EAB Group Oyj

Financials
Finland

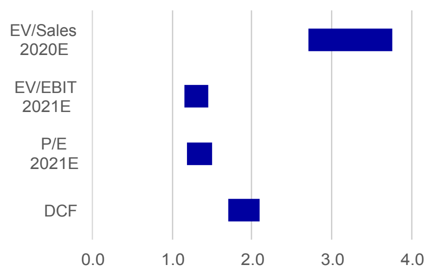
KEY DATA

Stock country	Finland
Bloomberg	EABG HE
Reuters	EABG.HE
Share price (close)	EUR 2.88
Free Float	35%
Market cap. (bn)	EUR 0.04/EUR 0.04
Website	www.eabgroup.fi
Next report date	28 Feb 2020

PERFORMANCE

Source: Thomson Reuters

VALUATION APPROACH, EUR PER SHARE



Source: Nordea estimates

ESTIMATE CHANGES

Year	2019E	2020E	2021E
Sales	n.a.	n.a.	n.a.
EBIT (adj)	n.a.	n.a.	n.a.

Source: Nordea estimates

Nordea Markets - Analysts
Harri Wallenius
Analyst

Svante Krokfors
Analyst

Profitability turnaround is within reach

EAB Group is an asset manager with a broad service offering. It has shown a strong sales CAGR of 17% over the past three years, ~6.4% of which was organic. The company strengthened its position in asset management by acquiring Alfred Berg Finland in 2017; it currently has AuM of EUR 3.2bn. EAB Group is now seeking growth from its more profitable products like alternative investment funds, while simultaneously implementing cost savings. We consider the company's growth targets ambitious, but we believe that its relatively high fixed cost base (~70% of total costs) offers good operating leverage once sales growth picks up. For now, however, we remain cautious and model in a 10% EBIT margin for 2021, which is clearly below the company's 35% long-term target.

Sales growth to drive profitability improvement

EAB's EBIT margin has lagged peers substantially but could improve quickly via faster organic growth as the company's share of fixed costs is rather high, which allows for good operational leverage. We believe the company's strategic decision to increase its share of alternative investment funds and to improve cost efficiency will likely support profitability in the coming years. Assuming stable market conditions, we forecast 2020-21 sales growth of 8% and 6%, respectively, with an EBIT margin of 5.9-9.7%. That is still clearly below EAB's target of 35%. Organic growth was 4-8% per year in 2016-18 when the financial markets were less volatile, and we expect similar growth to continue for 2020 and beyond.

Market volatility dims 2019, higher growth likely in 2020E-21E

The stock market volatility and subsequent investor behaviour that we have seen since 2018 has resulted in weaker-than-expected growth and profitability for EAB Group in 2019. Around 44% of the company's revenue is derived from mutual funds – a market that tends to plummet when the stock market goes sour. We believe, however, that the current stock market volatility and low interest rate environment are factors that should increase the attractiveness of alternative investments. EAB is shifting its focus in that direction and EUR 90m of existing investment commitments from customers to invest in real estate for the next couple of years.

Valuation

We base our fair value range on a combination of valuation methods, including a DCF-based valuation, scenario analysis, and multiples such as P/E and EV/EBIT. Based on the average of these valuation methods, we derive a fair value range of EUR 1.7-2.2 per share for EAB Group.

SUMMARY TABLE - KEY FIGURES

EURm	2015	2016	2017	2018	2019E	2020E	2021E
Net sales	12.1	13.6	15.8	19.4	18.5	20.0	21.2
EBIT (adj)	1.2	0.7	-0.1	1.8	-0.7	1.1	2.1
EBIT (adj) margin	10.3%	5.0%	-0.6%	9.3%	-3.5%	5.5%	9.7%
EPS (adj), EUR	0.14	0.06	-0.03	0.09	-0.07	0.05	0.11
EPS (adj) growth	119.3%	-55.6%	-140.2%	-445.3%	-177.0%	-177.5%	105.6%
DPS (ord), EUR	0.09	0.08	0.07	0.00	0.00	0.03	0.05
EV/Sales	3.7	2.6	3.7	3.4	2.7	2.4	2.2
EV/EBIT (adj)	35.5	51.2	-582.3	36.4	-76.4	43.9	22.6
P/E (adj)	34.3	53.1	-166.9	32.0	-42.7	55.1	26.8
P/BV	4.1	3.1	3.8	1.8	1.9	1.8	1.7
Dividend yield (ord)	1.8%	2.4%	1.7%	0.0%	0.0%	0.9%	1.8%
FCF Yield bef acq & disp	-2.7%	-10.1%	3.3%	-7.6%	-3.3%	3.4%	5.7%
Net debt	-3	1	4	9	10	9	7
Net debt/EBITDA	-1.6	0.8	-5.4	2.1	4.2	2.1	1.3

Source: Company data and Nordea estimates

Factors to consider when investing in EAB

EAB Group, an asset manager with a broad service offering, achieved a sales CAGR of 17% during 2016-18, 6.4% of which was organic. The company strengthened its position in asset management by acquiring Alfred Berg Finland in 2017. Now, EAB Group is seeking growth from the more profitable products like alternative investment funds, while simultaneously implementing cost savings. We find the company's growth targets ambitious, given the currently increased market volatility and subsequent negative net subscriptions in the mutual fund market. For 2019, sales growth will likely remain muted, as indicated by the recent profit warning, but we see potential from new alternative investment products (eg real estate and renewable energy funds). We note, however, that growth here will require successful sales efforts. A significant improvement in profitability will require EAB Group to deliver on sales growth and cost savings, where visibility is currently low.

Sales growth is the key to improving profitability

Broad product range with emphasis on asset management

EAB Group offers a broad range of financial services, with asset management being the largest source of income (72% of net sales). Mutual funds are the largest product category, generating 44% of the group sales. The company strives to increase the share of the smaller product categories like full mandate wealth management and alternative investment funds, which have higher profitability compared to mutual funds. The rest of net sales come from services including legal, brokerage and lending services.

We expect sales growth to improve profitability for 2020 and beyond

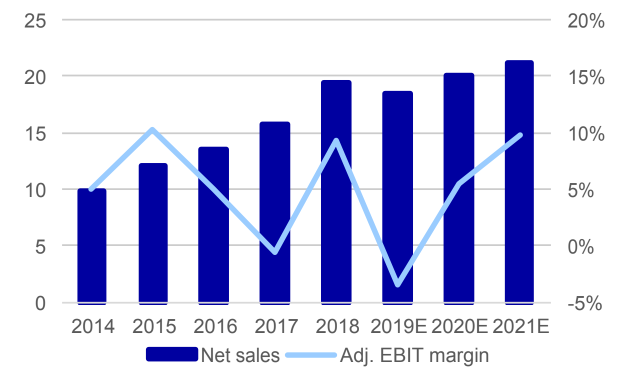
The company has been able to grow its net sales significantly in the past along with the growing amount of capital under management; the net sales CAGR over the past three years has been some 6.4% organically and 17% in total. However, 2019 will likely be a year with negative top-line growth, as indicated by the profit warning in August 2019. Moreover, EBIT is likely to be negative in 2019 (we estimate EUR -0.7m).

We expect the growth path to continue in 2020 and with the company's relatively high share of fixed costs providing good operating leverage, increasing sales should help EAB Group to improve its EBIT margin. If the market takes a turn for the worse, however, it could lead to negative sales growth for EAB Group, as well as the other asset managers, and hamper EAB's profitability further.

Growth through alternative investment funds

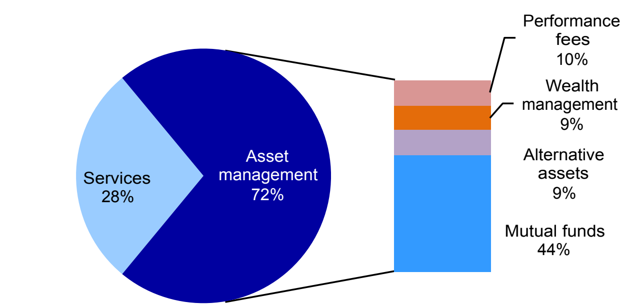
The alternative investment funds are currently a key growth area for the company as the volatile stock market drives investors to look for alternative investment products. EAB Group has existing investment commitments of some EUR 90m to real estate funds (as of H1 2019) that are likely to materialise within the next few years. The company is also planning new private asset funds, which would focus on unlisted debt, the global real estate market and renewable energy infrastructure.

NET SALES AND ADJUSTED EBIT MARGIN, EURm AND %



Source: Company data and Nordea estimates

GROSS SALES SPLIT IN 2018, %



Source: Company data and Nordea estimates

Historical market CAGR of 8% in 2009-19 – demand clearly cyclical

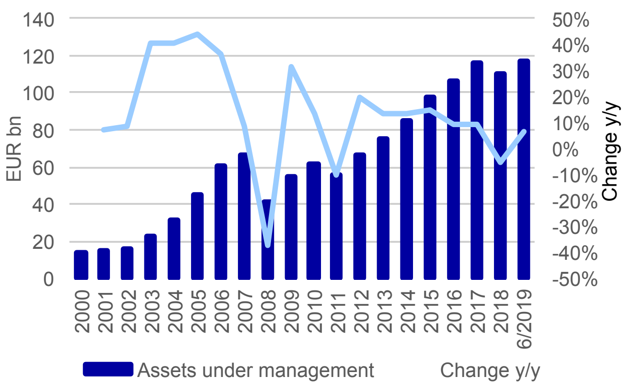
AuM development impacted by market conditions

AuM in Finland-registered mutual funds increased by a CAGR of 8% from 2009 to June 2019. The positive development has been caused by both positive net subscriptions and capital gains within the funds. However, we note that the net subscriptions tend to increase after positive market performance and vice versa. Thus, 2019 market conditions seem challenging for companies like EAB Group, since many investors may withdraw their funds following the market turmoil in the latter half of 2018.

Pricing affected negatively by regulation and investor cost awareness, but positively by ESG megatrend

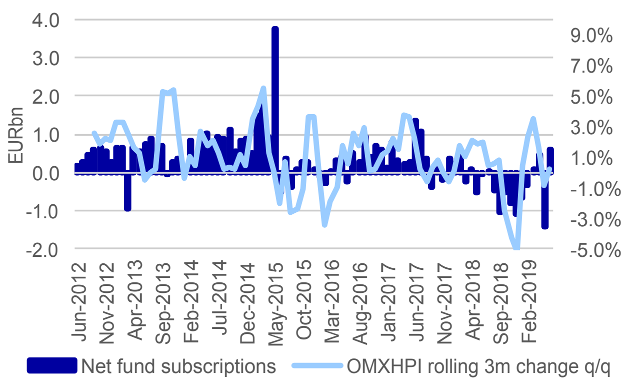
With regards to pricing and profitability in the asset management business, there have been a couple of drivers lately that have impacted service pricing in particular, in our view. The rise in ETF products has increased cost awareness among clients and the regulation has forced the asset managers to price their products in a more transparent way. On the other hand, sustainability themes have created an additional reason for investors to pay for active asset management and thus the ESG megatrend could help to lift or at least maintain the current pricing levels within the industry. We believe that this could be a future growth driver for EAB Group if the new renewable energy funds are successful.

