

Koskisen

Initiation of coverage

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This report is a summary translation of the report “Puunjalostusta yli sadan vuoden kokemuksella” published on 2/24/2023 at 10:10 pm

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res.**

Wood processing with over 100 years of experience

We initiate coverage of Koskisen with a Reduce recommendation and EUR 6.0 target price. Koskisen is a growth-oriented wood processing company operating in the cyclical sawn timber and panel industry whose strategy focuses on customization and quality. We believe Koskisen's long-term demand outlook is healthy and expect its performance to improve over cycles in coming years with the new wood processing line. We do not feel the valuation of the share provides an adequate safety margin considering the high risk level of the company and the expected downward trend.

Long-standing wood processing company

In the Sawn Timber industry, the company manufactures and sells sawn timber and processed timber and production side streams, and in the Panel industry plywood, chipboard, thin plywood and interior design solutions for commercial vehicles. About 70% of the Group's revenue comes from Europe and both businesses (especially Sawn Timber industry) are cyclical and volume-driven by nature. Koskisen's market is international and grows slowly organically but is large relative to the size of the company. With its quality strategy, Koskisen aims to find pockets on the market where customers value highly customized, high-quality products and accept the price premium. We feel the competitive dynamics in the sawmill sector is brutal as the main differentiation factor is price. We note that historically, the return on equity of the company and companies in the sawmill industry have been below the cost of capital over time, reflecting the challenging competitive environment in the industry. In the Panel Industry, the company's products are at the higher point of the price range and with the products' higher value added, we believe the average profitability potential of the segment is better. Koskisen's key risks are demand that is sensitive to economic trends and price volatility, tightening competition and success in selling the growing capacity profitably in the short term. Koskisen's target is EUR 500 million revenue and 15% EBITDA over the cycle in 2027. We believe the growth target requires M&A transactions in structurally fragmented sectors and, in terms of margins, we find the target very challenging, given the structural profitability levels of the company's businesses.

Company's average performance can be improved with record investment

The demand outlook for Koskisen is supported by several drivers, such as increased popularity of wood construction, climate change measures, and healthy living. We believe that these factors and the additional capacity from the wood processing line to be completed in 2024, offer potential for improving the structural profitability level relative to the period before 2021-2022. We expect 2023 to be quite good in terms of margins, when we expect the Panel industry to generate excellent earnings due to the short supply on the birch plywood market caused by Russia's war of aggression. Visibility of 2024 performance is particularly flimsy in terms of the market situation. Koskisen's balance sheet is solid after two excellent years and the IPO, so the company can concentrate on the long game.

The price is not yet attractive

Koskisen's 2023 and 2024 EV/EBITDA ratios that consider the balance sheet are 4x-5x and the P/B ratio for 2023 is 1x. The multiples are close to the middle of the multiple range (EV/EBITDA 3.5x-6.5x and P/B 0.7x-1.3x) we accept that considers the company's estimated return on capital and risk profile. The value of our DCF model (EUR 6.3 per share) and the thin framework from the peer group indicate a slight overvaluation. Despite the 3.2-3.7% dividend yield in the next few years we feel the expected return is below the required return and thus the share's risk/return ratio is weak at the current valuation level.

Recommendation

Reduce

(previous)

6.00 EUR

(previous EUR)

Share price:

6.35



Key figures

	2021	2022e	2023e	2024e
Revenue	311.5	308.5	267.8	277.7
growth-%	42%	-1%	-13%	4%
EBIT adj.	52.7	55.6	19.2	15.6
EBIT-% adj.	16.9 %	18.0 %	7.2 %	5.6 %
Net Income	29.2	37.8	13.5	10.7
EPS (adj.)	2.32	1.67	0.58	0.46

P/E (adj.)	3.8	10.9	13.7
P/B	1.1	1.1	1.0
Dividend yield-%	6.8 %	3.2 %	3.7 %
EV/EBIT (adj.)	2.3	7.0	8.3
EV/EBITDA	2.0	4.3	4.7
EV/S	0.4	0.5	0.5

Source: Inderes

Guidance

(Unchanged)

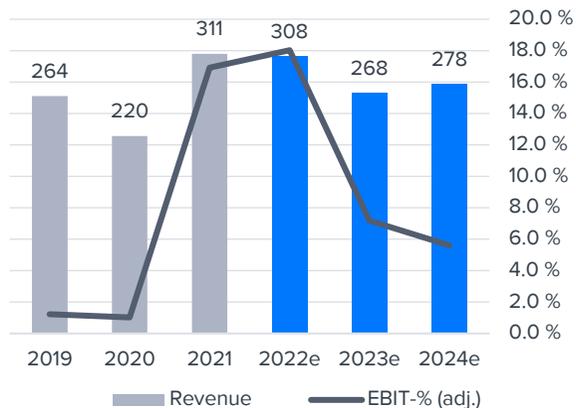
Koskisen's revenue in 2022 is expected to remain at the same level as in 2021, and its adjusted EBITDA will increase in 2022 from 2021. Koskisen expects that its revenue in 2023 will not exceed the 2022 level and its adjusted EBITDA will be 12-14%.

Share price



Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Healthy long-term demand trends
- Increasing exports
- Improvement potential in the normalized profitability level
- Business generates value (ROIC>WACC) in a favorable cycle



Risk factors

- Cyclical demand
- Tight competition situation in the sawmill industry
- Bulky end products offer little room for differentiation Price is the main differentiation factor and thus demand is market driven
- Success in exports

Valuation	2022e	2023e	2024e
Share price	6.35	6.35	6.35
Number of shares, millions	23.0	23.0	23.0
Market cap	146	146	146
EV	130	134	129
P/E (adj.)	3.8	10.9	13.7
P/E	3.9	10.9	13.7
P/FCF	3.2	17.3	12.7
P/B	1.1	1.1	1.0
P/S	0.5	0.5	0.5
EV/Sales	0.4	0.5	0.5
EV/EBITDA	2.0	4.3	4.7
EV/EBIT (adj.)	2.3	7.0	8.3
Payout ratio (%)	26.5 %	35.0 %	50.0 %
Dividend yield-%	6.8 %	3.2 %	3.7 %

Source: Inderes

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Koskisen in brief

Koskisen is a Finnish wood processing company that has been operating in the wood product markets for over 100 years. Koskisen operates in two business segments: Sawn Timber industry and Panel industry.

1909

Year of establishment

2022

IPO

5%

Average revenue growth 2010-2021

9.8% (5.8%)

Average adjusted EBITDA % 2019-2021 (Koskitukki Group 2010-2018 average adj. EBITDA %)

332 MEUR

Revenue Q3'22 LTM

79 MEUR (23.9 % of revenue)

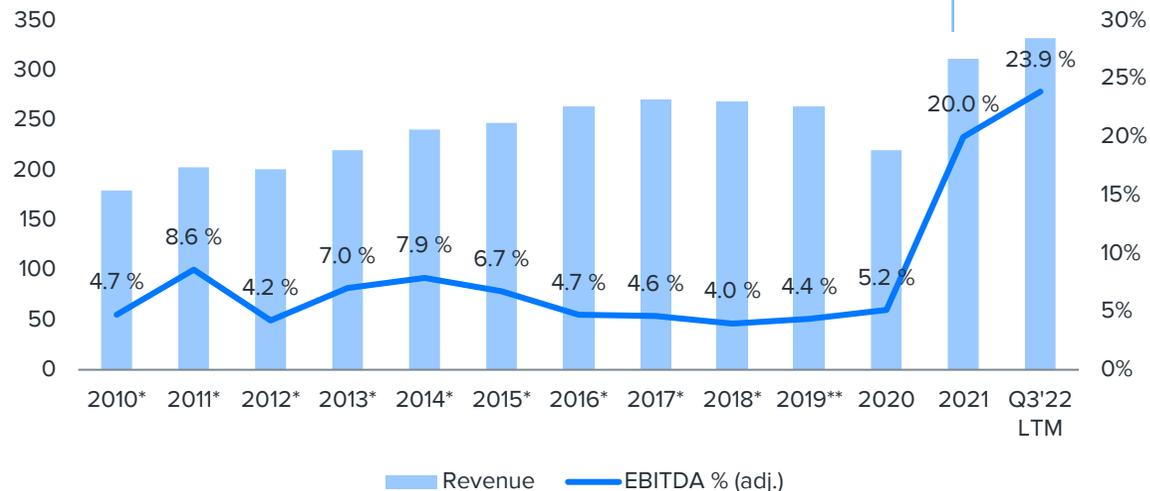
EBITDA Q3'22 LTM

894

Personnel at end of Q3'22

- 1909–**
 - Plywood and chipboard production began in the 1960s and 70s
 - Moderate growth until the turn of the millennium. A strong growth phase at the beginning of the 21st century, heavy investments
 - Since the current CEO started in 2016, the company's operating culture has been shaped and the balance sheet has been cleaned with write downs
- 2018–2021**
 - The company divested its Taloteollisuus business segment (2019)
 - Investment decision to build the new Järvelä wood processing unit (2021)
 - The exceptional rise in market prices for wood products boosted the company's revenue and EBIT to significant growth (2021)
- 2022–**
 - Listing on the Main Market of Nasdaq Helsinki (2022)
 - Investment in a new spindleless veneer peeling line at the plywood mill
 - Exceptionally good 2022 in terms of earnings as sawn timber and plywood prices are record high
 - Defending profitability as cycle turns

Revenue and profitability development



Source: Koskisen, Inderes

*FAS figures in the financial statements of Koskitukki Group

**FAS

Company description and business model



Source: Koskisen, Inderes

Company description and business model 1/9

Wood processing company that has been operating for over 100 years

Koskisen is a Finnish wood processing company that has been operating for over 100 years. Wood is Koskisen's main raw material. Koskisen has two business segments: Sawn Timber industry and Panel industry.

Sawn timber and processed timber as well as production side streams are sold in the Sawn Timber industry

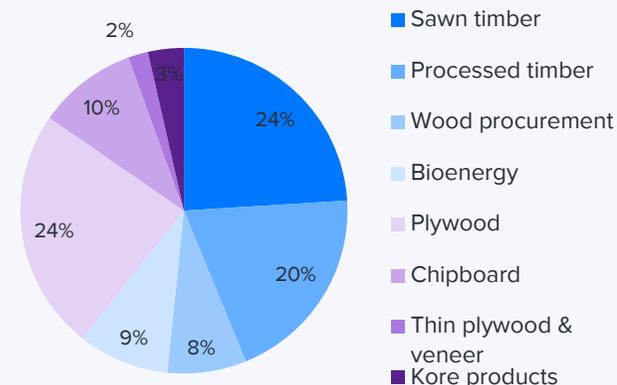
The **sawn timber** in Koskisen's Sawn Timber segment comprises standard sawn timber and dimensioned and strength graded timber manufactured from spruce and pine. Products are manufactured in standard and custom sizes used by the construction industry, and the final use of these products is typically in construction applications and packaging, as well as room and interior lining products. Sawn timber accounted for 24% of the Group's revenue in 2021.

Processed timber in the Sawn Timber segment include further processed timber. Koskisen processes about 40% of the timber it produces mainly by planing and, to a lesser extent, by painting, which raises the price point of the product with limited additional investment. Processed timber includes interior and exterior lining made of spruce and pine, pretreated and painted exterior lining, floorboards and planed and painted wood. The final use of processed timber is typically in building construction and renovation. Processed timber accounted for 20% of the Group's revenue in 2021.

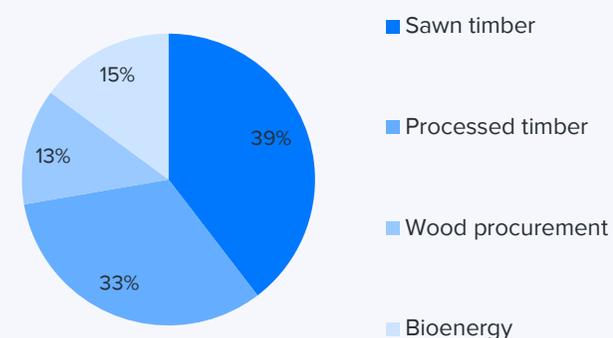
In the Sawn Timber industry segment, Koskisen has a **wood sourcing function** which purchases wood (birch, spruce and pine) mainly from private forest owners in Finland and provides forest management services to these forest owners. These are provided on a turnkey basis, including post-logging forest management. Koskisen uses about 60% of the wood it has acquired in its own operations and the remaining 40% it sells to third parties, for example pulp and paper manufacturers. This also reflects the Finnish wood market, where wood buyers cannot in practice buy only the type of wood they need from forest owners, but often have to buy whole stands. The wood procurement function, i.e. the share of revenue from wood sold to third parties was 8% of the Group's revenue in 2021.

In addition to the Wood procurement function, the Sawn Timber industry segment also includes Bioenergy, where Koskisen supplies raw materials (e.g. by-products and harvesting residues) to bio-power plants such as power plants owned and operated by Loimua located in Koskisen's production plants. Bioenergy accounted for 9% of the Group's revenue in 2021. We estimate that brokerage-type wood sales and bioenergy-based utilization of the by-product flow are less profitable business for Koskisen than selling end products.

Group's revenue distribution by product segment 2021



Revenue distribution of Koskisen's Sawn Timber industry by product segment 2021



Company description and business model 2/9

Sawn timber industry is cyclical

The sawn timber industry is cyclical by nature, as sales volumes of sawn timber and processed products typically fluctuate with economic conditions, political environment in Koskisen's market and changes in financial markets. Investment cycles in industries using Koskisen's products typically affect the underlying demand for sawn timber and thus profitability.

The customers of Koskisen's sawn timber industry consist mainly of direct customers operating in the construction industry (Q1-Q3'22: some 60%) and a smaller share of customers operate in packaging and other sectors, as well as the furniture industry.

The seasonal fluctuation in the revenue of Koskisen's Sawn Timber industry and thus repatriation of earnings are strongly linked to the construction season and the company's production shutdowns. Production shutdowns are usually in winter and summer. Summer is more lively in terms of sales, because the construction season is at full speed. We estimate that the second and third quarters are typically the best (under normal conditions), although production shutdowns normally occur in the third quarter. The fourth quarter is reasonable and the first quarter is the weakest.

Panel industry sells panel products

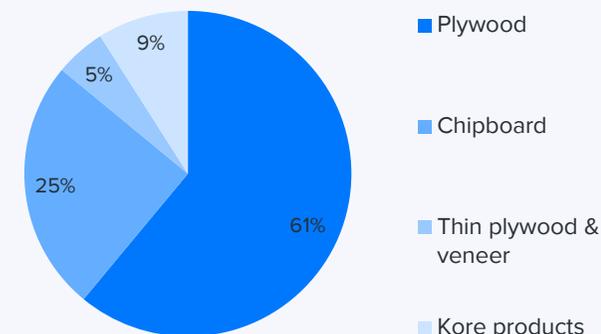
In the Panel industry segment, Koskisen manufactures **plywood**, i.e. tailored birch plywood boards and floor products for construction, light and heavy transport vehicles, packaging, interior design, furniture and joinery industries. Plywood is produced

from thin wood veneer sheets, usually by bonding with weather-resistant phenolic resin adhesive. Plywood boards can be coated with different coatings to improve technical performance and properties to improve their resistance to wear, impact, weathering and chemicals, as well as friction properties. The largest end-user segments of Koskisen's plywood products are the logistics, commercial vehicle and construction industries. More than 90% of the plywood produced by Koskisen is exported to EU countries and the UK. Central Europe is the main market for Koskisen's plywood business. Plywood accounted for 24% of the Group's revenue in 2021.

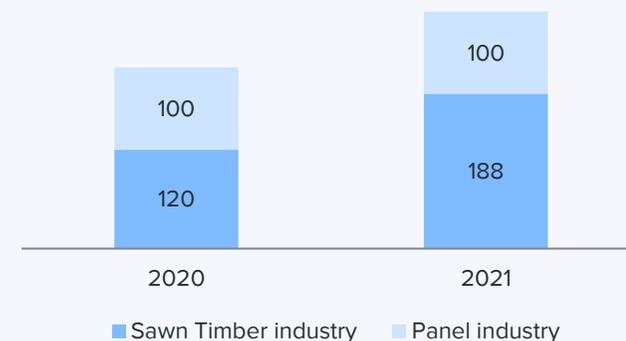
In addition to plywood, Koskisen manufactures **chipboard** from sawdust and wood chips generated as a by-product in production at the Järvelä mill, which is the only chipboard mill in Finland with a market share of about 50% in Finland. Manufacturing is tailored and the biggest end user segments are the furniture and construction industries. We estimate that some 75% of the chipboard produced by Koskisen is sold in Finland and the remaining 25% is exported. Chipboard accounted for 10% of the Group's revenue in 2021.

Koskisen produces durable and flexible **thin plywood and veneer** suitable for laser cutting, molded products, designer products, interior design elements, lamps, technical structural boards and CNC machining. The largest end-user segments of Koskisen's thin plywood and veneer are the furniture and joinery industries. Thin plywood and veneer accounted for 2% of the Group's revenue in 2021.

Revenue distribution of Panel industry by product segment 2021



Revenue distribution by business segment (MEUR)



Company description and business model 3/9

The final product segment in Koskisen's Panel industry is interior solutions for light and heavy commercial vehicles manufactured under the Kore brand in Toporów, Poland. The solutions include floor and lining components, wheel arches and accessories for light and heavy commercial vehicles. Kore products accounted for 3% of the Group's revenue in 2021.

Panel industry offsets cyclicity at Group level

About half of the customers in the Panel industry are in the logistics sector (incl. light and heavy commercial vehicles) and one-third in the construction industry. Unlike the Sawn Timber industry, the Panel industry is not as dependent on the construction industry and therefore, less cyclical. However, the Panel industry is affected by the investment cycles of the industries using panel products (especially logistics) and thus some cyclicity is reflected in profitability.

Construction seasons and the production shutdowns of the business affect seasonal revenue accumulation. At a quarterly level, we expect seasonality to be similar to the Sawn Timber industry. In the Panel industry, the demand in the logistics sector is more stable, however, which naturally balances the revenue development at Group level.

Revenue from several continents

While Koskisen's biggest single market is Finland, considering the global operating logic of the Sawn Timber industry and the continental operating logic of the Panel industry, it is an international company,

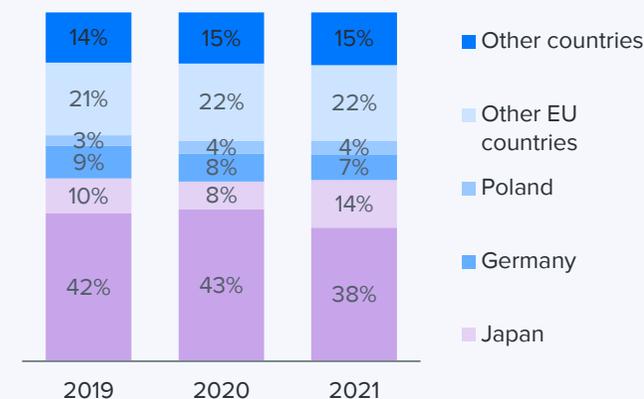
and successful growth is critical for the company to sell new capacity. The main export markets are in the European countries, and especially in the EU, while the key overseas market is the quality-conscious Japan. Japan is also a strategic market, as demand is focused on higher quality levels and, consequently, on the higher value added sawn timber and processed products. Revenue growth from Japan has been on average around 27% in 2019-2021, which is much faster than in the other markets. Japan still represents a minority of the Group's revenue with a 14% share (2021).

