

Investment Services

**Key data**

Price (EUR)*	8.62
Country	Finland
Bloomberg	TAALA.FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	244
No. of shares (m)	28.4
Next event	FY: 12-Feb

\* Price as at close on 24 January 2020

CEO Robin Lindahl  
CFO Minna Smedsten

Company description

Taaleri is a Finnish financial services company. It offers wealth management services and guaranty insurance through its subsidiary Garantia. Taaleri group consists of three divisions: Wealth Management, Financing and Energia. At the end of June 2019, Taaleri had 5,300 wealth management customers and assets under management totalling EUR6.6bn.

Ownership structure

Veikko Laine Oy	10.2%
Hermitage Oy	10.0%
Juhani Elomaa excl. related parties	6.1%

Source: Company data (31 December 2019)

Estimate changes

	19E	20E	21E
Tot inc	n.m.	n.m.	n.m.
Op prof	n.m.	n.m.	n.m.
EPS (adj.)	n.m.	n.m.	n.m.

Source: Danske Bank Equity Research estimates

All prices as at close on 24 January 2020 unless otherwise stated

Analyst(s)

Matti Ahokas  
Olli Eloranta  
Antti Koskivuori

Find our research here:

<https://research.danskebank.com>

Important disclosures and certifications are contained from page 58 of this report

# Taaleri

## Alternative investment growth case with a large M&A option

Taaleri is a Finnish diversified financials company with exposure to the fastest growing global asset management segment, i.e. alternative natural resources. Its ESG-focused wind and solar funds benefit from the global energy transition, which could lead to valuation multiple expansion. Our fair value range is EUR8.0–10.8 per share. A potential divestment of insurance arm Garantia could trigger a revaluation and justify a value up to EUR13 per share.

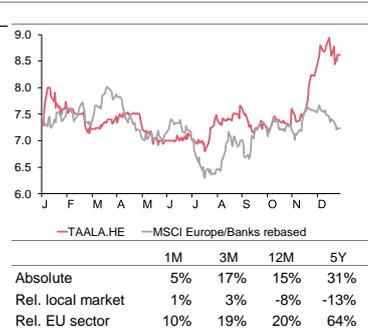
- Earnings set to improve in 2020.** Following a very good 2017, Taaleri's earnings decreased following investment income headwinds and lower performance fees in 2018 and 2019. However, we expect the group to return to double-digit earnings growth in 2020, helped by assets under management (AuM) growth, which is set to increase fund management fees, and income from the Texas wind-farm project. This means we forecast 15% revenue growth and an increase in the operating profit margin to 31% in FY 2020, from 22% in FY 2019.
- Event case with a major M&A opportunity with insurance arm Garantia.** In our view, the key value trigger and most significant swing factor in the value of Taaleri is the future of guaranty insurance arm Garantia. Garantia consumes 86% of the group's equity but generates only 39% of profits. As more efficient capital use is impossible due to the rating requirements, we believe the divestment of Garantia would significantly unlock value and release capital of 33-75% of the current market cap for extra dividends or acquisitions.
- ESG 'darlings' solar and wind drive alternative AuM growth.** We expect natural resource alternative investments to be the fastest growing asset management segment globally and to grow by a 50% CAGR globally until 2023. We expect these to account for 8% of Taaleri's total AuM in 2021. The company's exposure and competitive advantage in solar and wind funds fit the ESG focus very well. However, the valuation multiples do not reflect this and we see clear potential for multiple expansion. We forecast Taaleri's total AuM will grow by a 13% CAGR over 2018-21E, in line with the 13% CAGR over 2014-19E.
- Valuation.** The Taaleri shares have underperformed key Finnish peers since H2 18 and are now trading at a 20% discount to peers and a 14% discount to the historical average, at a 2020E P/E of 12.9x. The 2020-21E dividend yield is below that of peers but a decent 3.7-4.1%. However, we believe but this could be significantly higher depending on the divestment of Garantia. Our fair value range is EUR8.0-10.8 per share and up to EUR13.0 per share in a blue-sky scenario, depending on the price at which Taaleri is able to sell Garantia.

Key financials

Year-end Dec (EUR)	2017	2018	2019E	2020E	2021E
Total income (m)	81.0	72.5	69.8	80.4	82.6
Total income growth	33.7%	-10.5%	-3.8%	15.3%	2.7%
Total expenses (m)	-54.0	-48.5	-54.2	-55.6	-57.6
Operating profit (m)	27.6	23.9	15.6	24.8	25.0
Operating profit growth	69.0%	-13.6%	-34.7%	58.9%	0.8%
Operating profit margin	34.1%	32.9%	22.3%	30.8%	30.3%
EPS (adj.)	0.81	0.72	0.62	0.67	0.70
DPS	0.26	0.30	0.32	0.35	0.35
Dividend yield	2.5%	4.2%	3.7%	4.1%	4.1%
ROE	21.5%	18.9%	10.1%	15.3%	15.5%
P/E (adj.) (x)	12.7	9.8	13.9	12.9	12.3
P/BV	2.76	1.64	2.01	1.94	1.90