AUM, MUTUAL FUNDS REGISTERED IN FINLAND, EURm



Source: Investment Research Finland

NET FUND SUBSCRIPTIONS IN FINLAND VS HEX STOCK INDEX



Source: Investment Research Finland and Thomson Reuters

Growth targets seem ambitious in the current market environment

Current market headwinds could delay progress towards financial targets

The financial targets set by EAB Group are ambitious, as the company seeks to double its net sales within the next five years and improve its EBIT margin to 35%, which is far higher than in the company's historical results. We believe that the current market environment does not support achieving the financial targets. To reach the 35% EBIT margin target, we calculate that the EAB's net sales should grow by 85% during 2020-23 (CAGR ~17%) and simultaneously keep ~80% of its costs unchanged, including personnel costs. We think the company's strategic operational measures are logical, however, and could help the company to progress towards improved profitability over time.

We believe alternative investments will add growth within the next two years

The private asset funds are one key factor in improving the company's profitability where demand has actually grown as investors are looking for alternative investments due to market volatility. EAB Group currently has EUR 90m of investment from its clients commitments (to a real estate fund) that will be invested during the next one to two years. We argue this should result in fee income growth. Moreover, niche markets such as used-car financing and asset management in less-populated areas provide interesting growth opportunities that may help the company increase sales and thus achieve higher profitability.

FINANCIAL TARGETS FOR THE NEXT THREE TO FIVE YEARS

To double the net sales in the next 5 years
Average organic growth of 15%
Average non-organic growth of 10%
Increase comparable EBIT margin to 35%

Source: Company data

Valuation

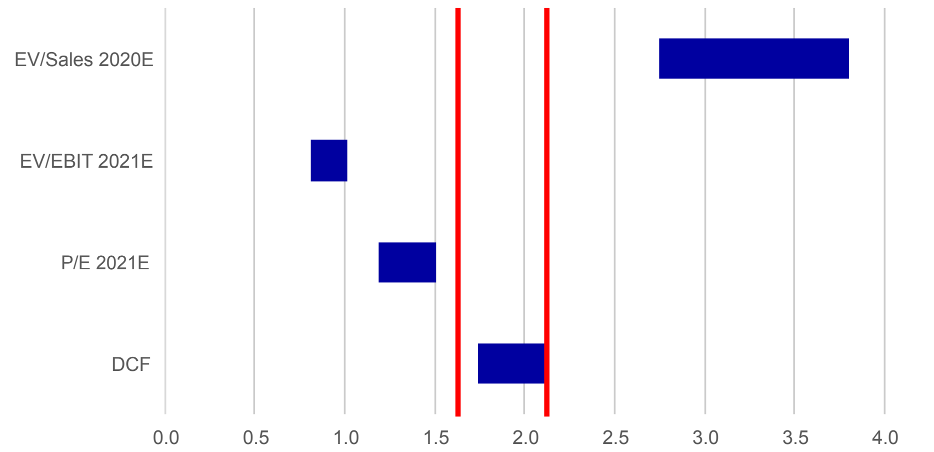
Given our assumption that EAB Group can deliver revenue growth and an operating profit margin in line with our expectations, we estimate a fair value range of EUR 1.6-2.1 per share based on an average of four different valuation approaches. This valuation range is represented as the red lines in the chart below.

Sector EV/EBIT gives an overly negative view, EV/sales looks too positive

We believe solely using EV/EBIT or P/E multiples would be misleading, given that the company is in the middle of an ongoing turnaround process. EV/sales alone shows an overly positive view, given that the company will not likely reach sector-average equivalent profitability within the next two to three years. We believe the fair range lies between these relative valuation methods and our DCF valuation model supports this view. In the Valuation section of this report, we have also examined valuation scenarios with different growth and profitability assumptions.

The fair value range of EUR 1.6-2.1 is a result of four different valuation methods

VALUATION SUMMARY



Source: Nordea estimates

We would like to note that the valuation is highly sensitive to assumptions about organic growth. For example, a 5 pp variation in organic growth during 2020E-21E would result in an EBIT margin change of a similar magnitude.

A 5 pp increase in organic growth for 2021E-20E alters the EBIT margin by ~5 pp

MULTIPLES SENSITIVITY TO 2020-21 GROWTH

Average growth for				Our estimate				Peers' trading range
2020-21	**-8%**	**-3%**	**2%**	**7%**	**12%**	**17%**	**22%**	
			Key estimates for 2021E					
Net sales	15.8	17.6	19.5	**21.2**	23.5	25.6	27.9	
EBIT margin	-15%	-5%	3%	**10%**	16%	21%	26%	
EPS	-0.14	-0.06	0.02	**0.11**	0.20	0.30	0.40	
EV/EBIT	neg.	neg.	87x	**22x**	12x	8x	6x	11-13x
EV/Sales	3.3x	2.9x	2.5x	**2.2x**	1.9x	1.7x	1.5x	3-4x
P/E	neg.	neg.	142x	**27x**	14x	10x	7x	11-14x

Source: Nordea estimates

Risks

We believe that the largest risks for EAB Group's operations are macroeconomic and market-related, as an economic slowdown could hamper the performance of funds and thus affect fees negatively. We present a more detailed description of the risks in the following section.

Risks

In this section, we highlight the main risks that we find applicable to EAB Group. The following list is not exhaustive but sets out our view on some of the key risks for the company, in order of relevance.

Macroeconomic environment and political risk
An overall economic downturn would likely hurt the performance of EAB's mutual funds, affecting their valuations negatively. There is currently a great deal of uncertainty in the world economy, which could increase stock market volatility further. Increased volatility could hamper fund returns but also potentially reduce clients' willingness to invest in mutual funds. This could reduce AuM (assets under management) and lead to lower management fees in addition to decreased performance fees.

Interest rate environment
The current low interest rate environment favours equity and real estate investments as it is more difficult to achieve decent returns on fixed-income investments. A rise in interest rates could change the market dynamics and EAB Group's business mix.

Consumer confidence
Weaker consumer confidence could reduce investors' willingness to invest in risky assets, which could result in lower demand for EAB Group's asset management services.

Digitalisation
Increasing digitalisation could reduce the need for portfolio management services as it might be easier for investors to make larger investments without a middleman. Any future investments by EAB in digital services could pose an operational risk if larger investments were to fail or exceed their estimated costs.

Rising costs due to expansion
The launch of new funds and services could increase costs (particularly personnel costs) for EAB Group. Also additional M&A could increase costs temporarily or in the worst case longer term if acquisitions were to fail or integration were to be executed poorly. Hence it is important for the company to maintain good cost control and clear M&A execution plans so as not to hamper the earnings development.

Legal risk
Changes in the regulatory environment or taxation could have a negative effect on EAB Group. We believe that the acquisitions of Alfred Berg Finland may help the company to overcome regulation-related issues more cost-efficiently. However, EAB Group's resources are limited compared to larger competitors, such as banks.

Valuation

We analyse EAB Group using a variety of methods, including relative valuation and a DCF model. We also build a scenario model showing that EAB Group needs to reach an annual growth rate of 13% during 2020-21 to justify its current price. EAB Group has strong growth ambitions, which include utilising M&A, but we only include organic growth in our estimates due to the uncertain nature of future acquisitions. Using this combination of methods, we derive a valuation range of EUR 1.6-2.1. We note that our valuation outcomes are highly sensitive to sales growth, given that the cost base includes mostly fixed costs (~70%).

Background

We do not model M&A growth

We acknowledge that EAB Group has high growth ambitions, including significant growth from M&A. However, because details about the potential targets are currently unknown (eg sizes and fundamentals), we refrain from including any speculative M&A in our estimates.

We use four different valuation methods

We use a range of valuation methods to derive a fair value for EAB Group. In our analysis, we compare EAB Group with the most relevant peers using valuation multiples such as P/E, EV/EBIT and EV/sales. We also use a standard DCF model. The valuation peer group is shown in the tables below in this section.

We apply peer NTM multiples to 2021E earnings, when it comes to P/E and EV/EBIT

For the relative valuation, we seek to find a range of NTM (next 12 months) valuation multiples typical for EAB Group's industry. We apply peer NTM multiples to our 2021 estimates, as we believe that 2021 estimates better reflect a more normalised earnings level after the ongoing turnaround. We think that EAB Group's current earnings are affected by the weak market development more than those of its peers because of its higher cyclicality. As EAB's clients are smaller than its peers' clients on average and higher share of its AuM is in mutual funds invested in public assets, EAB's sales are more linked to the stock market cycles compared to its peers. We believe it is fair to apply NTM multiples to 2021 estimates in order to smoothen the difference in cyclicality between EAB and its peers. We argue that the company has strong operating leverage, meaning that a variation in net sales causes a high variation in the EBIT margin. Profitability should thus improve after 2019, given our estimate of an increasing top line. For EV/sales, however, we use 2020 estimates, as the impact from a weak market cycle is less significant for sales than for EBIT and net income.

We argue a 16% EBIT margin for 2021E is currently priced into the share

The current stock price would be justified for an investor expecting 13% annual average growth for 2020-21

The table below presents nine different scenarios with different assumptions for AuM and base fees, ultimately leading to different levels for net sales, EBIT, net profit, EBIT margins and EPS. Moreover, we project share prices for each scenario, applying P/E of 12.5x. This way, we can uncover the fundamental assumptions that match with the current share price.

We find that a rather bullish scenario is priced into the current share price: a 12% CAGR for 2019E-21E. To achieve this, the company would need to grow its AuM by EUR 700m within two years or improve its average management fee by at least 0.05 pp and keep the majority of the costs unchanged. In such a scenario, the company would have an EBIT margin above 16%, according to our model.

We estimate that EAB would need a sales CAGR of around 17% in 2019E-21E (stemming from higher AuM and higher fees) to reach an EBIT margin of 21% – closer to the sector average of ~30% – by 2021. A margin similar to the sector average by 2021 would require a CAGR of 27% in 2020E-21E. Using a P/E multiple of 12.5x, the share price could be EUR 6.4 in such a bullish scenario. However, we do not expect EAB to reach this kind of profitability by 2021; we forecast a 10% EBIT margin for 2021.