In addition to the Koskiles subsidiary, the company has had operations in Russia in the past, but these have since been abandoned. The former Russian subsidiary, Koskisola was sold in Q2'22, and a EUR 2.2 million sales gain was recorded in other operating income. The company's objective is to sell Koskiles during Q1'23. The combined external revenue of both Russian subsidiaries was EUR 0.4 million in 2021, so this is a minimal revenue loss at Group level.

Direct sales ties hands to the sales organization

Koskisen mainly sells its products through direct sales. In 2021, about 40-50% of Koskisen's sawn timber sale, 85-95% of plywood sales and 60-70% of chipboard sales were direct sales to customers. In addition, a smaller share (Inderes' estimate 30-40%) is sold to wholesalers and distributors. According to the company, sales to smaller customers is managed through distributors and wholesalers, while largest customers are served by direct sales.

Geographical distribution of revenue



Company description and business model 4/9

We believe that pursuing direct sales is a strategic choice, as direct sales allows the company to obtain higher margins (margin taken by distributor/wholesaler remains in the company) compared to sales to wholesalers and distributors. For example, in the Panel industry, direct sales aims to optimize margin levels, especially as the company's customers (most of the commercial vehicle sector) are at a higher price point (e.g. 90% of plywood is coated, which increases value added and thus the price), which is a prerequisite for higher profitability.

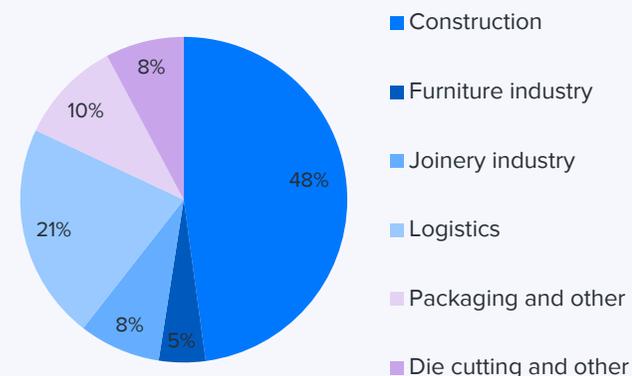
In addition, with direct sales Koskisen is in direct interaction with the customer and can thus gain a better understanding of the customer's future needs more quickly and be able to control its production (or, e.g., optimize its working capital) more efficiently. In other words, the company tries to be an agile player, who finds the right customers through direct sales in terms of profitability and customer retention and who, with the help of sales personnel that are heavily involved in the customers' businesses can sell products to customers considering the production conditions (raw material availability, production planning and control).

According to Koskisen, sales to Sawn Timber industry's main market and the domestic market are managed internally, while sales agents are used otherwise. On the Panel industry side, sales are handled through own sales without agents. A majority of the Group's sales personnel is located in Finland. In the Sawn Timber industry, the company has an agent network whose remuneration is based

on commissions, and these commissions are typically tied to sales volumes. Utilizing the agent network provides certain flexibility in the cost structure and facilitates sales management. Despite the agent network, direct sales makes the capability of the sales organization a critical function. This strategic choice has required investments in the sales organization, which is also reflected in the cost structure as a higher fixed cost base than in a more intermediate-level driven model. In addition, the company must also be successful in driving sales so that agents bring not only volumes but also target margins to the company. However, in terms of potential future growth, it does not necessarily require very large investments in the sales organization and thus in a fixed cost structure, because the company can utilize its agent network.

In the eyes of the customers, Koskisen tries to separate itself from its competitors as a reliable, long-term partner by offering products manufactured from close-grained wood originating from responsibly managed Finnish forests globally to its customers that value quality. We find this customer value proposition sensible but it does not constitute a sustainable or structural competitive advantage that separates the company from its competitors.

Revenue distribution by end user segment Q3'22*



Company description and business model 5/9

Pricing models

Koskisen's customer contracts are typically order-specific and product prices are set according to market standards and negotiated on a client-by-client basis. Pricing is done quarterly, so the demand and price levels for the upcoming quarter are probed in the ongoing quarter.

According to the company, pricing by product group differs in that the pricing model for the Sawn Timber industry is more subordinate to world market prices and in this business segment the market is divided into price- and quality-conscious markets. In the Panel industry, the pricing cycles have been longer in Koskisen's history, but today pricing is quarterly also in this segment. Now the company is trying to avoid volume commitments in sales contracts in the Panel industry, especially as Russia's supply is excluded from the European panel market and this turbulence may cause strong market movements.

We believe the price per unit for each type of wood is defined separately before concluding a wood deal. The final purchase price is determined based on the actual quantities of timber by species and previously agreed unit prices.

In the Sawn Timber industry Bioenergy prices are usually set on a seasonal basis, i.e. prices for the next heating season are set during the first and second quarters preceding it. In general, the company has to adjust sales contracts based on the general market situation and customer-specific needs. In some contracts, the company has been

able to include conditions that allow Koskisen to pass on certain costs (e.g. freight costs) to its customers.

As a whole, the company's pricing models have short cycles and we believe that a large part of the deals are one-off transaction, even though customer relationships at best last for decades. On the one hand, we suspect this may lead to short sales visibility, but on the other hand, it provides flexibility in the event of acute re-pricing needs. The risk in longer sales contracts and volume deliveries is unprofitable sales if the price of raw wood suddenly increases.

Two production plants in Finland and one in Poland

Koskisen's production plants are located in Finland in Järvelä and in Hirvensalmi, and the production plant for Kore products is located in Toporów, Poland. In addition, Koskisen has leased some 20,000 cubic meters of sawmill capacity in Kouvola. Järvelä houses a sawmill, planing mill, plywood mill and Finland's only chipboard mill. Koskisen's thin plywood and veneer products are manufactured at Hirvensalmi.

Koskisen's distribution facilities are located in connection with the production plants and the company purchases transportation and logistics services from logistics partners. In other words, distribution is fully outsourced and, typically, when selling to Central Europe, the company uses road transport, while the transport to Asia is delivered in sea containers.

A new wood processing unit will be completed in 2024

The company is currently building a new wood processing unit in Järvelä, where production is expected to start gradually during 2023 and 2024. According to Koskisen, the new unit in Järvelä is expected to increase the Sawn Timber industry's current annual production capacity of 300,000 cubic meters of sawn timber to 400,000 cubic meters. The production target has been estimated on a five-day two-shift basis (previously three-shift). The company has estimated that it will invest a total of some EUR 50 million in the new unit in Järvelä in 2021-2024. Of this sum EUR 21.2 million had been invested at the end of Q3'22.

Significant efficiency gains expected from the new investment

According to Koskisen, the new wood processing unit in Järvelä will increase the company's production capacity and improve the return on logs (the efficiency of a log will improve and the quality produced by the sawmill will improve) thanks to technology, improve operational efficiency in the sawing process by up to 40% thanks to increased automation and higher production capacity.

Company description and business model 6/9

In this way, the company will also be able to expand the range of raw materials used. With the investment, the company will transfer the wood supply, sawing and fresh sorting processes from their current location to a new location, which already houses the other production processes of the Sawn Timber industry. As a result, the new production site has a fully integrated wood processing unit.

The investment will enable increasing the annual production capacity of the Sawn Timber industry with limited investments also in the future. Koskisen can in the future increase its annual production capacity in Järvelä to 500,000 cubic meters with additional investments in other process stages such as removing bottlenecks in drying capacity.

According to the company, the wood processing line of the new Järvelä unit has a so-called DX ability, which allows the line speed to be increased and the cutting width of the circular saw to be reduced, which results in either better material supply or longer blade changing intervals.

The goal is an EBITDA Improvement of some 8 MEUR

The company has estimated that the investment will result in a profit improvement of EUR 8 million at EBITDA level. We believe the earnings improvement potential should be related to the company's estimated "normalized" earnings level and not to the exceptional 2020-2022 earnings levels. The earnings improvement is expected to

come from increased production, reduced shifts, higher yields from materials and improved quality levels.

We feel the productivity improvement is evident, as according to the company the old wood processing line is several decades old, and with the new wood processing line the company's processing capacity will rise to 400,000 cubic meters while working in two shifts five days a week. Similarly, there were three shifts five days a week for the old wood processing line so the contribution tied to production decreases by good 30% and the average cost per hour worked decreases a bit due to reduced night shifts. We estimate that the new wood processing line will give the company flexibility to control production, as the new line will enable further processing of sawn timber into processed timber at a low margin cost and thus enable the company to obtain a higher value added for the finished product.

We believe the earnings improvement is credible with the productivity leap although a sustained earnings improvement also requires a somewhat favorable cycle to be able to sell new capacity with a sufficiently good margin. In addition, due to the service life of the old wood processing line, maintenance costs have accumulated on an annual basis and, with the new line, they will reduce, at least in the medium term, as the new line will not have to be constantly repaired.

We feel the achievable efficiency gains presented by the company are also credible because scaling up is typically beneficial in manufacturing industries.

The most classic example of economies of scale is found in the production line industry, which is dictated by utilization rates. In general, the higher the utilization rate of a production facility, the more profitable the company and the easier it is to scale fixed costs.

However, seizing economies of scale in manufacturing should always be examined in relative terms and from Koskisen's perspective even with its new capacity it's scale will still not be enough for it to join the league of large-scale sawn timber producers like Stora Enso, Metsä Group or Versowood. Therefore, the increase in Koskisen's size class from the new production capacity cannot be seen as an advantage that sets the company apart from others but the investment naturally has clear benefits if the company is able to sell the new capacity and maintain high utilization rates with cost control. On the other hand, there is a risk of over-capacity (especially at the top of the cycle) in a large-scale investment, which would ultimately result in underutilization and the estimated earnings improvement not materializing.

The role of product development focuses on the Panel industry

Koskisen aims to develop new solutions to keep up with the development of the wood products industry and maintain and strengthen customer relationships by offering new individually manufactured products to customers.

Company description and business model 7/9

Product development in the Sawn Timber industry is low and development focuses more on process development and acquiring various quality certificates. The product development organization of Koskisen's Panel industry is in practice responsible for the company's product development and focuses largely on developing solutions in the Panel industry.

The aim of the Panel industry's product development is to focus on customized solutions for customers. The latest example is the Zero furniture board, launched by Koskisen, which is a purely natural solution suited to the needs of the furniture industry manufactured from bio-based raw materials (from production side streams).

The Zero furniture board products can be manufactured to custom dimensions with Koskisen's existing production machines. Koskisen's newest opening is the SENSi smart floor panel for trailers that optimizes cargo fleet utilization with real-time data. We find the above-mentioned innovations to be interesting openings but sales is still in its infancy and therefore it is very difficult to predict their future success.

Wood procurement function and price formation of logs

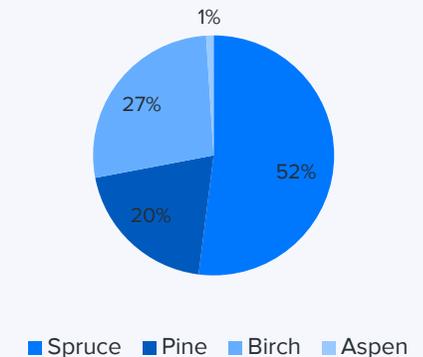
Raw material purchases are the biggest expense item in terms of Koskisen's result. Most of these are raw wood purchases. The price of wood, and thus the purchase of wood, is primarily influenced by the balance between supply and demand. The balance between supply and demand has been affected, e.g., by the ban on imports of wood from Russia and

Belarus in response to the ongoing war in Ukraine. Other factors affecting the price formation of wood include log transport costs, energy prices, capacity of forest owners and export levels. In addition, on the regulatory side, price formation can be affected by sanctions and export restrictions. Changes in the conditions for harvesting wood can have a temporary impact on prices as they can cause temporary wood shortages in local markets, e.g., due to frost heave or forest fire risks.

In 2021, the amount of wood acquired through Koskisen's wood procurement function was 1.4 million cubic meters, of which about half was spruce, one-fifth pine and about one-quarter birch. As a crude rule of thumb, two cubic meters of log wood are needed for one cubic meter of sawn timber. Thus, with the 100 000 cubic meters additional capacity in Järvelä, the company will acquire 200,000 cubic meters more wood annually. Koskisen has positioned its procurement function so that it acquires most of the wood from thousands of forest owners in southern and eastern Finland.

According to statistics of the Natural Resources Institute Finland, the prices of pine, spruce and birch logs utilized by the company in Koskisen's important procurement area in southern Finland have been about 0-5% higher than the statistics of the whole country. Similarly, according to Kymi-Savo (Eastern Finland) statistics, wood prices have been at the same level as the average for the whole of Finland.

Distribution of wood sourced by Koskisen by wood type in 2021 (total 1.4 mn. m³)



Monthly price of standing timber in Finland (whole country)



Company description and business model 8/9

Naturally higher raw material prices are to some extent harmful, but this is offset by the fact that a larger proportion of construction activity in Finland is located in southern Finland and therefore the company is closer to these markets and also closer to the harbors. Compared to a conventional domestic sawmill company, Koskisen has a wider wood sourcing network as the company also needs birch for plywood production. This, on the other hand, requires relatively more staff in wood procurement and thus generates fixed costs. On the other hand, the company benefits from better management of raw material supply.

The biggest cost item is materials and services

The largest single item in Koskisen's cost structure is materials and supplies in line with the earnings logic, which accounted for about 62-64% of total costs in 2019-2021. The majority of the company's material costs consist of wood purchases (incl. pulpwood that is resold), coatings and adhesives related to the manufacture of processed timber and plywood, as well as energy and other production materials used in production. In addition, the item includes external services covering repair services for logging and transport machinery and other equipment. However, we estimate that the largest share of material costs comes from log purchases Log costs, i.e. the factory price of the log, can be divided into the following components: price of standing timber, the logging costs, transport costs and overheads. We believe the price of standing timber is the highest cost item, but the factory price of a log is still clearly higher than the price of standing timber. In total, Koskisen's costs for

materials and services are almost completely variable and therefore non-scalable.

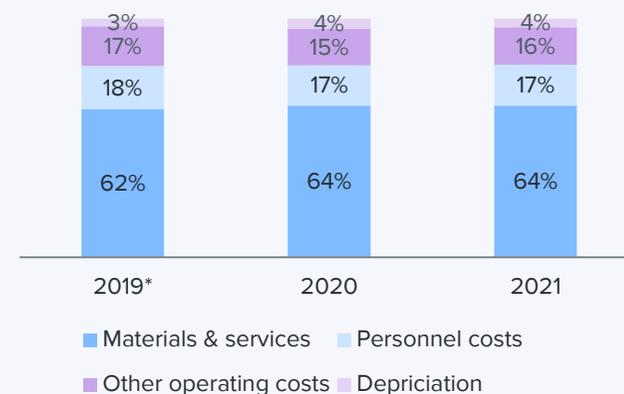
Prior to the exceptionally good 2021, the company's sales margin has been around 38%. The company has not reported business segment-specific sales margins, so it is difficult to accurately assess the figures. However, we estimate that the sales margin profile is lower in the Sawn Timber industry, whereas the margin profile is better in the Panel industry as the final products have a higher degree of processing and thus a higher value. Especially in the Sawn Timber industry, the sales margins are relatively low, and this is influenced by the pricing strategy of each operator and by the share of direct sales, while market prices and the demand/supply ratio ultimately primarily dictate price formation.

We estimate that the company's negotiating position is more challenging in the Sawn Timber industry, as it is difficult to achieve pricing power in the industry as a whole with differentiation factors being based on price (homogeneous products).

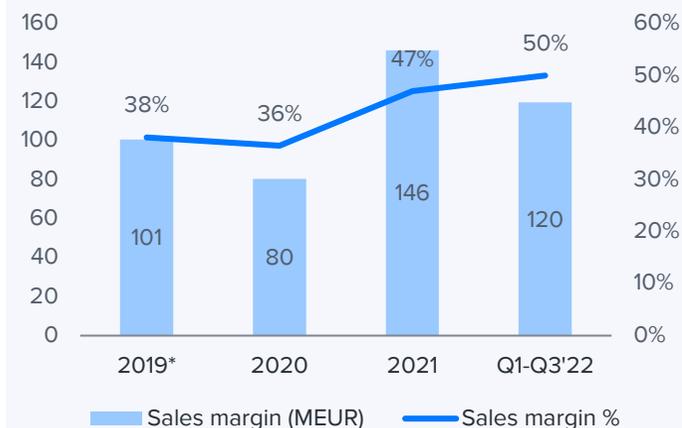
Production requires staff

Koskisen's second largest cost item is personnel expenses. Although the automation level of production will improve with the new Järvelä unit, the business is still staff intensive, especially in the Panel industry. In addition, the wood procurement function and focus on direct sales tie up personnel resources.

Cost structure, share of total costs



Sales margin development



Company description and business model 9/9

According to our estimates, personnel costs are somewhat scalable as production automation increases and the share of expensive shifts decreases. Personnel costs are flexible downwards after a certain time lag, which on the other hand gives some flexibility in adjusting the cost level in the event of decreasing demand. During 2019-2021, Koskisen's personnel costs represented 17-18% of overall costs and relative to revenue their share was 14-18%.

The role of other expenses is almost equal to that of personnel costs

The share of other operating expenses in Koskisen's business have accounted for some 13-17% of revenue in 2019-2021. The costs mainly include sales freight, handling and delivery costs and sales commissions to agents, as well as property maintenance costs. In addition to these, conventional administrative costs related to IT, consulting and administrative services. We estimate that other expenses are primarily fixed by nature even though there are some variable items. The relative share of other costs can be considered relatively high, albeit a typical level for the industry. We believe other operating costs are mainly fixed and thus scalable.

