10 % of each. The main fixed items (on the short term) are personnel (some 10 %), depreciation (some 5 %) and other costs such as administration (below 5 %). Thus, there is reasonable flexibility in the cost structure but also some operational leverage against net sales growth.

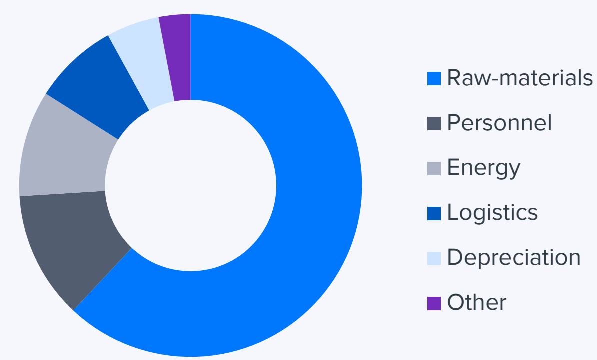
Customers*

Hundreds of brand houses or retailers

Unilever
Johnson & Johnson
P&G Procter & Gamble
Walmart
Mölnlycke Health Care
rockline

Source: Inderes, Suominen *Inderes' estimates of Suominen's potential customers, Suominen has not disclosed its customers

Estimated cost structure

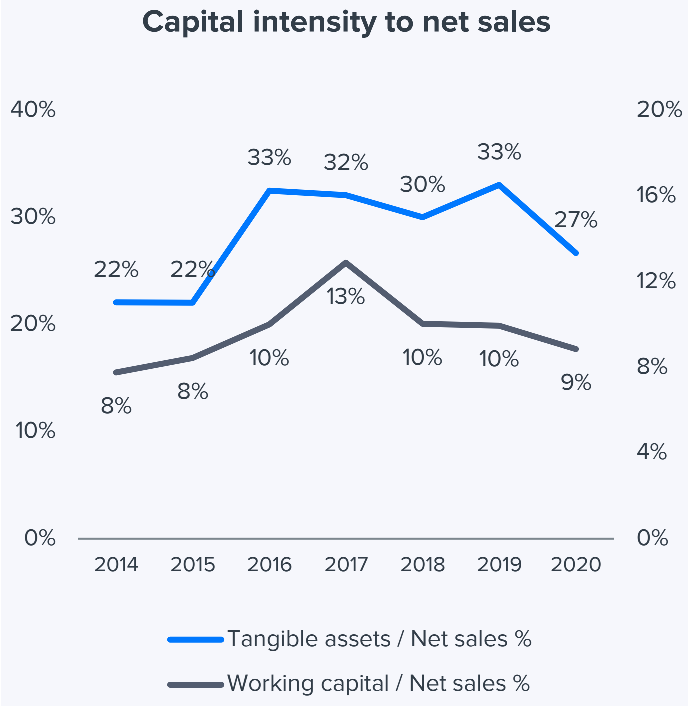


Source: Suominen, Inderes

Company description and business model 4/4

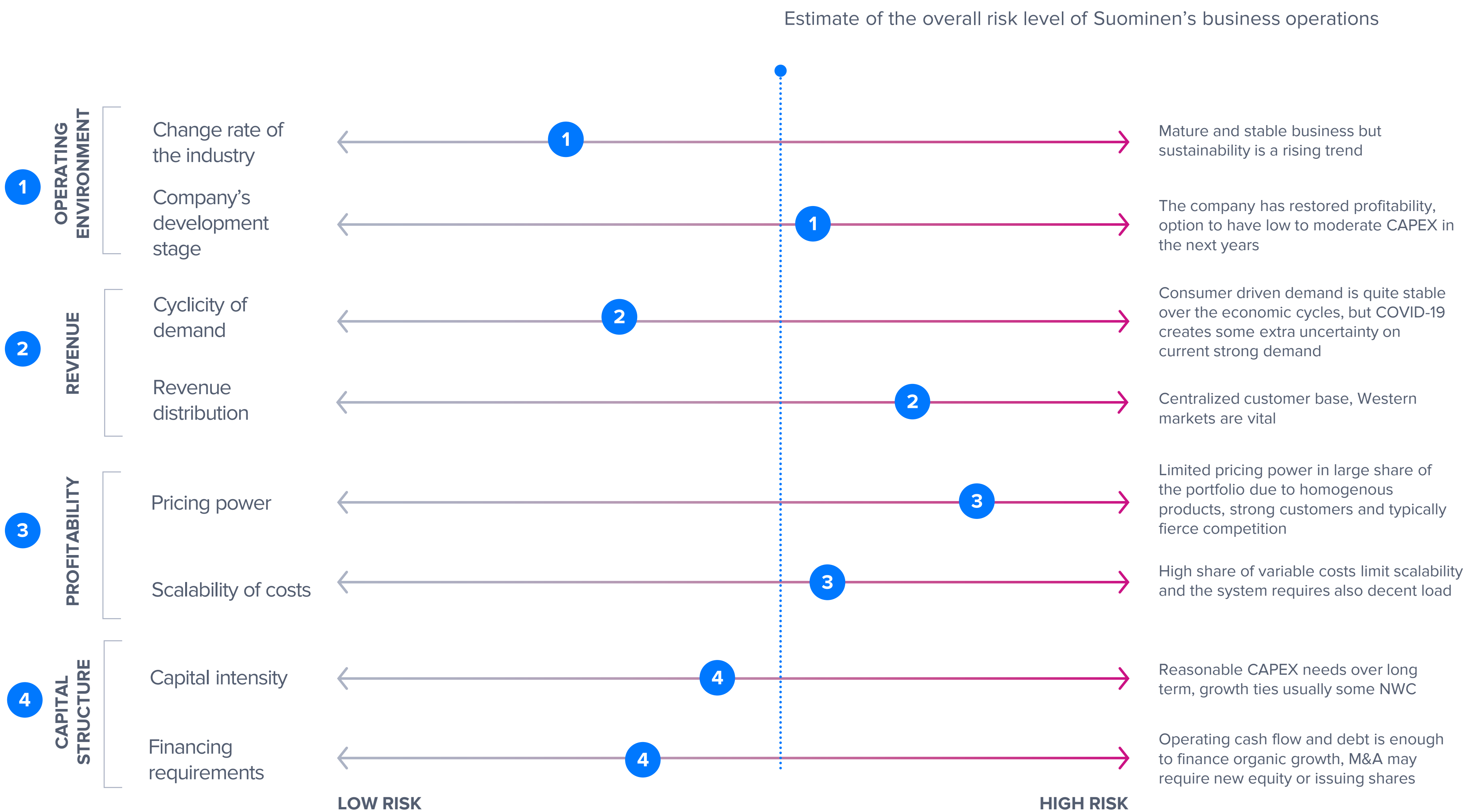
In general, effective capacity utilization (including sufficient load and reasonably large production lots but also decent product mix) is one of the key factors in nonwovens industry as in every manufacturing business. Therefore, the company must reach a good combination of volume and value to reach reasonable margins from group but also production line perspective. Usually, large lines require more volume while smaller lines are more flexible to grade changes in this type of business while Suominen's production portfolio includes both type of lines.

Suominen's tangible assets to net sales -ratio was 27 % at the end of 2020. The ratio was driven slightly up by new IFRS 16 standard but in 2020 the ratio improved as strong demand filled all lines and boosted sales. Therefore, the ratio should be close to normal. We argue the nonwovens business is not very capital intensive compared to certain other manufacturing industries (i.e. steel, pulp). This enables quite high (double digit) ROCE-% or ROI-% with high single digit EBIT-% and decent payout potential to shareholders. In addition, Suominen's net sales to NWC -ratio has been 8-12 % recently (10 % in 2019). Thus, neither NWC (consisting mostly of inventory) ties significant amount of capital in the business but naturally the growth is never completely working capital free in the manufacturing industry.



Source: Suominen, Inderes

Risk profile of Suominen's business model



Source: Inderes

Investment profile, potential and risks 1/2

Suominen is a growth case nowadays

We argue a successful turnaround and clearly improved profitability in 2019-Q1'21 have transformed Suominen into a growth company from investors' point of view. Also, the company's current strategy and nonwovens market's long-term growth above GDP growth support the growth profile over the longer time frame. The company's tools to drive growth may, however, change over time.

Typically, growth requires certain CAPEX and ties some NWC in the manufacturing industry. However, Suominen's capital needs seem limited for the next years and the company's gearing is well below the target range after strong recent cash flow and limited CAPEX in 2018-2020. Thus, the company is able to return decent amount of cash investors in next years even if Suominen should not be considered as a dividend stock.

Potential

Volume growth. Nonwovens demand has traditionally somewhat exceeded GDP growth in terms of volume in developed Western countries. In emerging markets, the gap is even wider as wiping products can be considered as discretionary. Therefore, the market gives a solid foundation to grow revenue through volume growth unless COVID-19 boost would surprisingly fade out. The company is currently almost fully utilized but Suominen should get some new free capacity from investment in Italy in H2'21. In addition, Suominen has financial ability to increase capacity further. Higher volumes would leverage the company's fixed cost structure and support margins when new capacity is fully utilized. In addition to general demand growth, innovation especially on more sustainable products should help Suominen gain some volumes as sustainability is a fast-rising trend in all consumer related business currently.

Value growth. Certain sustainable value-added grades, which are in Suominen's focus, grow even faster than the market on average. In addition, sustainable grades are more difficult to manufacture due to raw-material related technical issues, which limit competitive pressures. The company should have a competitive and constantly developing product portfolio after recent R&D and commercial work. The share of new products was at 25 % of sales in 2020, and that is a very impressive figure compared to other companies in the manufacturing industry. We believe increasing share of new products that usually carry higher GM-% explains also partly the company's recent margin expansion. New products usually carry clearly higher GM-% than traditional and / or value for money grades.

We believe Suominen has new products and sustainable products in all product end use groups illustrated in earlier. From profitability perspective, value growth should improve GM-%. We believe Suominen must keep share of new products above 20 % of sales and increase share of demanding sustainable products to reach its target of higher than 12 % EBITDA-% in 2025 as industry remains very competitive by nature.

Low to moderate CAPEX needs. Even if Suominen aims to grow in the coming years, we believe there is no major short-term need for CAPEX. Suominen has also announced 3 low to medium size investments in Italy and US that increase slightly capacity and improve product quality from H2'21 onwards. In addition, Suominen went through heavy CAPEX in 2015-2017 and the company executes product or innovation related strategy. In addition, competitiveness and capabilities of the old asset base can be improved by moderate modifications (incl. bottlenecking) in machinery and more effective use of assets (production planning). Thus, we expect Suominen's CAPEX to remain below or in line with fast depreciation rate during 2021-2024. This should lead to solid free cash flow (exceeding net earnings in P&L). Despite low to moderate needs, we see an option that the company will seek higher growth and build a new brownfield line in 2022-2024. This should be easily financed by cash flow from operations and debt capacity.

Value creation by M&A. The fast-growing Asian market is the hot prospect to penetrate for Suominen. Asian expansion would give also a truly global footprint. Being truly global would make sense as the company's customers are in most cases global. We believe M&A is the most likely tool to be used as it would allow faster positive cash flows than greenfield investments. Therefore, we see a fair chance that the company can make value creating M&A during the current strategy period as Suominen's financial flexibility has increased through deleveraging and share price appreciation. However, every transaction must be evaluated separately in relation to quality and price of the target.

Investment profile, potential and risks 2/2

Risks

Raw material price risk. As raw materials form a vast majority of Suominen's COGS, the company is always carrying raw material price risks. This risk realized at the end of 2017 and during 2018 and raw-material prices have increased substantially at beginning of 2020. Suominen is not hedging its raw material purchases, but it is tackling this issue through raw material price clauses in sales contracts. The clauses have historically impacted on half of net sales (likely consisting mostly of large key accounts mostly in US) but the company has increased clause-based pricing in also in Europe in 2020/2021. The lag between price increases varies from 2 to 5 months depending on the customer (around a quarter is an average). Overall, the lag between the raw material price development and the actual price increases is quite long. This can cause some fluctuation on quarterly level but should shield the company reasonably well over the longer time period as there has been no disrespect to the clauses.

The rest of the contracts do not include raw-material clauses. We believe Suominen has not pushed to include raw material clauses in deliveries where cost of its product represents only a small part of total costs of the customer's product. In this type of deliveries, the customer's awareness of Suominen's raw-material price development may not be the best and the customers' resistance against price increases are not the most severe, which should give Suominen some pricing power. In addition, current strong demand gives Suominen better than normal conditions to compensate on-going price inflation.