SCENARIO ANALYSIS									
AuM (2021E), EURm		**3200**			**3600**			**4000**	
Total AuM fee %	**0.56%**	**0.61%**	**0.66%**	**0.56%**	**0.61%**	**0.66%**	**0.56%**	**0.61%**	**0.66%**
Sales, EURm	17.7	19.2	20.9	19.5	21.2	23.1	21.3	23.2	25.3
-2019-21 sales CAGR %	*-2%*	*2%*	*6%*	*3%*	*7%*	*12%*	*7%*	*12%*	*17%*
EBIT, EURm	-0.7	0.5	1.8	0.7	2.1	3.6	2.1	3.6	5.3
-margin %	*-4%*	*3%*	*9%*	*4%*	*10%*	*15%*	*10%*	*16%*	*21%*
Net profit, EURm	-0.7	0.2	1.3	0.4	1.5	2.7	1.6	2.7	4.1
EPS, EUR	-0.05	0.02	0.09	0.03	0.11	0.19	0.11	0.20	0.30
Share price (12.5x P/E)	**n.m.**	**0.2**	**1.2**	**0.4**	**1.3**	**2.4**	**1.4**	**2.5**	**3.7**

Source: Nordea estimates

P/E valuation: EUR 1.2-1.5 per share

We identify a P/E range of 11-14x for the industry

The historical median P/E ratio for the peer group has been 10.9x for the last 12 months and 12.9x for the last three years. We identify a historical trading range of 11-14x for the peer group. Utilising a P/E range of 11-14x, EAB would be valued at EUR 1.2-1.5 per share using our 2021 EPS estimate.

P/E NTM	CapMan	eQ	Evli	Taaleri	Titanium	UB	Average	Median
10Y	13.2	n.a.	n.a.	14.5	n.a.	n.a.	14.2	**14.0**
5Y	12.6	16.8	n.a.	13.6	n.a.	12.7	13.6	**13.2**
3Y	12.9	16.6	12.1	12.8	10.2	12.0	13.3	**12.9**
1Y	11.1	15.2	11.9	10.8	10.6	10.0	11.6	**10.9**

Source: Thomson Reuters

EV/EBIT valuation: EUR 1.2-1.5 per share

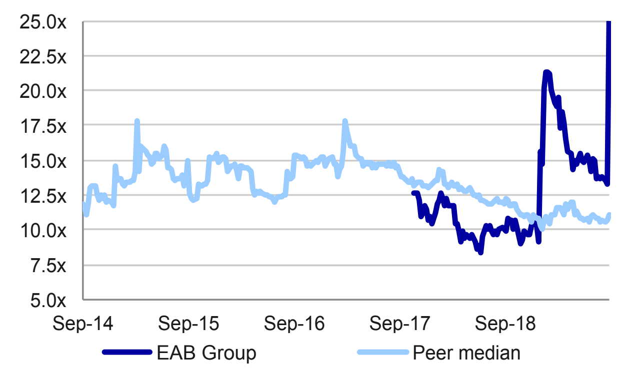
We identify an EV/EBIT range of 11-13x for the industry

The historical median EV/EBIT NTM multiple for the peer group is 10.9x for the last 12 months and 11.7x for the last three years. We identify a historical trading range of 11-13x for the peer group. With this range, EAB would be valued at EUR 1.2-1.5 per share using our 2021 estimate.

EV/EBIT NTM	CapMan	eQ	Taaleri	Titanium	UB	Average	Median
10Y	9.5	n.a.	11.0	n.a.	n.a.	10.5	**10.7**
5Y	8.7	13.0	12.4	n.a.	10.8	11.0	**11.3**
3Y	8.3	12.9	12.9	9.1	12.1	11.3	**11.7**
1Y	7.9	11.6	11.0	9.4	12.9	10.6	**10.9**

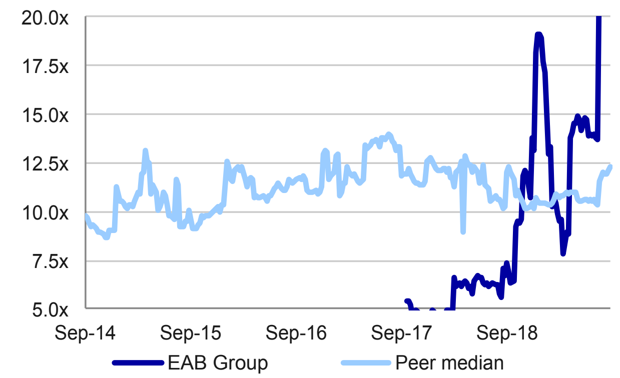
Source: Thomson Reuters

P/E NEXT 12 MONTHS



Source: Thomson Reuters

EV/EBIT NEXT 12 MONTHS



Source: Thomson Reuters

EV/sales valuation: EUR 2.7-3.8 per share

We identify an EV/sales range of 3-4x for the industry

The historical median EV/sales multiple for the peer group is 3.8x for the last 12 months and 4.5x for the last three years. We identify a historical trading range of 3-4x for the peer group. With this range, EAB would be valued at EUR 2.7-3.8 per share on our 2020 sales estimate.

EV/SALES NTM

	CapMan	eQ	Taaleri	Titanium	UB	Average	Median
10Y	3.4	n.a.	3.6	n.a.	n.a.	3.2	**3.2**
5Y	4.2	6.5	4.1	n.a.	2.1	4.0	**4.0**
3Y	4.9	6.6	4.3	3.7	2.1	4.4	**4.4**
1Y	4.7	6.0	3.6	3.6	2.2	4.0	**3.7**

Source: Thomson Reuters

Relative valuation sensitivity

Valuation is highly sensitive to sales growth assumptions

Applying different net sales growth assumptions provides us with a broad scale of relative valuation multiples. This is because the company's results are currently close to zero and the high share of fixed costs allows for high operating leverage.

We find that the current valuation would require high sales growth for 2021E valuation multiples to be in line with those of the peers. We assume a CAGR of 7% for 2020-21. If growth diverges from our estimates, earnings figures and valuation will be strongly affected.

A negative scenario would require a significant market decline leading to lower management fees and no performance fees. Our -8% sales CAGR scenario assumes EAB's AuM declines by 14% (vs our current 2021 estimates), which would be caused by a market decline of a similar magnitude. This scenario would lead to EUR 3.1m lower management fees in 2021, no performance fees and EUR 1.0 lower other fees.

The positive scenario (implying +22% sales CAGR) assumes AuM increase by 14% (vs our 2021 estimates), leading to EUR 2.9m in management fees, EUR 3.0 higher performance fees and EUR 0.5m higher other fees. We assume no major change in the overall cost base but expect fee-based costs to increase (and decrease) in line with sales.

We estimate a CAGR of ~7% for 2020-21

MULTIPLES SENSITIVITY TO 2020E-21E GROWTH

Average growth for				**Our estimate**				**Peers' trading range**
2020-21	**-8%**	**-3%**	**2%**	**7%**	**12%**	**17%**	**22%**	
				Key estimates for 2021E				
Net sales	15.8	17.6	19.5	**21.2**	23.5	25.6	27.9	
EBIT margin	-15%	-5%	3%	**10%**	16%	21%	26%	
EPS	-0.14	-0.06	0.02	**0.11**	0.20	0.30	0.40	
EV/EBIT	neg.	neg.	87x	**22x**	12x	8x	6x	11-13x
EV/Sales	3.3x	2.9x	2.5x	**2.2x**	1.9x	1.7x	1.5x	3-4x
P/E	neg.	neg.	142x	**27x**	14x	10x	7x	11-14x

Source: Nordea estimates

DCF valuation: EUR 1.7-2.1

We prefer the DCF method, since it takes into account the business fundamentals more broadly...

In our DCF model, we value EAB Group based on the current business, assuming no additional value-adding acquisitions. We also assume that sales will grow on average by 6% until 2024 and subsequently at a 2.5% pace in perpetuity. We also assume EAB Group will maintain a constant profitability level, with an adjusted EBIT margin of 10% after 2024. We use a cost of debt of 4.0% in our DCF model, as the current level of around 2.0% is unlikely to persist in the long term. We also assume that average debt will go down, owing to higher interest rates in the future, and hence we assign the company a long-term equity weight of 60% in our DCF model. The DCF method values EAB Group at EUR 1.9 per share, given our aforementioned assumptions.

...but the model is sensitive to assumptions

We find DCF to be a good valuation method for EAB Group, since it takes into account the fundamental drivers of the company, such as the cost of capital, growth rates, reinvestments rates, etc. The main appeal of a DCF model is that it only takes into account a company’s cash flows instead of accounting-based earnings. The main disadvantage is that the model is relatively sensitive to changes in input values.

The DCF method implies a price of EUR 1.7-2.1 per share

DCF VALUATION: ASSUMPTIONS AND OUTPUT

DCF Value range	Group		Per share	
	Low	High	Low	High
NPV FCFF (EV)	30.2	36.9	2.2	2.7
(Net debt)	-8.7	-8.7	-0.6	-0.6
Market cap	**23.7**	**28.9**	**1.7**	**2.1**

Assumptions			
Risk-free interest rate	2.5%	Cost of equity	8.5%
Market risk premium	4.0%	Cost of debt	4.0%
Forward looking asset beta	1.0	Tax-rate used in WACC	20%
Beta debt	0.1	Equity weight	60%
Forward looking equity beta	1.5	WACC	6.4%

Source: Nordea estimates

DCF valuation is highly sensitive to WACC and EBIT margin assumptions

DCF valuation sensitivity

To test the robustness of our base-case scenario, we perform a sensitivity analysis by varying our EBIT margin, sales growth and WACC assumptions. The derived DCF fair value is especially sensitive to WACC assumptions, implying that changes in the company's risk profile could significantly impact our fair value assessment in either direction.

When we use sensitivities of ±1 pp for WACC, we derive a range of EUR 1.6-2.3 per share. Applying ±1 pp for sales growth results in a range of EUR 1.8-2.1 per share. Finally, applying a variation of ±1 pp for the EBIT margin results in a range as wide as EUR 1.6-2.2 per share. Thus, we note that the model is most sensitive to changes in EBIT margin assumptions.