Panel industry has a better EBITDA profile

Koskisen has not reported sales margin profiles by business segment. The last years reported by the company in the prospectus were exceptional relative to the company's history and the estimated normalized results. The EBITDA level of the Sawn Timber industry in 2020-2021 was a margin of 2.2%

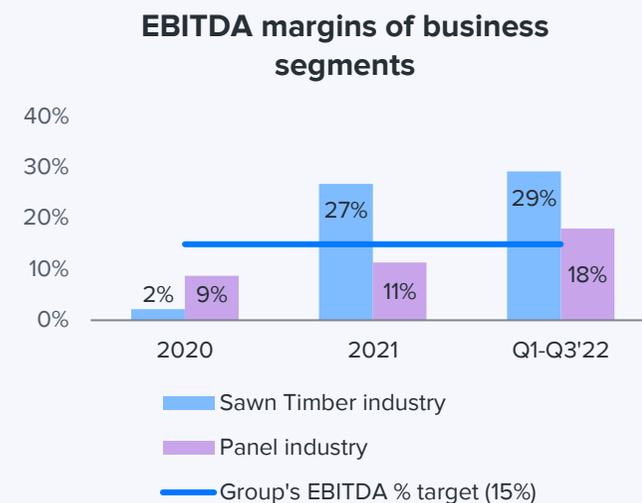
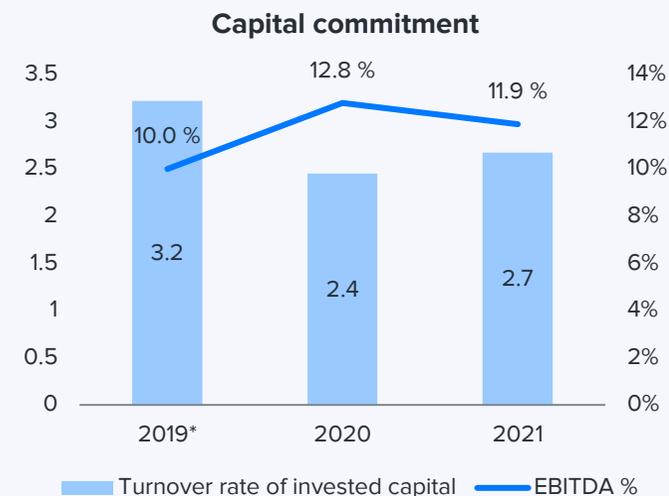
and 26.9%. Both years are opposite extremes (2020 COVID and 2021 exceptionally high market prices) and thus do not in our opinion reflect the normalized earnings level of the segment. The EBITDA level of the Panel industry in 2020-2021, in turn, was a margin of 8.8% and 11.4%. In previous years, the company has not reported EBITDA margins at segment level.

The business commits capital to fixed assets

In Koskisen's business, a majority of capital is committed to fixed assets, which is typical for a manufacturing company. The company's fixed assets (incl. IFRS 16) accounted for about 43% of the balance sheet in 2021 and some 28% of revenue. In addition, the business commits operating working capital in the form of normal inventories, trade receivables and accounts payable. Working capital's share of revenue has been around 10-13% in recent years. Considering this, business growth almost always requires investment in working capital and fixed assets.

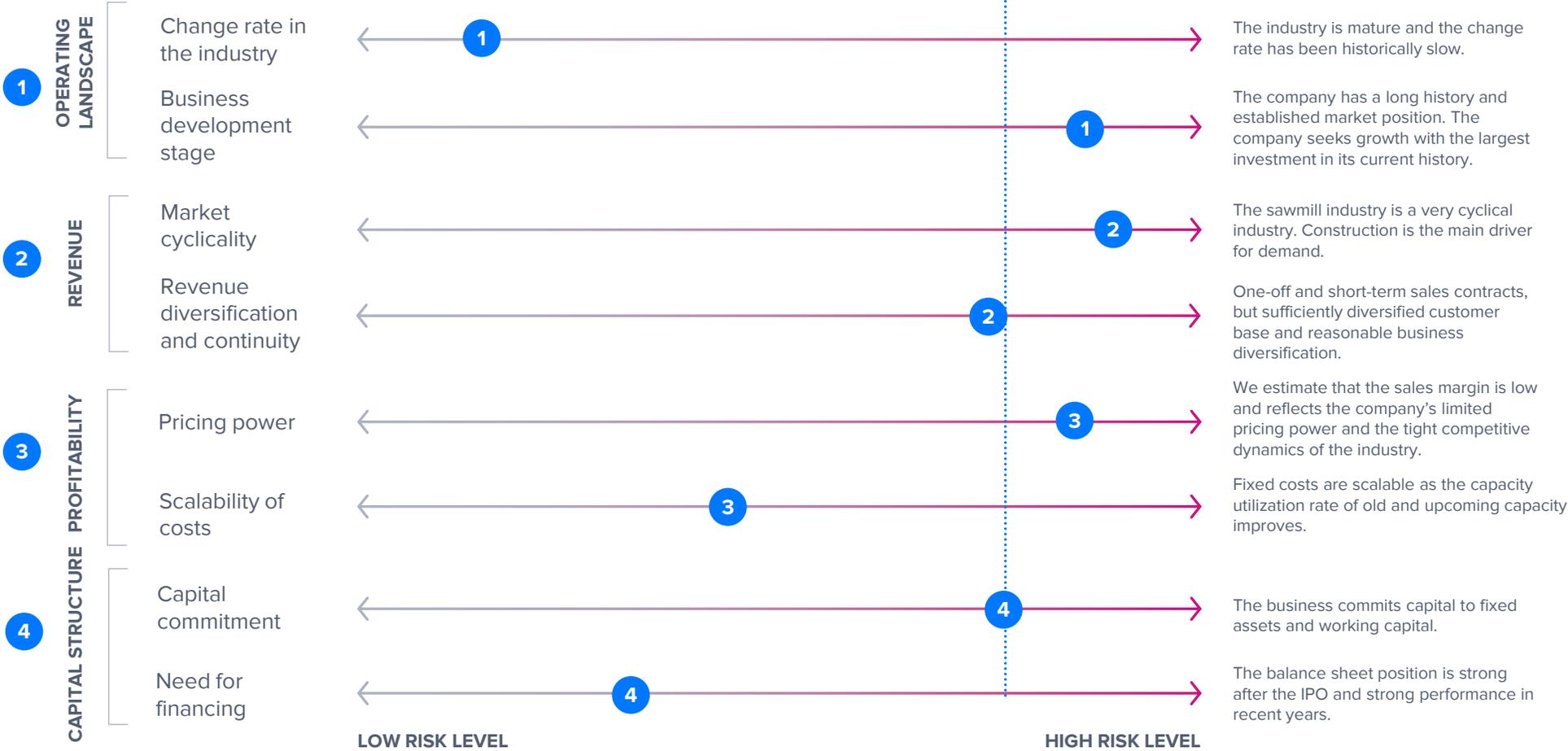
Currency risks

As an international company Koskisen is exposed to foreign exchange and translation risks. Foreign exchange risk arises when the trading currency of goods and products differs from the local currency of Koskisen and its subsidiaries. Koskisen is exposed to foreign exchange risks mainly related to the US dollar and the British pound and to translation risk, mainly related to the Polish zloty.



Risk profile of Koskisen' Sawn Timber industry

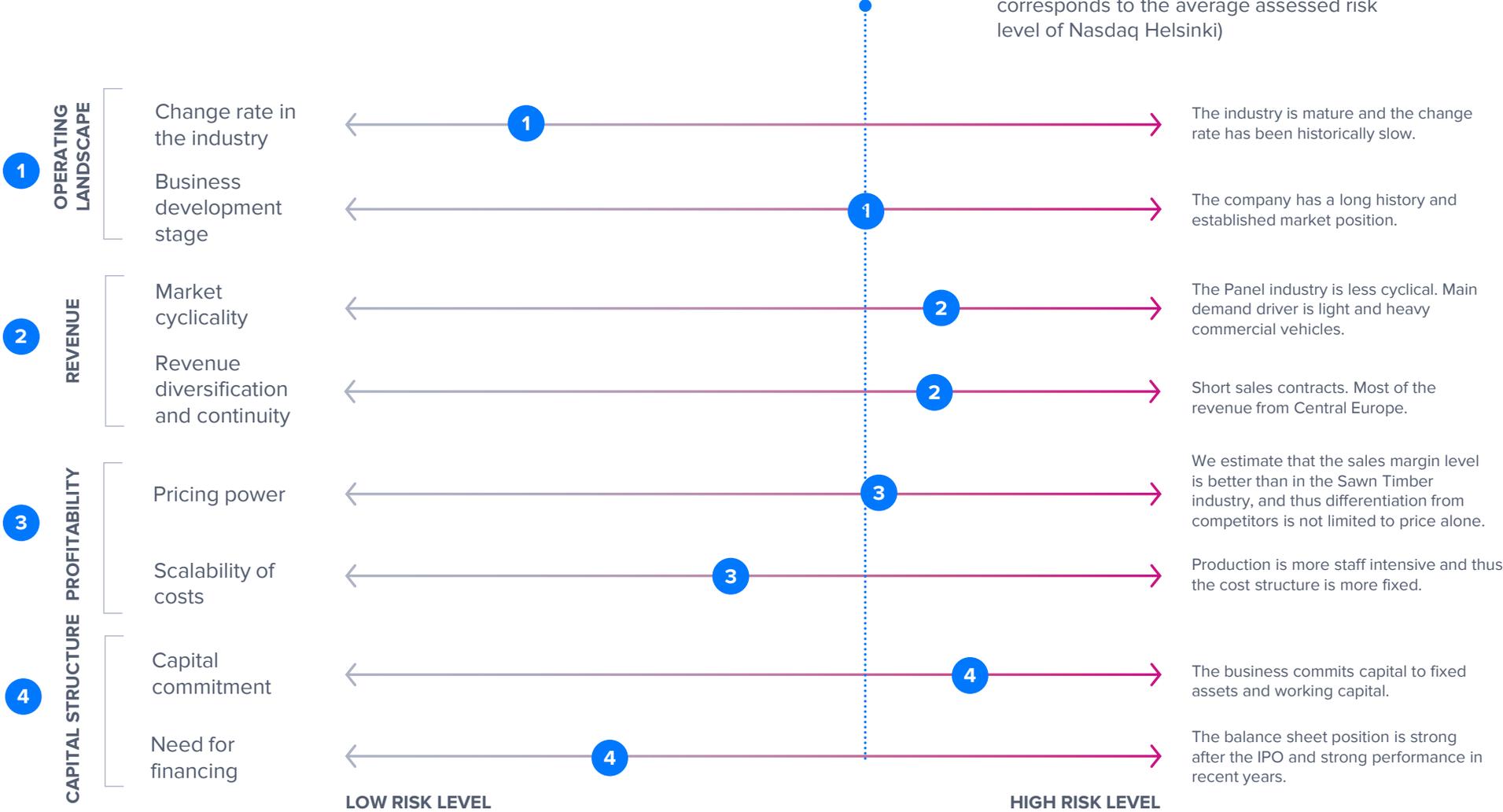
Assessment of the overall business risk of Koskisen's Sawn Timber industry (mid-range corresponds to the average assessed risk level of Nasdaq Helsinki)



Source: Inderes

Risk profile of the Koskisen's Panel industry

Assessment of the overall business risk of Koskisen's Panel industry (mid-range corresponds to the average assessed risk level of Nasdaq Helsinki)



Source: Inderes

Industry and competitive field 1/8

Industries in which Koskisen operates are cyclical by nature

The industries in which Koskisen operates – the sawn timber and panel industries – are cyclical by nature (although the panel industry is less cyclical) and the sales volumes and profitability of products can vary due to economic conditions, political environments in Koskisen's markets and changes in the financial markets. Investment cycles in industries using Koskisen's products typically affect the underlying demand for sawn timber and panel products and thus also profitability. Especially the development of the construction industry which is Koskisen's largest end user industry and the logistics and transport industry which is the second largest end user industry play an important role in Koskisen's demand.

Construction is the key industry driving Koskisen's demand

The main driver of demand for softwood sawn timber in the Sawn Timber industry is construction. Of the major trends in construction, urbanization supports demand both in Finland and elsewhere in the world. However, changes in the country's population and regional structure affect this substantially from one country to another. Typically, greenfield construction focuses heavily on growth centers.

In turn, an aging building stock increases the need for renovation. In general, construction largely follows general economic development, although with a slight delay as the order books of construction companies tend to be long. Partly as a result, construction activity can remain at a good level

temporarily, even if the economy starts to show general signs of slowing. On the other hand, the same dynamic also applies in reverse.

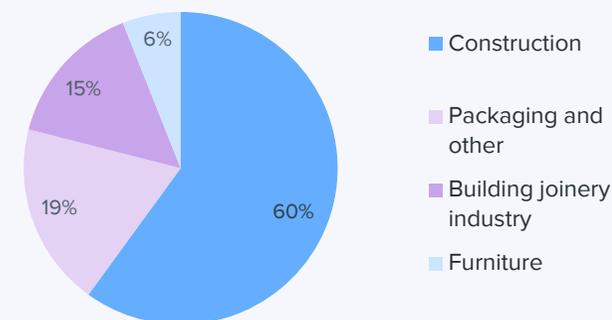
The sawn timber market is large

Demand for softwood sawn timber is expected to grow by an average of 1.9% per year from the 2021 level until 2030. The softwood sawn timber market is expected to grow, especially due to the growth in wood construction. According to AFRY's market survey, growth in 2021-2026 would be divided so that volumes grow by 1.3%, prices by 2.8% and value by some 4.1% per year. However, we expect that the realization of the price component depends on the competitive situation and the cost level of the industry while in terms of volumes the estimate that corresponds with the historical level is more reliable.

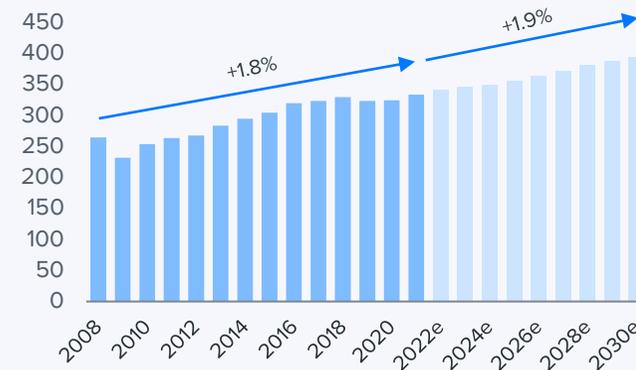
The global softwood sawn timber market was estimated to be worth EUR 155 billion in 2021. However, the market for Koskisen was estimated to be around 22%, or in absolute terms around EUR 35 billion. Considering this Koskisen has room to grow although we believe the above figure should be seen as an indicative estimate, especially as a larger part of the Sawn Timber industry's revenue is generated within the borders of Europe and most in Finland (2021: 44% of the Sawn Timber industry's turnover).

So this is not an explosive growth market and development may be highly volatile at times. The market for sawn timber is global and products are traded between continents, whereas the panel market is rather regional or local.

End use of softwood sawn timber in the European market in 2021



Global demand of softwood sawn timber (excl. Russia and Belarus, million m³)*



Industry and competitive field 2/8

Environmental awareness an underlying megatrend

The key megatrend that affects the growth of the market in both of Koskisen's segments is environmental awareness. In practice, this means:

- Increased regulation to reduce emissions will support the use of wood products
- Urbanization leads to increased building volumes and this is expected to increase the demand for wood materials
- With the increasing logistics volumes and transport vehicles there is demand for veneer solutions for light commercial vehicles
- Responsibility issues becoming more common and increased use of wood in furniture as a more responsible and sustainable option

The popularity of wood construction is growing

Construction is one of the most resource-intensive industries. Construction has been estimated to produce up to 30% of global CO2 emissions, so material choices are a big source of emissions, while changes in material choices are important for the entire climate change issue. In order to reduce CO2 emissions from construction, wood construction is an excellent alternative because of its carbon-neutral nature. On the other hand, the light weight and durability of wood combined with good workability makes wood a good material for industrial construction.

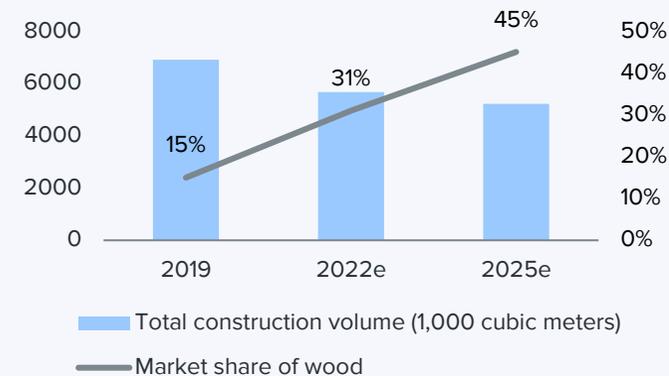
Legislative changes in Finland, the EU and the rest of

the world have gradually enabled the use of wood as construction material in ever larger buildings. Wood construction has strong government support in Finland, as the aim of the Ministry of the Environment is to increase the share of wood construction in public greenfield construction from 15% in 2019 to 45% by the end of 2025. Since 2019, wood accounted for some 90% of detached house construction, 15% of public buildings, 15% of non-residential building and 5% of blocks of flats.

We consider the Ministry of the Environment's objective ambitious and do not to rely on it in our market growth expectation for Finland, but the goal describes the pressure for change arising from environmental factors on the material choices in construction and thus market growth in wood construction in Finland. Considering these factors, green construction and related regulation are guiding drivers for Koskisen's sawn timber products, especially as about 60% of Koskisen's sawn timber is used in construction-related areas.

Regulatory changes in construction have also been seen in other European countries. For example, the French Government has demanded that at least 50% of the construction material of all new public buildings must be wood or other durable material. In addition, the objective of the "Charter for wood 2.0" program in Germany is to increase the contribution of sustainable forestry and wood use in climate change mitigation.

Ministry of the Environment's wood construction objective of all public greenfield construction



Industry and competitive field 3/8

The "Home Grown Home" program in the UK is also intended to accelerate the construction of residential houses made of wood. Thus, the political will in Europe and the regulatory forces are favorable for wood construction and contribute to Koskisen's market outlook and can open interesting export opportunities.

Last couple of years were unprecedented

In the last 18 months, wood product prices have been at record levels. Historically, the volatility of sawn timber prices has been strong at times due to the cyclical nature of the end demand industries. The price of sawn timber is influenced by the imbalance between supply and demand, which is typically emphasized by storage cycles and the significant share of logs benefiting from price volatility in the value chain. For example, when customer inventories are high and economic activity declining, customers typically optimize their inventory levels to defend cash flow, and this has a direct impact on the demand for sawn timber and thus a negative effect on the price of sawn timber. Often the price of the raw material (in this case raw wood) is not correspondingly flexible and thus the chain of events has a direct impact on the profitability of companies manufacturing sawn timber. On the other hand, under conditions of supply shortages in the sawn timber market and growing demand or supply chain problems (e.g. 2020-2022), the price of sawn timber may rise sharply and, as raw material prices develop more steadily, this has a significant positive impact on the profitability of companies manufacturing sawn timber. Considering the above factors the main driver of sawn timber producers' profitability is the development of market prices for sawn timber and

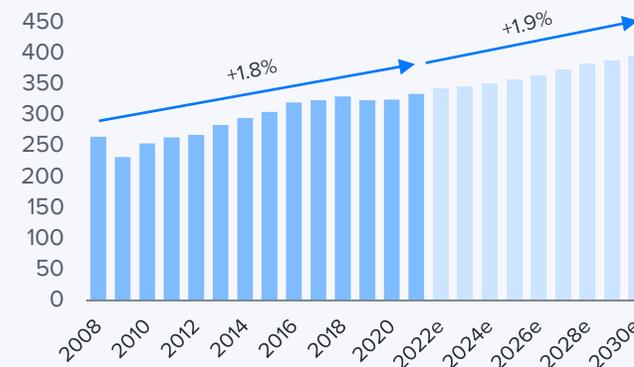
wood products relative to the development of raw material prices (raw wood).