Losing a major customer. Suominen's two largest clients brought 19 % and 16 % of net sales in 2020 while 10 key customers accounted for 67 % of total net sales. Therefore, losing any one of these key customers would cause a significant short-term drop in sales, which would have also an impact on profits. However, the average customer relationship of Suominen is around 15 years, which implies very low customer turnover. Thereby, we see the overall risk of losing a major customer quite small. However, large global brand houses and retailers rarely give all their orders to one supplier but use 2-3 manufacturers. Customers' order allocation to suppliers may also vary, which may also create pressure on Suominen's sales even if the customer is not totally lost.

Overcapacity. Growing and local nature of the business and step-like capacity increases result always to a risk of local oversupply. Magnitude of the overcapacity would naturally depend on the amount of new capacity and demand growth rate of the product segment. Usually, overcapacity leads to price erosion and/or higher unit costs in production. Overcapacity is especially poisonous in value for money products, where margins are thin. Overcapacity has occured in baby care and flushables (especially in Europe) in 2017-2019. There are some capacity increases coming online in 2022-2023 as different players want to satisfy current strong demand in undersupplied market. However, this risk remains actual for Suominen as supply could increase just too fast even and cause challenges that usually do not fade away fast.

Sensitivity to EUR/USD. FX is a risk for Suominen as the company generates over 50 % of its sales and probably an even greater share of EBIT from US. However, the company purchases most likely some raw-materials to Europe and Brazil in USD. This makes group level sensitivity analysis challenging but stronger EUR/USD burdened sales and EBIT by some 6-7 % in 2020. We believe EUR/USD has a minor impact on US' operations from operational perspective but translation from US' operations deviate group level P&L. This is difficult to hedge. On the other hand, sensitivity of European and Brazilian units is directly linked to the company's purchasing strategy (transactional FX risks are mitigated also by raw-material clauses in sales contracts) and tactics and these deviations are difficult to estimate. Therefore, EUR/USD can have a material impact on reported sales and results. FX sensitivity is a two folded coin, but we consider in general FX driven earnings volatility somewhat negative from an investors' perspective.

Regulation. Authorities may become a risk in the long term as Suominen manufactures products from synthetic raw-materials and some non-wovens products are difficult to recycle. The company could use solely renewable raw-materials if end users were willing to pay higher prices (up to 20-30 % in relative manner but only tens of cents per one consumer unit). This would help to tackle changes that use of Suominen's raw-materials and/or products are regulated. In general, we believe Suominen is very well positio-ned to rising demand of sustainable products with its technology and production portfolio. Therefore, we see sustainability more like an opportunity than threat for the company. In addition, EUs recently confirmed single-use plastic directive is unlikely to cause a setback for Suominen.

Investment profile

1. **Organic volume and value growth**

2. **Maintain high profitability**

3. **New increasingly sustainable products**

4. **Low to moderate CAPEX cycle in base case**

5. **M&A (+/-)**

Potential

- Profit improvement through volume and value growth
- Certain new investments increase capacity and product quality from H2'22 onwards
- Growing and developing nonwovens markets support growth efforts
- The company's technology and product portfolio adapt well to raising sustainability standards and Suominen has focused on its R&D well in time to improve sustainability
- Potential medium to long term expansion to Asia through M&A

Risks

- Raw-material price risk
- Overcapacity / Increasing competition
- Losing a major customer and/or step backs in customer order allocation
- FX driven earnings volatility
- Changes in regulation

Source: Inderes

Strategy and financial targets 1/4

Strategy adjusted recently

Suominen had been executing its strategy that leaned on global footprint, organic growth and increasing share of value-added products from 2012 to 2019. The rationale of the strategy was straightforward as value-added products are carrying clearly higher GM-% and they are less vulnerable to competition compared to value for money products. However, the new management that took charge during 2019 and launched new strategy at the beginning of 2020. The current strategy is for the strategy period of 2020-2025. It did not cause a total turn around in direction as the company still focuses on organic growth through innovation and sustainable products. However, the new strategy gives also a bit more weight on efficiency and competitiveness in all grades (including babycare). This has already yielded results in 2019-2020. Also, geographical expansion remains on Suominen's radar during this strategy period. We also believe that the company's recent uphill has brought geographical expansion closer and Suominen would be able to act if an opportunity arises.

Suominen is the market leader in wiping, has a strong market position in Western markets and is serving global customers. We argue the company's organizational reshaping from product line organization to regional organization made in 2019 realigned focus on core competences, which are all over in wiping. The change should also support efficiency as regional organization improves accountability especially in commercial front in our opinion. Therefore, the existing organizational structure supports execution of the new strategy.

Strategy cornerstones consist of five factors

- Efficiency
- Sustainability
- Innovation and commercial excellence
- Personnel and workplace
- Dual operating model

These cornerstones describe capabilities, which are required to drive growth and profitability improvement. Basically, the cornerstones underline focus on understanding consumers' (the customers' customer) needs but also how to manufacture these products in an economically feasible way given the industry and its competitive dynamics. We believe innovation is core of the strategy as Suominen has resources and capabilities to be a leader in this front and the company does not have sustainable cost advantages that would support leaning strongly on cost leadership. In addition, we believe Suominen has kept SGA costs well in control and we see limited room to improve SGA-% ratio from current low level by direct cost savings. Therefore, focus on efficiency side was set on COGS and production efficiency in plants. The efficiencies have improved clearly in 2019-2020 but the target is also naturally moving.

All end uses have its role in portfolio

Different characteristics of value added and value for money business require a different approach to the businesses. That is why we believe Suominen tries to operate at least internally with a dual operating model. We believe that value for money side puts more focus on production efficiency including effective asset utilization (sufficient volume, large enough production lots, minimaxing waste, reducing manufacturing costs by product design). On the other hand, Suominen puts emphasis on innovation and commercial excellence and production flexibility in value added business and/or sustainable grades.

We would like to remind that baby care and some other value for money businesses still have a vital role in Suominen's portfolio despite over the cycle weak to moderate margin potential as their high volumes give critical load for the production system. This is important from efficiency perspective and these volumes cover also fixed costs. We believe the aim is to grow in line with markets in baby care and other value for money business, but most of the growth expectations lay on value added and sustainable products. In non-wiping business Suominen focuses on personal hygiene while growth outlook and the company's market position (incl. technologies) is weaker in medical.

The company develops new products and improves existing products in co-operation with the customers in order to share value of innovations or improvements. This requires also commercial excellence so that Suominen gets a fair share of created value through higher price. Close co-operation with customers should also make it harder to replace Suominen as a supplier. Product development and customer co-operations but also efficiency require skilled and committed personnel, which is why we believe staff has become a strategic cornerstone.

Strategy and financial targets 2/4

R&D focuses mostly on new products

Suominen's R&D-team consists of some 20 members in the US and in Finland. R&D spending has remained below 1 % of net sales, which in our opinion is slightly below a good level in this type of industry. However, we argue the company has adequate human and financial capacity to drive product development and correspondingly keep product portfolio competitive. The company has also strong track-record on R&D as share of new products has climbed to impressive 25 % of sales. We believe Suominen still focuses on key areas like sustainability, texture & patterning, disinfecting & sanitation, dispersibility & flushability, performance superiority and cost innovation in order to improve current products and create totally new products.

The strategy does not necessarily require large CAPEX but the company may need a new line

The company has disclosed that execution of current strategy requires some investments for which Suominen has excess financial capacity available. However, we believe huge demand jump that the pandemics caused may have changed a bit situation. Suominen has allocated 8 MEUR to restart idled production line in Italy, which increases somewhat the company's capacity from H2'21 onwards., Suominen also rebuilds one in Italy and one in US to improve product quality and/or flexibility with 10 MEUR investment. These investments are also ready in H2'21. However, if demand continues to be strong despite progress in vaccination, we believe Suominen may invest in new line in 2022-2023 (production 2024-2025 onwards) even if this probably was not the original plan. This would be probably brownfield investment with cost of 30-50 MEUR. However, we have yet no added a new line and corresponding sales growth to our estimates.

Annual maintenance CAPEX is somewhere around 4-8 MEUR (1-2 % of sales) and committed investments are small to medium in scale. Therefore, we believe Suominen can keep its investments below or at maximum in line with depreciation during the strategy period of 2020-2025. Low to moderate CAPEX base case outlook means also that Suominen is not looking to expand into new manufacturing technologies but rather focuses on developing its current technologies and add adjacent technologies to the portfolio.

Asian expansion is an option

Suominen disclosed in the strategy update, that they still examine opportunities to expand business to Asia (probably China or South-East Asia). Asia is the fastest growing nonwovens market (some 7 % p.a.) and expansion would support Suominen's global position. In addition, if sustainability requirements begin to rise fast also in Asia, Suominen could get even a faster lane to scale its modern and competitive product portfolio of sustainable products to the new and also emerging market. Thus, it was very unsurprising that the company kept the radar on in this sense.

Suominen could basically execute the expansion through greenfield investment or M&A. We believe that the latter has become a primary option as M&A enables positive cash flows faster. In addition, M&A brings also new customers in the portfolio to which the company could add potentially some new volumes from the current globally operating key accounts. This could give a decent load and mix for the M&A-target fast while the greenfield on a new market would require years of patience. On the other hand, a greenfield investment would give the company more degree of freedom with technology and geographical location, but these factors do most likely not offset advantages of M&A. The potential M&A-target should be a reasonable technological fit to take advantage of Suominen's product portfolio and be financially healthy, which are some of the key elements in the Asian expansion.

The company has room to execute Asian M&A

We argue Suominen has gained a headroom to execute Asian M&A if opportunities arise. First, Suominen has restored its margins. Second, the company has managed to capitalize mostly its big investment in Bethune as COVID-19 demand tailwind has probably filled the line. Third, the same goes for Paulinia, which had uncapitalized potential before the pandemics. Thus, the current engine is running efficiently, which would allow the next move. After recent strong cash flow, Suominen has also created financial flexibility on balance sheet even if the management seems to be conservative with leverage. Raising equity or other equity instruments has become an option to consider as the share price has appreciated clearly in 2021/2021. Therefore, we think that Suominen has some 80-100 MEUR debt capacity in its balance sheet, which would allow a medium size deal and clear step-up in sales in our opinion. However, finding a good target may be bigger obstacle for a deal than financial headroom.

Strategy and financial targets 3/4

The strategy is clear

We believe Suominen's recent strategy update gave efficiency a slightly larger role. We see this as a back-to-basics step for a manufacturing company and this was vital given Suominen's then weak profitability. We consider Suominen's updated strategy adequate, and we believe the company's competitive edge should be in product portfolio and supply chain management efficiency as the company has no sustainable cost advantages. Suominen should also have resources and capabilities to execute the strategy but neither the best strategy is fully immune to competitive environment and trading conditions.

Financial targets and dividend policy

Suominen revised its financial targets for the on-going strategy period of 2020-2025 in the strategy update in January 2020. They are:

Growth: Above relevant market growth

Profitability: EBITDA-% above 12% by 2025

Leverage: Net gearing between 40-80 %

Suominen has a dividend policy to pay out at least 30 % of profits for the period.

Growth target has been distant recently but beating market growth is not utopia

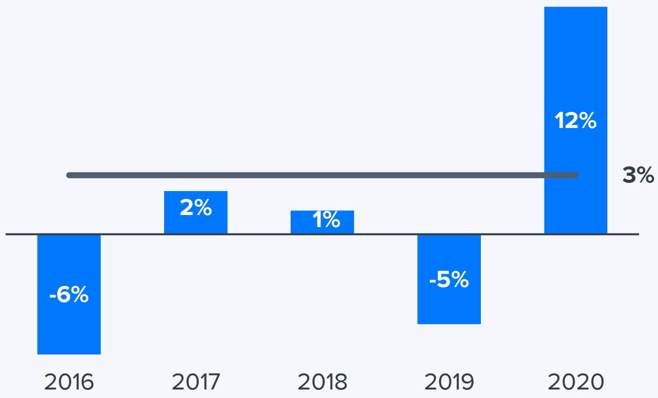
Suominen's relevant markets (Europe and Americas) are expected to grow some 3 % p.a. in volume in the coming years. Historically the company has beaten organic market growth in 2013 but was left clearly behind the target in 2014-2019 (in 2015 Suominen's strong growth was FX driven). In 2020 the market demand jumped significantly (could be up to 20 %), and we believe Suominen grew in line with the market in comparable currencies and prices. However, long term pictures describes that the target sets the bar high. We believe mostly weak progress of topline has derived from increasing competitive pressure, cost competitive issues in value for money business in 2014-2018, delay in start-up in Bethune and some quality and delivery issues in other plants. Currently Suominen should be clearly better positioned for growth as the company has improved delivery reliability, efficiencies and product offering in 2019-2020.