DCF VALUATION: SENSITIVITY TO KEY PARAMETERS

Sensitivity analysis: WACC vs EBIT margin		WACC change				
		4.4%	**5.4%**	**6.4%**	**7.4%**	**8.4%**
	+2.0pp	4.3	3.2	2.5	2.1	1.7
EBIT marg.	**+1.0pp**	3.6	2.7	2.2	1.9	1.6
change	**0.0pp**	2.9	2.3	1.9	1.6	1.4
	-1.0pp	2.2	1.9	1.6	1.4	1.2
	-2.0pp	1.5	1.5	1.3	1.2	1.1

Sensitivity analysis: WACC vs Sales growth		WACC change				
		4.4%	**5.4%**	**6.4%**	**7.4%**	**8.4%**
	+2.0pp	3.6	2.8	2.3	1.9	1.6
Sales gr.	**+1.0pp**	3.2	2.6	2.1	1.8	1.5
change	**0.0pp**	2.9	2.3	1.9	1.6	1.4
	-1.0pp	2.6	2.1	1.8	1.5	1.3
	-2.0pp	2.4	1.9	1.6	1.4	1.2

Sensitivity analysis: Sales growth vs EBIT margin		Sales growth change				
		-2.0pp	**-1.0pp**	**0.0%**	**+1.0pp**	**+2.0pp**
	+2.0pp	2.1	2.3	2.5	2.8	3.1
EBIT margin	**+1.0pp**	1.9	2.0	2.2	2.5	2.7
change	**0.0pp**	1.6	1.8	1.9	2.1	2.3
	-1.0pp	1.4	1.5	1.6	1.8	1.9
	-2.0pp	1.2	1.3	1.3	1.4	1.5

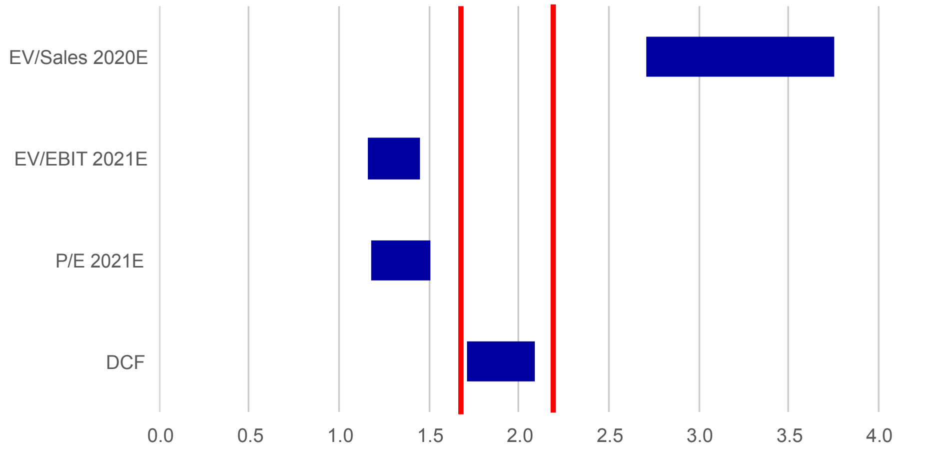
Source: Nordea estimates

Valuation conclusion

Based on our assumption that EAB Group can deliver revenue growth and an operating profit margin in line with our expectations, we estimate a fair value range of EUR 1.7-2.2 per share based on the average of our four different valuation approaches. This valuation range is represented as the red lines in the chart below.

Our fair value range of EUR 1.7-2.2 is the result of four different valuation methods

VALUATION SUMMARY



Source: Nordea estimates

Company overview

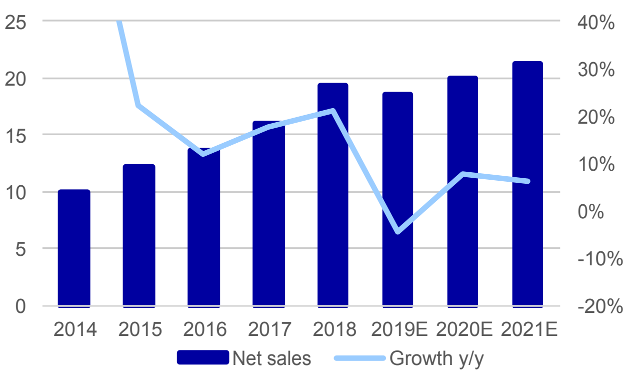
EAB Group offers investment products and services for a clientele of private investors, institutions and professional investors. It has assets under management of EUR 3.2bn from around 10,000 customers at 13 locations throughout Finland. It employs more than 130 investment professionals including 25 external agents that provide EAB's services. The company is listed on Nasdaq Helsinki stock exchange. In order to improve profitability, the company is seeking growth via new products like private and renewable energy assets as well as cost efficiencies.

EAB Group at a glance

EAB Group is a Finnish asset manager with a strong focus on growth. Its net sales CAGR was 17% in 2015-18. The company aims to keep this strong growth rate in the future and intends to double its sales in the next five years via rapid organic growth and M&A. With the acquisitions of Alfred Berg Finland in 2017, the company increased its AuM significantly (EUR 2.8bn in 2017 versus EUR 1.6bn in 2016) and gained the sole rights to distribute the investment products of BNP Paribas in Finland.

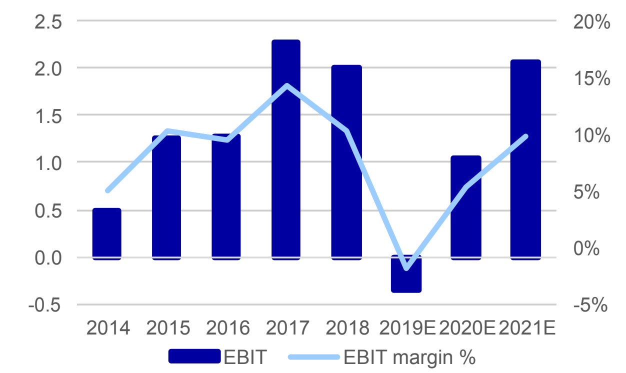
EAB Group has struggled with weak profitability in recent years due to a relatively high cost base, which the company intends to address through profitability measures. As some 70% of EAB Group's costs are fixed, we believe profitability could increase substantially if the company manages to boost its sales growth. We expect the efficiency measures and sales efforts to be visible in 2020.

NET SALES AND NET SALES GROWTH, EURm AND %



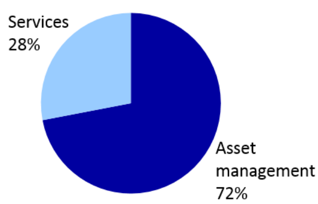
Source: Company data and Nordea estimates

EBIT AND EBIT MARGIN, EURm AND %



Source: Company data and Nordea estimates

REVENUE SPLIT 2018



Source: Company data

Business model

EAB's revenues consist of asset management fees and different kinds of investment-related services. Asset management fees are tied to the amount of capital under management, which currently amounts to EUR 3.2bn. EAB has different asset management products such as conventional mutual funds, real estate funds and full mandate wealth management.

Asset management fees form 72% of net sales

Asset management comprised 72% of group sales in 2018. The average total fee per AuM was 0.67% in 2018. According to management, the full mandate wealth management and alternative investment funds have the highest profitability, although the fees for the latter may depend on the performance of those funds. However, the conventional mutual funds make up the highest proportion of sales (44% of group sales). Real estate funds make up some 9.2% and full mandate wealth management another 9.2%. The final 10% comes from performance-based fees, which are applied to both real estate funds and full mandate wealth management.

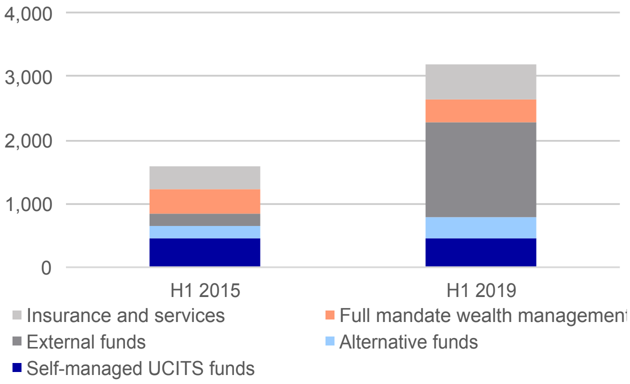
Service income has many sources and accounts for 28% of total net sales

On top of management fees, EAB Group generated service income of EUR 1.8m in 2018 through diverse service offerings including legal, brokerage and accounting services. Moreover, EAB owns 50% of a JV called SAV-Rahoitus, which has a growing loan base worth EUR ~25m currently and contributed EUR 0.2m to group EBIT in 2018.

The majority of the increase in AuM from external funds is related to the Alfred Berg Finland acquisition

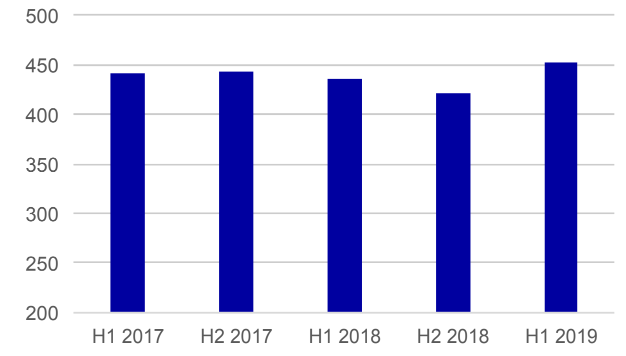
The company has introduced a strategic initiative to increase the share of high-fee AuM, such as alternative investments and wealth management. Based on our estimates, the share of wealth management has decreased by 3% during the four-year period since the IPO in 2015, whereas the share of alternative investments has increased by 65%. We believe the external funds represent the lower-fee product range, which we estimate accounts for 47% of the company's AuM and which were increased dramatically by the Alfred Berg Finland acquisition. The share of AuM for self-managed public asset funds has stayed pretty much the same since H1 2015.

AUM SPLIT, EURm



Source: Nordea estimates

EAB'S OWN MUTUAL FUNDS: AUM DEVELOPMENT, EURm



Source: Investment Research Finland

History

Rapid expansion since IPO in 2015

Elite Asset Management Oy, formed from the fusion of two asset management companies Eufex Bank and Elite Pankkiiriliike in 2014, was listed on Helsinki First North stock exchange in 2015. The company expanded to new areas such as real estate development funds, HR fund management for corporate incentive programmes and loan brokerage services during 2015-17.

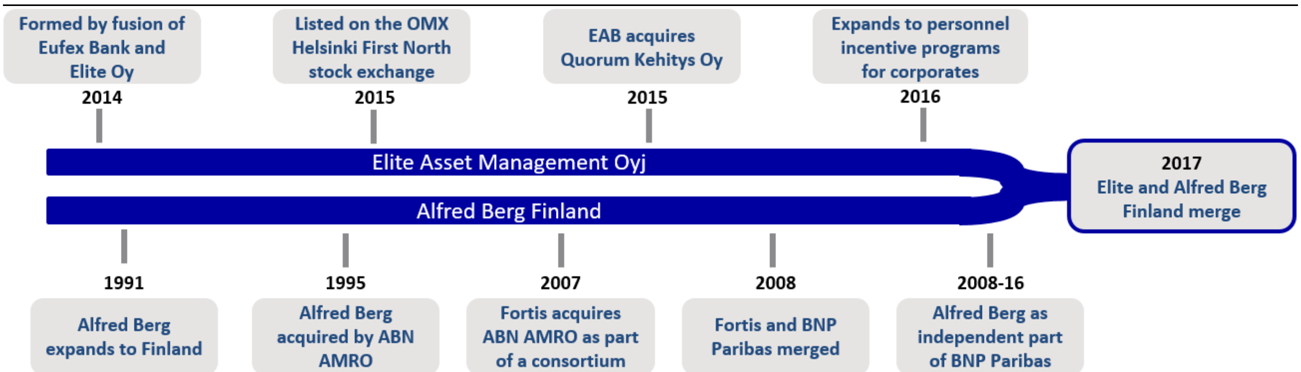
EAB deal complemented the product offering

In 2017, Elite Asset Management acquired Alfred Berg Finland, thereafter forming the present EAB Group. The acquisition valued Alfred Berg Finland at EUR 10m, of which EUR 1.85m was paid in a cash consideration and the rest by issuing new shares of the formed EAB Group Oyj. The seller, BNP Paribas, currently owns around 17.6% of the EAB Group's stock. We believe the reasons for the merger were the expected cost synergies from shared group functions and IT systems, as well as a wider investment product offering including mutual funds by BNP Paribas.