Since the early days of the COVID pandemic, global market prices for sawn timber have increased significantly due to supply side difficulties and increased demand, especially in the construction market. The availability of raw materials has deteriorated in Central Europe and North America due to environmental factors such as storms and insect infestations spreading. The above has resulted in a shortage of high quality raw materials, which has led to tighter supply and higher prices for sawn timber.

Sawn timber prices made a downturn in 2022

In the first half of 2022, the record high prices for softwood sawn timber were left behind, and prices made a downturn toward the end of the year due to the slowdown in the economy and reduced construction activity, oversupply in the market and customers' inventory optimization. The same trend has continued in Q3'22 and probably early 2023. In 2021-2022, the price of sawn timber hit exceptional levels of around EUR 400 per cubic meter, whereas over the longer term the price level has been on both sides of EUR 200 per cubic meter. According to the latest data from the Natural Resources Institute Finland (10/2022), the average price of spruce and sawn timber was EUR 246-247 per cubic meter. The level is still higher than in recent years, but the price decrease, combined with the prevailing high cost level and modest demand already pushed the businesses of listed companies focusing on sawn timber into red in Q4'22.

Global demand of softwood sawn timber (excl. Russia and Belarus, million m3)*



Price development of sawn timber, export, EUR/cube



Source: Inderes, Koskisen's prospectus, Natural Resources Institute Finland, Foreign trade in roundwood and forest industry products, Tulli (Customs Finland)
*AFRY's market research

Industry and competitive field 4/8

Competitive dynamics

Koskisen manufactures and sells various wood products and operates internationally, and therefore competition related to its products is fragmented. The competitive environment varies by product group from international players and foreign competitors operating in local markets to local domestic competitors. In addition to the sales side, Koskisen also faces competition in sourcing its main raw material wood where the company has to compete both with large forest companies' centralized wood sourcing organizations and independent sawmill companies.

In the manufacturing industry, the scale of sourcing is generally important to achieve economies of scale, but in the wood market this typical characteristic of the manufacturing industry does not seem to apply that much, as raw wood is sourced from thousands of forest owners. This means that the supply chains are highly diversified for reasons beyond the company's control (i.e. prevailing industry dynamics). It is therefore very challenging to achieve quantity discounts for Koskisen and other wood buyers, because partly strategic purchasing of raw wood by large forest companies plays an important role in generating demand in the wood market and thus in price formation.

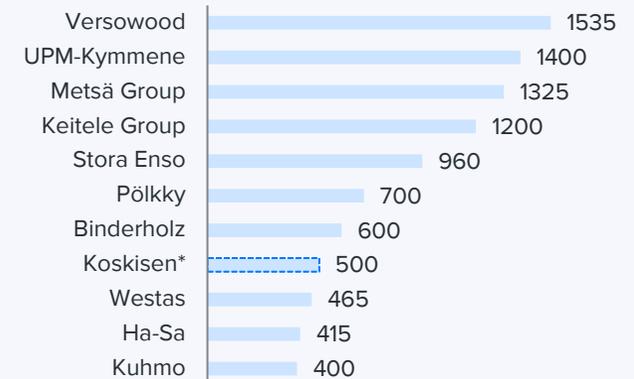
This dynamic is underlined by the fact that the business models and wood sourcing of large forest companies have been optimized from the perspective of the chemical forest industry, which means that it is important for large companies'

consolidated result that the price of the key raw material pulpwood remains under control. Consequently, large forest companies may be willing to pay relatively more for a log which complicates the dynamics of the price side from the point of view of companies that focus solely on wood products. We do not expect this dynamic to change, even though the wood product industry has been trying to challenge the way forest giants operate in the timber market for a long time.

The sawmill industry has been booming for the last couple of years

As demand, and especially prices have risen sharply, the sawmill industry has almost without fail generated exceptionally good results in the last two years. We do not believe the result levels of the last two years are in any way sustainable, as history has shown (see next page). The average EBIT % of companies linked to the Finnish sawmill industry (n= 28) has been about 3.6% at the median level in 2017-2019, while the corresponding figure in 2021 was 19.3% (see next page). We feel there have not been any significant structural changes in the long-term dynamics of the industry since with growing demand the supply has also increased and become more efficient as many sawmills have invested recent profits in their business. Thus we find it likely that profitability levels will normalize close to longer-term averages especially with the cooling sawmill cycle and slowing economy at industry level.

Largest sawn timber producers, Finland, 1,000 cubic meters



Development of the revenue and profitability of Finnish sawmill industry operators 2017-2021

Revenue growth %	2017	2018	2019	2020	2021	EBIT %	2017	2018	2019	2020	2021
Small and medium sized competitors						Small and medium sized competitors					
FMTimber Oy		-3.7 %	18.4 %	-3.5 %	85.4 %	FMTimber Oy	1.3 %	7.4 %	3.1 %	2.8 %	20.2 %
Haka-Wood Oy		11.6 %	3.8 %	3.2 %	31.7 %	Haka-Wood Oy	3.9 %	9.6 %	9.8 %	4.1 %	10.7 %
Iisveden metsä Oy		3.7 %	-3.2 %	3.3 %	66.5 %	Iisveden metsä Oy	2.4 %	3.1 %	2.8 %	2.0 %	22.1 %
Isojoen saha Oy		14.4 %	-6.7 %	-3.6 %	61.1 %	Isojoen saha Oy	3.2 %	9.3 %	3.4 %	4.0 %	25.0 %
Jet-puu Oy		0.0 %	4.9 %	-0.9 %	33.2 %	Jet-puu Oy	4.6 %	3.6 %	2.0 %	3.6 %	14.5 %
JPJ-Wood Oy		4.1 %	-28.7 %	22.1 %	77.3 %	JPJ-Wood Oy	5.0 %	4.3 %	-4.8 %	9.8 %	24.8 %
Junnikkala Oy		0.8 %	4.8 %	3.0 %	49.1 %	Junnikkala Oy	1.8 %	6.1 %	1.7 %	3.2 %	25.5 %
Kinnaskoski Oy		5.3 %	-1.5 %	1.1 %	36.8 %	Kinnaskoski Oy	3.0 %	6.2 %	5.5 %	4.4 %	18.8 %
MM Kotkamills Wood Oy		223.6 %	-3.7 %	2.2 %	36.5 %	MM Kotkamills Wood Oy	1.9 %	1.4 %	-6.1 %	-2.6 %	16.5 %
Kouvolan saha Oy		-13.4 %	-14.4 %	-63.8 %	91.2 %	Kouvolan saha Oy	-3.3 %	2.7 %	-12.6 %	-15.9 %	20.3 %
Lapuan saha oy		10.8 %	3.4 %	8.6 %	24.5 %	Lapuan saha oy	-3.3 %	2.9 %	0.8 %	2.3 %	24.3 %
Luopajarven Saha Oy		19.8 %	-13.6 %	-13.1 %	38.0 %	Luopajarven Saha Oy	-0.4 %	2.6 %	2.1 %	-4.8 %	16.8 %
Luvian Saha Oy		-0.3 %	-3.0 %	-8.5 %	54.7 %	Luvian Saha Oy	3.3 %	8.0 %	4.6 %	6.3 %	27.7 %
Mäntsälän Saha Oy		9.7 %	9.5 %	27.3 %	19.3 %	Mäntsälän Saha Oy	3.9 %	6.0 %	6.1 %	4.9 %	5.3 %
Misawa Homes of Finland		-0.1 %	-11.3 %	-12.8 %	39.0 %	Misawa Homes of Finland	2.2 %	1.2 %	2.1 %	1.4 %	0.9 %
Multian Saha Oy		5.6 %	4.3 %	-2.8 %	11.3 %	Multian Saha Oy	3.0 %	2.4 %	2.6 %	-1.5 %	10.5 %
Orasko Oy		63.1 %	9.9 %	20.6 %	14.8 %	Orasko Oy	1.9 %	1.4 %	1.8 %	2.5 %	2.0 %
Sahakuutio Oy		-10.6 %	23.0 %	-4.3 %	50.5 %	Sahakuutio Oy	3.4 %	3.3 %	0.3 %	3.0 %	15.9 %
Södra Wood Finland Oy		12.8 %	-13.0 %	4.7 %	57.5 %	Södra Wood Finland Oy	7.1 %	9.7 %	-3.3 %	7.4 %	40.5 %
Veljekset Vaara Oy		7.2 %	-9.8 %	24.4 %	28.4 %	Veljekset Vaara Oy	5.0 %	6.6 %	5.5 %	5.4 %	17.6 %
Vuokila Wood			19.8 %	5.3 %	85.4 %	Vuokila Wood		5.3 %	7.8 %	8.9 %	14.1 %
Ålands Skogsindustrier Ab		-1.0 %	48.8 %	-12.9 %	-4.2 %	Ålands Skogsindustrier Ab	2.9 %	8.0 %	1.4 %	5.0 %	9.2 %
Larger competitors						Larger competitors					
Kuhmo Oy		5.2 %	-1.4 %	-7.4 %	44.5 %	Kuhmo Oy	1.5 %	8.2 %	2.6 %	1.6 %	26.0 %
Westas Group Oy		1.8 %	-1.8 %	-3.0 %	49.5 %	Westas Group Oy	2.8 %	6.9 %	0.1 %	2.9 %	19.8 %
Haapajarven Ha-Sa Oy		15.7 %	-8.7 %	-2.6 %	60.4 %	Haapajarven Ha-Sa Oy	2.8 %	10.8 %	2.8 %	3.3 %	27.0 %
Keitele Group		13.0 %	1.0 %	3.0 %	28.0 %	Keitele Group	7.9 %	8.2 %	5.1 %	3.6 %	17.1 %
Versowood		3.8 %	-9.9 %	31.5 %	41.1 %	Versowood	5.5 %	4.8 %	0.4 %	8.5 %	28.8 %
Pölkky Oy		4.1 %	-7.0 %	-3.5 %	-4.5 %	Pölkky Oy	1.8 %	5.3 %	0.3 %	-0.4 %	21.2 %
Median (total)		5.2 %	-1.6 %	0.1 %	40.0 %	Median (total)	2.9 %	5.7 %	2.1 %	3.3 %	19.3 %
Average (total)		15.1 %	0.5 %	0.6 %	43.1 %	Average (total)	2.8 %	5.6 %	1.7 %	2.7 %	18.7 %

Source: Asiakastieto, Orbis

Industry and competitive field 5/8

Competitive dynamics of exports

As a strongly export-driven company, Koskisen's competition is not limited to the borders of Finland, but it is at least Europe-wide if not global. The competitiveness of Finnish wood processing companies and Koskisen is influenced by the competitiveness of the Finnish sawmill industry. The competitiveness of the sawmill industry in general is influenced by domestic and foreign factors. These include, e.g., the price and availability of wood raw materials, labor and energy prices, the current tax and subsidy policy, and the efficiency of production and logistics. The latter include changes in demand linked to the export market cycles, particularly in construction, the competitive situation between sawn timber producers and exchange rate fluctuations.

In general, the influence of wood product producers on international markets are quite narrow in terms of sawn timber, especially for basic (unprocessed) sawn timber. On the other hand, country-specific export competitiveness is strengthened by exchange rate fluctuations, which, of course, cannot be controlled by domestic operators. Operators in a given country can benefit from the export competitiveness of their currency and thus be able to win market shares.

In the early 1990s there were still hundreds of independent sawmills in Finland but today there are some 80 sawmills. In Europe, the largest producer countries for softwood sawn timber are Russia, Germany, Sweden and Finland in fourth place. From an export viewpoint, Europe has been

the most important export region for Finnish sawn timber and thus operators in Finland also compete with operators from the above-mentioned countries. The share of North America in exports has been marginal, while exports have increasingly been targeted at Asia. In Asia, Japan has been the main buyer of Finnish sawn timber. Sawn timber is also exported from Finland to North Africa.

There have also been quality differences in sawn timber depending on the export country. Lower quality pine sawn timber with a lower unit price has been exported to North Africa, whereas the exports to Japan have been high-quality spruce timber with a relatively high unit price. The main competitors for Finland in the sawn timber market have been Russia, Sweden and, to a certain extent, the Baltic countries, as well as Germany, the Czech Republic and Austria, that are among the biggest sawn timber producers in Central Europe. Russia has in practice been shut out from the European market with sanctions, which allows the other above-mentioned countries to fill the market gap left by Russia. Historically Finland's loss of market shares in Europe has been partly explained by transport costs, which lead to difficulties for Finnish sawn timber to compete with Central Europe's own production in case of oversupply.

The plywood market is smaller and more local

Birch plywood is used in applications that require high strength or high quality such as demanding interior lining, special floors, the furniture industry, the transport equipment industry and concrete molds. Unlike typical end-use applications

(especially construction), Koskisen's birch plywood supply is more oriented toward transport and logistics sectors.

The majority of the birch plywood market is located in Europe, as birch plywood has traditionally been used there instead of other panel alternatives. In the past, the market has grown steadily, driven by the growth of the transport and construction sectors. Since the beginning of 2022, the European market has experienced a major supply shortage following sanctions against imports from Russia. Russia used to be the largest exporter of birch plywood to Europe. Other European players are currently trying to fill this supply gap which can also help support the shorter-term outlook of Koskisen's Panel industry business. In addition, birch logs have been imported from Russia to Finland, whose exit has caused problems in the availability of birch wood and has also caused problems for Koskisen's birch plywood production. The company has tried to tackle this by using smaller log sizes, relaxing sorting and optimizing the lathe automation to improve material supply. We believe birch logs imported from Russia to the factory have not been exceptionally cost-effective and, therefore, this temporary problem should not in terms of variable costs have a significant impact on the production cost of birch plywood. According to the company, it can also produce plywood as a so-called combi product consisting of both birch and spruce veneer.

Industry and competitive field 6/8

According to AFRY's market survey, the value of the global birch plywood market was estimated to be EUR 3.1 billion in 2021, of which 66%, or over EUR 2 billion, is considered an addressable market for Koskisen. The growth drivers of the birch plywood market are expected to continue to be the growth of the logistics and construction sectors. According to AFRY's market survey, demand in the birch plywood market is expected to grow by 2.3% per year in 2022-2030. According to the market survey, growth in 2021-2026 would be divided so that volumes grow by 2.5%, prices by 1.7% and value by some 4.2% per year. We expect that the realization of the price component depends on the competitive situation and the cost level of the industry while in terms of volumes the estimate that corresponds with the historical level is more reliable

In the birch plywood market, UPM-Kymmene's plywood business is the largest active player in the Finnish market and Koskisen is only third in the Finnish market after Metsä Group (Metsä Wood). Thus, Koskisen cannot flaunt any economies of scale attributed to size class. This is also reflected in the profitability of the Panel industry, as Koskisen's Panel industry's EBITDA margin in 2020-2021 was 8.8-11.4%, while UPM Plywood's EBITDA margin prior to the COVID era in 2015-2019 was 14-18%. However, UPM has done this with roughly ten times the production capacity and, thus with significantly higher volumes and resulting economies of scale. In addition, a significant share has been in lower cost level countries in Estonia and Russia. Metsä Wood, in turn, has generated an average EBITDA of around

8% in 2016-2021. We note that Metsä Wood and UPM Plywood are not fully comparable as their product mixes differ from Koskisen's Panel industry.

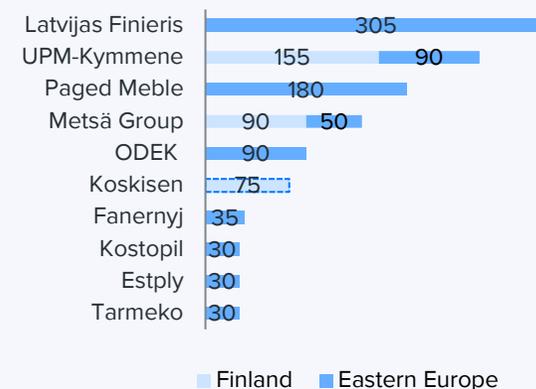
Among foreign operators, Panel industry's peer company the Latvian Latvijas Finieris AS has generated an EBITDA margin of 5.5%-9.6% in 2013-2021. There is no longer time series on the profitability of Koskisen's Panel industry, so it is difficult to estimate the longer-term relative competitiveness of Koskisen in this segment based on 2020-2021 EBITDA levels alone.

The rest of the market is divided between medium and small producers. However, it is worth noting that over 90 % of the plywood produced by Koskisen is exported to EU countries and the UK. Therefore, the competitive dynamics of this segment focuses more on Europe than Finland alone.

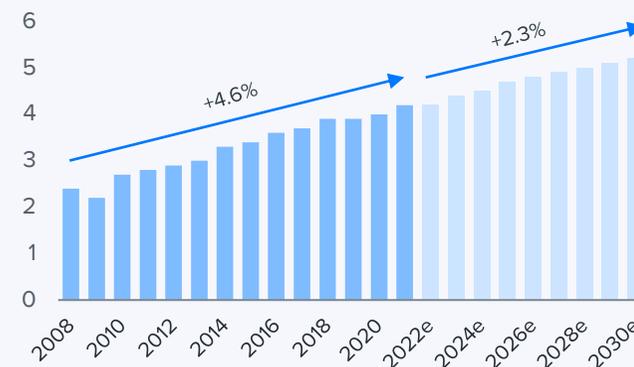
Birch plywood prices

Plywood prices have been more stable than sawn timber prices in history, especially in the last 10 years before 2022.

Largest birch plywood producers, Europe, 1,000 cubic meters



Global demand of birch plywood (excl. Russia and Belarus, million m3)*



Industry and competitive field 7/8

Although plywood prices have developed more stably than sawn timber prices, plywood prices have also been at record levels in the last year, which has also strongly supported the company's performance. However, we expect that the steeper decline in prices from the peaks will in the short-term be offset by the gap in European birch plywood supply that needs to be filled after Russia exited the market. The price point of Koskisen's plywood products is at the higher end because, according to the company, over 90% of the produced plywood is coated, which raises the value added of the product and thus the price.