We argue that Suominen should aim for volume growth that is at least in line with the market in order to reach the target level. The rest must come from value side as increasing share of value-added and/or sustainable products increases average prices and boost reported growth. However, part of mix improvement will probably offset price pressure, which the bulkiest products has faced historically and will face over the long term. We believe the growth target is achievable for Suominen, but organic growth potential of the current business structure is limited to 3-4 % p.a. over the long term. The on-going pandemics may boost the growth in near future.

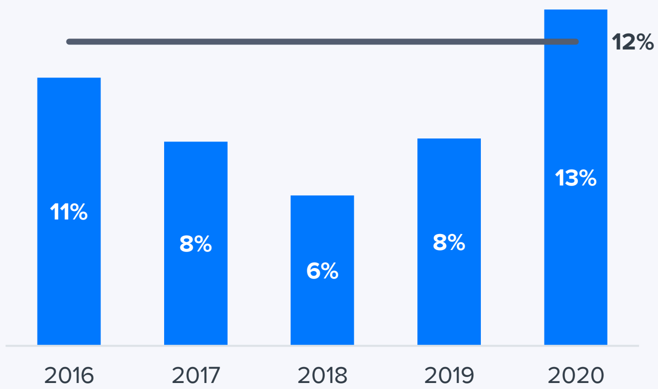
12 % EBITDA-% is a good target in the industry

EBITDA-% target of over 12 % is not easy to reach in in this type of industry in our opinion. To illustrate the height of the bar, Suominen reached 13 % EBITDA-%

Net sales growth and long term growth of relevant market



EBITDA-% and lower boundary of the target range



Source: Suominen, Inderes

Strategy and financial targets 4/4

in extremely good trading conditions (incl. strong demand and low raw-material prices) in 2020, 8 % EBITDA-% in 2019 and averaged 9.5 % in 2015-2020. Neither has many of its competitors reached the targeted margin level sustainably. Over 12 % EBITDA-% would lead to 7-8 % EBIT-% and correspondingly double-digit ROI-% and ROE-% in normal circumstances. These returns would beat clearly Suominen's WACC-% and cost of equity. Therefore, we consider the target to be challenging over the business cycles but on the other hand realistic in a normal to good trading environment.

Suominen is above the target currently, but we consider the target is reachable at the end of the strategy period when volume and value growth have increased topline and GM-% has stabilized to more normal level. We do not expect major contribution from SGA leverage as Suominen has already reached pretty good 6-7 % SGA-% of sales.

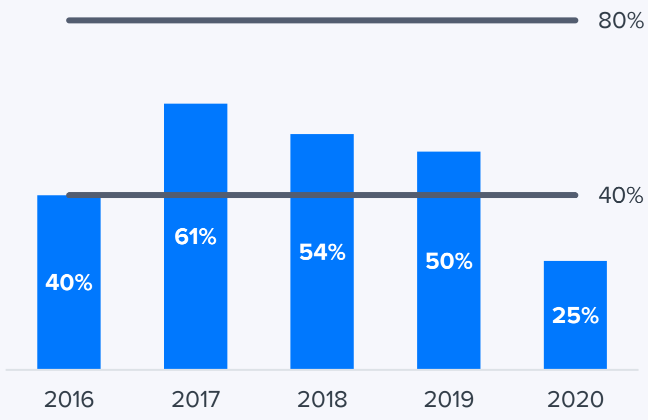
Balance sheet is very strong now

Due to Suominen's position in the value chain, we believe that it is businesswise necessary to maintain a strong balance sheet. However, the company operates in a somewhat capital-intensive manufacturing industry, where certain leverage is required to ensure minimal cost of capital and optimal return on equity. Therefore, we consider Suominen's current target range for leverage adequate and we argue the company's sweet spot is somewhere at the lower end of the target range. However, we would not be surprised if Suominen went to the upper end of the range or slightly above the range temporarily if the reason is good (i.e attractive M&A) and return to the range is in the company's hands.

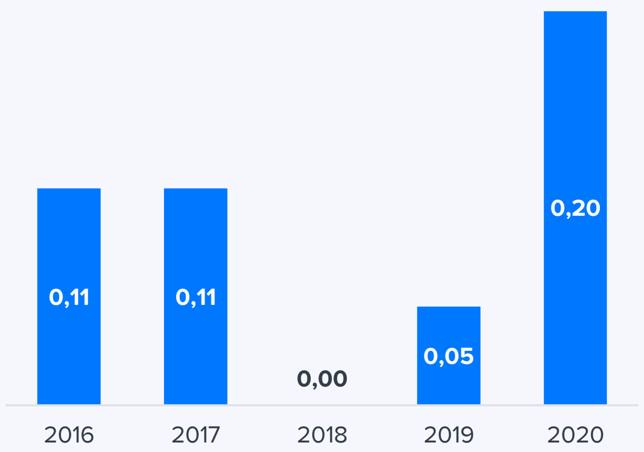
Currently Suominen is well below the targeted leverage range after very good last 12 months. The company has also stayed within the range despite profitability issues in 2017-2019 and complying IFRS 16 standard, which increased reported net debt. This was due to the healthy cash flow it has been able to deliver. Therefore, the company's financial position is very solid right now and the balance sheet gives the management a lot of leeway to develop the company. However, we do not expect that Suominen aims aggressively deploy capital to CAPEX or payout in order to reach the target range. Therefore, we would not be surprised at all if Suominen remained somewhat wellcapitalized or even overcapitalized over extended time period.

Suominen left shareholders without dividend only in the spring of 2019 but otherwise the company has met its dividend target. Given Suominen's strong balance sheet structure and limited CAPEX needs in the base case, we believe that Suominen should be able to meet its cautious payout target in the future. However, amount of dividends will depend strongly on profit level as we believe the management and the board intend to prioritize company development (investments) over payout in their capital allocation decisions.

Gearing and target range boundaries



DPS



Source: Suominen, Inderes

Nonwovens industry and competition 1/4

Suominen's main market consists of nonwovens for wiping

Suominen operates in a global nonwovens market and the overall market size was estimated to be 26 billion USD before the pandemics and market size went probably clearly up in 2020. This is of course divided between various segments. Suominen operates in wiping and on selected niches in medical and hygiene segment and the company is not present at all in other segments of the market.

According to Suominen, wiping (incl. sub-segments of baby care, workplace, household, personal hygiene) was globally a market worth of some 2.1 billion USD before the pandemics. However, we believe the market has become significantly bigger in 2020. We believe market size could be up to 20 % in volume and less in value due to raw-material pricing in 2020. Suominen is present all over the wiping market. Medical is a small market worth less than 1 billion USD but hygiene is the largest single segment in the nonwovens market worth of some quarter of the total market. In medical & hygiene Suominen is focusing only on selected products and does not even try to compete all over the segments as Suominen's focused technology portfolio supports sharp focus areas.

Nonwovens is a local business

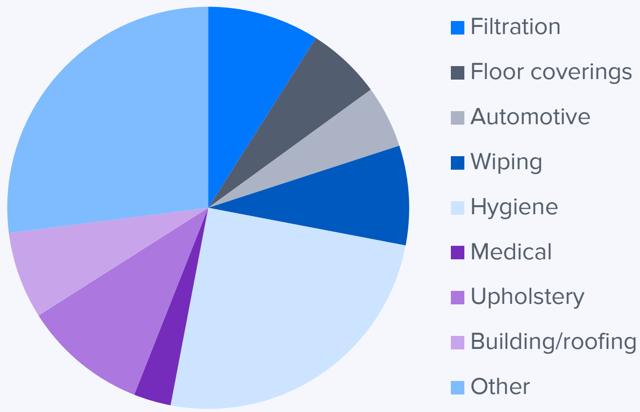
As the nonwovens are products with high volume and low unit cost, they are unable to carry significant logistics costs. Thus, nonwovens business is mostly local by nature and production must be continental or in certain cases even more local. More expensive value-added products can carry higher logistics costs than the cheapest value for money products, which slightly expands the potential market area at the high end. However, overseas sales is still mostly challenging in the business. This is proved also by Suominen's geographical sales split as only less than 1 % of net sales came from the regions in which the company did not have production in 2020. However, at least Chinese players have exported nonwovens to US and Europe to some extent and tried to break the pattern and in 2020 under exceptional circumstances exports were used to lower supply/demand gap.

Locality reduces somewhat Suominen's global operational synergies and ability to utilize its key accounts consisting of large brand companies without expanding its plant portfolio geographically. However, unsustainably high transportation costs shield European and North American markets from Asian low-cost exports (other shield are quality requirements and customers' brands). This limits competitive pressure in Suominen's main markets. Therefore, the local nature of the industry is a two-folded sword for Suominen.

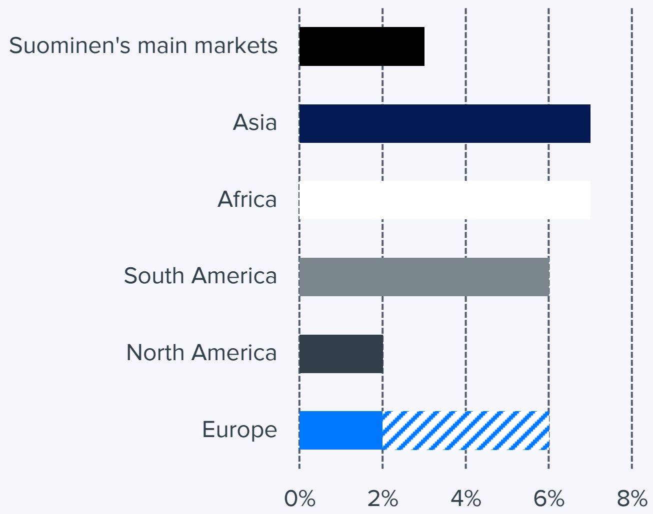
Historical market growth exceeds GDP growth

Demand for nonwovens products has grown historically 2-4 %-points faster than GDP in developed US and European markets. This has been driven by several sustainable trends such as population growth and aging, increasing consumption on personal health and urbanization. In the future, these trends will be increasingly present in developing markets, which have a clear impact on market growth expectations in the future.

Segments in nonwovens industry



Expected long term CAGR in wiping



Source: Suominen, Inderes

Nonwovens industry and competition 2/4

Demand grew significantly more than long term average in 2020 as COVID-19 increased consumers' interest in cleaning, disinfecting and hygiene. There are no data available yet regarding the market growth, but we believe volumes may have grown up to 20 % in 2020. At that point short term capacity constraint has most likely become a hard limit. Good demand has remained in 2021 even if vaccinations have progressed well especially in US so there are no signs of hangover yet. However, this is an issue that deserves an attention as growth was exceptional in 2020 and changes in consumer behavior are difficult to estimate under on-going very unusual circumstances.

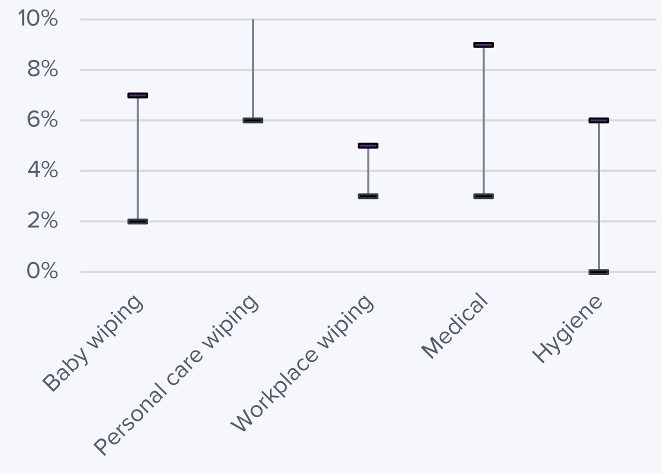
According to Suominen's latest market outlook published before the pandemics, demand for nonwovens in wiping is expected to grow with CAGR off around 2 % in North America, 2-6 % in Europe, 6 % in South America and 7 % in Asia and Africa. These are expected long term growth rates for volume, and they do not take into account potential significant long-term chages deriving from COVID-19 (the company has not published any new estimates in 2021 and little market information is available). However, as said, it is possible but not sure that demand growth continues just from higher level after the pandemics if changes in consumer behavior become permanent. However, we argue that value of the market should grow slightly faster than volume (or at least in line with volume) as value added grades grow the fastest, which could offset long term price pressure of value for money grades (in short-term rising raw-material costs boost market growth in monetary terms) . The figures equal approximately 3 % expected CAGR for Suominen's main markets (Europe and Americas) and some 5 % globally over longer term.