Moved to main list in 2019

In 2019, EAB Group moved to the main list on OMX Nasdaq Helsinki stock exchange.

TIMELINE OF THE COMPANY'S HISTORY



Source: Company data and Wikipedia

The most influential single shareholders include BNP Paribas, Kari Juurakko (chairman of the board) and Umo Invest Oy

The 17.6% ownership of BNP Paribas is nominee registered through "Nordea Bank Abp"

SHAREHOLDER INFORMATION AS OF 31 AUGUST 2019

	Shareholders	Number of shares	% of shares
1	Nordea Bank Abp (nominee registered)	2,440,222	17.6%
2	Juurakko Kari Antero	2,190,010	15.8%
3	Umo Invest Oy	1,389,921	10.0%
4	Nieminen Janne Pentti Antero	1,112,031	8.0%
5	Kaaria Jouni Sami Olavi	1,066,130	7.7%
6	Pasternack Daniel	991,101	7.2%
7	Gösta Serlachiuksen Taidesäätiö	857,200	6.2%
8	Niemi Rami Toivo	487,820	3.5%
9	Kiikka Hannu Ilmari	484,182	3.5%
10	Sijoitusyhtiö Jenna & Juliet Oy	300,000	2.2%
11	KW-Invest Oy	261,949	1.9%
12	Vakuutusosakeyhtiö Henki-Fennia	257,141	1.9%
13	Eläkevakuutusosakeyhtiö Veritas	140,659	1.0%
14	TK Rahoitus Oy	131,643	1.0%
15	Contango Oy	126,570	0.9%
16	Hampulipampuli Oy	120,000	0.9%
17	A-A Transport Oy	90,064	0.7%
18	Suomalainen Lääkäriseura Duodecim Ry	85,000	0.6%
19	Teräväinen Consulting Oy	72,578	0.5%
20	Insulaex Oy	72,102	0.5%
Twenty largest shareholders		12,676,323	91.7%
In holding register		2,445,073	17.7%
Other		1,166,949	8.4%
Total		**13,843,272**	**100.0%**

Source: Company data

BOARD OF DIRECTORS

Position	Name	Year of birth	Independent of the company	Independent of significant shareholders	Background
Chairman	Kari Juurakko	1978	No	No	Co-founder of EAB Group
Member	Therese Cedercreutz	1969	Yes	Yes	CEO at We Are Inc Oy
Member	Pasi Kohmo	1968	Yes	Yes	CEO at Indoor Group
Member	Janne Nieminen	1967	No	No	Co-founder of EAB Group
Member	Topi Piela	1962	Yes	No	CEO at Umo Invest Oy and Balance Capital Oy
Member	Vincent Trouillard-Perrot	1966	No	No	VP for Affiliate Network division in BNP Paribas
Member	Juha Tynkkynen	1954	Yes	Yes	CEO at T&T Enterprises

Source: Company data

Experienced management team with background from various positions across the financial industry

MANAGEMENT TEAM

Daniel Pasternack	Roman Cherkasov	Raisa Friberg
Position	**Position**	**Position**
CEO	CFO	Executive Vice President
Education	**Education**	**Education**
Ph.D at Hanken School of Economics	M.Sc at Helsinki School of Economics	M.Sc, Law, University of Helsinki
Selected experience	**Selected experience**	**Selected experience**
CEO at Eufex Bank 2000-12, Market risk analyst at MeritaNordbanken 1998-99	Senior Manager in EY Transaction Advisory Services 2011-17, PwC 2005-11	Head of Compliance at Elite Pankkiiriliike Oy, Director Legal & Compliance at Bon Securities 2010-12
Joined EAB Group	**Joined EAB Group**	**Joined EAB Group**
2012	2017	2012

Rami Niemi	Taavi Rissanen	Kristian Warras
Position	**Position**	**Position**
Managing Director, Private Clients	COO, Human Resources	Managing Director, Institutional Clients
Education	**Education**	**Education**
Diploma in Industrial Engineering	M.Sc at Helsinki School of Economics	Studied at Hanken School of Economics
Selected experience	**Selected experience**	**Selected experience**
Contact Manager at FIM 2007-12, Business Development Manager at HEX Oyj 2001-04	Head of sub-custody operations at Nordea 2005-08, CFO for Nordic market sales at JP Morgan 2008-16	Managing Director at Conventum Pankkiiriliike Oy 2000-04, CoB at Quorum Fund Mgmt 2005-16
Joined EAB Group	**Joined EAB Group**	**Joined EAB Group**
2012	2017	2016

Source: Company data

Strategy and financial targets

EAB Group aims to double its net sales in the next five years. It aims to achieve this target with annual average organic growth of around 15% on top of average non-organic annual growth of around 10%. The comparable EBIT margin target is 35% (in 2018 it was 9%), which we find ambitious considering the current market conditions. Our 2021 net sales estimate of EUR 21m implies a sales CAGR of ~7% in 2020-21 excluding any potential M&A activity. Our view is that the market downturn may delay EAB's progress towards reaching its growth targets. However, the company's intention to grow in the alternative investments segment is a solid move in the current market environment, we argue.

Financial targets for the next three to five years

- Average organic growth of 15%
- Average non-organic growth of 10%
- To double net sales in the next five years
- To increase the comparable EBIT margin to 35%

Current market headwinds could delay progress towards financial targets

The financial targets EAB Group has set are ambitious, given that the company is seeking to double its net sales within the next five years and improve its EBIT margin to record levels. The market development is not currently supportive of the company achieving these targets, since the smaller investors in particular tend to withdraw from the market during periods of higher volatility and increased uncertainty, we believe. To reach the 35% EBIT margin target, we calculate that the company needs to grow by 85% during 2020-23 and simultaneously keep ~80% of its costs unchanged, including personnel costs. However, we argue the strategic operational measures are logical and could help the company to progress towards its targets over time.

Operational targets for the next three to five years

- To increase the share of non-listed investments
- To increase the share of financing and service businesses
- To be among the top three wealth managers and private bankers in terms of customer satisfaction

An increase in alternative investments is feasible in the current market environment and with EAB's distribution network

We believe that the aim to increase the share of alternative (non-listed) investments is a way to grow in less competitive areas. Moreover, alternative investments are in high demand in the current volatile market environment. There might not be too much competition on the supply side of these investment products for clients outside the Helsinki region and thus EAB could utilise its broad distribution network when raising funds for the new alternative investment funds.

50% dividend payout ratio target

EAB Group aims to pay out 50% of its net profit or the share-based cash flow as dividend, provided that the dividend payment does not hamper its development needs or its financial solidity. The company aims to pay an increasing annual dividend per share. Due to the weak financial performance in 2019, we do not expect any dividend to be paid; for 2020-21, we forecast DPS of EUR 0.02-0.05.

Guidance for 2019 (downgraded on 13 August 2019)

EAB Group expects net sales to decrease slightly from EUR 19.5m in 2018 and net profit to be negative. We expect sales to decrease by 4.5% in 2019 and estimate net profit of EUR -0.9m.

Historical financials and estimates

We believe that increasing net sales is key for EAB Group to improve its profitability, as a large part of its cost base is fixed. Net sales growth was remarkable in 2017-18 due to the Alfred Berg acquisition. In contrast, 2019 has been more challenging, given the volatile market conditions that have resulted in negative organic net sales growth. We estimate -4.5% y/y net sales growth and a net profit of EUR -0.9m for 2019. Our outlook for 2020-21 is more positive; we estimate a 6.9% net sales CAGR and adjusted EBIT margins of 5.5-9.7% due to increasing economies of scale and progressing efficiency measures.

Fees from UCITS funds improved after Alfred Berg acquisition

We see growth potential for alternative funds (limited partnership funds) given the EUR 90m existing investment commitments to a new real estate fund

REVENUE SPLIT, EURm

Source of revenue	2017	2018	2019E	2020E	2021E
Fees from UCITS funds	6.1	8.7	6.5	7.5	8.2
Fees from limited partnership funds	1.5	1.8	2.5	2.8	3.2
Performance-based fees	1.8	1.9	1.8	1.9	2.0
Full mandate wealth management	1.5	1.8	1.6	1.7	1.7
Insurance products	1.8	1.5	1.8	1.8	1.8
Other investment products or brokerage fees	0.7	1.8	3.0	3.0	3.0
Service fees	4.0	1.8	1.3	1.3	1.3
Other	0.2	0.2	0.2	0.2	0.2
Gross sales	**17.6**	**19.6**	**18.7**	**20.2**	**21.4**
Eliminations	-1.8	-0.2	-0.2	-0.2	-0.2
Net sales	**15.8**	**19.4**	**18.5**	**20.0**	**21.2**

Source: Company data and Nordea estimates (material y/y change indicated with green or red colour for 2018-21)

2019E net sales to be weak due to volatile market

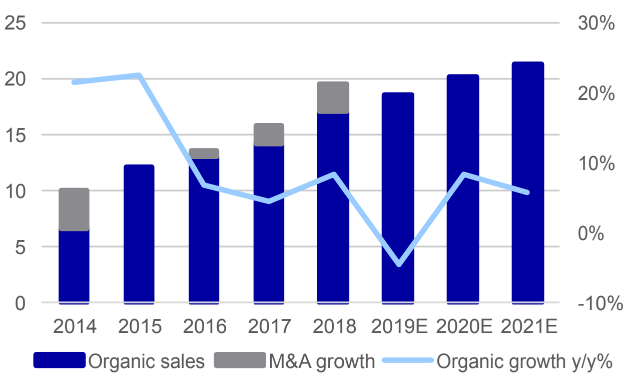
We expect growth to pick up in 2020 after a challenging 2019

EAB Group has increased its AuM significantly during the last two years, mainly through the acquisition of Alfred Berg Finland in 2017. The acquisition brought additional AuM of EUR ~1bn that consisted mainly of UCITS funds that have a relatively low fee per AuM – we estimate around 0.4%. However, the stock market declined in late 2018 and the company's net sales decreased during H1 2019. The company issued a profit warning on 13 August 2019 as it now expects its fee-based revenue to decline y/y in 2019. We expect net sales to decline by 4.5% to EUR 18.5m in 2019 as a result of lower fees from UCITS funds.