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

Not for US distribution

## Contents

<i>Executive summary</i> .....	3
<i>Financial targets and our forecasts</i> .....	7
<i>Financial performance forecasts 2019-21E</i> .....	8
<i>Valuation</i> .....	10
<i>Solvency - some capital uncertainty, again due to Garantia</i> .....	14
<i>Company background</i> .....	17
<i>History</i> .....	20
<i>Wealth Management</i> .....	22
<i>Private equity growth expected to continue in coming years</i> .....	28
<i>Financial estimates</i> .....	29
<i>Finnish asset management market</i> .....	31
<i>Peer comparison</i> .....	33
<i>Financing</i> .....	38
<i>Energia</i> .....	44
<i>Renewable energy market set to grow significantly over the next decades</i> .....	46
<i>Energia division has potential to be much bigger</i> .....	47
<i>Financial estimates</i> .....	49
<i>Other Operations</i> .....	51
<i>Financial estimates</i> .....	52
<i>Management team and ownership</i> .....	53
<i>Company summary</i> .....	54

*Not for US distribution*

## Executive summary

Taaleri is a Finnish wealth management and insurance group founded in 2007. Taaleri (thaler, or old European silver coin in Finnish) has 230 employees and was listed on Nasdaq Helsinki First North in 2013 and on the main list in 2016. The company has three divisions: Wealth Management, Financing and Energia. It also makes investments from its own balance sheet, which it reports under Other Operations.

The core of the franchise and key value drivers of the Taaleri Group are wealth management and alternative investments, in particular. The qualitative merits are good, as Finnish business magazine *Arvopaperi* chose Taaleri as the best wealth manager in Finland in 2019. The group's key growth and value driver focuses on different property, forest and wind power funds, among others, with AuM of more than EUR1.3bn in Finland.

Throughout its fairly short history, Taaleri has been opportunistic in its business rather than followed a clear strategy. The acquisition of guaranty insurance company Garantia in 2016, in particular, demonstrates this. This acquisition had virtually no synergies with the rest of the group. In addition, Taaleri has several minority holdings in different kinds of unlisted companies.

Chart 1: Taaleri share price and fair value range (EUR per share)



Source: FactSet, Danske Bank Equity Research estimates

Taaleri's shares have underperformed those of key peers, especially since 2018. We set our fair value range at EUR8.0-10.8. The range is very wide given the very different value of insurance arm Garantia in different scenarios. We believe that a potential larger buyer could leverage the business significantly depending mainly on the potential leverage. The uncertainty is whether it can and will be sold. In this respect, we see Taaleri as an M&A-driven event case.

Chart 2: Taaleri fair value range



Source: Danske Bank Equity Research estimates

## Not for US distribution

*Taaleri is an ESG-driven alternative asset management growth case and event case driven by a potential divestment of Garantia*

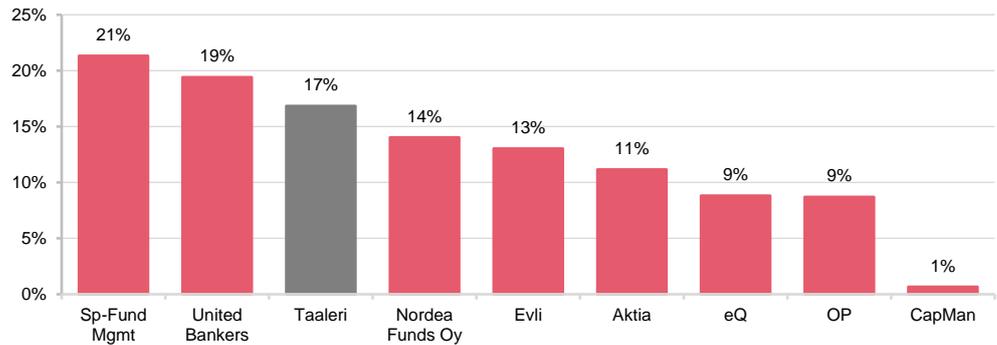
*We set our fair value range at EUR8.0-10.8 - the range is very wide given the very different value of insurance arm Garantia in different scenarios*

High client rankings and 17% AuM CAGR over 2012-19

In our opinion, the key positives in the investment case are as follows.

- **Strong record of organic growth in high net worth individual (HNWI) asset management and alternative investment funds, in particular.** Taaleri has a proven record and had the third highest AuM growth (17% CAGR) among Finnish asset managers over 2012-H1 19. Finnish business magazine *Arvopaperi* chose Taaleri as the best wealth manager in Finland in 2019.