These figures represent the overall growth for nonwovens demand while growth varies greatly between end-use segments. This gives Suominen the opportunity to focus on the most interesting and fastest growing segments. Generally, value added categories (incl. sustainable nonwovens made from natural fibers) have a better growth outlook than value for money products. In other words, some 60 % of the company's current offering are expected to exceed the average market growth. Thus, the company should have room to exceed overall market growth in its most profitable product categories, which support Suominen's aim to exceed market growth and to improve profitability. The results will depend on the company's success in strategy execution, but the demand outlook is supportive in the long term and pandemics still add some short-term tailwind for demand.

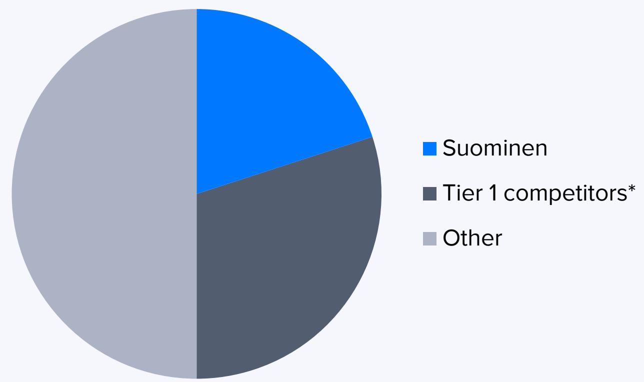
Fragmented markets in global scale

Given Suominen's sales and market size, Suominen has a 20 % market share in wiping, which makes the company a global market leader in the segment. Overall, the wiping market is very fragmented globally. The four biggest tier 1 wiping competitors (Berry Plastics, Kimberly-Clark, Jacob Holm, Sandler) have together some 30 % market share, thus the five biggest hold only slightly above half of the market. The other half is controlled by small local players. The fragmented market structure feed competitive pressures in the business in our opinion.

Suominen end-uses' expected CAGR



Suominen's market share



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

Source: Suominen (material published before the pandemics), Inderes

Nonwovens industry and competition 3/4

In medical and hygiene Suominen is a minor player and does not have any material market share in global or even local markets.

Supply/demand varies between segments

The whole wiping business had been suffering overcapacity before the pandemics in Europe, which was built during 2000s. In addition, babycare and flushables suffered the same problem also globally. However, according to our analysis, COVID-19 made basically all geographical areas undersupplied as demand increased fast in cleaning, disinfecting and hygiene related end uses and grew total market clearly despite some headwinds in industrial and consumers' away from home categories. We also estimate that the markets have remained mostly undersupplied in 2021s.

We believe the market is still somewhat tighter in North America than in Europe currently, and this also has been the case over long term. However, the future depends on the several factors. First is sustainability of the current demand level when the pandemics is over (or under control). Second is naturally amount of new capacity additions. Negative progress in either demand or supply could return the current exceptionally good market balance and mild competitive environment to more normal situation. The third is progress of sustainability trend in the future. The latter comes from the fact that the current nonwovens lines need to be run some 10 % slower if raw-material is changed from synthetic fibers to cellulosic fibers. This limits size of global supply if/when share of cellulosic fibers increase in the total fiber furnish of the industry.

In addition to main markets in North America and Europe, South America is a developing market and Suominen is basically launching value-added grades (incl. sustainable grades) to the market after rebuilding was completed in Paulinia plant in 2015. Therefore, it will take time to reach significant value-added sales in Brazil on group level but the region could be a source of strategic growth for Suominen. Recently, Brazilian nonwovens markets remained relatively robust despite the challenges in the economy resulting from declining commodity prices in 2015-2016 and again in 2019-2020. This confirms the defensive nature of the business. We believe Suominen should be operating in very good environment in South America right now.

Capacity increases are inevitable

Capacity increases are natural and inevitable as the markets is now undersupplied, partially changing (from synthetic fibers to natural fibers) and growth could well continue from higher level. Given the backgrounds, several players have decided to invest in new capacity in Europe and US and 2-3 new lines per continent will enter in the market in 2022-2023. Capacity additions have usually impact on the market balance at least in the short term. For example, the capacity additions in 2015-2017 in US and Europe was one factor that has kept Suominen's volumes stable or declining in 2014-2019 and pushed sales prices clearly down in 2016-2018. This reflects the competitive environment in the industry, which is fierce under normal circumstances.

We argue that one typical new production line in Europe or North America will raise up local production capacity some 2-3 % on wiping level. Given the size of the market, one line per continent annually is required to meet demand growth.

Some announced capacity adding spunlace investments in Suominen's markets

Company	Country	CAPEX (if published)	Capacity (if published)	Starting (if published)
Suominen	Italy	8 MEUR	-	H2'21
Jacob Holm	US		-	Q4'21
Minet S.A.	Romania		10,000 tons	Q2'22
Berry	Europe		300 million sqm.	Q3'22
Berry	US	70 MUSD		Q1'23
Fitesa	Brazil			Q1'22
Fibertex	Europe	50 MUSD		
Fibertex	US	50 MUSD		

Source: Inderes, Nonwovens Industry

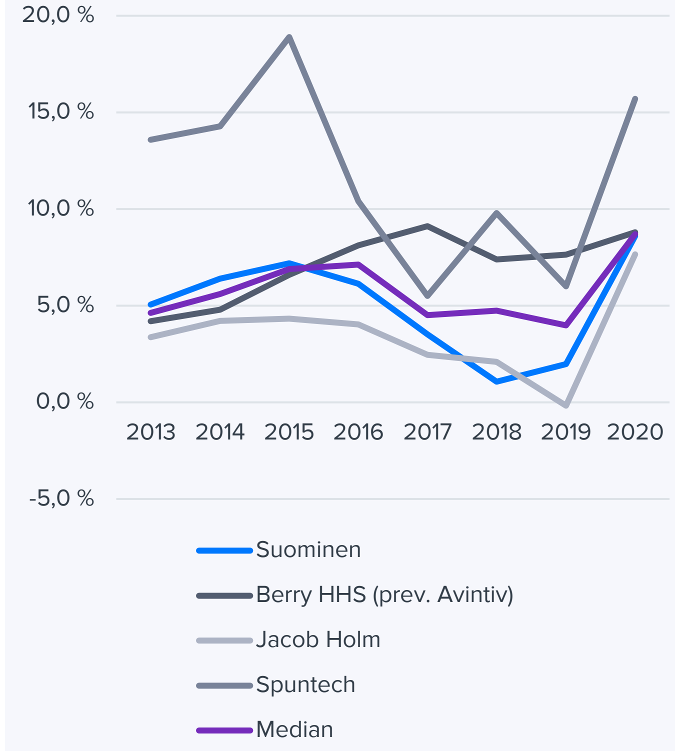
Nonwovens industry and competition 4/4

However, more is needed to catch current undersupply up assuming growth continues from higher level and speed of lines will reduce slightly. Therefore, we believe market is able to absorb committed investments if demand does not prevail and change in fiber mix begins on materialize. Continuously several new lines per annum would create market pressure if old capacity was not simultaneously ceased according to our analysis. This is the big picture on overall market conditions while there may be significant deviations in sub-segments and geographically. However, we believe that value added grades and sustainable grades (more difficult to manufacture) will be better balanced than technically easier value for money business. In addition, investments of the industry and supply/demand-balances are a factor to follow in nonwovens business.

Performance versus sector peers'

It is difficult to compare Suominen's financial performance to other players directly due to fact that competitors are private entities or parts of big corporations, which have different businesses that reduce comparability. In addition, different product segments can reduce comparability. However, we have benchmarked Suominen's financial performance against certain peers, which compete with Suominen at least to some extent.

Tailwind from markets gave a major boost for entire industry in 2020 while margins have deviated a lot during the last 8 years. Suominen's performance has been in line (or slightly better) with Jacob Holm, which is a direct competitor, while Suominen catched Berry HHS' margins in 2020. Thus, recent relative progress is decent in our opinion. 8-year average of peer groups' EBIT-% is 6.7 % (5.1 % excl. Spuntech), which gives some impression on the long-term margin potential in the business (4-6 % EBIT-% corresponds usually to some 8-10 % EBITDA-% in nonwovens industry). Suominen's 8-year average EBIT-% of 4.8 % drops slightly short of the peers, thus historical performance of the company does not suggest that Suominen has strong competitive advantages. In addition, exceptional long-term performance of Spuntech illustrates profit potential of value-added niches as the company used to be a very focused niche player at least it the beginning of the past decade.



* Jacob Holm 2019 figures 9/2019 YTD

Source: Inderes, CapitalIQ, Berry, Jacob Holm

Financial position 1/2

Non-current asset values seems to be relevant

The majority of Suominen's non-current assets consist of tangible assets, which are mostly plants (land and properties) and machinery. At the end of Q1'21 tangible assets were 127 MEUR (incl. right-of-use assets) consisting mostly of machinery. At the end of Q1'21 the balance sheet contained some 15 MEUR of goodwill representing 10 % of equity attributable to shareholders. Other intangible assets were 16 MEUR.

We consider asset values to be relevant as the company depreciates its assets relatively fast and units carrying goodwill have been generating positive cash flow in the last years. Therefore, we see no major write-down risks in the assets and the company has also made no write-downs in the near history. Write-down risks were in our opinion reduced also in Q1'21 as the company managed to dispose all assets (receivables and equity) related to Amerplast. This was in our opinion a good move as the assets were totally non-core (legacy from Flexibles BA divestment in 2014) for Suominen, price was good, and Amerplasts' business fluctuated.

NWC has developed favorably lately

On the current asset side, the three biggest items were inventories (40 MEUR), trade receivables (55 MEUR) and cash (82 MEUR) at the end of Q1'21. However, Suominen issued a new 50 MEUR bond in early June, thus cash position and correspondingly gross debt has increased clearly since the last report but this is neutral information for investors in our opinion.

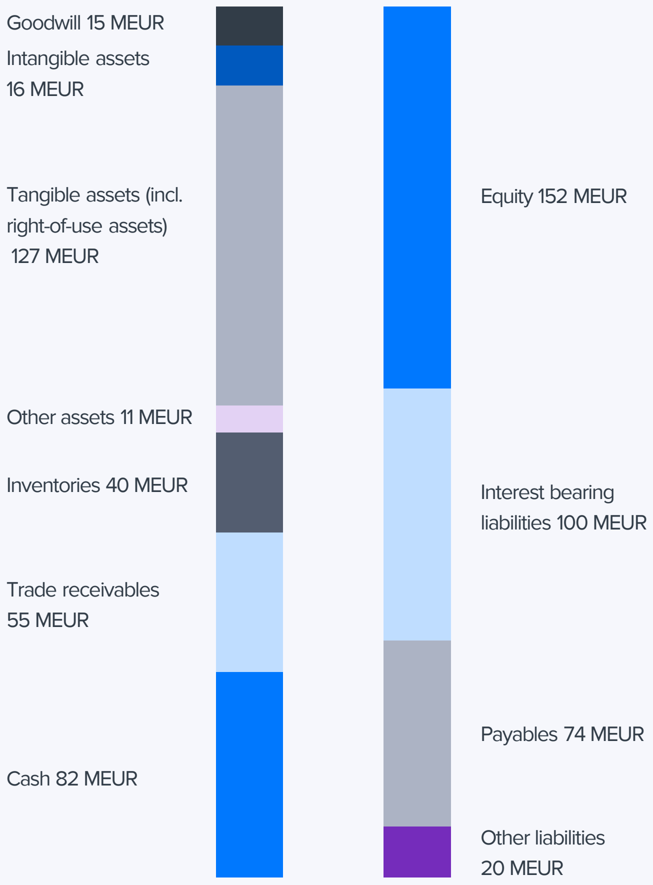
Suominen has clearly trimmed its NWC last few years and Q1'21 NWC was some 6 % of net sales. Suominen utilizes also some factoring to speed up turnover of receivables and this should be cheap for them as most of Suominen's key accounts have low credit risk profile. NWC began to increase in 2016-2017 but the company managed to stabilize NWC to sales ratio to 10 % in 2018-2019 and during record-breaking year 2020 NWC to sales dropped to some 8 %. Therefore, Q1'21 was also positive from NWC perspective. We believe that the current level is reasonably good for Suominen given current commodity and end-product prices while slight increase in NWC in 2021 would not be a major surprise. Other items in current assets have quite limited significance on group level.

Freedom to execute strategy from liabilities perspective

Suominen has 152 MEUR of equity attributable to owners of the parent company. Last year's good net result raised shareholder's equity. Before 2020, company's equity remained stable for couple of years despite zero to negative net profit and moderate payout. This was FX driven asset revaluation (depreciating EUR/USD). Thus, FX (EUR/USD) has also an impact on their balance sheet.

Suominen's non-current liabilities included an 83 MEUR bond finance (carrying amount). This consists of a five-year 85 MEUR bond (nominal) issued in October 2017 (the difference between the carrying amount and sum of nominal values is valuation difference).