Growth set to return in 2020E

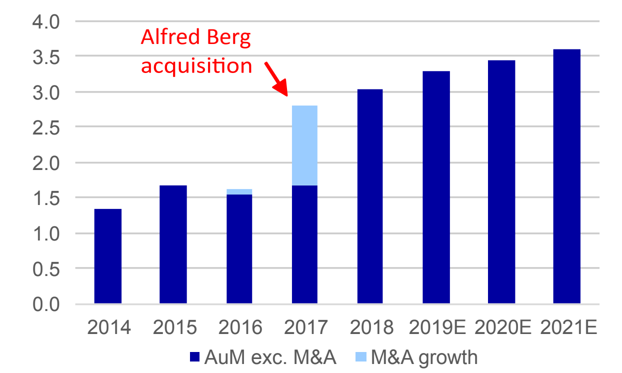
However, we believe in the company's abilities to attract more AuM and grow its net sales in 2020-21. We already saw a decent organic growth pace of 4-8% in 2016-18 when the stock market grew and had less volatility. Moreover, we believe into the company's strategy to grow the alternative investment funds as it already has existing investment commitments of EUR 90m (to its real estate fund) from its customers. We set our net sales growth expectations at 8% and 6% for 2020 and 2021. We argue that the average fee per AuM will decrease slightly from 2018, but we expect AuM to increase by 4-5% annually during 2020-21. We see the declining fee per AuM as a result of increased customer size, although it could also be due to pricing pressure within UCITS funds. On other hand, the alternative investment funds are likely to support fee development in the coming years.

COMPARABLE NET SALES, EURm



Source: Company data and Nordea estimates

ASSETS UNDER MANAGEMENT, EURbn



Source: Company data and Nordea estimates

Cost base relatively stable

We find the fee-based costs the most significant variable cost while the others are rather fixed

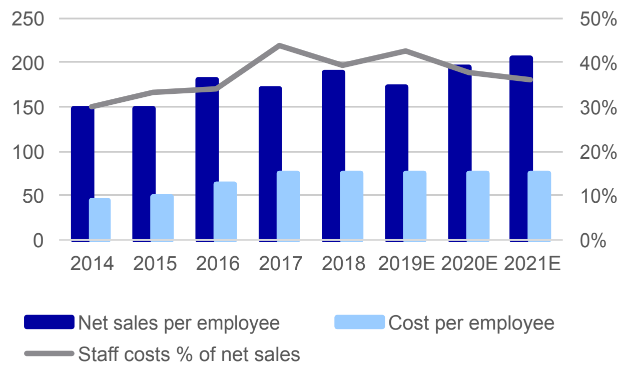
The group cost structure consists of personnel costs, fee-based costs, administrative costs and other costs. We believe that personnel costs will increase only ~1.5% annually during 2020-21 whereas fee-based costs are likely to increase by 3% given the anticipated growth in the fee-based income. A third major cost item, administration, is likely to stay relatively stable in the coming years as the company has gained synergies from the Alfred Berg acquisition. It may even decrease due to the cost-saving measures. In August 2019, the company announced a cost-savings programme targeting savings of EUR 1m from personnel and other costs. We model EUR 0.5m savings from the programme.

Cost per employee to stop increasing thanks to efficiency measures

Both staff costs relative to sales and the absolute cost per employee have shown an increasing trend until 2017, after which the cost level has stabilised. We expect cost per employee to remain stable in 2019-21, which together with expected sales growth will result in decreasing relative staff costs. This is due to the cost-savings program of EUR 1m and other changes the company has taken in order to improve efficiency and focus on more profitable clients. We expect the cost per employee to stay relatively flat and the cost to sales to decrease in 2020-21 as a result of the ongoing efficiency measures.

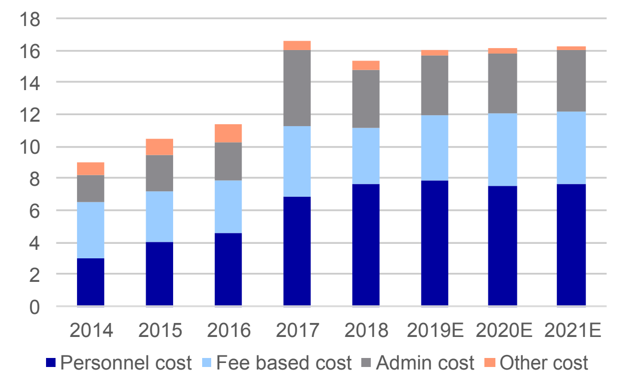
We adjust group cost data (shown below) for eliminations similar to the difference between gross sales and net sales.

NET SALES AND STAFF COST PER EMPLOYEE, EUR 000s



Source: Company data and Nordea estimates

GROUP COST STRUCTURE (ADJUSTED), EURm



Source: Company data and Nordea estimates

Once growth kicks in, profitability should improve

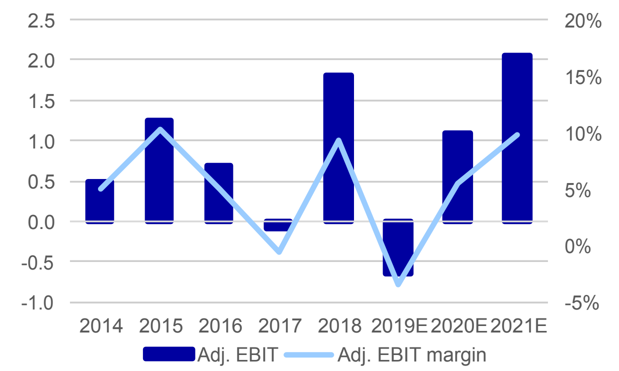
Sales growth is key to profitability, due to strong operational leverage

We believe sales growth is key for profitability improvement, given that the cost base is rather stable and to a large extent fixed. We expect adjusted EBIT to be EUR 1.1m in 2020 and EUR 2.1m in 2021, comprising 5.5% and 9.7% of net sales, respectively.

DPS for 2019 may be zero

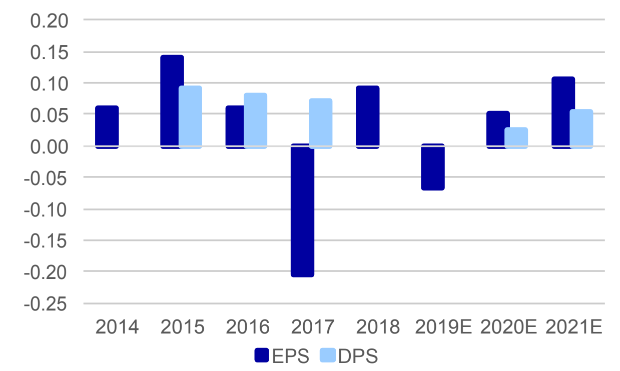
We estimate a 2019 EPS of EUR -0.07 per share, indicating that the company might not pay a dividend from the 2019 result. For 2020-21, we forecast a dividend payout ratio of 50%, implying a dividend per share of EUR 0.03-0.05.

ADJUSTED EBIT AND MARGIN, EURm AND %



Source: Company data and Nordea estimates

EPS AND DPS, EUR



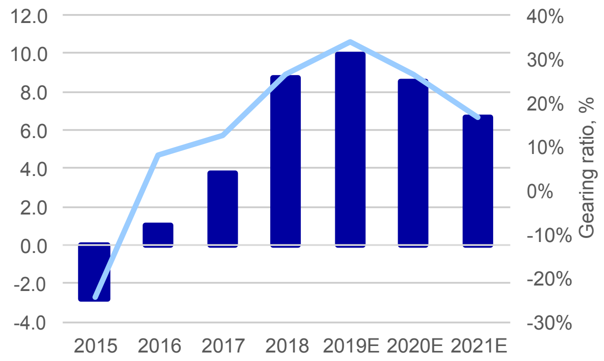
Source: Company data and Nordea estimates

Balance sheet looks rather strong

The Alfred Berg acquisition increased the group net debt to around EUR 10m. The company's current debt level is moderate, given a net gearing ratio of 34% by the end of 2019. The company should be able to decrease its debt levels once the results turn back to profit as we expect.

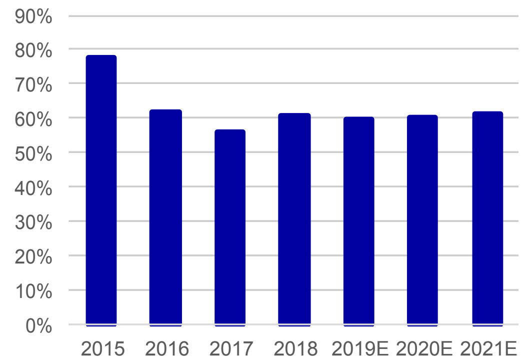
The company's equity ratio has remained strong at around 60%. Should EAB Group improve its net profit significantly, we believe this ratio could improve even further.

NET DEBT AND GEARING RATIO, EURm AND %



Source: Company data and Nordea estimates

EQUITY RATIO, %



Source: Company data and Nordea estimates

Market overview

We find that the market for mutual funds – corresponding directly to 44% of EAB's revenue and indirectly to another 10-20% – is currently under pressure owing to the turbulent global economy. Smaller investors in particular tend to withdraw from the market after negative market performance. On the other hand, we find that ESG-themed funds have boosted the public interest in investing, and the trend of low interest rates could support the growth of both public and private equity funds. Moreover, the long-term outlook seems positive given that Finland-registered mutual funds have grown considerably over time, from EUR 16bn in 2000 to EUR 119bn in June 2019. We believe the market could continue on its growth track in 2020-21 after recovering from the market turmoil of 2018-19.

AuM in Finnish mutual funds has grown over the past ten years

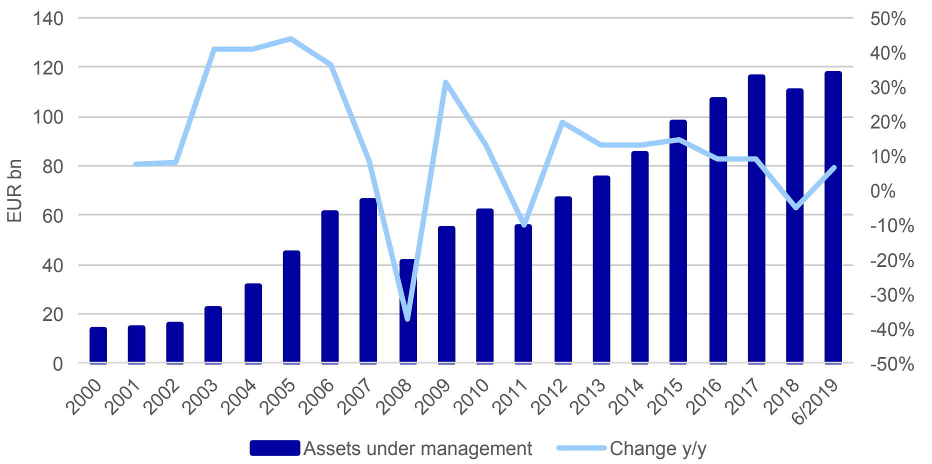
Market AuM has increased by a CAGR of 10.5% since 2011

The assets under management in Finland-registered mutual funds have certainly increased over the past ten years. AuM has grown by a CAGR of 10.5% from 2011 until June 2019. Both net subscriptions and capital gains within the funds have contributed positively to AuM growth. We see several potential reasons for the shift.