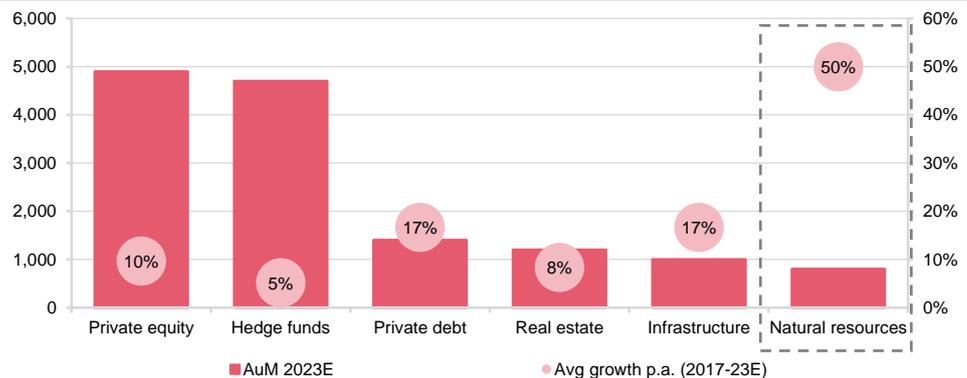
Chart 3: Finnish medium-sized asset managers – assets under management CAGR 2012-H1 19



Source: Company data, Danske Bank Equity Research

- **Wind and solar funds creating new, sustainable business opportunities.** Taaleri’s Energy division has one of the largest dedicated wind and solar investment teams in Europe and is the largest private equity owner-operator in the Finnish wind market, with 110 turbines producing approximately 1% of all the country’s electricity. Infrastructure investments in wind and solar power are the main drivers of Taaleri’s asset and revenue growth. This is a fairly new asset sub-class, where we see strong growth as Taaleri is now able to attract institutional money but is still small enough not to be competing with the larger global payers and is able to invest in smaller assets. In addition, as many of these are relatively new, we believe funds will start to generate carry in coming years, which will drive earnings.

Chart 4: Global AuM in 2023E (EURbn) and average growth rate p.a. of different alternative investment classes over 2017-23E



Source: Bloomberg Intelligence

- **Environmental, social and governance (ESG) focus and impact investing should expand valuation multiples.** We believe the increasing focus on ESG among all investors will benefit companies such as Taaleri, which promote sustainability in their strategy and operations. As an example, Taaleri’s renewable energy funds have reduced 1.2m tonnes of CO<sub>2</sub> emissions. In our view, the current valuation of Taaleri’s shares does not reflect this.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Taaleri’s competitive advantage is in wind and solar alternative investments; Bloomberg expects these assets to have the highest growth globally until 2023E

Bloomberg expects natural resource investments, such as wind and solar, to be the fastest growing asset class, with 50% CAGR over 2017-23

*Divesting guaranty insurance arm Garantia is a key trigger for the revaluation of Taaleri, as it would significantly improve asset returns and extra dividend potential*

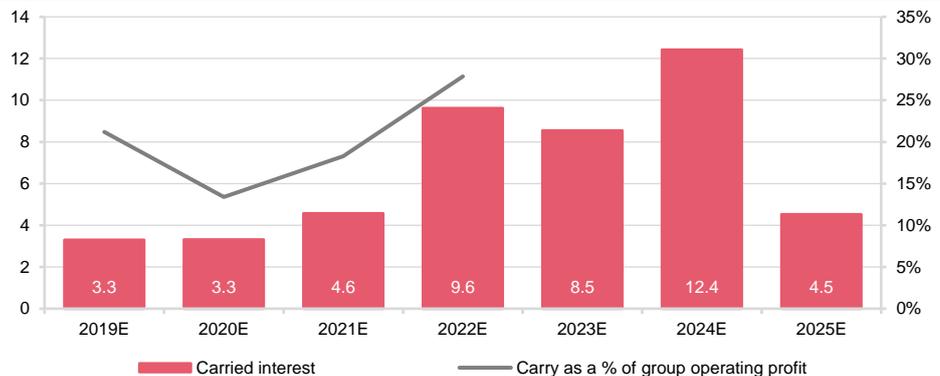
*We expect Taaleri's first alternative investment funds to mature and start generating significantly more carry, or performance fees, in FY 2022-24E*

*Taaleri's current alternative funds are maturing and starting to generate significantly more carried interest in 2022-24E*

*Complex reporting and accounting and non-transparent assets*

- **Large value creation opportunity in the divestment of Garantia.** In the current group set-up, Taaleri's credit guaranty insurance arm Garantia has virtually no synergies with the rest of the group and requires far too much solvency capital to generate a high return on capital. We estimate that Garantia's ROE for IFRS capital is around 10% versus the group target of >15% but an industrial buyer could leverage the operations and optimise capital better than Garantia can currently. We estimate that the value range for Garantia could be EUR150-180m (4.4-6.5 per share) compared with our base-case range of EUR80-120m (EUR2.8–4.1 per share). We also believe that the divestment of Garantia would increase the probability of M&A for the rest of Taaleri Group.
- **Earnings boost from carried interest from existing alternative investments in 2021-24E.** Taaleri has in total over 20 alternative investment funds, consisting of real estate, energy infrastructure and private equity funds. The AuM of these funds were some EUR1.2bn at the end of H1 19. As the funds mature, Taaleri could earn significant performance fees, or carried interest, in fund exits. In successful funds, carry could be larger than the total fund management fees. We estimate that carries are set to increase after 2019-21E, to EUR9-12m in 2022-24E, driven by exits of larger funds.