Suominen's balance sheet at end of Q1'21



Source: Suominen, Inderes

Financial position 2/2

The 85 MEUR senior bond has a coupon rate of 2.5 %. In Q2'21 Suominen reported, that it issues a new six-year 50 MEUR bond, which has a coupon rate of 1.5 %. We believe Suominen will use the capital to refinance the older bond in 2022. In addition, current excessive cash position enables also to reach fast investment and/or M&A opportunities should they arrive.

In addition, the company has 100 MEUR RCF (RCF expires 7/2023), which had not been used at the end of Q1'21. In our estimation this should be cheap money for the company. In addition, the company had 15 MEUR liabilities related to long term rents (IFRS 16). Altogether, we consider the cost of the company's debt finance reasonable and current excess liquidity does not cost the company too much (buying the old bond back in advance would be probably more costly).

Current liabilities are dominated by payables of 74 MEUR (positively above receivables). Total assets were at 347 MEUR at the end of Q1'21 but current level is probably some 50 MEUR higher due to completed bond issue. Altogether, Suominen operates with reasonably light balance sheet given the scale of the business in our opinion.

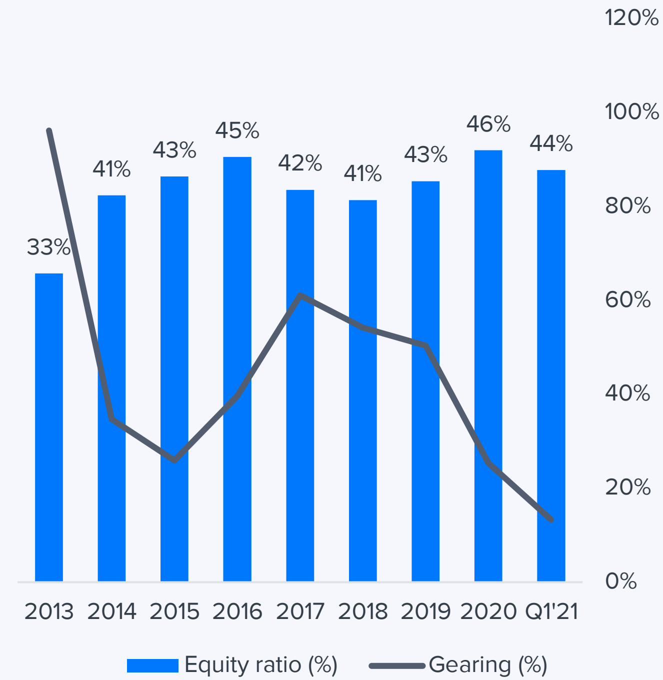
Balance sheet is currently very strong, which enables M&A

Suominen's gearing was 13 % and equity ratio 44 % at the end of Q1'21. Gearing is well below the company's target range of 40-80 % and direction remains still down as business outlook is good and there are no major investment projects under execution. In addition, net debt/EBITDA -ratio was on a strong level of 0,3x at the end of Q1'21.

Thus, we argue that Suominen's balance sheet is currently very strong and enables company to consider strategic growth (especially M&A transactions in Asia) in coming years if opportunities arise. On the other hand, if Suominen doesn't find any attractive M&A targets, we argue that company could raise its payout ratio to avoid balance sheet's excessive overcapitalization, which in our opinion means holding significant amount of net cash.

As mentioned, we argue that Suominen needs certain leverage to keep WACC-% reasonable and to boost return on equity. We argue the company's sweet spot should be around the lower end of the current target range while we expect that going to zero net debt will not lead any action in short term as the company's long-term growth strategy likely include M&A, for which Suominen needs certain financial headroom. Given these limits, we estimate that Suominen has now some 50-100 MEUR (or even more management tolerates temporarily higher gearing) net debt capacity available for CAPEX and/or M&A. The firepower enables a clear step change in sales given typical EV/S valuations (< 1x) in the business. This is of course a positive problem in our opinion from investors' perspective.

Historical development of the balance sheet



Source: Suominen, Inderes

Estimates 1/4

Model and cornerstones of our estimates

We model Suominen's net sales short and medium term based on estimated volume growth, price/mix-development and FX-impacts. Long term growth estimates are based on market growth and expected progress of the company's market share. We model the company's GM-% and SGA-% structure quarterly and on an annual basis in order to estimate short and medium-term profitability. Our long-term profitability estimates are based on historical performance and our estimate of margin potential. We do not take M&A into account in our estimate even if we believe Suominen will seek inorganic growth in the long term.

Suominen got a good start for the year...

Suominen started FY'21 well. The company's Q1 revenue grew 5 % 115 MEUR. Revenue was driven up by improved volumes as well as increased demand in wiping products that continued strong (in Q1'21 positive effects from COVID-19 were only partly visible in volumes). However, FX rates had a negative impact on sales whereas selling prices were quite unchanged in year over year comparison.

In Q1'21 Suominen's adjusted EBIT more than doubled y-on-y and increased to record level of 13.6 MEUR. Profit improvement was driven by GM-% (over 5 %-point increase to 17.5 %) development when higher volumes, improved production efficiency and neutral price/input cost -ratio had positive impact on profitability. However, FX burdened EBIT by some 1.5 MEUR (most likely in US). Suominen kept SGA-costs strictly under control as usual. At the bottom lines of P&L financing costs climbed positive driven by capital gain from Amerplast disposal. Tax-rate was low which as most likely driven by improved profitability in Europe that enable utilization of old losses. Thus, Suominen's EPS of 0.24 EUR (EPS excl. NRI 0.19 euros) was extremely strong.

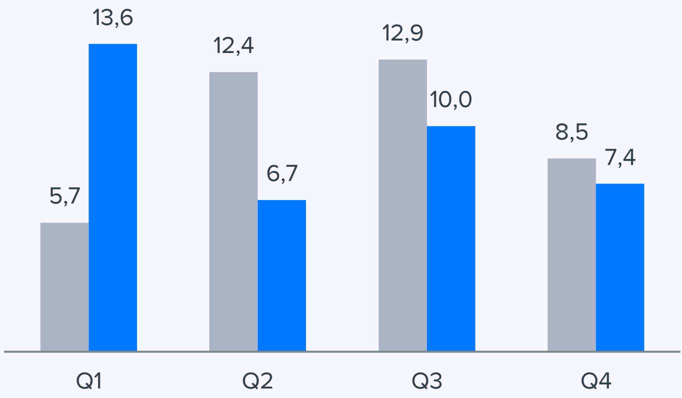
Operating cash flow was on a strong level of 16.0 MEUR or 0,28 EUR per share as only limited NWC was tied on Q1. This is quite untypical as NWC usually increases at the beginning of year and decreases during H2. In addition, financing cash flow was supported by 9.3 MEUR (vendor loans and accrued interest) due to Amerplast disposal. Therefore, the company's net debt decreased clearly in Q1.

...and retained its guidance in Q1-report

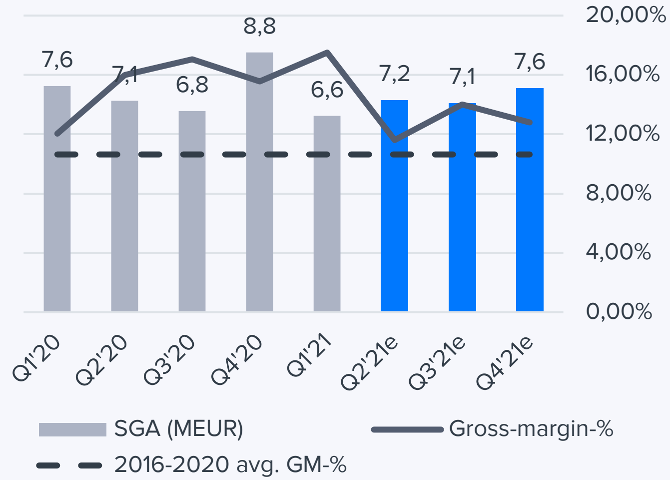
Suominen reiterated its 2021 guidance in connection with the Q1 report, according to which it expects 2021 adjusted EBITDA to be at the 2020 level (2020: adjusted EBITDA EUR 60.9 million). The company also expects demand to remain strong but increasing volatility in raw material and transportation markets increases uncertainty and can have a negative effect on the result. Especially for Q2, the company warned of negative effects.

The demand situation seems very strong despite vaccinations progressing and we estimate that the demand/supply dynamics in the industry will remain tight this year. The company also seems to be quite well prepared for raw material price increases, for example, by increasing mechanism-based contracts in Europe, so we expect Suominen's pricing to catch up with cost inflation with a 1-2 quarter lag. Based on this, we expect the company to reach its guidance

EBIT (adj.) development quarterly



SGA-cost and GM-% development



Source: Suominen, Inderes

Estimates 2/4

this year even if raw-materials and potential changes in consumer behavior (in case life returns to the normal) are difficult to estimate.

2021 estimates

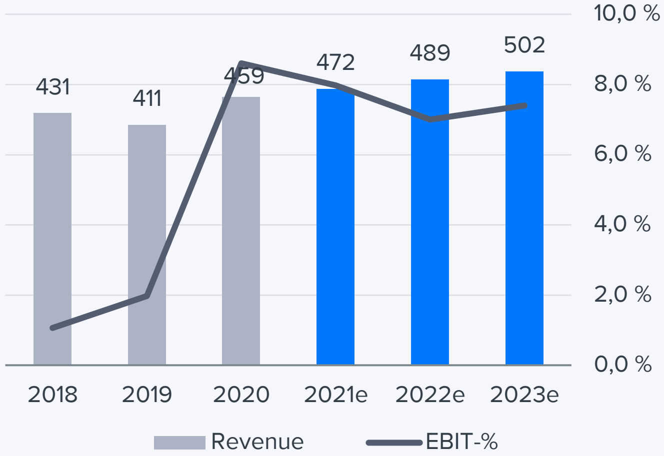
Currently we estimate Suominen will grow 3 % and report 472 MEUR net sales in 2021. We expect volumes to increase slightly as demand environment seems to be strong as consumers continue to clean, disinfect and keep eye on hygiene even if vaccinations are tackling the pandemics in Suominen's western markets during the year. However, most of volume growth came from Q1 against moderate comparison figure and some will come in Q4 when the new line gets up and running in Italy. We expect basically flat volumes in Q2 and Q3 due to the capacity constraint. We expect prices to increase in line with raw-material prices and price versus production cost differential could be slightly negative factor profitability in 2021 and clearly negative factor in Q2. We expect pricing to catch fast risen material prices up after 1-1,5 quarter delay when fixed pricing mechanisms begin to work and open contracts are renegotiated. At this point we expect negative impact from FX to reported sales in 2021 but the worst headwind blow in H1 in this sense.

We estimate Suominen's GM-% to drop 1.2 %-points to 14.0 %. This is driven by negative price to raw-material differential, which slightly higher volumes and positive effect from product mix can not fully compensate. We estimate SGA-% to remain on good level at 6.0 of sales % in 2021 due to strict cost control. We expect FX to have also a slightly negative impact on EBITDA and EBIT. Therefore, we forecast comparable EBITDA of 58.6 MEUR for 2021, which is also in line with the company's existing guidance. We expect depreciation to remain basically flat at 21 MEUR. We have made no material estimate revisions on our estimates FY'21.

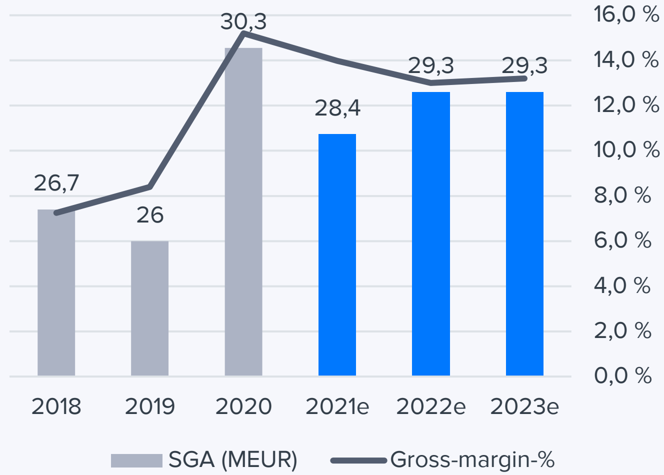
Below EBIT we forecast net financing costs to be at -0.6 MEUR in 2021, which means basically normal some 1.3 MEUR/Q net financing costs for Q2-Q4 (Q1 net financing costs were positive due to one-off gain from Amerplast disposal). Therefore, the run-rate is on normalized level considering the debt structure and other annual financing costs. We expect tax-rate to be 21 % in 2021, which should be around or slightly below the company's normalized level. Now basically all unit are generating healthy profits, thus tax issues that the company has previously had, does not raise the tax-rate. However, the company did not have losses outside of the balance sheet any longer at the year end.