Competition in the chipboard industry comes from outside Finland

In the chipboard segment, the end uses of the products are in the furniture, interior design and construction industries. Koskisen has a strong position in the Finnish chipboard segment, as it says the company has a market share of about 50% in Finland.

In the longer term, chipboard demand is expected to grow by about 2.2% in Europe over the next 10 years, driven by furniture production and the construction industry. Overall, the European chipboard market was estimated to be EUR 11 billion in 2021, of which about 5% can be considered a relevant market for Koskisen. In the chipboard market segment Koskisen faces competition only from outside Finland, as it is the only domestic chipboard manufacturer. Geographically, the competitors come from Central Europe. In addition, IKEA is a large chipboard

producer but it does not compete directly with Koskisen because it uses most of its production internally.

Chipboard prices

The prices of chipboard have also been exceptionally high in 2022 (Natural Resources Institute Finland: 1-10/22 average price of imports and exports of chipboard 412 €/m³ vs. Koskisen 412 €/m³ in Q1-Q3'22). Prior to this in 2019-2021, the volume-weighted average prices of chipboard per cubic meter have varied between 276-342 €/cubic meter for imports and 306-335 €/cubic meter for exports. Similarly, the average chipboard prices reported by Koskisen in 2019-2021 have been 290-310 €/cubic meter. According to the company, it can sell chipboard at a price premium (sustainably manufactured product).

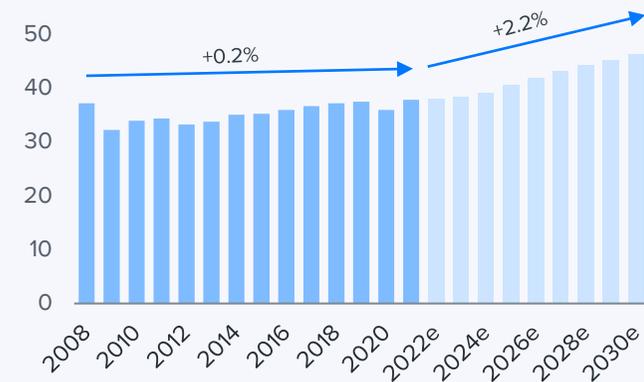
In the Kore brand competitors are small companies

The main competitors of Koskisen's Kore brand are small central and eastern European companies in the vehicle solutions industry. Most competitors do not have their own panel production, unlike Koskisen. Instead of own production, competitors buy panels from larger producers and process them into final products. The driver behind the Kore products is in practice the production volume of heavy and light vehicles and trailers.

Largest chipboard producers, Northern Europe, 1,000 cubic meters



European demand of chipboard (excl. Russia and Belarus, million m³)*



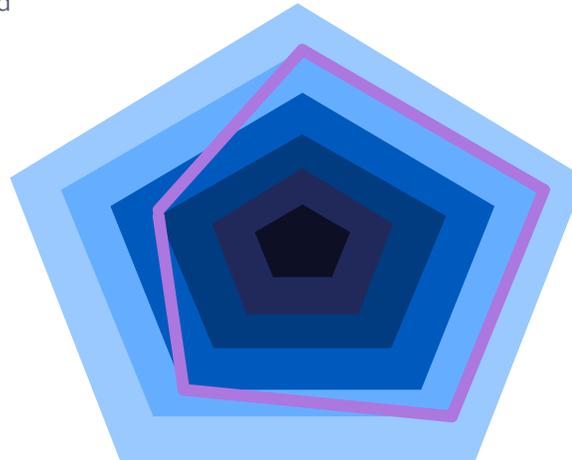
Industry and competitive field 8/8

Current competitive situation (significant*)

- The number of wood processing companies in Finland and Europe is large and value chain positions are fundamentally challenging
- Wood processing companies are mainly price takers and cost structures are relatively rigid, which increases their price sensitivity and tightens competition, especially in overcapacity situations
- The long-term growth picture is healthy, but industry economics are challenging and sustainable value creation (ROIC>WACC) is hard to find

Threat of substitutes (low*)

- With differentiation capacity product level differences are possible in the Panel industry
In general, differentiation factors are limited to price especially in the Sawn Timber industry
- We believe long-term technological change is low, end products (especially for Sawn Timber industry) are low value added products with bulk product characteristics



Threat of new competitors (moderate*)

- Business ramp-up requires reasonably heavy capital investments, but the structural profitability level of the industry is low and therefore does not attract significant new capital to the sector
- Customer relationships are typically long and established. Thus, direct new customer acquisition is slow, but sales through distributors facilitate the sales function.

Suppliers' bargaining power (significant*)

- The company sources wood from thousands of forest owners, but larger sawmills and giant forest companies dictate local raw material prices in addition to global timber market prices
- The fragmentation of supply chains is independent of the wood processing company (i.e. prevailing industry dynamics). The company tries to strengthen the supply relationship and ensure long-term access to raw materials by offering forest management services
- The risk of further integration of forest owners and contractors is non-existent

Buyers' bargaining power (significant*)

- The risk of backward integration of wood processing companies and customer companies is limited
- The differentiation capacity of wood-processing companies is limited, and thus the cost of changing suppliers are low for customers, despite long customer relationships
- The pricing power is limited because wood processing companies are largely price takers and this is reflected in the sales margins

*Inderes' view of the threats caused by industry power for Koskisen on the scale no threat, minor, low, moderate, significant and high.

Strategy and financial objectives 1/3



Core elements and challenges of the strategy

Implemented

- Clarifying of the Group structure, divestment of the Taloteollisuus business
- Investments in parts of the production lines to ensure competitiveness
- Brand reform
- Investment decision of a record investment in the new production facility in Järvelä, which should result in a efficiency improvement and thus profitability improvement

Near future, 1-2 years

- Completion of the Järvelä investment and controlled ramp-up
- Meeting demand as Russia exits the market
- Adjusting the cost structure to the descending cycle
- Developing the sales organization

Next 5 years

- Increasing exports and being successful in them
- Developing and selling products with higher value added
- Quality maintenance of customer relationships
- Developing the product portfolio organically and through acquisitions
- Acquisitions that expand the customer base, increase capacity and provide synergy

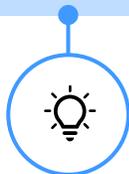
Strategy and financial objectives 2/3

Focus areas of Koskisen's strategy



New wood processing unit representing the latest technology

The company's largest investment in the new unit in Järvälä is expected to increase sawmill capacity by 33% from the current level. Operational efficiency is expected to increase by 40% with automation and growing production capacity.



Product development

The company aims to develop new solutions to keep up with the development of the wood products industry and maintain and strengthen customer relationships by offering new individually manufactured products to customers.



A competent sales organization

The company continuously develops the efficiency of its sales representative network to ensure the competitiveness of its sales organization.



Inorganic growth through M&A transactions

The company aims to participate selectively in M&A transactions to better serve its customers, expand its wood product portfolio and create added value for shareholders.

Inderes' comments on Koskisen's strategic focus areas

- Success in the investment and the subsequent sale of additional capacity is critical to the company's sustainable performance improvement. If successful, the company's operational profitability would improve to a larger scale, with a more efficient sawmill line and scaling of fixed cost.
- The investment would enable the company to reduce shifts and achieve a higher return on materials due to improved quality.
- When the cycle makes a downturn, the risk is that the company is unable to sell additional capacity and may face price competition.

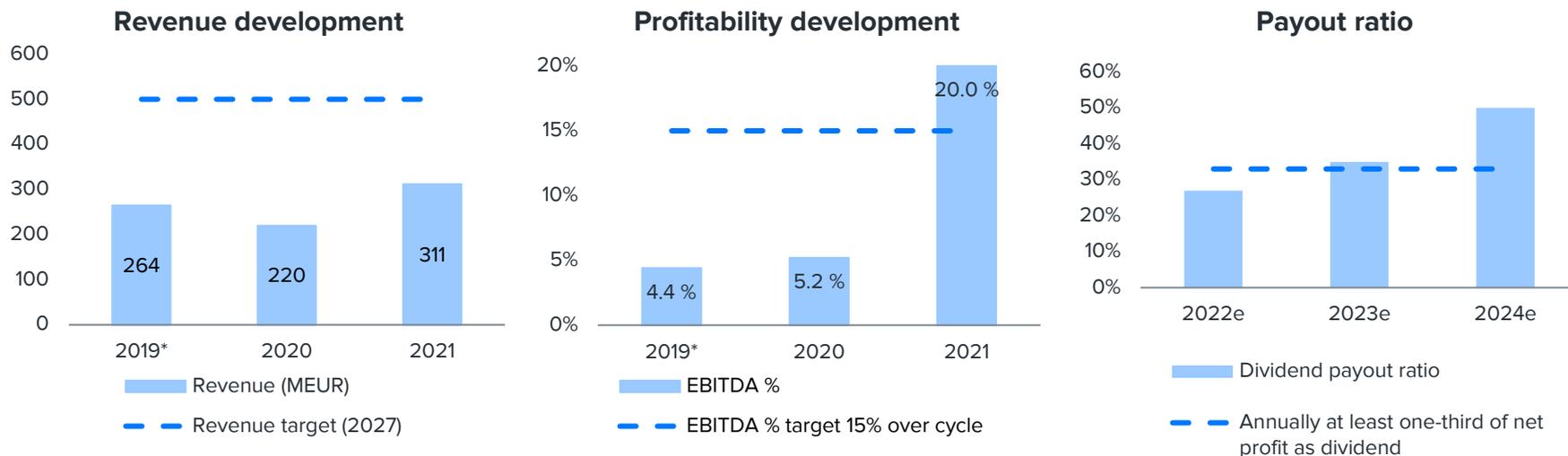
- Quality is at the core of Koskisen's business, and especially in maintaining quality standards, product development and the skills of the whole organization play a key role. Koskisen aims for higher price points in price categories of every product group.
- With products with a higher degree of customization and thus higher value added the company could change its revenue structure toward better margins and success here is largely dependent on successful product development.

- Success in sales and mapping sales opportunities for new products with better margins is also important for profitability and therefore the skills of the sales organization is a critical function.
- Long-term customer relationships and their maintenance require an efficient and competitive sales organization and a high level of customer service. Direct sales play an important role in achieving higher margins. Especially as the share of exports increases, the success of the sales organization is vital for growth.

- The company examines possible M&A transactions, especially in the Sawn Timber industry and selectively in the Panel industry.
- We feel a transaction in the Sawn Timber industry that would clearly increase the size class, have minor overlaps and generate synergies in wood sourcing, could be sensible. In the Kore segment, acquisitions could create value considering the estimated smaller capital return of the segment's businesses.

Strategy and financial objectives 3/3

Koskisen's financial objectives



Financial objectives set by the company



Growth: Revenue EUR 500 million, including both organic and inorganic growth



Profitability: Average EBITDA margin of 15% over the cycle



Balance sheet: Maintaining a strong balance sheet



Profit distribution: Attractive dividends – at least one third of net profit per year

Inderes' comments on the objectives

- Achieving the revenue target requires significant inorganic growth and we believe M&A transactions should be directed at the biggest sawmill industry players in Finland in order for the industrial logic (capacity increase, expansion of customer base and synergies) and scale to be suitable.
- The profitability target is challenging relative to the industry context and company history. Especially in the Sawn Timber industry profitability levels are structurally low. In addition, even in the Panel industry, very few players can sustainably reach over 15% EBITDA, which is why we are skeptical about achieving this target, especially over cycles.
- Considering the cyclical nature of the business, maintaining a strong balance sheet is critical in order to avoid financial risks materializing.
- The profit distribution target allows for both growth and maintenance investments if attractive opportunities arise.

Financial position 1/2

Capital structure after IPO

Next the actual capital structure and indebtedness of Koskisen Group at the end of Q3'22 are presented based on Koskisen unaudited interim information adjusted for the estimated net assets received in the IPO assuming that the IPO was carried out on September 9, 2022.

Robust balance sheet

The adjusted balance sheet has around EUR 61 million in cash and cash equivalents at the end of Q3'22 after the IPO and we also believe around EUR 11 million in financial assets recognized at fair value through profit or loss (current + non-current) are included in financial assets.

The adjusted balance sheet at the end of Q3'22 has some EUR 125 million in equity. Interest-bearing debt (incl. lease liabilities and interest-bearing accounts payable) amounted to some EUR 67 million and interest-free debts to around EUR 53 million. Thus, the company's net cash including cash assets and financial assets totaled some EUR 5 million in the adjusted Q3'22 balance sheet. Therefore, the gearing ratio based on the Q3'22 adjusted balance sheet was around -4 %. The corresponding equity ratio was 51%. The balance sheet position is robust and does not in our opinion limit the company's future growth plans. We find the balance sheet with a reasonable debt burden justified considering the cyclical nature of Koskisen's business.

The balance sheet commits fixed assets

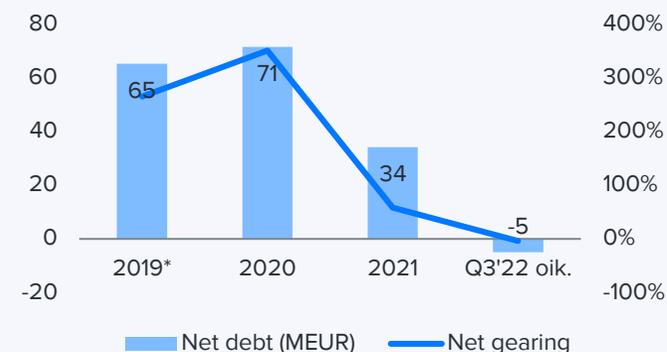
Koskisen's non-current assets consist mainly of tangible assets (Q3'22: 72 MEUR), most of which are

the buildings of the company's production facilities and the machinery used in production and other equipment. The remainder of non-current assets in practice covers a EUR 23 million right-of-use asset, most of which consists of a right-of-use asset arising from the lease agreement of the power plant.

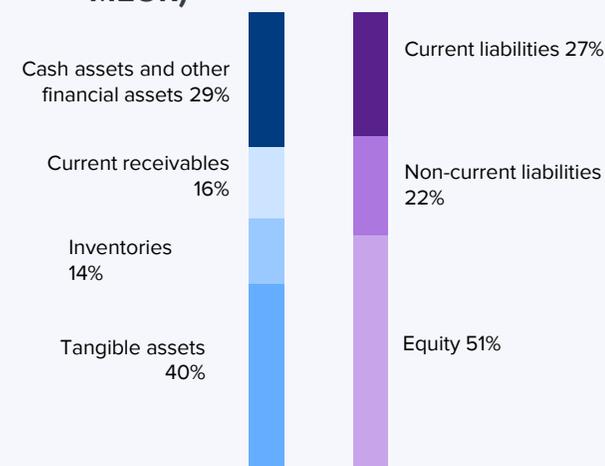
Current assets in the Q3'22 balance sheet (144 MEUR) include EUR 35 million in inventories committed to operating activities and EUR 31 million in accounts receivables. Correspondingly, accounts payable at the end of the period amounted to EUR 35 million (incl. interest-bearing accounts payable under payment procedure 7.3 MEUR). From the point of view of working capital efficiency the turnover period of accounts receivables has been plus/minus 30 days in the past 3 years, whereas the payment of accounts payable has taken on average 57-78 days and the turnover period for inventories over the corresponding period has been 44-54 days. We feel the turnover period for working capital items has been relatively stable in history.

We note that Koskisen offers wood sellers KoskiRaha service, which in practice is a tool for financing the company's accounts payable. If the wood seller wishes to postpone the payment of wood from Koskisen, the seller will receive interest (2.5% for amounts under EUR 20,000 and 3.0% for amounts over EUR 20,000). This size class is, however, very small compared to the size of the balance sheet and thus the significance in terms of the result is limited.

Net debt and gearing

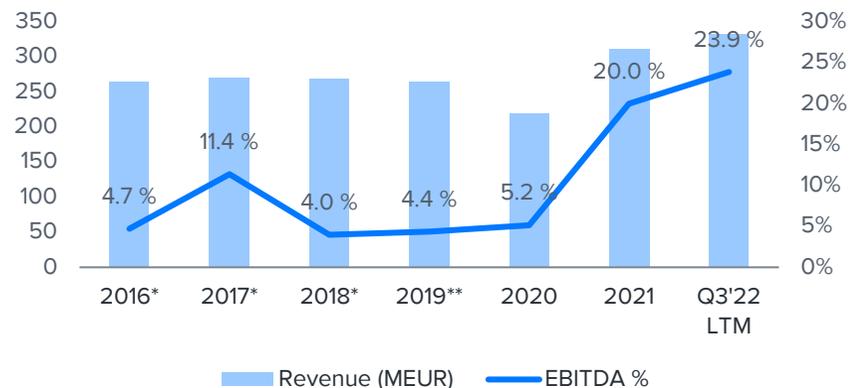


Adjusted balance Q3'22 (244 MEUR)

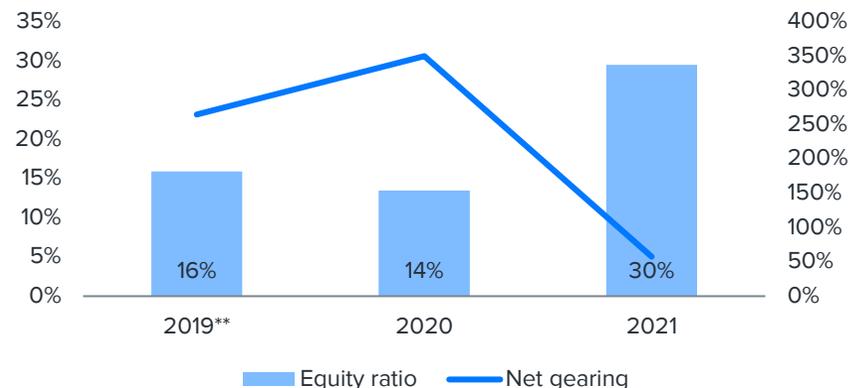


Financial position 2/2

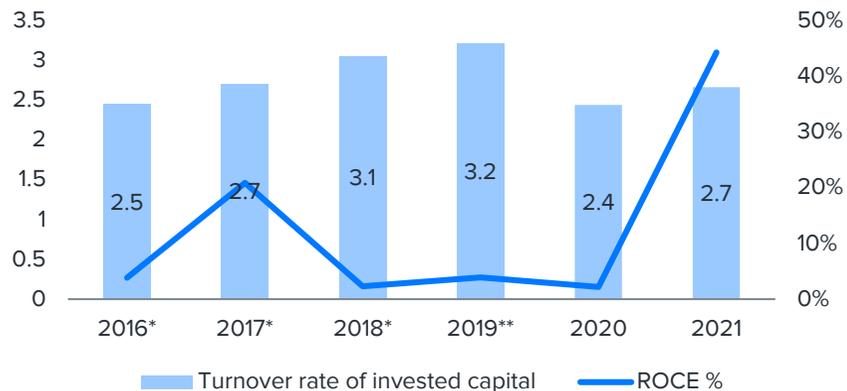
Revenue and profitability development



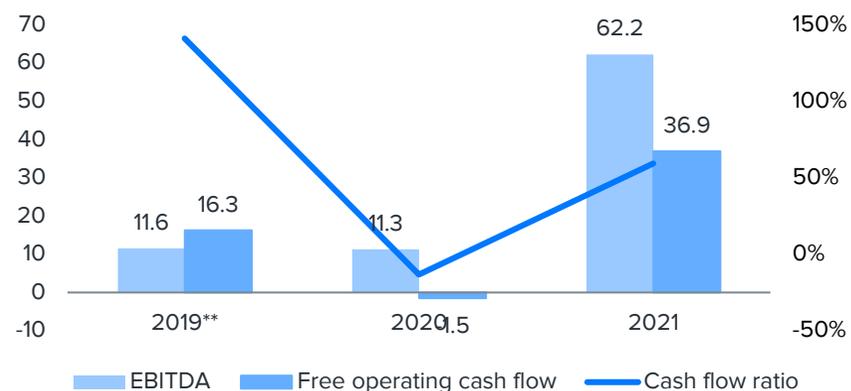
Development of balance sheet position



Capital efficiency



Cash flow development (MEUR)



Source: Koskisen, Inderes
 *FAS figures in the financial statements of Koskitukki Group
 **FAS

Investment profile 1/3

1. **Success of the Järvelä production plant investment is critical to improve sustainable performance**
2. **Business is cyclical, plywood and chipboard business offsets demand fluctuations in sawn timber**
3. **Structural profitability is low**
4. **Optimization of capacity utilization and defending margin levels critical for value creation**
5. **Acquisitions with sound industrial logic, good quality and moderate price tags can create value**

Potential



- Increasing exports
- Innovation and increasing sales of higher value added products
- Long-term demand trend for processed wood products is healthy
- Investment in the Järvelä wood processing should increase the company's normalized profitability through efficiency gains

Risks



- Negotiating position challenging both in wood sourcing and towards customers
- Achieving sustainable competitive advantages in the industries is very difficult
- Bulky end products offer little room for differentiation. Price is the main differentiation factor and thus demand is market driven
- Industries typically face a lot of price competition, especially in overcapacity situations

Investment profile 2/3

Ambitious growth targets require acquisitions

In light of ambitious growth and profitability targets Koskisen profiles itself as a growth-oriented company. In the shorter term, growth can be hard to find due to the cooling economy and sawmill cycle. However, the company can compensate for this with inorganic means, for which the company has good preconditions thanks to its balance sheet position and using own shares as payment.