Chart 5: Taaleri alternative investments - carried interest 2019-25E (EURm)



Source: Company data, Danske Bank Equity Research estimates

- **M&A opportunities in the Finnish wealth management business.** There are several medium-sized asset managers in Finland, with both complementary and overlapping operations. These players include companies such as CapMan, eQ and Evli. We believe that we will see mergers and acquisitions in Finland and see Taaleri taking part in this activity, especially if, and when, it divests Garantia.
- **Insiders buying.** Several insiders have bought Taaleri's shares lately. These include Chairman of the Board Peter Fagnäs, through his family investment company Oy Hermitage Ab, and CEO Robin Lindahl.

In our view, the key negatives in the investment case are as follows.

- **Complicated structure and non-transparent assets.** While the different operations provide diversification, we believe investors could diversify themselves and the different operations complicate the case as well. In particular, the insurance company and the group's financial investments are difficult to value from the outside and, in our opinion, add to the risk premium in the shares. In addition, Taaleri reports only half-year earnings, so disclosure is not at the same level as that of most other listed peers.

Not for US distribution

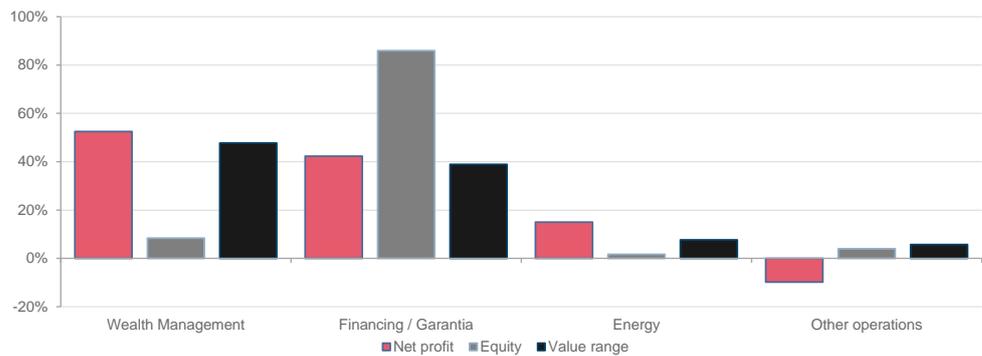
This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

*Taaleri's subsidiary Garantia is a problem from a regulatory solvency perspective and it generates too little return on the capital it requires in the current set-up, so, in our opinion, divesting it would create value*

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

- **High earnings volatility.** While Taaleri's operations are not very cyclical by nature, the group's reported earnings have been volatile. This is due largely to performance fees in the Wealth Management division and the group's own investments, as well as the insurance company profit volatility in IFRS reporting.
- **Suboptimal capital structure and capital uncertainty.** Taaleri is regulated both as a financial conglomerate (FiCo) and as a bank and insurance company. This means Taaleri has to comply with both the bank (Basel III) and insurance (Solvency II) rules. We note that a structure with both a bank and insurance company is seldom optimal, especially if a credit institution owns an insurance company. Currently, Taaleri has a permission from the Finnish FSA not to deduct the Garantia insurance investment from its own funds but rather to use a risk weighting until 31 December 2020. If the FSA does not extend this, we believe Taaleri's CET1 ratio would fall from 29.1% in H1 19 to around 18%. However, in our opinion, it would not have an impact on the financial conglomerate solvency or be a risk for dividends.
- **Small size and illiquid shares.** Taaleri has very limited institutional ownership currently, as either current or previous employees or related close-party institutions hold most of the shares. One could view this as negative from a governance point of view. At the same time, we note that several insiders have been buying the shares in recent months.

Chart 6: Taaleri profit, equity and value breakdown 2020E



Source: Danske Bank Equity Research estimates

## Financial targets and our forecasts

Taaleri has beaten its financial targets except in FY2019

Taaleri's long-term financial targets are as follows (2018 figures in parentheses).

- Long-term operating profit margin target at least 20% (33%).
- Long-term ROE target at least 15% (18.9%).
- Long-term equity ratio at least 30% (51.4%).

Taaleri's dividend policy is to increase its dividends. The company has not disclosed any dividend target relative to its earnings but has stated only that it aims to pay a 'competitive dividend, with consideration [given] to the company's financial and financing situation as well as [to] the group's capital adequacy requirement'.