Altogether, we estimate EPS to decrease 2 % to 0.51 euro and 0.46 euro excluding Amerplast related gains that is basically NRI. We estimate Suominen will pay a dividend of 0.22 EUR per share (2021e: payout-% 43 %), which is broadly in line with their dividend policy. FCF should remain strong in 2020 as CAPEX remains below depreciation and profitability stays good. However, increasing commodity prices may tie some NWC. Net profit. well positive FCF and proceedings from Amerplast disposal (some 7 MEUR, accounted in financing cash flow) push gearing down and we expect year end gearing to be 11 % (changes in FX can deviate slightly equity and correspondingly gearing).

Revenue and EBIT-% development



SGA-cost and GM-% development



Source: Suominen, Inderes

Estimates 3/4

Thus, Suominen's financial position should remain solid.

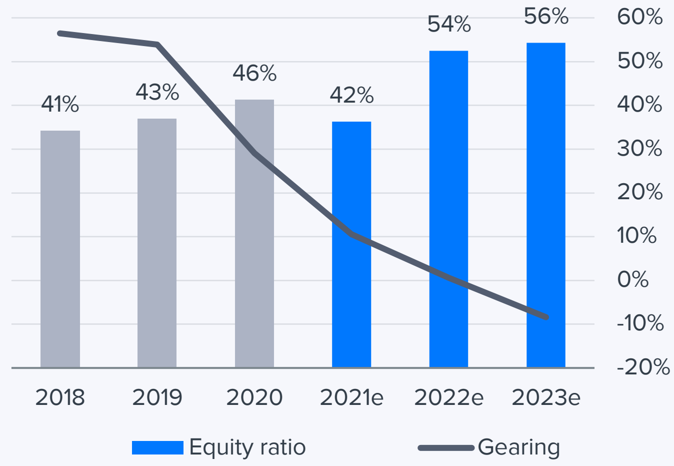
2022-2023 estimates

We expect coronavirus outbreak has no major direct negative impact on the business in 2022 as all voluntary people are vaccinated in US and Europe and also Brazil should reach the advanced stage with vaccinations in 2022. However, we expect tendency to clean grows permanently and demand for wiping does not face a major drop but continue to grow moderately. In addition, recovery speed of especially US and but also European GDP should be strong while opening of supply chain bottlenecks could calm raw-material markets even if GDP growth gains momentum. Also, developing product offering (i.e. new products and recent investments in product quality), gradually improving efficiency and the new line in Italy should support value and volume growth. Raw-materials represent a risk even if our base case expects some spikes to normalize (and pricing goes anyway to some direction with raw-materials). New capacity entries remain also a pricing risk but there should be no major problems if demand continues to grow. Extremely tight trading conditions and undersupply will, however, fade way in the next years. Sustainability trend gains pace.

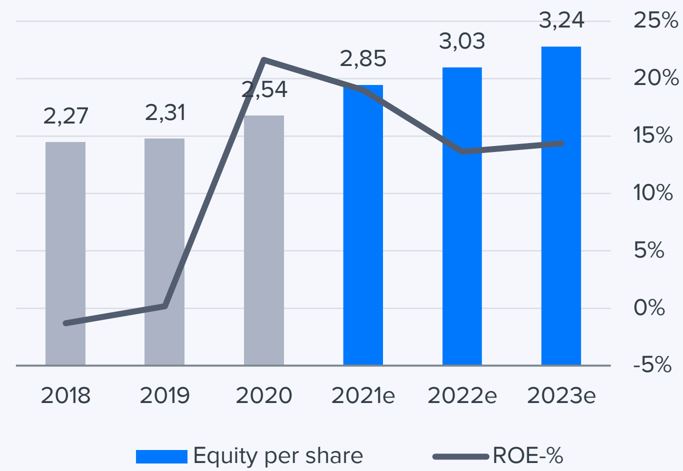
We estimate Suominen's net sales to increase 4 % to 489 MEUR in 2022 and 3 % to 502 MEUR in 2023. The main drivers are slight volume growth and product mix (sustainable and value-added grades) while we expect pricing to have slightly negative impact on 2022 and slightly positive in 2023. Our GM-% estimate for 2022 and 2023 are 13.0 % and 13.2 %, which reflect product mix transformation, efficiency improvement, mentioned raw-material/pricing-element development and normalizing competitive environment. These estimates in line with Suominen's pre-pandemics peak GM-% of 13 % in 2015 as positive factors are more than enough to fully offset more challenging raw-material environment. We see that SGA will continue to face slight pressure upwards on absolute terms in 2020's but operating leverage should keep relative figure fairly flat at 5.8-6.0 %. Therefore, topline growth and good GM-% drive Suominen's EBITDA to 56.4 MEUR in 2022 and to 58 MEUR in 2023. These figures begin to correspond a satisfactory EBITDA-% of 11.5 % which is above long term industry average and close to Suominen's 2025 target. In addition, we expect Suominen's ROCE-% of 12.5-15.2 % to beat WACC-% in 2022-2023. We have made no major changes in our estimate for 2022-2023.

Financing costs should be down in 2022-2023 as gross debt level and average interest decreases with good profits and correspondingly healthy cash flow. We estimate Suominen's tax-rate to reach level of 22-24 % in 2022-2023. However, we have yet not incorporated increase of US corporate tax (possibly from 21 % to 28 %) to our estimates even if signs the current US President suggest that the tax-rate may increase. Altogether, we expect Suominen to make EPS of 0.40 euro in 2022 and 0.45 euro in 2023. Strong level of EPS should keep dividend on an uphill track, and we estimate Suominen to pay out 0.24 cents DPS in 2022 and 0.26 cents in 2023.

Balance sheet key figures



Equity per share and ROE-%



Source: Suominen, Inderes

Estimates 4/4

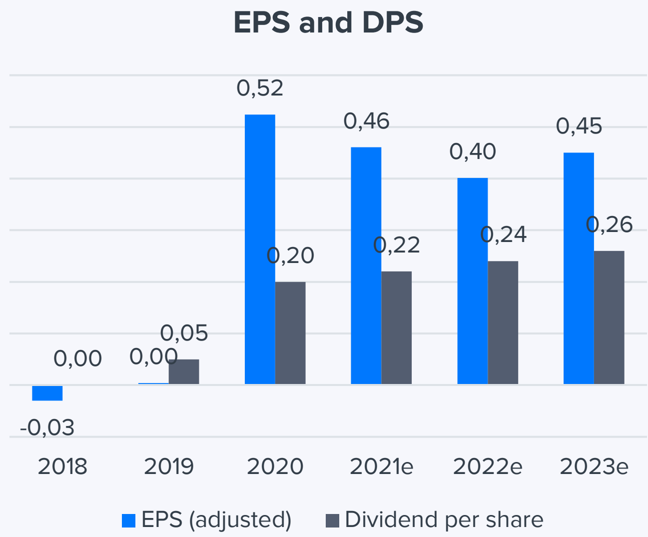
These are above Suominen's dividend policy (2022e-2023e: 58-60 % payout) as acccording to our estimate, Suominen becomes net debt free in these years. Thus, there is a firepower to increase investments or seek M&A and correspondingly increase payout.

Long term estimates

From 2023 onwards we are expecting growth to be within 2-3 %, which represents the average growth rate of the industry and GDP growth in the main markets over the long-term. We estimate EBITDA margin to stay at 11.5 % % in until 2025 (correspondingly EBIT-% 7-8 %) and to decrease to 8-11 % (EBIT-% 5-7 %) over long term when competition intensifies. Thus, our long-term estimates stay just slightly below the company's long-term targets. We have made only slight adjustments to our long-term estimates.

Therefore, there could be some upside in medium-term estimates if the company can demonstrate its ability to sustain margin levels that were reached in 2020. However, the company's recent ups and downs and challenging historical industry dynamics advocate being cautious with the estimates over longer time frame at this point.

These estimates are based on organic growth even if we believe that Suominen will make M&As over the long term. Thus, potential transactions could have significant impact on estimates, but their timing is naturally impossible to estimate. In addition, long term estimates are non-cyclical averages as timing of cycles is impossible to forecast.



Source: Suominen, Inderes

Quarterly estimates

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	**411**	**110**	**122**	**115**	**111**	**459**	**115**	**119**	**121**	**116**	**472**	**489**	**502**	**515**
Nonwovens	411	110	122	115	111	459	115	119	121	116	472	489	502	515
EBITDA	**33,7**	**11,3**	**18,0**	**18,1**	**13,5**	**60,9**	**18,5**	**11,7**	**15,4**	**13,0**	**58,6**	**56,4**	**58,0**	**59,4**
Depreciation	-25,5	-5,6	-5,6	-5,2	-5,0	-21,4	-4,9	-5,0	-5,4	-5,6	-20,9	-22,1	-20,8	-19,7
EBIT (excl. NRI)	**8,1**	**5,7**	**12,4**	**12,9**	**8,5**	**39,5**	**13,6**	**6,7**	**10,0**	**7,4**	**37,7**	**34,2**	**37,2**	**39,7**
EBIT	**8,1**	**5,7**	**12,4**	**12,9**	**8,5**	**39,5**	**13,6**	**6,7**	**10,0**	**7,4**	**37,7**	**34,2**	**37,2**	**39,7**
Nonwovens	8,1	5,7	12,4	12,9	8,5	39,5	13,6	6,7	10,0	7,4	37,7	34,2	37,2	39,7
Net financial items	-6,0	-1,9	-1,8	-1,8	-0,1	-5,6	3,3	-1,3	-1,3	-1,3	-0,6	-4,7	-3,1	-3,0
PTP	**2,1**	**3,8**	**10,5**	**11,1**	**8,5**	**33,9**	**16,9**	**5,4**	**8,7**	**6,1**	**37,0**	**29,5**	**34,0**	**36,6**
Taxes	-1,9	-0,2	-2,2	-0,3	-1,2	-3,8	-3,1	-1,1	-1,9	-1,5	-7,6	-6,5	-8,2	-9,2
Minority interest	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	0,0
Net earnings	**0,2**	**3,6**	**8,4**	**10,9**	**7,3**	**30,1**	**13,8**	**4,3**	**6,8**	**4,6**	**29,4**	**23,0**	**25,9**	**27,5**
EPS (adj.)	**0,00**	**0,06**	**0,15**	**0,19**	**0,13**	**0,52**	**0,19**	**0,08**	**0,12**	**0,08**	**0,46**	**0,40**	**0,45**	**0,48**
EPS (rep.)	**0,00**	**0,06**	**0,15**	**0,19**	**0,13**	**0,52**	**0,24**	**0,08**	**0,12**	**0,08**	**0,51**	**0,40**	**0,45**	**0,48**

Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	-4,6 %	0,4 %	17,7 %	11,7 %	17,6 %	11,5 %	4,6 %	-2,3 %	4,9 %	4,9 %	2,9 %	3,5 %	2,7 %	2,6 %
Adjusted EBIT growth-%	76,9 %	92,5 %	365,3 %	1064,9 %	507,1 %	385,8 %	138,5 %	-45,8 %	-22,8 %	-13,1 %	-4,7 %	-9,1 %	8,5 %	6,8 %
EBITDA-%	8,2 %	10,3 %	14,7 %	15,7 %	12,2 %	13,3 %	16,0 %	9,8 %	12,7 %	11,2 %	12,4 %	11,5 %	11,5 %	11,5 %
Adjusted EBIT-%	2,0 %	5,2 %	10,1 %	11,2 %	7,7 %	8,6 %	11,8 %	5,6 %	8,2 %	6,4 %	8,0 %	7,0 %	7,4 %	7,7 %
Net earnings-%	0,1 %	3,2 %	6,8 %	9,4 %	6,6 %	6,6 %	11,9 %	3,6 %	5,6 %	3,9 %	6,2 %	4,7 %	5,2 %	5,3 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	**178**	**164**	**157**	**150**	**144**
Goodwill	15,5	15,5	15,5	15,5	15,5
Intangible assets	20,0	16,7	16,8	16,9	17,0
Tangible assets	136	122	120	112	107
Associated companies	0,0	0,0	0,0	0,0	0,0
Other investments	0,8	0,8	0,8	0,8	0,8
Other non-current assets	3,7	4,0	0,0	0,0	0,0
Deferred tax assets	2,1	4,0	4,0	4,0	4,0
Current assets	**132**	**154**	**231**	**171**	**190**
Inventories	39,3	35,4	44,9	46,4	47,7
Other current assets	8,4	9,4	5,9	5,9	5,9
Receivables	46,7	51,1	52,6	54,5	55,9
Cash and equivalents	37,7	57,9	128	63,9	80,7
Balance sheet total	**310**	**317**	**388**	**320**	**334**

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	**132**	**146**	**164**	**174**	**186**
Share capital	11,9	11,9	11,9	11,9	11,9
Retained earnings	13,7	42,0	59,9	70,3	82,4
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	0,0	0,0	0,0	0,0	0,0
Other equity	107	92,1	92,1	92,1	92,1
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	**107**	**114**	**148**	**77,6**	**77,6**
Deferred tax liabilities	12,8	13,3	15,0	15,0	15,0
Provisions	1,6	1,8	1,8	1,8	1,8
Long term debt	92,2	97,8	130	60,0	60,0
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	0,8	0,8	0,8	0,8	0,8
Current liabilities	**70,4**	**57,8**	**76,5**	**68,7**	**70,4**
Short term debt	17,0	2,5	15,0	5,0	5,0
Payables	53,3	54,6	61,4	63,5	65,3
Other current liabilities	0,1	0,7	0,1	0,1	0,1
Balance sheet total	**310**	**317**	**388**	**320**	**334**

Valuation 1/3

Valuation cornerstones

After the tackling profitability challenges, investors categorize Suominen as a growth company. However, as turnaround came very fast and was partially driven by tailwind from the pandemics, the markets seem to have some uncertainty over sustainable long term margin levels. Thus, Suominen will be valued by income statement based valuation multiples like P/E, EV/EBITDA and EV/EBIT in the markets. Correspondingly, cash flow based valuation by P/FCF is also a feasible metric. In addition, P/B is always a good multiple in the manufacturing industry when it is combined to return on capital. However, in our opinion Suominen should not be directly valued by the balance sheet as the company operates in somewhat less capital intensive segment of manufacturing industry. Dividend yield is also secondary metrics for a growth company like Suominen.