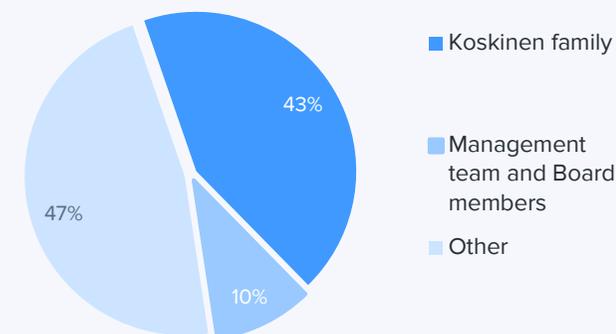
In our view, it is challenging to achieve sustainable competitive advantages in the company's industries (i.e. ability to generate long-term, sustainable returns on capital higher than the competition, relative to the industry context) excluding the competitive advantage from scale. With its long history and the competitiveness it generates, Koskisen can achieve a return on capital in a "normal" year that meets COE especially thanks to the new more competitive sawmill line. This, however, requires rigorously defending margin levels as capital efficiency improves slightly with the new investment.

With tight price-driven competition and global raw material markets dictating log prices (incl. for the most part finished products), structural improvements in profitability can be challenging, but by no means impossible. If the company is able to modify its sales mix to include more products of higher value added (e.g. processed products, plywood, Kore products or new solutions), or to significantly increase the size of the Sawn Timber industry, it has the potential to improve its margins and thus its ability to create value (ROIC>WACC) next to volume growth.

From the point of view of value creation, we do not believe aggressive growth investments would be optimal for the investor, given the structurally weak profitability of Koskisen's businesses and their industries (especially in Sawn Timber industry) and the capital return potential that considers capital needs. Growth through acquisitions can create value if the company is able to buy targets of decent quality, sound industrial logic and moderate price tags.

However, we believe that the company should invest in improving its own operational efficiency and productivity, i.e. in improving the foundation to enable the current business to create value even in a weaker cycle. On the other hand, the company is in the process of doing so by investing in a modern sawmill line in Järvelä. In terms of profit distribution, the company will be able to distribute dividends in the next few years after an exceptionally strong couple of years if no new investment opportunities arise after the current ongoing investment. In the longer term, dividends play an important role for investors' expected return because, after the current investment program, we do not expect the company to have significant investment opportunities unless it becomes active in terms of inorganic growth.

Ownership structure 01/2023 by number of shares



Investment profile 3/3

Positive value drivers and strengths

Healthy organic growth outlook. Growing interest in wood construction supports the demand outlook in the sawmill and panel industries and we estimate that Koskisen's organic growth outlook is healthy in the long term.

Increasing exports. We believe that wood as a building material will gradually gain a stronger foothold globally over the coming years, and we expect that this will also support Koskisen's growth outlook.

Improvement potential in the normalized profitability level. Koskisen's relatively fixed cost structure should, in our view, offer scaling potential and we expect revenue growth to be reflected positively in the company's relative profitability in the next few years. With the efficiency benefits of the new investment normalized performance can be improved.

Filling a Russia sized gap. The disappearance of supply from Russia from the market will also open up new sales opportunities for Koskisen, especially for plywood, when more than half of the European supply is missing.

Acquisitions with sound industrial logic, good quality and moderate price tags. Growth through acquisitions can create value if Koskisen is able to buy targets of decent quality, sound industrial logic (e.g. to increase scale) and moderate price tags.

Negative value drivers and risks

Business is cyclical. The sawn timber and panel industries are typically cyclical, especially price cycles can be rapid and intense. In addition, in the sawmill industry, the profitability of companies is structurally weak due to tight competition, weak value chain positions and lack of sustainable competitive advantages. Thus earnings fluctuations can also be volatile and investors should try to understand the company's long-term performance and ability to generate return. Even if the company were able to adjust its operations to a weaker market situation, changes in underlying demand would inevitably be reflected in profit performance as a result of a fall in prices due to the fixed elements of the cost structure.

Market price development of wood and sawn timber. In recent years, the price development of wood and sawn timber has been very volatile, which has been positively reflected in Koskisen's performance during an upward trajectory. However, the price development of sawn timber is normalizing and we estimate that this is likely to affect the company's short-term revenue accumulation and profitability.

Success in exports is in our opinion key for Koskisen's long-term equity story. Sustainably maintaining stronger growth will be challenging in Finland in the long term, considering the small size of the domestic market.

Pricing power or lack of it. Koskisen's value chain position is challenging. The company is a price

taker on the raw material supply side, as large forest companies organize their wood sourcing centrally and are better placed in wood sourcing compared to Koskisen thanks to higher volumes. Koskisen is also the price taker in most of its products towards customers, especially in sawn timber. Thus, direct pricing power is limited and structural improvement of sales margins is challenging in the long run in the company's operating industries.

Failure in acquisitions. Especially as the structural profitability of the sawmill industry is weakish, making acquisitions that create shareholder value requires a cheap price tag, synergies and good operational quality from the target company. Of course, the risk in acquisitions is that the company pays too much for the acquisition target considering its ability to generate return on capital and thus cash flow.

Estimates 1/5

Estimate model

We model Koskisen's revenue development based on the estimated market growth of business segments and the price development of end products. In assessing short- and medium-term profitability, we model the development of the company's sales margin and fixed cost structure. Our long-term estimates are based on our assessment of the market's longer-term growth rate and Koskisen's sustainable profitability level.

2022 has been exceptionally strong

The early part of 2022, was very good for Koskisen in terms of sales driven by a very favorable market. In Q1-Q3, Koskisen's revenue grew by 10% from the comparison period to EUR 240 million. Koskisen's revenue growth was driven especially by the record high prices of sawn timber in Q1-Q3'22 and the prices of panel products were also very high. We estimate that volume levels were close to full capacity in the early part of the year, while we believe that volumes have remained more stable in the Panel industry and decreased in the Sawn Timber industry toward the end of the year. Geographically strongest revenue growth in Q1-Q3'22 was recorded by Japan, whose revenue grew by as much as 48% (32.8 MEUR) year-on-year. Similarly, revenue from Poland (+37%, 12.4 MEUR) were very robust. In Koskisen's currently biggest market area Finland growth was about 7% (93.3 MEUR).

In Q1-Q3'22 Koskisen's adjusted EBITDA was EUR 55.5 (Q1-Q3'21: 39.3 MEUR), representing an exceptionally excellent 23.1% EBITDA margin. By

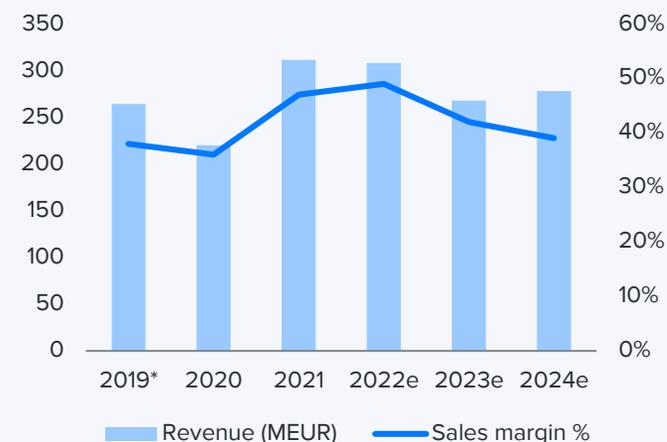
business segment the EBITDA of the Sawn Timber industry was EUR 38.1 million corresponding to an 29.3% EBITDA margin. The EBITDA of the Panel industry was EUR 19.9 million corresponding to an 18.1% EBITDA margin. We suspect the performance of both segments was mainly driven by prices as market prices for end products in both segments have been exceptionally high relative to longer-term history. In addition, volumes in the Panel industry were growing during the period, while the volumes of sawn timber and processed products have been falling, with declining construction cycles and economic slowdown.

We predict that Q4'22 will still be good

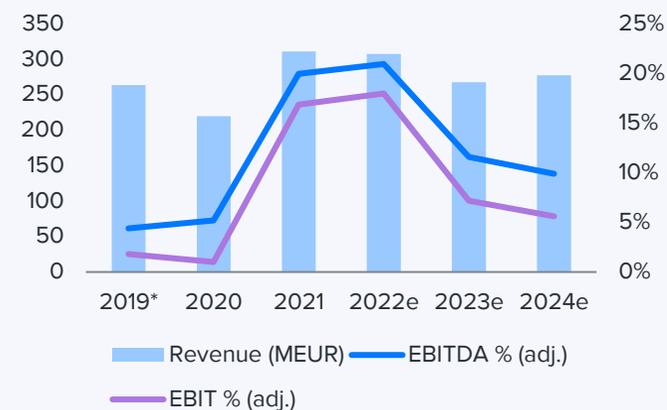
Koskisen expects that its revenue in 2022 will remain at the same level as in 2021, and its adjusted EBITDA will increase in 2022 from 2021. Koskisen estimates its revenue will be about EUR 310 million and adjusted EBITDA margin to be 21-23%.

In recent months, a clear normalization has been visible in global timber market prices, while the recent increase in raw wood prices also brings headwind to Koskisen's cost side.

Revenue and sales margin %



Revenue and profitability development



Estimates 2/5

We estimate that Koskisen's Q4'22 revenue is around EUR 68 million. By segment, we expect the Sawn Timber industry to reach EUR 32 million in revenue, driven by market prices that are still higher than the longer-term averages, while the volume levels are falling with cooling construction markets and slowing economy. For the Panel industry, we expect revenue to be EUR 36 million driven by still high plywood and chipboard prices. We do not expect a serious volume-based decline, as we expect the gap that Russia has left in the European plywood market will support the demand for plywood in Koskisen's Panel industry.

We estimate that Koskisen's adjusted EBITDA in Q4'22 will be EUR 9.2 million corresponding to an adjusted EBITDA margin of some 13%. We have recorded EUR 1.5 million in non-recurring items as IPO related expenses for Q4'22. We expect profitability to remain at an excellent level, even though we believe that the volume of sawn timber will be on a downward trend, along with market prices. However, we expect the good demand and more stable prices of the Panel industry to compensate for this and help keep costs under control (e.g. availability problems of birch logs and thus high prices) and Panel industry's profitability at an excellent level (Q3'22 EBITDA-%: 18%). With the already slightly increased depreciation from the ongoing Järvelä production plant investment, we expect Q4'22 adjusted EBIT to be EUR 6.2 million, corresponding to a good margin of 9%. Considering normal financial expenses and taxes, we expect the company's adjusted EPS to be EUR 0.20.

Thus we estimate that Koskisen will reach about EUR 308 million in revenue and EUR 65 million in adjusted EBITDA in 2022 (adj. EBITDA %: 21.0%). Considering depreciation, we expect the adjusted EBIT to be EUR 56 million (adj. EBIT %: 18%). With the company's net financial expenses and normal tax rate (20%), we expect the net profit to be around EUR 38 million for 2022 (-6.2 MEUR in minority interests in Q1–Q3'22 but the minorities were eliminated in the merger). This would correspond to an adjusted EPS of EUR 1.67. The Board of Directors has provisionally estimated that it will propose to the Annual General Meeting in 2023 that a dividend of EUR 10 million would be distributed in 2023. Thus, we expect the company to distribute a dividend of EUR 10 million or EUR 0.43 per share for 2022.

2023: We expect both revenue and earnings to decrease clearly from 2022

We expect Koskisen's demand environment to be difficult in the Sawn Timber industry in 2023 and we expect the company's revenue to decrease by some 13 % to EUR 268 million. We expect the most dramatic drop in market prices for sawn timber to be moderating and expect prices to develop more stably in 2023 (vs. 2022), while prices of products in the Panel industry are expected to decrease less especially for plywood, because we believe that plywood prices in Europe will remain above long-term averages, as the market is filling the gap created by the exit of Russian supply.

Price development of sawn timber, export, EUR/cube



Price development of hardwood plywood, export, EUR/cube



Estimates 3/5

As the Group's revenue mix focuses more on the Panel industry (especially plywood and chipboard) we expect the Group's EBITDA to be around EUR 31 million corresponding to an EBITDA margin of 11.6% (guidance given in connection with IPO 12-14%). Even though the headwind is likely to continue in raw materials with the high price levels of raw wood (see p. 13) in the early part of the year, we believe the company will be able to reduce the workforce in the Sawn Timber industry through volume reductions. In addition, the profitability of the Panel industry remains at an excellent level in our estimates, due to the still high birch plywood prices and the stable price and volume of chipboard.

There is considerable uncertainty about the cost levels, volume development and price levels of the sawmill industry, and thus the profitability level of Koskisen's Sawn Timber industry, which is why our profitability estimate is close to the lower end of the company's guidance. Even though the prices of sawn timber and processed products is still higher than in recent years the price decrease, combined with the prevailing high cost level and modest demand already pushed the businesses of listed companies focusing on sawn timber into red in Q4'22.

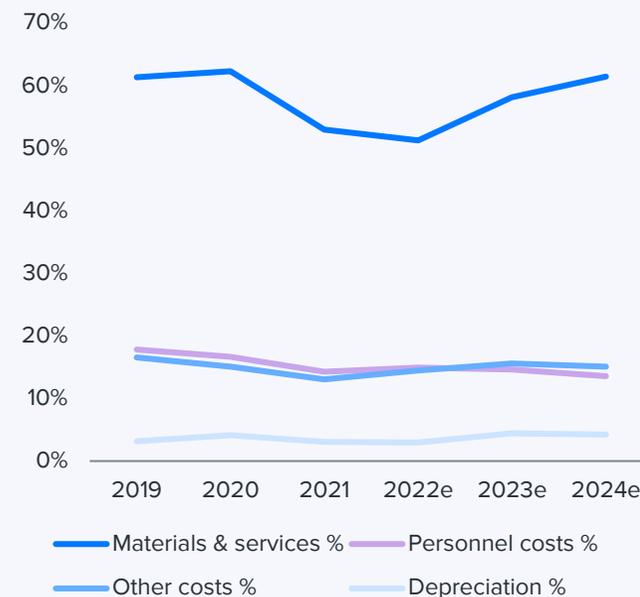
Considering the growing depreciation with the ongoing record investment in Järvelä, we expect EBIT to be around EUR 19 million corresponding to an EBIT margin of 7.2%. Considering the EBIT drop, increased depreciation and normal financial expenses we expect EPS to be EUR 0.58 and profit distribution EUR 0.20 corresponding to a 35% payout ratio.

The impact of the new sawmill line will be tested in 2024-2025

In 2024, we expect Koskisen's revenue to grow by 4% to EUR 278 million due to a weaker comparison period and the gradual ramp-up of Järvelä's new unit. In 2025, we estimate a 2.3% increase in revenue to EUR 284 million reflecting general market growth and improved capital utilization thanks to Järvelä's new capacity. We believe significantly higher revenue growth estimates would require stronger export growth, especially since it will be difficult to maintain strong growth in Finland in the long term, due to the small size of the Finnish market and Finland's economic growth outlook. Koskisen's track record of strong and especially sustainable profitable growth in exports is still limited and thus some conservatism is called for. The same also applies to our longer-term estimates.

In 2024-2025, we estimate that Koskisen's adjusted EBITDA will be about EUR 27.4-28.2 million, corresponding to an EBITDA margin of around 10%. In our estimates the good profitability level comes largely from the efficiency benefits (increased degree of automation in production, shifts decreasing from 3 to 2 shifts, with the new sawmill line maintenance costs will decrease, the line's higher speed and material supply improves) of the new unit in Järvelä and we expect general inflationary pressures to stabilize to more normal levels after 2023.

Relative share of sales margin and cost items in revenue



Estimates 4/5

We estimate depreciation will be about EUR 12 million and thus expect the company's adjusted EBIT to be EUR 15.6-16.4 million. With the good operational result our 2024-2025 EPS estimate is EUR 0.46-0.49 and profit distribution EUR 0.23-0.45 per share corresponding to a 35-50% payout ratio.

Investment needs in coming years reasonable after the Järvelä unit

According to the company, the investment program for the Järvelä production plant should be completed by the beginning of 2024 and we do not expect Koskisen to have any larger investments to increase capacity after the potential additional capacity of Järvelä (100,000 m³) in the next few years. We expect Koskisen's annual gross investments to be EUR 22-12 million in 2023-2024. After the years mentioned above, we estimate gross investment to be about 3% of revenue (incl. IFRS 16 investments). The level is thus clearly lower than in 2022-2024 (4-8% of revenue), but in line with the average over the longer term.