First of all, lower interest rates might have driven investors from fixed-term saving accounts towards mutual funds. Second, the economic growth, higher income levels and increased awareness about investing may have contributed positively to the popularity of the mutual funds market.

Long-term trends seem positive

ASSETS UNDER MANAGEMENT, MUTUAL FUNDS REGISTERED IN FINLAND



Source: Investment Research Finland

Short-term development sensitive to market performance

Net subscriptions seem to be stabilising after downfall in late 2018

We note that net subscriptions to Finland-registered mutual funds have in the past six years been higher on average when the stock market has performed well. In Q4 2018, when OMXH dropped, the net fund subscriptions also decreased. We believe that continued market volatility could have a dampening effect on the amount of new fund subscriptions in the near term.

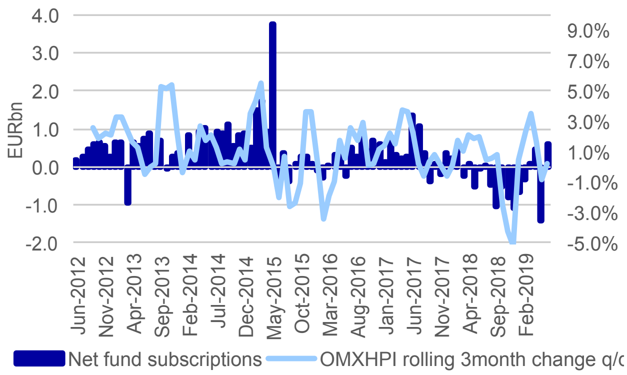
Negative market performance tends to decrease AuM in two ways

Market downturns tend to expel smaller private investors in particular, as the disappointment of weak returns results in investors withdrawing their share from the funds. Should the market take a dive, it could lead to capital withdrawals from funds. Such a scenario would hit asset managers in two ways: lower returns of their fund investments and a lower amount of assets under management, which would lead to lower management fees.

Net subscriptions turned negative in late 2018

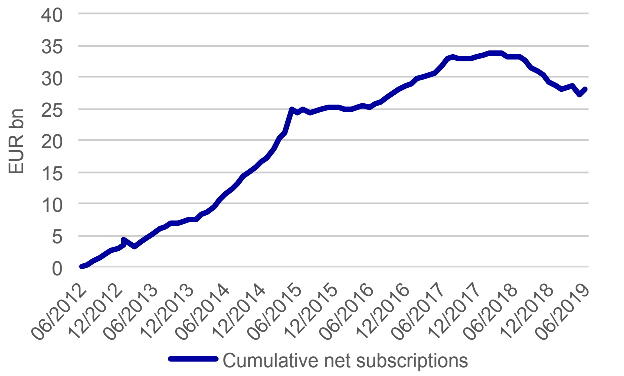
Net subscriptions to Finland-registered mutual funds turned negative in 2018 but the outflow has slowed during 2019, implying a stabilisation in the asset flows. The flow used to be positive during 2012-17, which means that the cumulative net subscriptions are still positive at around EUR 28bn since June 2012.

MONTHLY NET SUBSCRIPTIONS, MUTUAL FUNDS REGISTERED IN FINLAND



Source: Investment Research Finland

CUMULATIVE NET SUBSCRIPTIONS SINCE JUNE 2012, MUTUAL FUNDS REGISTERED IN FINLAND



Source: Investment Research Finland

Industry pricing shows a slightly decreasing trend

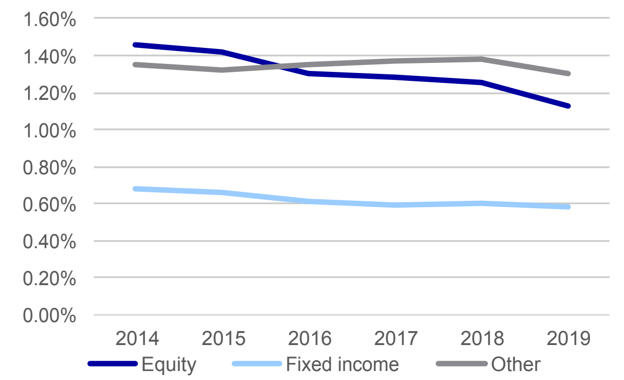
Demand towards low-cost products negative for the industry

Lately, ETFs have attracted a lot of retail investors due to their low cost level. In the US, the market share for ETFs has increased from 10% to 32% of the total equity market between 2006 and 2017. This shift has also put pressure on fees charged by actively managed funds, as can be seen in the graphs below that show the declining fee trend for the market leaders in Finland. The average fee charged has declined by 33 bp in Nordea's equity funds and by 16 bp in Danske Bank's equity funds. Also, the fees in fixed income funds have declined, although not more than 10 bp.

Trend of sustainable investing positive for the industry

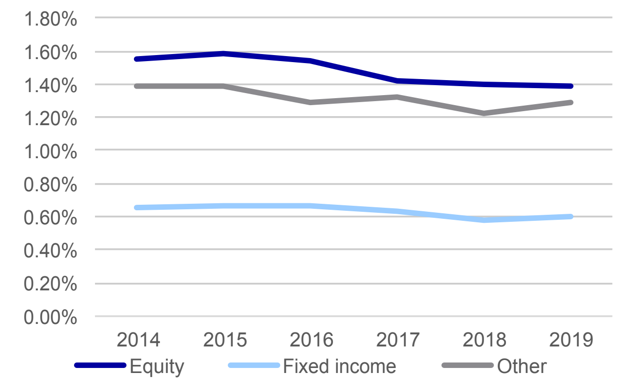
The increased demand for sustainable investing products (ESG) has given a justification for banks to sell their actively managed funds and has allowed them to defend the pricing levels within asset management products.

CHARGED FEES BY NORDEA ASSET MANAGEMENT FUNDS, %



Source: Investment Research Finland and Nordea estimates

CHARGED FEES BY DANSKE BANK ASSET MANAGEMENT FUNDS, %



Source: Investment Research Finland and Nordea estimates

Peers

In the following section, we provide business descriptions for EAB Group's most relevant peers and competitors. We note that most of the key players in the Finnish wealth management market have slightly different business mixes and focus areas, which makes comparisons somewhat challenging. We find that EAB Group depends more on public capital markets and has smaller clients on average compared to its peer group. The sector has grown fast in recent years, along with an increased interest in alternative investments.

Many peers that traditionally focused on public assets have steered towards alternative investment products

PEERS DESCRIPTION

	EBIT EURm	AuM EURbn
EAB Group	2	3
Historically focused mainly on public asset management but has lately pursued growth in private assets		
CapMan	12	3
Private equity company with focusing on buyout, real estate and infra funds as well as services		
eQ	22	10
Funds been mainly in public assets but private assets comprise an increasing share of total business		
Evli	19	11
Strong in wealth management, wide product-offering with focus on publicly traded assets		
Taaleri	24	6
An asset manager with funds mainly in public securities but also private asset funds		
Titanium	8	1
Offers asset management with the largest amount of funds being in care properties		
United Bankers	4	3
Focuses on both public and private assets such as real estate, forest and infrastructure		

Source: Company data and Nordea Note: EBIT and AuM as of 2018

The table below shows the most relevant peers and their business areas. Many of these peers have traditionally focused on public assets but have recently increased the share of their private asset products such as real estate and private equity. Moreover, most of the companies provide additional investment-related services such as legal and brokerage services. We find that EAB Group's operations are rather focused on publicly traded assets and services, whereas the private assets comprise only ~10% of the group revenue.

All peers have private asset business and other investment-related services

OVERVIEW OF PEERS' BUSINESSES

	Public assets investment management	Private assets investments	Corporate finance/ advisory	Brokerage services	Insurance services
CapMan		x	x		
EAB Group	x	x		x	x
Evli	x	x	x	x	
eQ	x	x	x		
Taaleri	x	x	x		
United Bankers	x	x	x	x	
Titanium	x	x			

Source: Company data

EAB's customers are smaller on average than the competitors' customers

When looking at customer groups, we note that CapMan clearly has the highest level of sales per customer because it is a private equity firm with long investment periods and higher minimum investment requirements. EAB Group and Titanium have dispersed customer groups (a lot of smaller clients), which yield a small net sales per customer. We believe a larger client base can help diversify the overall risk to a company, but can also increase costs (and reduce profitability) if not handled efficiently.

CapMan, a pure-play private assets company, has the highest AuM per customer

NUMBER OF CUSTOMER RATIOS, EUR thousand

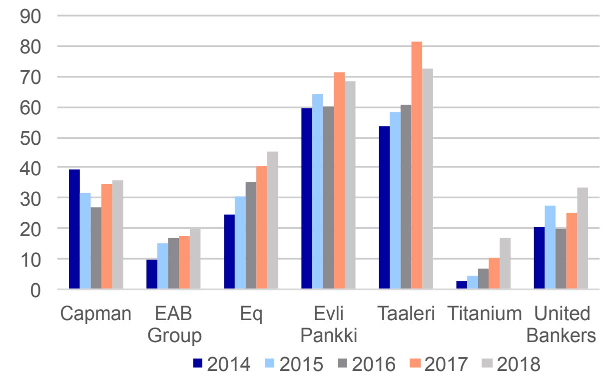
	No. of customers	AuM/customer	Net sales/customer
EAB Group	10,000	304	2
Capman Oyj	200	15,215	180
Taaleri Oyj	5,400	1,056	13
Titanium Oyj	2,900	379	6

Source: Company data and Nordea estimates

Strong growth in the sector

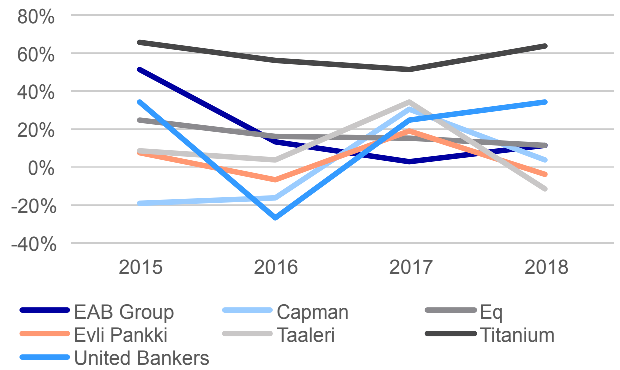
The average annual sales growth rate has been around 18% from 2014-2018 for EAB Group and its peers. The only player that clearly has had a higher sales growth rate is Titanium, which is relatively small and has benefitted from good recent development in its care property fund. Excluding Titanium, EAB Group has had the highest sales CAGR (+19%) from 2014 to 2018 among its peers.