The following factors have positive or neutral impact on Suominen's valuation in our opinion:

Trends supporting nonwovens business and sustainable nonwovens give the company good organic growth outlook (above GDP growth) and correspondingly value creation potential

Defensive nature of the consumer related business keep cyclicality of the company limited, which we consider positive from valuation perspective

Position as a global leader supports the valuation even if the industry is fragmented

Balance sheet of the company is still in very good shape and we see no major additional balance sheet related risks at the moment.

The following factors have negative impact on Suominen's valuation in our opinion:

Revenue streams are quite centralized in customer and geographical sense, which elevates slightly risk premiums

Difficult value chain position and challenging competitive dynamics from pricing power perspective increases risk level to some extent

Margins have fluctuated quite a lot in near history and the company the company is at the upper end of the range now, which raises still doubts on sustainability of current profitability

Free float and liquidity of the share have been recently limited, thus we argue extra liquidity premium is required for the stock

Given that background, we argue Suominen should be valued with a P/E-ratio of some 13x-15x in organic growth phase. Correspondingly, acceptable EV/EBITDA-ratio is somewhere between 6x-7x in our opinion, which is in line with Suominen's historical valuation. However, slight premium to historical EV/EBITDA level might acceptable going forward as the company has solved historical tax issues in the last years (partly driven by US tax reform). However, IFRS 16 has some slight decreasing effect on EV/EBITDA, which offsets the tax factor to some extent. Naturally, acceptable valuation depends also on profit growth speed and general valuations (incl. interest rates) in the global stock exchanges.

Valuation	2021e	2022e	2023e
Share price	5,45	5,45	5,45
Number of shares, millions	57,5	57,5	57,5
Market cap	313	313	313
EV	330	314	298
P/E (adj.)	11,8	13,6	12,1
P/E	10,6	13,6	12,1
P/FCF	8,4	9,6	9,5
P/B	1,9	1,8	1,7
P/S	0,7	0,6	0,6
EV/Sales	0,7	0,6	0,6
EV/EBITDA	5,6	5,6	5,1
EV/EBIT (adj.)	8,8	9,2	8,0
Payout ratio (%)	43,0 %	59,9 %	57,8 %
Dividend yield-%	4,0 %	4,4 %	4,8 %

Source: Inderes

Source: Suominen, Inderes

Valuation 2/3

Acceptable EV-based valuation range is supported also by some M&A-activities in the sector since Blackstone sold Avintiv to Berry for LTM EV/EBITDA 8x in the summer of 2015 while few months earlier Mondi acquired Ascania for LTM EV/EBITDA 6x. These deals give a good indication for valuation levels in the business even if several factors have impacted on transaction prices in M&A-cases.

Valuation multiples

Suominen's P/E-ratios FY'21 and FY'22 based on our estimates are 12x and 14x while corresponding EV/EBITDA-ratios are below 6x We give a bit more weight on EV/EBITDA as it reflects better Suominen's good cash flow (CAPEX below depreciation in the next few years). In addition, Suominen's P/FCFE ratios based on our estimates are some 8x-10x FY'21 and FY'22. Given our valuation range for Suominen, we see multiples undemanding. Therefore, we see certain upside in the share looking 12 months forward if the company can match our estimates. Dividend yields are on decent level at some 4 %.

P/B-ratio is 1.9x while EV/S-multiple is 0.7x (2021e). These figures are above the company's medium-term averages and moderate to challenging on absolute terms. Thus, we argue that high but not unrealistic expectations are priced in the share as share price has appreciated over 100 % since beginning of 2020. Therefore, balance sheet and volume-based valuation do no limit the upside potential of the share in our opinion. However, these figures can not give the share any support anymore should negative surprises appear.

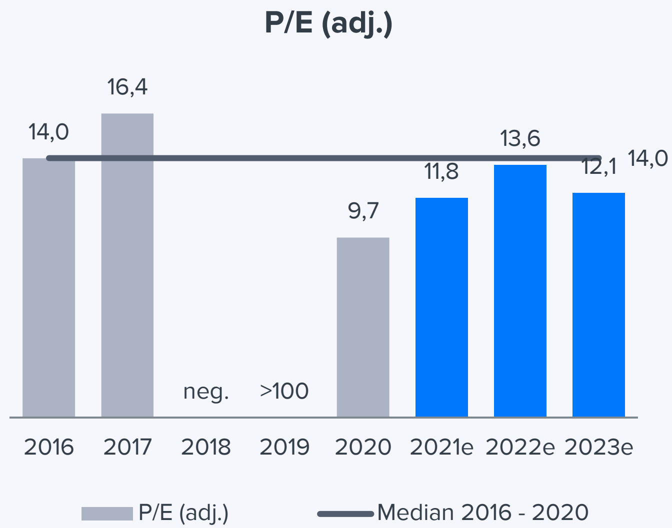
Relative valuation is only an indication

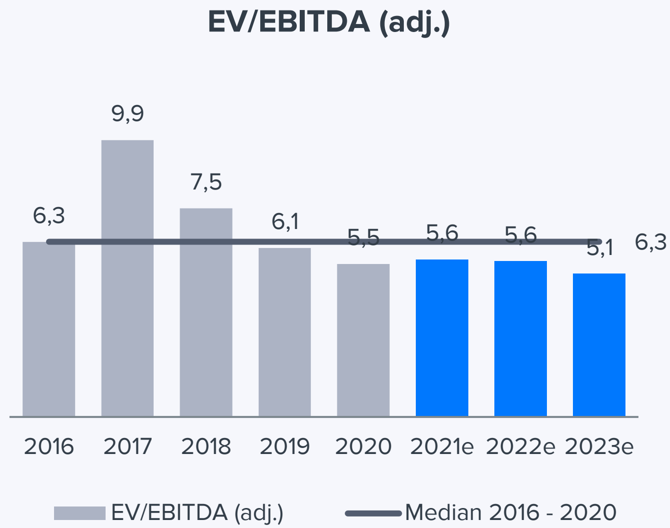
As Suominen's direct competitors in wiping segment are private equity owned companies or parts of large corporations consisting of several business segments, valuing the share in relation to the peer group is challenging. However, we have collected a peer group, which includes a few listed companies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

Suominen is valued at clear discount compared to peer group by FY'21 and FY'22 income statement multiples especially on EV-metrics. Therefore, relative valuation seems to be low in our opinion. However, we argue some discount is justified as Suominen's business portfolio is smaller and less widely spread than the peer group on average, which makes its risk profile somewhat higher. However, we do not believe loosely related peer group valuation will drive Suominen's share clearly to any direction in short term.

DCF-valuation

We give a limited weight also on DCF-value in our valuation as the model is very sensitive to changes in parameters (especially at the terminal). DCF-model, based on our long-term estimates, gives a value of





Source: Suominen, Inderes

Valuation 3/3

some 6.4 euro per share for Suominen.This reflects reasonably current fair value of the share in our opinion. We would like, however, to remind that the current parameters are slightly on demanding side compared to 2010s average but realistic to potential of the company's current business structure. Weight of terminal value is reasonable at 51 % in the model.

WACC-% of the model is at 7.2 % and cost of equity at 8.2 %. The discounting parameters are currently close to neutral in our opinion given the company's opportunities and risks. Therefore, we see WACC-% and cost of equity to stay relatively flat and upside and downside to the model come especially from the estimates.

Medium-term potential is there if the targets will be reached by 2025

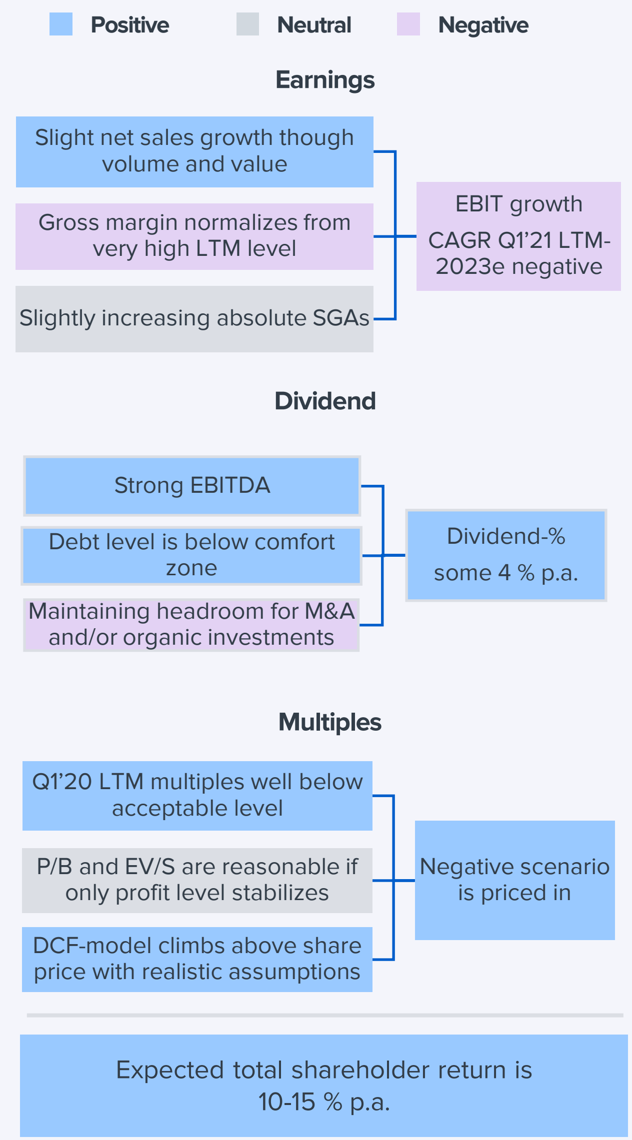
We estimate Suominen should make some 0.45-0.50 EUR EPS in 2025 if the company reaches above market organic growth in 2021-2025 and EBITDA-margin of 12 % in 2025 (net financing costs some slightly below 1.0 % of sales % and tax-rate of 25-28 %). With this impressive track-record in 2025, Suominen could be easily valued by P/E 15x. This would give share price of some 7-7.50 euro per share at the end of 2025.

As the share trades currently slightly at some 5.50 euros, investors would get almost 25-30 % share price appreciation and dividends of four years if this scenario realizes. Thus, TSR for four and half year investment would correspond to a very good IRR of roughly 10 % per annum. Therefore, we see also a decent upside also on medium term. In addition, negative scenario (i.e zero and slow growth and severe margin pressure) resulting clear downside in the share price, seems distant now.

Target price and recommendation

We retain Suominen's recommendation to accumulate and adjust our target price 6.25 EUR. We argue 12 month forward looking valuation is attractive in our opinion and correspondingly 12 month expected TSR of 10-15 % beats our cost of equity for Suominen. The expected TSR comes from higher multiples and dividend yield of some 4 %. We expect the market to accept higher valuation for Suominen when the company reaches its guidance FY21 and stabilizes profits on current very good level (quality of results would also improve). Similar or just slightly lower upside driven by the same factors remains on our sight also for the next years.