Järvelä's new unit ties up capital

In terms of cash flow, Järvelä's new unit will tie up capital in Q4'22-Q1'24 of about EUR 29 million (about EUR 21 million invested by Q3'22), which means free operational cash flow will be EUR 8-12 million in 2023-2024. We expect working capital needs to be at similar levels as in history (net working capital needs about 9% of revenue) and, of course, in 2023, working capital will be released in our estimates as revenue declines.

Balance sheet remains strong

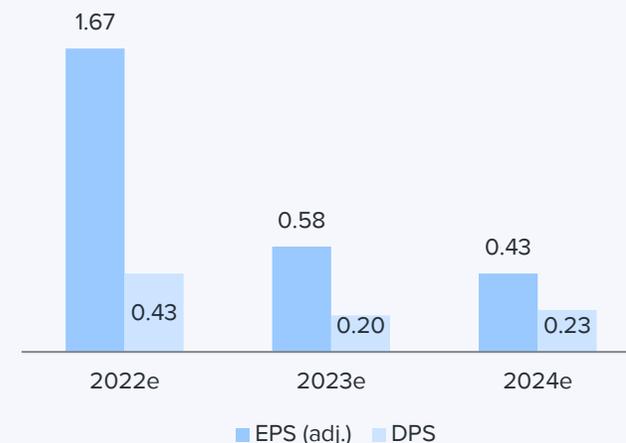
With our current profit distribution estimates, Koskisen's balance sheet position will remain very strong during our estimate period, as the equity ratio is around 62% in 2024-2025 and net gearing will be negative at about -12-19%. Although a strong balance sheet is justified by the cyclical nature of the Koskisen's business, the capital structure is very conservative in our estimates in the coming years.

Longer-term estimates

We expect Koskisen's long-term organic growth outlook to be healthy as environmental awareness and the popularity of wood construction increases in the future. In the big picture, we expect the company to be able to generate revenue growth in line with general economic growth (3% medium-term, 2% terminal). We note, however, that annual changes can be dramatic depending on the economic and construction cycles.

In our estimates the good profitability level comes largely from the efficiency benefits (the company has estimated a sustainable earnings improvement of 8 MEUR at EBITDA level, explained on pp.11-12) and correspondingly, the profitability level of the Panel industry is expected to remain at a good level compared to the industry context.

EPS and DPS



Development of balance sheet position



Estimates 5/5

Our estimates include a certain conservatism for 2024-2025, because our assumption is that the company will not be able to sell its new capacity fully yet, as selling increased capacity with sufficient margin is not self-evident in a tightening competitive environment.

Therefore, we expect Koskisen to be able to reach an EBIT margin of about 5-6 % in the medium term, as profitability is pushed to 5% in our estimates as we get closer to the terminal value. In our opinion, the profitability level is among the better for sawmill and wood-processing companies. We feel this is justified by the fact that about 40% of the company's revenue in the long run comes from the Panel industry with higher value added and thus better margin profile (plywood, chipboard, veneer, Kore products). Furthermore, the assumption is supported by the fact that the new modern sawmill line currently in the investment program should be clearly more efficient than the some 30 years old line used previously by the company. We believe that Koskisen's new sawmill line comes from the same supplier as Metsä Fibre's sawmill line at the Rauma pinewood sawmill that was Finland's biggest sawmill investment ever ([Koskisen's sawmill line](#) and about Metsä Fiber's Rauma sawmill: [here](#), [here](#) and [here](#)).

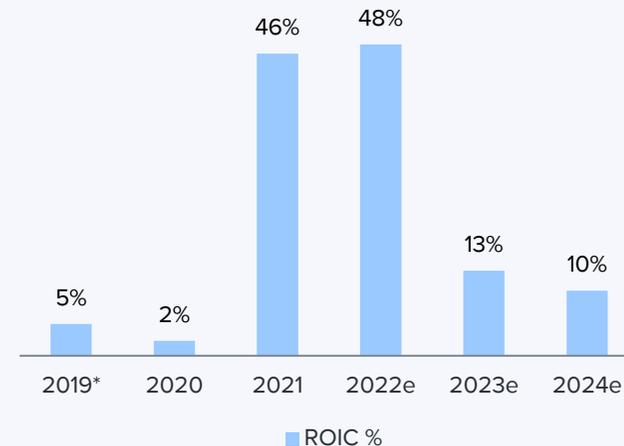
We note, however, that the profitability potential should be considered as a so-called normalized estimate, as annual profitability may fluctuate strongly considering the cyclical nature of underlying industries.

We expect investment needs for capital requirements (incl. IFRS 16) to be about 3% of revenue and net working capital requirements about 9% of revenue in the longer term. So we do not expect any significant changes in capital requirements relative to the company's history and the conditions of the industries. Thus, the turnover rate of capital invested in the business will be 2-2.3x in the long term. We expect the company's tax rate to be the conventional 20% in our long-term estimates.

Cash flow development (MEUR)



ROIC development



Income statement

Income statement	2020	2021	Q1-Q3	Q4'22e	2022e	2023e	2024e	2025e
Revenue	220	311	240	68.4	308	268	278	284
Sahateollisuus	120	188	130	32.1	162	132	163	168
Levyteollisuus	99.8	123	110	36.2	146	136	114	116
EBITDA	11.3	62.2	56.4	7.7	64.1	31.0	27.4	28.2
Sahateollisuus	2.6	50.7	38.1	0.1	38.2	2.9	13.7	14.6
Levyteollisuus	8.8	14.1	19.9	7.7	27.6	28.1	13.5	13.7
Depreciation	-9.1	-9.5	-6.1	-3.0	-9.1	-11.8	-11.8	-11.8
EBIT (excl. NRI)	2.2	52.7	49.4	6.2	55.6	19.2	15.6	16.4
EBIT	2.2	52.7	50.3	4.7	55.0	19.2	15.6	16.4
Net financial items	-6.6	-4.8	0.5	-0.8	-0.3	-2.4	-2.2	-2.2
PTP	-4.4	47.9	50.9	3.9	54.7	16.8	13.4	14.2
Taxes	0.4	-9.4	-9.9	-0.8	-10.7	-3.4	-2.7	-2.8
Minority interest	0.7	-9.3	-6.2	0.0	-6.2	0.0	0.0	0.0
Net earnings	-3.3	29.2	34.7	3.1	37.8	13.5	10.7	11.4
Net earnings	-3.3	29.2	34.7	3.1	37.8	13.5	10.7	11.4
EPS (adj.)	-0.26	2.32	1.47	0.20	1.67	0.58	0.46	0.49
EPS (rep.)	-0.26	2.32	1.51	0.13	1.64	0.58	0.46	0.49

Key figures	2020	2021	Q1-Q3	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	-16.7 %	41.6 %			-1.0 %	-13.2 %	3.7 %	2.3 %
Adjusted EBIT growth-%	-30.5 %	2259.0 %			5.5 %	-65.4 %	-18.9 %	5.5 %
EBITDA-%	5.2 %	20.0 %	23.5 %	11.2 %	20.8 %	11.6 %	9.9 %	9.9 %
Adjusted EBIT-%	1.0 %	16.9 %	20.6 %	9.0 %	18.0 %	7.2 %	5.6 %	5.8 %
Net earnings-%	-1.5 %	9.4 %	14.5 %	4.5 %	12.3 %	5.0 %	3.9 %	4.0 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	85.7	86.8	102	112	112
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.5	0.6	1.0	1.4	1.8
Tangible assets	82.0	83.0	97.5	108	107
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	3.2	3.0	3.0	3.0	3.0
Other non-current assets	0.0	0.2	0.2	0.2	0.2
Deferred tax assets	0.0	0.1	0.1	0.1	0.1
Current assets	66.1	114	126	113	121
Inventories	32.7	38.1	40.1	34.8	36.1
Other current assets	0.5	5.4	5.4	5.4	5.4
Receivables	25.0	29.5	30.8	26.8	27.8
Cash and equivalents	7.9	40.5	49.7	46.2	51.2
Balance sheet total	152	200	228	226	233

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	20.4	58.8	134	138	144
Share capital	1.5	1.5	1.5	1.5	1.5
Retained earnings	5.2	34.5	72.3	75.7	81.7
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	-0.2	-0.4	60.6	60.6	60.6
Minorities	13.9	23.2	0.0	0.0	0.0
Non-current liabilities	82.4	75.7	37.3	37.3	37.3
Deferred tax liabilities	1.8	1.7	1.7	1.7	1.7
Provisions	0.1	0.1	0.1	0.1	0.1
Long term debt	73.2	68.4	30.0	30.0	30.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	7.2	5.4	5.4	5.4	5.4
Current liabilities	49.0	65.8	56.1	50.4	51.8
Short term debt	6.1	6.2	4.0	4.0	4.0
Payables	41.9	50.7	43.2	37.5	38.9
Other current liabilities	0.9	8.9	8.9	8.9	8.9
Balance sheet total	152	200	228	226	233

Valuation 1/5

Emphasis on EV-based pricing multiples

We focus on earnings-based multiples in Koskisen's valuation. When examining earnings-based multiples, we favor EV/EBITDA and EV/EBIT ratios that consider the company's capital structure. We focus less on P/E, as it does not consider the company's capital structure and, in Koskisen's case, the company's net cash position. As absolute multiples, we have used the acceptable pricing multiples that we have defined, based on our view of the company's current growth, profitability and risk profile. In addition, we have compared the valuation to peer companies' longer-term historical multiples.

When examining absolute multiples we focus on 2023-2024, albeit with special caution, as the estimates for both years involve significant uncertainty and do not necessarily reflect the expected normalized performance. We base this idea on the fact that 1) the 2023 estimate reflects the profitability impact on the Panel industry from the supply disruption caused by the withdrawal of the plywood supply from Russia, 2) the ongoing investment will be completed in 2024, which will increase the volume, but visibility into what type of margin the company will be able to achieve in selling the new capacity and what the market situation will be like then is very poor. The trend in earnings development is clearly pointing downward after two exceptional years, and the slope and duration of the drop are very difficult to estimate, considering the cyclical nature of businesses and the fixed nature of cost structures.

We also approach Koskisen's valuation from a

balance sheet perspective. We prefer the conventional P/B ratio and EV/Invested capital (EV/IC)¹ ratio. The EV/Invested capital valuation multiple is comparable to the P/B ratio, with the difference that it also considers the company's capital structure unlike the P/B ratio. We have compared Koskisen's balance sheet-based valuation with the company's ability to generate capital (ROIC% and ROE%). We have also approached the balance sheet-based valuation through the historical levels of peers. We also believe that it is reasonable to consider the balance sheet-based valuation, because the company's business is cyclical, and thus the fluctuations in annual earnings may be very volatile and the long-term perspective must be considered when assessing the sustainable performance.

Factors influencing valuation

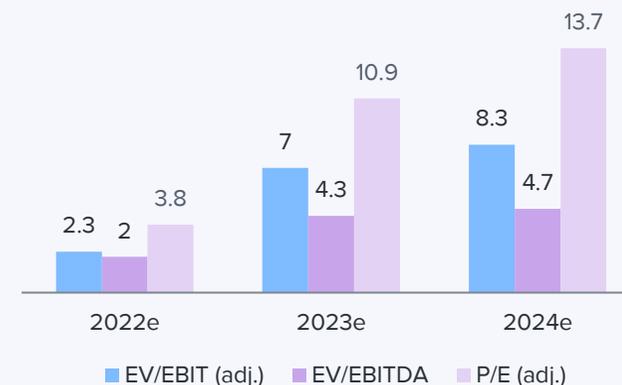
We believe that the following factors support and depress Koskisen's valuation:

- **Improving competitiveness with Järvelä's new wood processing unit and strong pricing outlook for the Panel industry.** Koskisen's demand outlook is supported by several drivers (e.g. increased popularity of wood construction, climate change measures, healthy living, closing the supply gap caused by Russian sanctions), which together with the company's ongoing investment in the Järvelä wood processing unit and the profitability improvement potential supports performance in the next few years (2024-2025).

Valuation	2022e	2023e	2024e
Share price	6.35	6.35	6.35
Number of shares, millions	23.0	23.0	23.0
Market cap	146	146	146
EV	130	134	129
P/E (adj.)	3.8	10.9	13.7
P/E	3.9	10.9	13.7
P/FCF	3.2	17.3	12.7
P/B	1.1	1.1	1.0
P/S	0.5	0.5	0.5
EV/Sales	0.4	0.5	0.5
EV/EBITDA	2.0	4.3	4.7
EV/EBIT (adj.)	2.3	7.0	8.3
Payout ratio (%)	26.5 %	35.0 %	50.0 %
Dividend yield-%	6.8 %	3.2 %	3.7 %

Source: Inderes

Earnings multiples



Source: Inderes

¹EV/IC = (market value of equity + net liabilities) / (equity + net liabilities)

Valuation 2/5

- **Robust balance sheet** after the IPO ensures the possibility to focus purely on developing operational activities.
- **The basic cyclical nature of the business** reduces longer-term visibility and raises the risk profile. In addition, the short-term downward cycle phase should present challenges on the demand side.
- **Increased competition in the sawmill sector** after the sawmill cycle turns the demand situation can remain weak for a long time, which could result in an overcapacity situation where profitability can turn really weak. This would really undermine the new capacity. This risk exists especially as other players in the industry have also invested at the top of the cycle in the last year.

Earnings-based valuation

We feel acceptable EV/EBITDA ratios for Koskisen are roughly 3.5-6.5x, considering the growth and profitability levels of the business and the risk profile. These levels roughly correspond to EV/EBIT ratios of 5.5-8x. On an annual basis, the multiples may occasionally stretch to a very wide range depending on the cycle.

The above-mentioned valuation multiples are also in line with the longer-term average levels of the nearest peers (Bergs Timber AB, Interfor Corp, Boise Cascade, descriptions in appendix). Industrial acquisitions in the sector have also been carried out on average EV/EBITDA ratios of 5-6x (details of acquisitions in appendix).

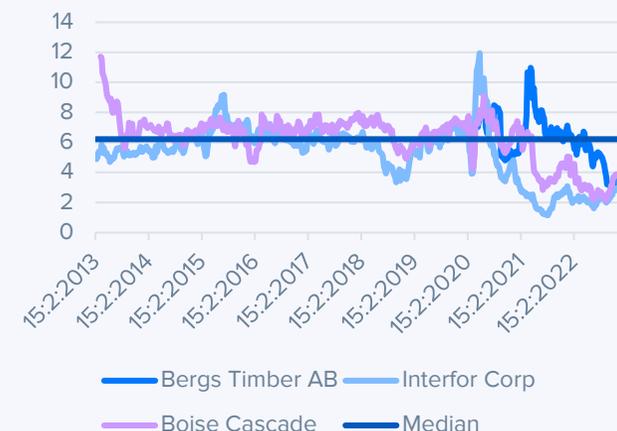
Based on the EV/EBITDA multiples we accept for Koskisen and our 2023 EBITDA estimate, Koskisen's debt-free enterprise value (EV) is about EUR 109-202 million. However, we do not believe our 2023 EBITDA estimate reflects a so-called normal result due to the cooling of the sawmill cycle and the exceptionally good earnings year in the Panel industry. Instead, if we look at 2024, when the new wood processing unit in Järvälä should be in operation and the profitability of the Panel industry should have normalized in line with our expectations, Koskisen's debt-free enterprise value (EV) would be around EUR 96-178 million based on the acceptable EV/EBITDA ratios and our 2024 EBITDA estimate. When we deduct our 2023 net debt estimate from the EV (15 MEUR net cash incl. 3 MEUR forest resources, including Järvälä investment), the value of Koskisen's share capital is EUR 111-193 million. So some EUR 4.8-8.4 per share (average EUR 6.6). So on earnings basis the company's valuation seems neutral.

Koskisen's dividend income increases to 3.2-3.7% with our 2023-2024 profit distribution estimates, which provides reasonable support for the share.

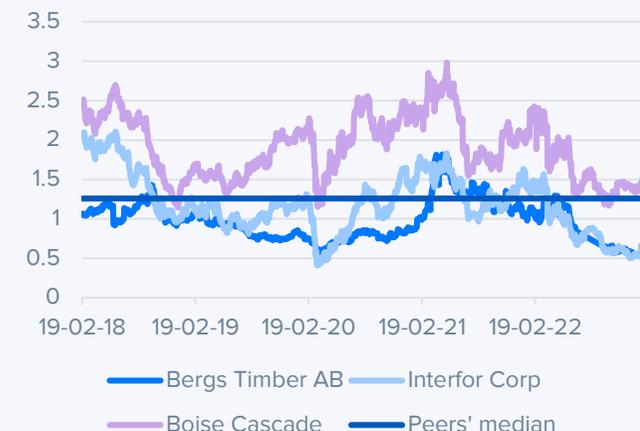
Balance sheet-based valuation

With our current estimates we expect Koskisen to reach 10-12% ROCE in the next few years and ROCE to be around 9-11% in the longer term.

Peers' EV/EBITDA fwd. 12 month



Peers' P/B ratios



Valuation 3/5

Similarly, we expect ROE to be about 8-10% in the coming years and, in the longer term, to be slightly below the cost of equity (11.6%). Since we expect the company's capital returns to be close to the cost of capital in the examination over the cycle, the company should in principle be valued roughly at an average P/B of 1x and EV/IC ratio of 1x in the long term.

Therefore, considering the cost of capital we apply for the company, the acceptable balance sheet-based valuation level would, in our view, be around 0.7-1.3x (the upper end is justified in a favorable cycle if the Järvälä investment clearly improves the company's ability to generate capital). In recent years, the company's closest peers have been valued at median EV/IC level of 0.9-1.3x and P/B ratios of 0.9-1.9x. It is noteworthy, however, that especially the size class of Interfor and Boise Cascade is significantly larger than Koskisen's and therefore their profitability has been very strong in recent years (2016-2020: average ROCE ~13% vs. Koskisen average ~7%). Bergs Timber AB, with the closest profitability profile among peers (2016-2021 average ROCE 9%) has in recent years been valued at an average EV/IC ratio of some 0.9x and P/B ratio of 0.9x.