Table 1: Key profit and loss and balance sheet items 2015-21E

EURm	2015A	2016A	2017A	2018A	2019E	2020E	2021E	CAGR 18-21E
Net commission income	32	33	53	46	44	52	59	9%
Growth y/y	15%	5%	60%	-14%	-3%	18%	12%	
Total income	58	61	81	73	70	80	83	4%
Growth y/y	25%	4%	34%	-10%	-4%	15%	3%	
Total expenses	-40	-44	-54	-48	-54	-56	-58	6%
Write-downs and other items	29	0	1	0	0	0	0	
Operating profit	47	16	28	24	16	25	25	2%
Operating margin	81%	27%	34%	33%	22%	31%	30%	
Net profit to equity	44	13	21	22	12	19	20	-3%
Growth y/y	163%	-71%	68%	1%	-43%	54%	4%	
<b>Segment revenues</b>								
Wealth Management	39	37	55	49	41	46	50	1%
Financing	13	12	22	14	21	20	22	16%
Energia	0	0	2	2	4	13	9	56%
Other	6	11	3	9	3	2	2	-42%
<b>Total</b>	<b>58</b>	<b>61</b>	<b>82</b>	<b>74</b>	<b>70</b>	<b>80</b>	<b>83</b>	<b>4%</b>
<b>Segment operating profit</b>								
Wealth Management	10	6	17	17	11	12	15	-4%
Financing	7	5	14	5	12	11	12	36%
Energia	0	-1	-2	-2	-2	6	1	n.m.
Other	2	6	-1	4	-6	-3	-4	n.m.
<b>Total</b>	<b>19</b>	<b>16</b>	<b>28</b>	<b>24</b>	<b>16</b>	<b>25</b>	<b>25</b>	<b>2%</b>
Total AUM	3,900	4,800	5,600	5,700	6,922	7,607	8,153	13%
Growth y/y	13%	23%	17%	2%	21%	10%	7%	
Reported EPS (EUR)	1.56	0.45	0.76	0.76	0.43	0.67	0.70	-3%
Adj. EPS (EUR)	0.61	0.45	0.81	0.72	0.62	0.67	0.70	-1%
Growth y/y	-8%	-26%	80%	-11%	-14%	8%	4%	-173%
DPS (EUR)	0.14	0.22	0.26	0.30	0.32	0.35	0.38	8%
Growth y/y	56%	57%	18%	15%	7%	9%	9%	-18%
Dividend payout ratio	23%	49%	32%	42%	51%	52%	54%	9%
								Avg
ROE	63.1%	7.8%	21.5%	18.9%	10.1%	15.3%	15.5%	15.0%
ROE (adj.)	24.7%	13.4%	23.0%	17.9%	14.5%	15.3%	15.5%	15.8%
CET1-ratio	19.4%	18.6%	25.0%	30.2%	32.9%	23.9%	25.9%	

Source: Danske Bank Equity Research estimates

Not for US distribution

We forecast that Taaleri will return to double-digit earnings growth in 2020

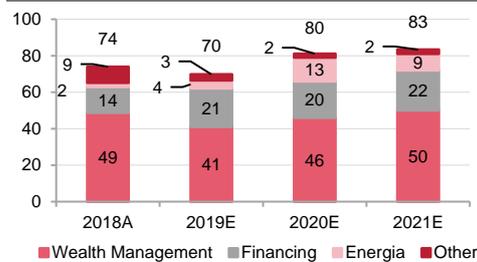
We forecast a 15% AuM CAGR over 2018-21E - in line with history

Financial performance forecasts 2019-21E

Taaleri's total income grew rapidly over 2014-16, driven mainly by the earnings contribution from the acquisition of Garantia. The largest positive one-off was a EUR29m negative goodwill contribution from Garantia. After a very good 2017, driven by both Garantia and high performance fees, Taaleri's earnings decreased in FY 2018 following investment income headwinds and lower performance fees in 2018 and 2019. In H1 19, Taaleri adjusted asset management revenues negatively for a too-high booking of performance fees in FY 2018. In addition, mutual fund AuM increased by only 3% in H1 19 due to net outflows. In addition, the negative value adjustment of Taaleri's 26% stake in listed Fellow Finance (shares down 45% in H2 19) leads to a loss of around EUR5m.

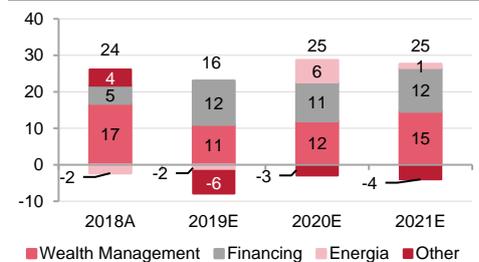
We forecast the group will return to double-digit earnings growth in 2020, helped by a positive earnings boost from income from the Texas wind farm exit and AuM growth, which is set to drive management fee growth. We estimate 15% revenue growth in 2020 and that the operating profit margin will increase from 20% in 2019E to 31% in 2020E. Taaleri's internal target is to achieve an operating profit margin above 20%.

Chart 7: Income by division 2018-21E (EURm)



Source: Company data, Danske Bank Equity Research estimates

Chart 8: Operating profit by division 2018-21E (EURm)



Source: Company data, Danske Bank Equity Research estimates

We estimate income in Wealth Management decreased by 15% to EUR41m in 2019, down from EUR49m in 2018, as we believe performance fees and income from investment operations in the division decreased compared with 2018. However, we estimate the division's income will increase by 11% to EUR50m in 2020, driven by AuM growth, which is set to increase management fees.

For the Financing division, we forecast average 10% net premium growth in Garantia over 2019-21 and a combined ratio of 54% (average 2014-19E 55%). However, we forecast roughly unchanged operating profits over 2019-20 due to a normalised investment income assumption following an unusually strong FY 2019.

We estimate that Energia's income will grow from EUR4m in 2019 to EUR13m in 2020. We expect the main growth to come from SolarWind II, which raised investment commitments worth EUR220m at its first closing in July 2019. As the fund continues to raise new capital in 2020, we expect management fees to grow too. We expect SolarWind II fund to reach its maximum size of EUR400m by the end of 2020, increasing AuM and, therefore, the division's continuing earnings from EUR4m in 2019E to EUR9m in 2020E. For 2020, we also estimate some EUR3.5m income from the divestment of the Texas wind farm project.