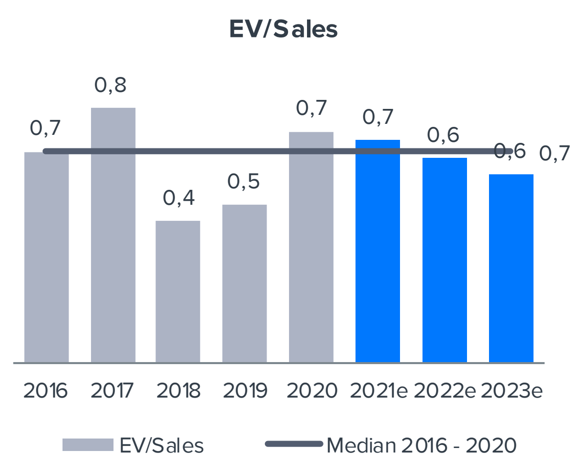
Share price drivers Q1'2020 LTM-2022e

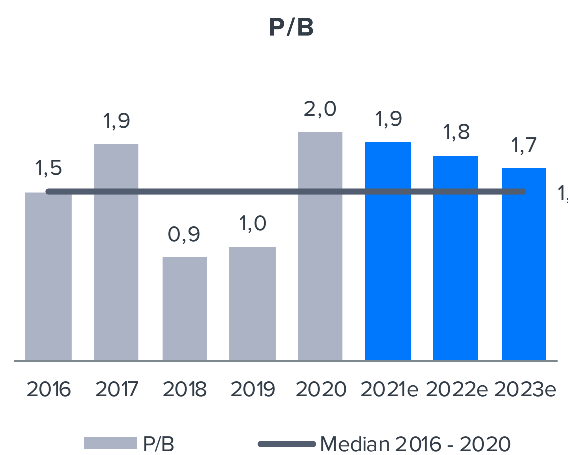


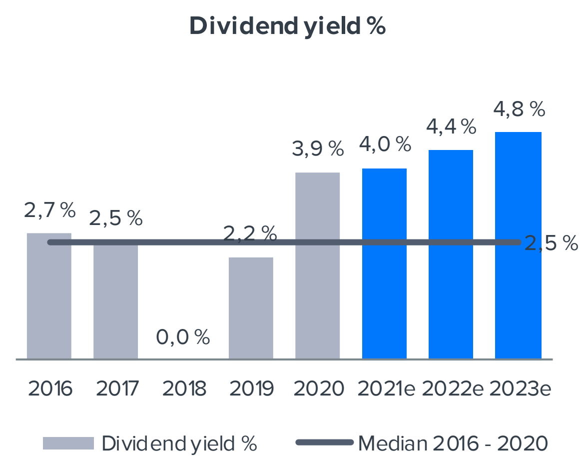
Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	4,14	4,42	2,05	2,31	5,08	**5,45**	**5,45**	**5,45**	**5,45**
Number of shares, millions	51,2	53,6	57,5	57,5	57,5	**57,5**	**57,5**	**57,5**	**57,5**
Market cap	212	258	118	133	292	**313**	**313**	**313**	**313**
EV	277	341	192	204	334	**330**	**314**	**298**	**283**
P/E (adj.)	14,0	16,4	neg.	>100	9,7	**11,8**	**13,6**	**12,1**	**11,4**
P/E	14,0	16,4	neg.	>100	9,7	**10,6**	**13,6**	**12,1**	**11,4**
P/FCF	neg.	43,5	5,5	6,3	5,8	**8,4**	**9,6**	**9,5**	**10,0**
P/B	1,5	1,9	0,9	1,0	2,0	**1,9**	**1,8**	**1,7**	**1,6**
P/S	0,5	0,6	0,3	0,3	0,6	**0,7**	**0,6**	**0,6**	**0,6**
EV/Sales	0,7	0,8	0,4	0,5	0,7	**0,7**	**0,6**	**0,6**	**0,6**
EV/EBITDA (adj.)	6,3	9,9	7,5	6,1	5,5	**5,6**	**5,6**	**5,1**	**4,8**
EV/EBIT (adj.)	10,8	22,7	41,7	25,1	8,5	**8,8**	**9,2**	**8,0**	**7,1**
Payout ratio (%)	37,1 %	44,3 %	0,0 %	1282,8 %	38,2 %	**43,0 %**	**59,9 %**	**57,8 %**	**60,0 %**
Dividend yield %	2,7 %	2,5 %	0,0 %	2,2 %	3,9 %	**4,0 %**	**4,4 %**	**4,8 %**	**5,3 %**

Source: Inderes







Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		**MEUR**	**MEUR**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**
Huhtamäki	39,94	4361	5358	17,0	15,2	10,7	9,8	1,5	1,4	20,2	18,3	2,3	2,5	3,0
Duni	115,20	524	666	34,1	15,2	14,3	9,2	1,4	1,2	48,8	18,0		4,4	2,0
Sealed Air	58,76	7467	10288	13,1	11,8	10,4	9,5	2,2	2,1	16,7	15,0	1,2	1,2	28,2
Riverstone	1,30	1202	1073	2,7	8,0	2,5	7,4	1,5	3,1	4,1	7,6	9,8	5,2	2,8
Berry	64,08	7299	14870	12,2	11,0	7,6	7,0	1,3	1,2	11,2	10,2			2,9
Suominen (Inderes)	**5,45**	**313**	**330**	**8,8**	**9,2**	**5,6**	**5,6**	**0,7**	**0,6**	**11,8**	**13,6**	**4,0**	**4,4**	**1,9**
Average				**15,8**	**12,2**	**9,1**	**8,6**	**1,6**	**1,8**	**20,2**	**13,8**	**4,4**	**3,3**	**7,8**
Median				**13,1**	**11,8**	**10,4**	**9,2**	**1,5**	**1,4**	**16,7**	**15,0**	**2,3**	**3,5**	**2,9**
Diff-% to median				***-33 %***	***-22 %***	***-46 %***	***-39 %***	***-53 %***	***-55 %***	***-29 %***	***-9 %***	***74 %***	***27 %***	***-33 %***

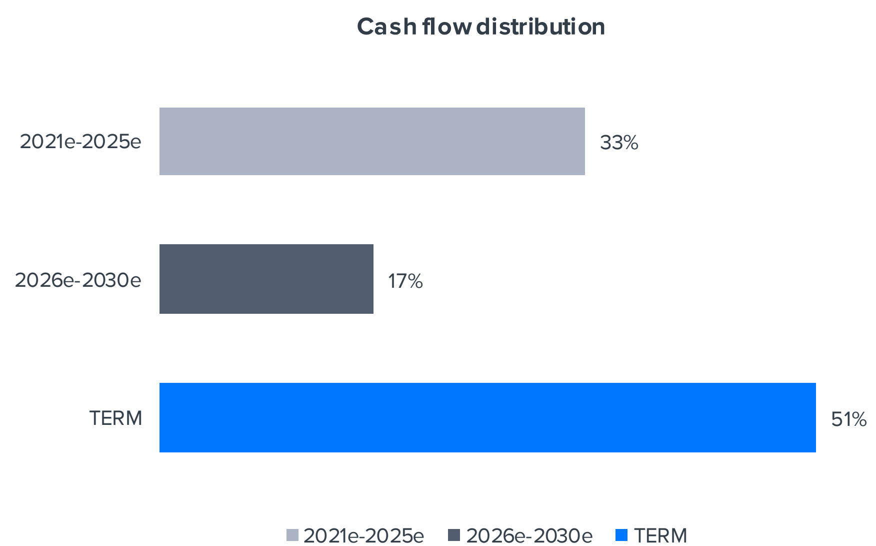
Source: Thomson Reuters / Inderes

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	**39,5**	**37,7**	**34,2**	**37,2**	**39,7**	**39,8**	**38,2**	**36,6**	**34,8**	**29,9**	**30,5**	
+ Depreciation	21,4	20,9	22,1	20,8	19,7	19,2	18,7	18,9	19,1	19,3	19,4	
- Paid taxes	-5,2	-5,9	-6,5	-8,2	-9,2	-9,2	-8,8	-8,4	-7,9	-6,7	-6,9	
- Tax, financial expenses	-0,6	-0,1	-1,1	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8	
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Change in working capital	0,3	-1,2	-1,3	-1,0	-1,0	-1,2	-1,2	-1,3	-1,3	-1,3	-0,9	
Operating cash flow	**55,4**	**51,3**	**47,6**	**48,0**	**48,5**	**47,9**	**46,1**	**45,1**	**43,9**	**40,3**	**41,3**	
+ Change in other long-term liabilities	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-5,0	-14,1	-15,1	-15,1	-17,1	-19,1	-20,1	-20,1	-20,1	-20,1	-20,4	
Free operating cash flow	**50,5**	**37,2**	**32,5**	**32,9**	**31,4**	**28,8**	**26,0**	**25,0**	**23,8**	**20,2**	**20,9**	
+/- Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	50,5	37,2	32,5	32,9	31,4	28,8	26,0	25,0	23,8	20,2	20,9	414
Discounted FCFF		**35,8**	**29,2**	**27,6**	**24,6**	**21,0**	**17,7**	**15,9**	**14,1**	**11,2**	**10,8**	**214**
Sum of FCFF present value		422	386	357	329	305	284	266	250	236	225	214

Enterprise value DCF	**422**
- Interesting bearing debt	-100,3
+ Cash and cash equivalents	57,9
-Minorities	0,0
-Dividend/capital return	-11,5
Equity value DCF	**368**
Equity value DCF per share	**6,40**

Wacc	
Tax-% (WACC)	25,0 %
Target debt ratio (D/(D+E)	20,0 %
Cost of debt	4,0 %
Equity Beta	1,05
Market risk premium	4,75 %
Liquidity premium	1,25 %
Risk free interest rate	2,0 %
Cost of equity	**8,2 %**
Weighted average cost of capital (WACC)	**7,2 %**



Source: Inderes

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

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

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

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

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

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

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

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Inderes on tehnyt tässä raportissa suosituksen kohteena olevan liikkeeseen laskijan kanssa sopimuksen, jonka osana on tutkimusraporttien laatiminen.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
11.5.2017	Reduce	5,10 €	5,00 €
22.6.2017	Reduce	5,10 €	4,87 €
24.7.2017	Reduce	4,70 €	4,81 €
9.8.2017	Reduce	4,70 €	4,90 €
30.10.2017	Reduce	4,50 €	4,42 €
14.12.2017	Reduce	4,25 €	4,43 €
31.1.2018	Reduce	4,25 €	4,40 €
6.4.2018	Reduce	4,00 €	3,88 €
27.4..2018	Reduce	3,50 €	3,55 €
4.7.2018	Reduce	3,50 €	3,40 €
6.8.2018	Reduce	3,30 €	3,40 €
14.9.2018	Sell	2,85 €	3,10 €
26.10.2018	Reduce	2,20 €	2,30 €
1.2.2018	Reduce	2,40 €	2,50 €
25.4.2019	Reduce	2,50 €	2,60 €
8.8.2019	Reduce	2,40 €	2,48 €
23.10.2019	Reduce	2,25 €	2,33 €
30.1.2020	Reduce	2,35 €	2,48 €
24.4.2020	Accumulate	3,25 €	3,02 €
13.5.2020	Accumulate	3,40 €	3,17 €
18.6.2020	Accumulate	4,00 €	3,69 €
13.8.2020	Accumulate	5,40 €	5,00 €
28.10.2020	Accumulate	5,40 €	5,06 €
5.2.2021	Accumulate	6,00 €	5,74 €
29.4.2021	Accumulate	6,25 €	5,87 €
24.6.2021	Accumulate	6,25 €	5,45 €

inderes.

Inderes' mission is to connect listed companies and investors. We produce high-quality research and content for the needs of our extensive investor community.

At Inderes we believe that open data is every investor's fundamental right. We guarantee investors' access to award-winning research, insightful video content and an active investor community.

For listed companies we ensure that there is always high-quality information available on the company for investors and shareholders for decision making, and that data collected from investors can be utilized by the companies.

Over 100 Finnish listed companies want to serve their shareholders and investors through us by utilizing our company research services, data driven IR services, content creation and consulting.

Inderes Oyj
Itämerentori 2
FI-00180 Helsinki, Finland
+358 10 219 4690

Award-winning research at **inderes.fi**

STARMINE ANALYST AWARDS FROM REFINITIV

THOMSON REUTERS ANALYST AWARDS

Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020

Mikael Rautanen
2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020

Petri Kajaani
2017, 2019, 2020

Joni Grönqvist
2019, 2020

Erkki Vesola
2018, 2020

Petri Gostowski
2020

Atte Riikola
2020

Olli Koponen
2020

Research belongs
to everyone.