NET SALES, EURm



Source: Company data

SALES GROWTH, %

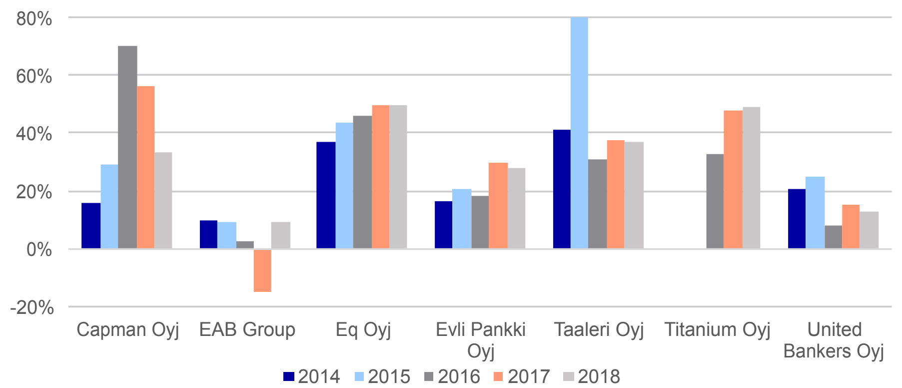


Source: Nordea estimates

The average EBIT margin among EAB Group and its peers has been around 30% in the past five years, with eQ showing the highest average EBIT margin of around 45%. EAB Group has shown the weakest profitability among its peers, which we believe is related to a heavier cost structure. In 2017, EAB Group had extra costs related to the Alfred Berg acquisition and the integration of the acquired business.

The average EBIT for EAB Group and its peers is around 30%

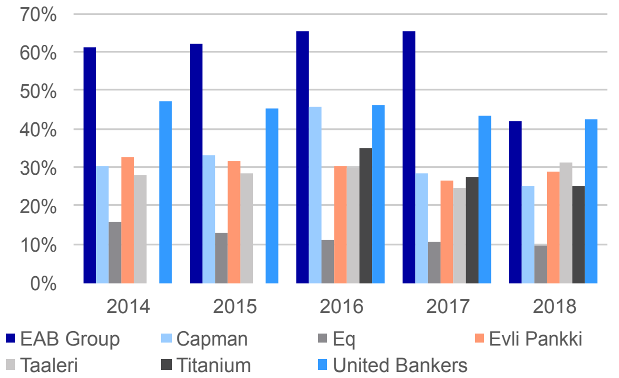
EBIT MARGIN, %



Source: Company data Note: Taaleir had a negative Goodwill of EUR 29m in 2015 related to the acquisitions of Garantia Insurance Company, which boosted its reported EBIT.

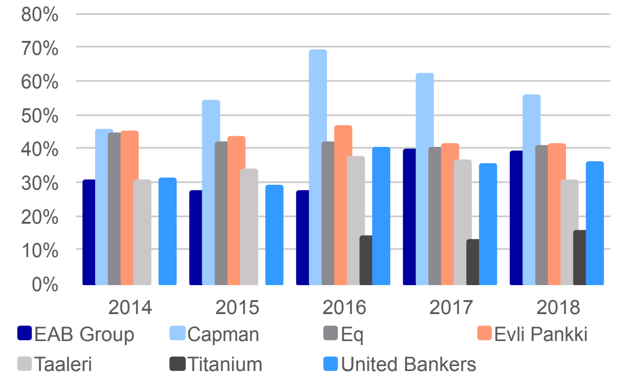
In relation to its peers, EAB Group has had a significantly higher relative cost base, which we believe is related, to some extent, to the Alfred Berg Finland acquisitions and that all cost synergies and efficiencies are not yet realised. CapMan has had the highest relative staff costs in the past five years but we believe this is related to the company being a pure-play private equity firm, where partners get compensated for successful investment exits.

OTHER COSTS TO SALES, %



Source: Company data. Note: Other costs exclude potential interest expenses, D&A and fair value changes.

STAFF COSTS TO SALES, %



Source: Company data

Reported numbers and forecasts

ANNUAL ESTIMATES

EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net revenue	9.9	12.1	13.6	15.8	19.4	18.5	20.0	21.2
Revenue growth	81%	22%	12%	16%	23%	-5%	8%	6%
of which total organic	21%	22%	7%	4%	8%	-5%	8%	6%
Fee based costs	-3.6	-6.1	-7.7	-6.2	-4.1	-4.0	-4.5	-4.5
Personnel costs	-3.0	-4.0	-4.6	-6.9	-7.6	-7.9	-7.6	-7.7
Other administrational costs	-1.6	-2.2	-2.4	-4.7	-3.6	-3.7	-3.8	-3.8
D&A	-0.4	-0.5	-0.6	-1.9	-2.3	-3.0	-3.1	-3.1
Other costs	-0.9	-1.0	-1.1	-0.6	-0.5	-0.4	-0.3	-0.3
Credit losses	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0
EBIT	**0.5**	**1.2**	**0.7**	**-2.6**	**1.8**	**-0.7**	**1.1**	**2.1**
EBIT margin %	5%	10%	5%	-16%	9%	-4%	5.5%	9.7%
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	0.0	0.0	0.0	-0.1	0.1	0.0	0.0	0.0
Net financials	0.0	0.0	0.0	-0.1	-0.3	-0.4	-0.2	-0.2
Income taxes	0.0	0.6	-0.1	0.4	-0.1	0.1	-0.2	-0.4
Net income	0.5	1.8	0.6	-2.3	1.4	-0.9	0.7	1.5
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income to equityholders	0.0	1.8	0.6	-2.3	1.4	-0.9	0.7	1.5
EPS	**0.06**	**0.14**	**0.06**	**-0.20**	**0.09**	**-0.07**	**0.05**	**0.11**

Source: Company data and Nordea estimates (FAS 2014-16, IFRS 2017-)

INTERIM ESTIMATES

EURm	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19	H2 19E
Net revenue	7.5	6.1	7.5	8.5	9.6	9.8	9.2	9.3
Revenue growth	10%	19%	-14%	16%	22%	9%	-5%	-4%
Fee based costs	-4.2	-3.5	-3.4	-2.1	-1.6	-2.5	-2.0	-2.0
Personnel costs	-2.5	-2.1	-3.1	-2.7	-3.7	-3.9	-4.2	-3.7
Other administrational costs	-1.2	-1.2	-1.3	-1.9	-1.7	-1.9	-1.9	-1.8
D&A	-0.5	-0.2	-0.5	-0.8	-1.0	-1.3	-1.3	-1.7
Other costs	-0.5	-0.5	-0.7	-0.7	-0.6	0.1	-0.4	0.0
Credit losses	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0
Associates	0	0.0	0	0.0	0.05	0.2	0.0	0.0
EBIT	**0.4**	**0.3**	**0.2**	**-0.4**	**1.4**	**0.4**	**-0.8**	**0.1**
EBIT margin %	4%	4%	2%	-5%	14%	4%	-9%	2%
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	0.0	0.0	0.0	-0.1	-0.1	0.2	0.0	0.0
Net financials	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2
Income taxes	-0.1	0.0	-0.1	1.6	-0.1	0.0	0.1	0.0
Net income	0.3	0.2	0.1	1.2	1.2	0.2	-0.8	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income to equityholders	0.3	0.2	0.1	0.0	0.0	0.0	-0.8	0.0
EPS	**0.04**	**0.02**	**0.01**	**0.10**	**0.09**	**0.00**	**-0.06**	**0.00**

Source: Company data and Nordea estimates (FAS 2016-17, IFRS 2018-)

BALANCE SHEET

EURm	2015	2016	2017	2018	2019E	2020E	2021E
Intangible assets	5.6	6.5	12.9	13.4	13.4	13.4	13.4
of which R&D	0.7	1.7	1.9	2.3	2.3	2.3	2.3
of which other intangibles	0.4	0.3	2.0	2.0	2.0	2.0	2.0
of which goodwill	4.5	4.5	9.0	9.1	9.1	9.1	9.1
Tangible assets	0.1	2.3	1.9	3.2	3.5	3.8	4.1
of which machinery plant	0.1	2.3	1.9	0.6	0.9	1.2	1.5
of which property	0.0	0.0	0.0	2.6	2.6	2.6	2.6
of which land	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest bearing assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	1.1	1.0	2.9	2.8	2.8	2.0	1.0
Other non-interest bearing assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	12.1	19.2	28.4	33.9	34.2	33.7	33.0
Accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets	0.1	0.3	1.2	1.3	1.2	1.3	1.4
Cash and bank	3.8	0.8	2.0	1.1	-0.1	1.2	3.2
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	**16.0**	**20.3**	**31.6**	**36.3**	**35.3**	**36.3**	**37.6**
Shareholders equity	11.5	12.3	17.6	22.0	21.1	21.8	22.9
of which preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which Equity part of hybrid debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.3	0.1	0.1	0.1	0.1	0.1
Total Equity	11.5	12.6	17.7	22.1	21.2	21.9	23.0
Deferred tax	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Long term interest bearing debt	1.0	1.8	4.2	7.0	7.0	7.0	7.0
Non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	1.4	4.9	5.6	3.9	3.9	3.9	3.9
Convertible debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	2.4	6.7	10.1	11.2	11.2	11.2	11.2
Short-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.9	1.1	3.7	3.1	3.0	3.2	3.4
Short term interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	0.9	1.1	3.7	3.1	3.0	3.2	3.4
Liabilities for assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	**14.8**	**20.4**	**31.5**	**36.4**	**35.3**	**36.3**	**37.6**

Source: Company data and Nordea estimates (FAS 2015, IFRS 2016-)

CASH FLOW STATEMENT

EURm	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA adjusted for associates	**1.7**	**1.3**	**-0.7**	**3.9**	**2.4**	**4.2**	**5.2**
Paid taxes	0.0	0.0	0.0	0.0	0.1	-0.2	-0.4
Net financials	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.2
Change in Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in other LT non-IB assets/liabilities	-5.0	1.5	-4.5	-6.0	0.0	0.8	1.0
Dividends / cash injections to/from associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid to minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid debt interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other adjustments to reconcile to cash flow	**4.9**	**-2.2**	**4.2**	**5.7**	**0.0**	**0.0**	**0.0**
Funds from operations (FFO)	1.6	0.6	-1.0	3.6	2.1	4.6	5.6
Change in NWC	**-2.5**	**-1.6**	**1.2**	**-3.7**	**-0.1**	**0.1**	**0.1**
Cash flow from operations (CFO)	-0.9	-1.0	0.2	-0.1	2.0	4.7	5.7
Capital Expenditure	**-0.4**	**-2.4**	**1.6**	**-4.2**	**-3.3**	**-3.4**	**-3.4**
Free Cash Flow before A&D	-1.3	-3.4	1.8	-4.3	-1.3	1.4	2.3
Proceeds from sale of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	**-1.3**	**-3.4**	**1.8**	**-4.3**	**-1.3**	**1.4**	**2.3**
Dividends paid - common stock	-0.5	-0.7	-0.7	0.0	0.0	0.0	-0.4

Source: Company data and Nordea estimates

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