Not for US distribution

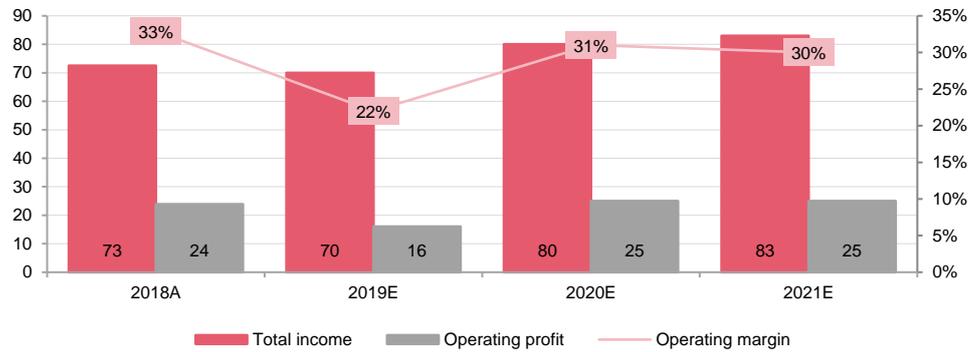
We estimate 15% revenue growth in 2020 and that the operating profit margin will increase from 20% in 2019 to 31% in 2020

We expect the Wealth Management division's income to increase by 11% in 2020 driven by AuM growth, which is set to increase management fees

For Energia, we estimate income will grow from EUR4m in 2019 to EUR13m in 2020, driven by increasing management fees and income from the Texas wind farm divestment

This report is for Matti Aholas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Chart 9: Taaleri's total income (EURm), operating profit (EURm) and operating profit margin (%) 2018-21E



Source: Danske Bank Equity Research estimates

Overall, we believe 2019 was the weakest year of the past three years in terms of both income and operating profit. We estimate 2019 operating profit declined from EUR24m to EUR16m, given the decreasing performance fees and income from investment operations in the Wealth Management division and the writedown of Fellow Finance, as the company's share price declined some 45% in H2 19.

In 2020, we estimate Taaleri Group's operating profit will increase from EUR16m to EUR25m, and the operating profit margin will increase from 22% to 31%. We estimate that the operating profit increase comes mainly from the Energia division, where we forecast an operating profit of EUR6m in 2020E versus our estimate of EUR-2m in 2019, which is driven by an estimated EUR3.5m income from the Texas divestment and increasing management fees due to AuM growth. For 2021, we estimate operating profit of EUR25m, translating to an operating profit margin of 30%, in line with our 2020 estimate.

We forecast Taaleri will increase the DPS sequentially from EUR0.30 in FY 2018 to EUR0.38 in FY 2021. The divestment of Garantia would change the picture, as we believe this could release from EUR2.0 to EUR6.1 per share of capital for extra dividends or acquisitions.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.  
 We estimate Taaleri Group's operating profit will increase from EUR16m to EUR25m in 2020  
 Divestment of Garantia could boost dividends significantly

## Valuation

Taaleri's shares have underperformed those of key peers, particularly since 2018. We set our fair value range at EUR8.0-10.8 per share.

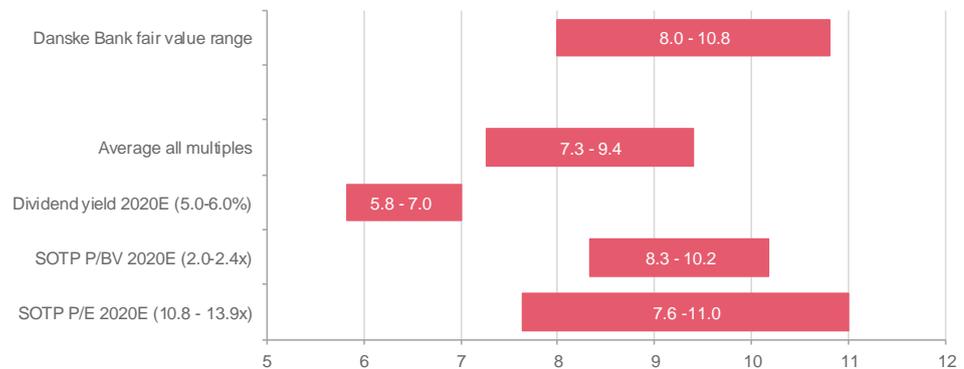
Chart 10: Taaleri share price fair value range (EUR per share)



Source: FactSet, Danske Bank Equity Research estimates

The range is very wide given the very different value of insurance arm Garantia in different scenarios. We believe that a potential larger buyer could leverage the business significantly depending mainly on the potential leverage. The uncertainty is whether Taaleri can, and will, sell Garantia.