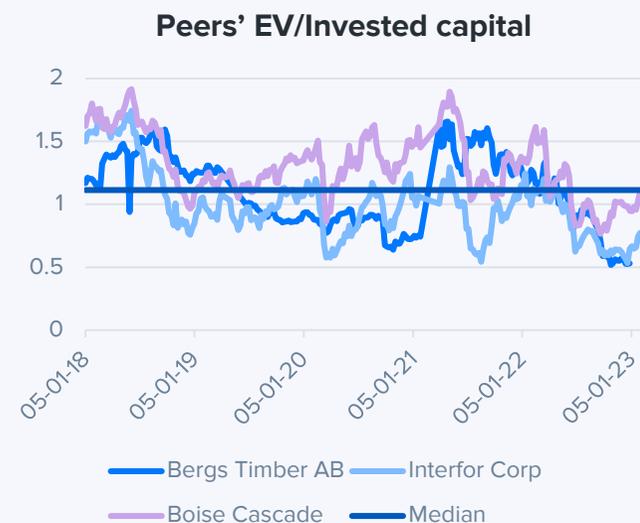
With the EV/IC ratios of 0.7x-1.3x EVO/IC ratios we find acceptable for Koskisen and our 2023 estimates Koskisen's EV would be EUR 92-170 million. When we deduct our 2023 net debt estimate from the EV, the value of Koskisen's share capital is EUR 107-185 million. So some EUR 4.6-8.1 per share, with an average of EUR 6.4. Similarly, with the P/B ratios we

find acceptable, 0.7x-1.3x and our 2023 estimates, the value of Koskisen's share capital is EUR 97-179 million, which would be EUR 4.2-7.8 per share (average EUR 6.0).

The balance sheet valuation indicates that share would be slightly overvalued. A higher acceptable valuation range would require a sustainable improvement in performance and capital from history, which could be supported by the new Järvälä investment if successful. However, we are not yet ready to accept a higher valuation until the productivity of the new investment and thus the increase in the earnings level becomes evident. An investor who accepts a balance sheet value clearly above 1x takes on the risk that the company's structural ability to generate capital would improve from a long history (adjusted ROCE on average 2010-2021: ~10%, median: ~5%) despite the Järvälä investment. We are still skeptical about the sustainable rise in profitability levels, as we believe that it is difficult to achieve sustainable competitive advantages in the industry (except for the benefit of scale) and hence sustainably increase returns on capital.

Peer group reasonable for relative comparison

It is difficult to find fully comparable listed peers for Koskisen and the core peer group we built consists of listed companies that are linked to the sawmill and panel industries (company descriptions in the appendix).



Sensitivity analysis for P/B ratio

		Acceptable P/B ratio				
		ROE %				
		7 %	8 %	9 %	10 %	11 %
CoE-%	14 %	0.4	0.5	0.6	0.7	0.8
	13 %	0.5	0.6	0.7	0.8	0.8
	12 %	0.5	0.6	0.7	0.8	0.9
	11 %	0.6	0.7	0.8	0.9	1.0
	10 %	0.7	0.8	0.9	1.1	1.2

Valuation 4/5

The peers operate in different markets and to some extent with different product portfolios than Koskisen, which further limits comparability.

We have, however, also built a broader peer group to gauge the relative valuation level in a shorter perspective. In addition to the core peers, this group includes listed companies linked to the wood processing and forestry industries. The business operations, growth and profitability profiles of these companies differ in some cases quite a lot from Koskisen and therefore pricing of Koskisen's share cannot be based solely on this.

As with Koskisen, earnings fluctuations for the peer group can also be aggressive at times with the economic cycles. In particular, the 2022 multiples still reflect the exceptionally strong cycle peak and the 2023 multiples probably reflect a cooling in the cycle. Due to the above factors, we believe that the pricing of the peer group offers only a rigid reference framework for Koskisen's valuation in the shorter term.

Koskisen's closest peers (descriptions attached) are with 2023 consensus estimates valued at an EV/EBITDA ratio of 3.4-4.4x and P/B ratio of 0.6-1.3x. By applying these ratios to our 2023 estimates, the value of Koskisen's share would be EUR 5.3-6.6 (average EUR 5.9) based on EV/EBITDA and EUR 3.6-7.6 (average EUR 5.5) based on P/B. The EV/EBITDA ratios of the broader peer group for 2023 are on level with Koskisen's multiples and based on the P/B ratio Koskisen is priced at a clear premium (around 50%). We believe Koskisen should,

relative to the broader peer group, be priced at a discount because of its weaker ability to generate capital and higher risk profile. So even in relative terms the valuation does not seem very favorable.

DCF model

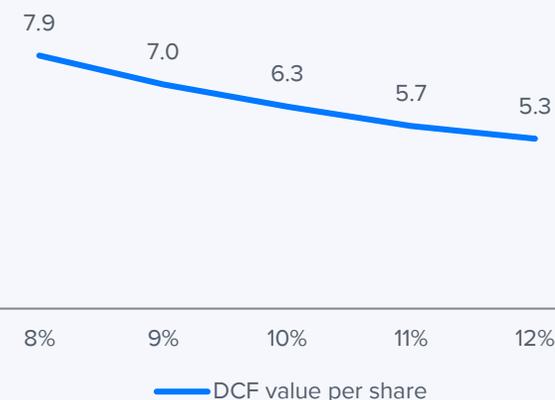
We also give weight to the cash flow based model (DCF) in our valuation despite it being very sensitive especially to the variables of the terminal period. We have, however, used sufficiently conservative estimates in the terminal period parameters of our DCF model and in light of these, we feel the model offers relevant support to the other methods we use and especially for examining longer term revenue potential.

According to our DCF model, the share value is EUR 6.3, which supports the slight overvaluation of the share indicated by other methods we use. In our model, the company's revenue growth will stabilize in the long term at 2% reflecting global economic growth. The EBIT margin is expected to decrease in light of the tightening competitive situation in the long term to some 5% so closer to the estimated average of the industries. In our model, the weight of the terminal period is a moderate 31%. We note that, we have recorded the assets received in the IPO in our 2022 free cash flow estimate (under others) for technical reasons, which means the weight of the terminal period is low as the 2022 cash flow decreases the weight of the terminal.

Sensitivity analysis for EV/IC ratio

		Acceptable EV/Invested capital ratio				
		ROCE %				
		8 %	9 %	10 %	11 %	12 %
WACC-%	12 %	0.6	0.7	0.8	0.9	1.0
	11 %	0.6	0.8	0.9	1.0	1.1
	10 %	0.7	0.8	1.0	1.1	1.2
	9 %	0.8	1.0	1.1	1.2	1.4
	8 %	0.9	1.1	1.3	1.4	1.6

DCF value with different required returns



Valuation 5/5

The COE requirement we apply to Koskisen in the DCF valuation is 11.6%. In terms of the target capital structure, we have set gearing at 20%, as we consider a balance sheet with a reasonable debt burden justified considering the cyclical nature of Koskisen's business. Due to weakish liquidity of the share, we have applied a 1.5% liquidity premium. As a result of this and the 20% tax rate, the weighted average cost of capital (WACC) is set at 10.3%.

Valuation in line with objectives remains a matter of speculation

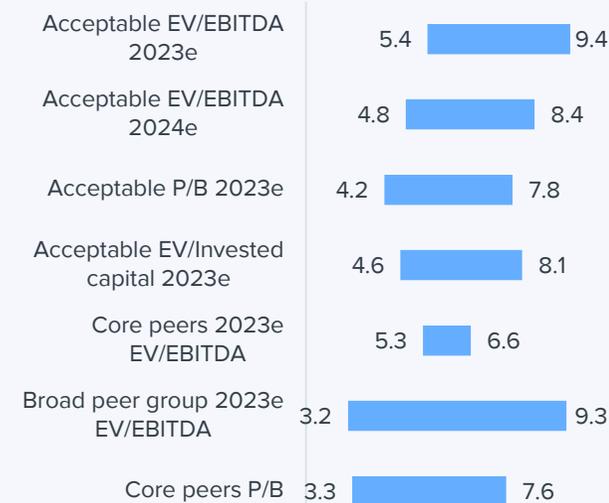
If the company reached its 2027 target of EUR 500 million in revenue and the EBITDA target of 15% over the cycle it would mean an EBITDA of about EUR 75 million. If this was priced with an EBITDA ratio of around 4-6x the debt-free enterprise value would be EUR 300-450 million. It is very difficult to estimate the share of shareholders (and the share's fair value) based on this, as we believe that in order to reach the revenue size class of EUR 500 million, the company should grow through acquisitions and it is impossible to assess what arrangements the company would make and how it would finance them. The quality and risk profile of the target companies, the synergies of the arrangement and the price are essential to the value creation potential of acquisitions. If we assume that Koskisen's cost of capital remains at the current level, the valuation levels of the transactions should be roughly (after synergies) 4x EV/EBITDA, or with 40-45% cash conversion assumption roughly less than EV/FCFF <9x (reverse cash flow rate of the transaction ~11% vs. ~10% WACC) in order for the transactions to generate

transaction-based value assuming that the earnings level would be sustainable in the long run. The above-mentioned valuation level is purely hypothetical and the approach is transaction-based, so we stress precise assessment of the value creation potential of acquisitions always requires an understanding of the target company, information on the price paid, possible synergies and the financing of the transaction. In addition with the present entity we do not expect the company to reach its profitability target considering the structurally low profitability levels of the industries of Koskisen's businesses and thus we feel you cannot rely on a scenario that meets the financial objectives in the company's equity story.

Expected return not sufficient to justify purchases

We believe that the valuation methods we use indicate that the share is slightly overvalued. Although the assessment of Koskisen's normalized profitability level involves challenges related to the cyclical nature of the businesses, the operating environment and ongoing investments we do not feel the current valuation level offers a sufficient safety margin for investors. From the investor's viewpoint, the risk/return ratio of the share is too weak compared to the required return even though the one-off dividend yield of 6.8% expected in 2022 and the 3.2-3.7% dividend yield in 2023-2024 do generate some baseline return. We initiate coverage of Koskisen with a target price of EUR 6.0 and an Reduce recommendation.

Valuation summary (EUR/share)



Peer group valuation

Peer group valuation Company	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
	MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Bergs Timber AB	111	108	6.3	4.7	4.3	3.4	0.4	0.4	7.3	5.3	5.6	6.3	0.6
Interfor Corp	808	1334	23.3	6.0	6.3	3.7	0.5	0.5	24.2	5.8			0.6
Boise Cascade	2664	2172	5.6	5.8	4.3	4.4	0.3	0.3	9.4	9.8	0.8	0.8	1.3
West Fraser Timber	5898	5308	16.6	9.3	6.3	4.4	0.8	0.8	24.1	11.9	1.2	1.3	0.8
Canfor	1922	1067	4.3	2.6	2.5	1.9	0.3	0.3	190.0	10.8			0.6
Stora Enso	10648	12589	10.0	9.8	6.6	6.4	1.1	1.1	11.6	11.5	4.7	4.7	0.8
Resolute Forest Products Inc	1582	1445	7.4	5.1	4.7	4.5	0.4	0.5	13.7	9.4			0.7
Koskisen (Inderes)	146	130	2.3	7.0	2.0	4.3	0.4	0.5	3.8	10.9	6.8	3.2	1.1
Average			10.5	6.2	5.0	4.1	0.6	0.5	40.0	9.2	3.1	3.3	0.8
Median			7.4	5.8	4.7	4.4	0.4	0.5	13.7	9.8	3.0	3.0	0.7
Diff-% to median			-68%	20%	-57%	-2%	-2%	11%	-72%	11%	132%	8%	49%

Source: Refinitiv / Inderes

Summary

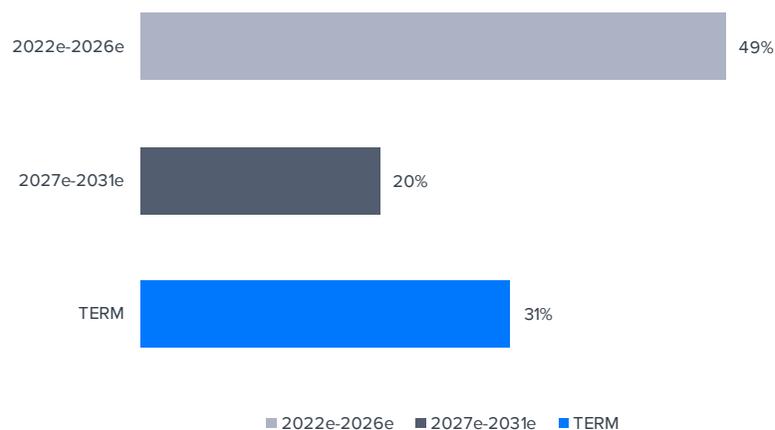
Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	264.2	220.0	311.5	308.5	267.8	EPS (reported)		-0.26	2.32	1.64	0.58
EBITDA	11.3	11.3	62.2	64.1	31.0	EPS (adj.)		-0.26	2.32	1.67	0.58
EBIT	3.2	2.2	52.7	55.0	19.2	OCF / share		0.81	4.18	1.84	1.34
PTP	-0.8	-4.4	47.9	54.7	16.8	FCF / share		0.51	2.62	1.97	0.37
Net Income	-1.0	-3.3	29.2	37.8	13.5	Book value / share		0.52	2.83	5.84	5.99
Extraordinary items	0.0	0.0	0.0	-0.6	0.0	Dividend / share		0.00	0.00	0.43	0.00
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	155.2	151.8	200.3	227.7	225.5	Revenue growth-%		-17%	42%	-1%	-13%
Equity capital	24.6	20.4	58.8	134.4	137.8	EBITDA growth-%		1%	449%	3%	-52%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%		-31%	2259%	6%	-65%
Net debt	65.2	71.4	34.1	-15.7	-12.2	EPS (adj.) growth-%				-28%	-65%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	4.3 %	5.2 %	20.0 %	20.8 %	11.6 %
EBITDA	11.3	11.3	62.2	64.1	31.0	EBIT (adj.)-%	1.2 %	1.0 %	16.9 %	18.0 %	7.2 %
Change in working capital	9.7	-1.9	-6.1	-10.9	3.7	EBIT-%	1.2 %	1.0 %	16.9 %	17.8 %	7.2 %
Operating cash flow	26.1	10.2	52.7	42.5	30.8	ROE-%	0.0 %	-39.6 %	138.8 %	44.5 %	9.9 %
CAPEX	-4.8	-3.7	-9.7	-24.0	-22.4	ROI-%	0.0 %	2.2 %	45.2 %	36.4 %	11.3 %
Free cash flow	21.3	6.5	33.0	45.2	8.4	Equity ratio	15.9 %	13.4 %	29.4 %	59.0 %	61.1 %
						Gearing	264.7 %	350.4 %	57.9 %	-11.7 %	-8.9 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S				0.4	0.5						
EV/EBITDA (adj.)				2.0	4.3						
EV/EBIT (adj.)				2.3	7.0						
P/E (adj.)				3.8	10.9						
P/B				1.1	1.1						
Dividend-%				6.8 %	3.2 %						

Source: Inderes

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	41.6 %	-1.0 %	-13.2 %	3.7 %	2.3 %	3.0 %	3.0 %	3.0 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	16.9 %	17.8 %	7.2 %	5.6 %	5.8 %	6.0 %	6.0 %	6.0 %	5.5 %	5.0 %	5.0 %	5.0 %
EBIT (operating profit)	52.7	55.0	19.2	15.6	16.4	17.6	18.1	18.6	17.5	16.3	16.6	
+ Depreciation	9.5	9.1	11.8	11.8	11.8	11.2	10.9	10.7	10.5	10.4	10.3	
- Paid taxes	-4.8	-10.7	-3.4	-2.7	-2.8	-3.1	-3.2	-3.3	-3.1	-2.8	-2.9	
- Tax, financial expenses	-0.9	-0.1	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-6.1	-10.9	3.7	-0.9	-0.6	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	
Operating cash flow	52.7	42.5	30.8	23.4	24.4	24.4	24.6	24.8	23.8	22.7	23.0	
+ Change in other long-term liabilities	-9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-9.7	-24.0	-22.4	-11.9	-6.4	-9.1	-9.3	-9.5	-9.7	-9.9	-12.3	
Free operating cash flow	33.0	18.4	8.4	11.5	18.0	15.3	15.2	15.2	14.1	12.8	10.7	
+/- Other	0.0	26.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	33.0	45.2	8.4	11.5	18.0	15.3	15.2	15.2	14.1	12.8	10.7	131
Discounted FCFF		46.0	7.8	9.6	13.6	10.5	9.5	8.6	7.2	5.9	4.5	55.2
Sum of FCFF present value		178	132	125	115	101	90.9	81.4	72.8	65.6	59.7	55.2
Enterprise value DCF		178										
- Interesting bearing debt		-74.6										
+ Cash and cash equivalents		40.5										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		144										
Equity value DCF per share		6.3										

Cash flow distribution



Wacc

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	6.5 %
Equity Beta	1.60
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	11.6 %
Weighted average cost of capital (WACC)	10.3 %

Source: Inderes

Appendix: Koskisen's closest peers

The purpose of this paragraph is to provide the reader with a brief description of the companies in Koskisen's peer group. The information on this page has been collected from public sources, using, e.g., materials published by the companies.

Bergs Timber AB

Bergs Timber AB is a Swedish wood processing company. The company was established in 1919 and operates in Sweden, Estonia, Latvia, Poland and the UK. The company manufactures sawn timber, processed products and other solutions for the joinery industry (e.g. window frames, doors, wind guards, garden fences and tables). The company also manufactures pellets for energy production from production side streams. In 2022, the company's revenue was SEK 3.3 billion.

Interfor Corporation

Interfor is a Canadian and one of the world's largest producers of sawn timber and processed timber. The company's total sawmill production capacity is over 10 million cubic meters of sawn timber. The company sells sawn timber to North America, Asia-Pacific and Europe. In 2022, the company's revenue was CAD 4.6 billion.

Boise Cascade Company

Boise Cascade is a North American manufacturer of wood products and a wholesaler of construction materials. The company's product portfolio includes plywood, glued laminated timber, veneer, sawn timber and processed timber and other wood products. The company's production capacity for

plywood and glued laminated timber is the second largest in North America. In 2021, the company's revenue was USD 7.9 billion.

Appendix: Acquisitions in the sawmill industry

Time	Buyer	Acquisition target	Country	EV	EV/EBITDA	NB
2006	West Fraser	International Paper's US sawmill operations	USA	325 MUSD	5.9x	Normalized result before synergies
2014	Interfor Corporation	Simpson's sawmill operations (Meldrim, Georgetown and Longview)	USA	111 MUSD	5.2x	
2018	Bergs Timber	Norvik's Baltic and UK operations	Sweden	719 MSEK	5.0x	
2018	Canfor	Vida AB (70 %)	Canada/Sweden	3990 MSEK	5.7x	
2020	West Fraser	Norbord	USA/Canada	3100 MUSD	2.5x	LTM EBITDA
2020	Vida AB	Bergs Timber's Swedish sawmill operations	Sweden	400 MSEK	7.5x	Estimated EV/EBITDA 7-8x
2021	Interfor Corporation	EACOM Timber Corporation	Canada	490 MCAD	5.4x	Pre-synergies
2021	West Fraser	Angelina Forest Products' Texas wood product plant	USA	300 MUSD	6.4x	Normalized result post-synergies, estimated IRR ~13 %
Median					5.4x	

Source: Inderes

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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

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