Chart 11: Taaleri fair value range (EUR per share)



Source: Danske Bank Equity Research estimates

Figure 12: Sum-of-the-parts on P/E 2020E

EURm	Net profit	Share	P/E (x)	Value low	Value high
Wealth Management	9.6	45%	13-15	125	145
Financing/Garantia	10.1	47%	7-12	71	122
Energia	4.4	21%	n.m.	10	30
Other operations	-2.8	-13%	n.m.	10	15
<b>Total</b>	<b>21.4</b>	<b>100%</b>	<b>8.1-12.2</b>	<b>216</b>	<b>311</b>
Per share (EUR)	0.76			7.6	11.0

Source: Danske Bank Equity Research estimates

Not for US distribution

We set our fair value range at EUR8.0-10.8 - note that the stock was above EUR10 in H2 18

Wealth Management is the key value driver in the group, with 46-58% of the target value based on a 2020E sum-of-the-parts on P/E

Wealth Management generates 48% of our sum-of-the-parts value but consumes only 8% of group equity

Figure 13: Sum-of-the-parts on P/BV 2020E

EURm	Net profit	Equity	Weight	ROE	P/BV (x)	Value midpoint	Value per share (EUR)	Weight
Wealth Management	10	10	8%	n.m.	11.5	125	4.4	48%
Financing/Garantia	10	102	86%	10%	1.0	102	3.6	39%
Energia	1	2	2%	n.m.	10.0	20	0.7	8%
Other operations	-3	5	4%	n.m.	3.2	15	0.5	6%
Total	21	119	100%	9%	0.9	262	9.3	100%
per share	0.76	4.19						

Source: Danske Bank Equity Research estimates

Table 2: Total return of international and Finnish asset management companies

Total return (local ccy)	1m	3m	6m	YTD	1y	2y	3y	5y
Affiliated Managers Group	-2%	8%	-9%	-2%	-22%	-60%	-41%	-59%
AGF Management	8%	19%	32%	7%	33%	-5%	29%	25%
Azimut Holding Spa	10%	29%	36%	11%	145%	54%	76%	69%
BlackRock	7%	19%	14%	7%	36%	-4%	52%	72%
Blackstone	12%	21%	29%	11%	100%	94%	148%	144%
CI Financial Corp.	6%	22%	11%	7%	30%	-16%	-5%	-13%
DWS	3%	12%	3%	2%	42%			
Eaton Vance	-1%	5%	4%	0%	23%	-18%	17%	34%
EQT	14%	38%		12%				
Federated Investors	3%	9%	2%	4%	40%	4%	38%	32%
GAM Holding	3%	-15%	-34%	1%	-33%	-84%	-69%	-79%
IGM Financial	4%	7%	9%	5%	26%	1%	15%	16%
Invesco	2%	9%	-6%	1%	4%	-46%	-32%	-39%
Janus Henderson	3%	12%	13%	3%	23%	-31%		
KKR & Co.	6%	10%	14%	5%	40%	34%	89%	54%
Legg Mason	8%	10%	3%	8%	42%	-7%	31%	-17%
Man Group	-4%	0%	-7%	-3%	10%	-21%	40%	11%
Manning & Napier	9%	15%	29%	13%	2%	-46%	-68%	-78%
Rathbone Brothers	-5%	-6%	-8%	-6%	-13%	-22%	5%	5%
Schroders	-4%	4%	10%	-2%	30%	-4%	22%	35%
T. Rowe Price	7%	16%	17%	8%	44%	17%	93%	88%
Waddell & Reed Financial	0%	7%	-3%	0%	0%	-18%	7%	-47%
Wisdom Tree Investments	-22%	-21%	-40%	-21%	-40%	-68%	-61%	-75%
CapMan	0%	18%	38%	-2%	50%	48%	110%	252%
EAB Group	8%	11%	11%	13%	13%	-23%	9%	
eQ	4%	8%	40%	3%	66%	65%	86%	254%
Evi	13%	34%	48%	13%	48%	34%	114%	
United Bankers	1%	-4%	11%	1%	29%	45%	37%	64%
Titanium	13%	12%	23%	12%	52%	82%		
<b>Taaleri</b>	<b>5%</b>	<b>19%</b>	<b>21%</b>	<b>2%</b>	<b>22%</b>	<b>-17%</b>	<b>14%</b>	<b>50%</b>
Peer average	4%	11%	10%	4%	29%	0%	30%	33%
Finnish average	7%	13%	28%	7%	43%	42%	71%	190%
Large cap average	4%	12%	7%	4%	33%	-2%	35%	24%
Small & Midcap average	4%	9%	16%	4%	22%	3%	20%	52%

Source: FactSet consensus, Danske Bank Equity Research

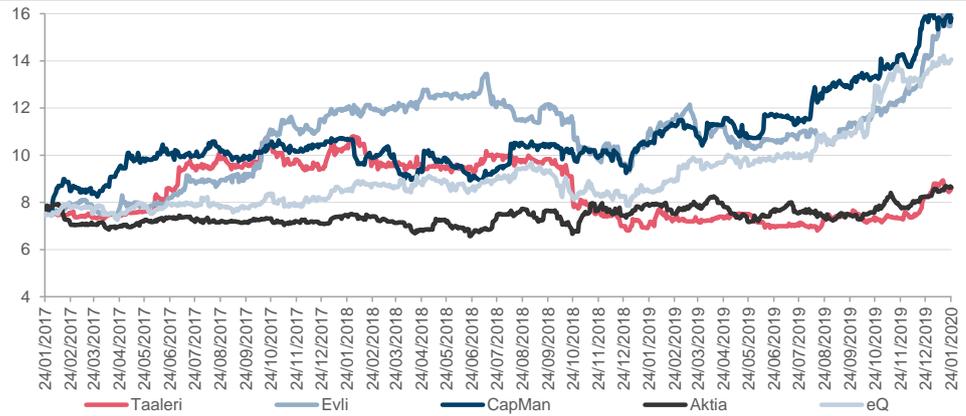
The total return of Taaleri's stock has been relatively weak compared with those of its international and Finnish asset management peers. Over the past year, Taaleri's return is 22%, the second lowest among Finnish asset management companies after EAB Group and clearly below the Finnish average of 43%.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.  
 Taaleri has underperformed most peers over the past 12 and 24 months

Taaleri and Aktia have clearly underperformed other Finnish asset management peers such as EQ, Evli and CapMan since 2018

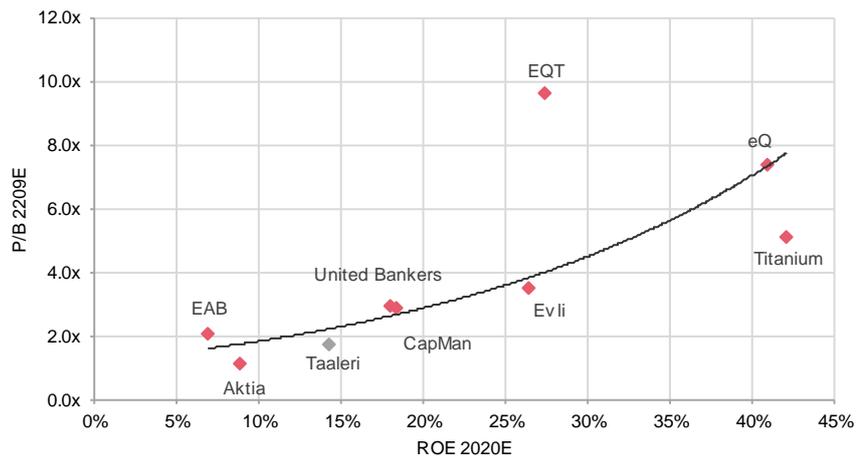
Chart 14: Total return of Finnish asset management companies - rebased to Taaleri



Source: FactSet, Danske Bank Equity Research

Taaleri's shares performed largely in line with the Finnish asset management peer group until August 2018 and have not recovered since. Over the same period, both CapMan and eQ's share prices have almost doubled.

Chart 15: Value map - Nordic asset management companies



Source: FactSet consensus

Taaleri's FY 2020E ROE of 14.2% is below the 2020E Finnish peer median of 18.4%. Thus, Taaleri is trading at a 22% discount to its peers at P/BV 2020E of 1.7x. The Finnish asset management companies with the highest ROE and P/BV are eQ and Titanium, trading at ROE of 41% and 42.1%, respectively, with P/BV of 7.3x and 5.1x, respectively.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Sweden's EQT and Finland's eQ have the highest ROE and are trading in a league of their own in terms of P/BV

Table 3: Key ratios for international and Finnish asset management companies

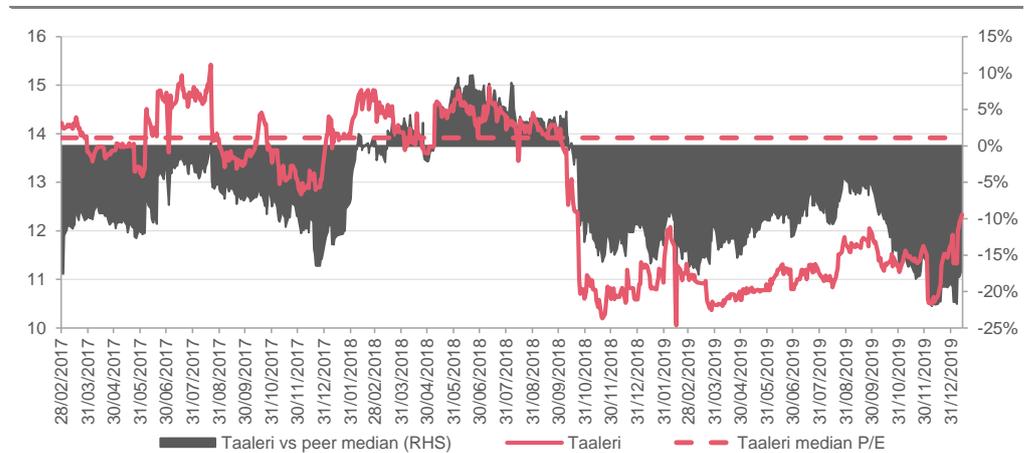
Company	Ticker	Price 1c1 ccy	Market cap 1c1 ccy	P/B (x)		P/E (x)		Div. yield		ROE	
				2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Affiliated Managers Group	AMG US	82.91	4,085	1.4	1.1	5.9	5.8	1.5%	1.7%	23.3%	19.3%
AGF Management	AGF/B CN	6.80	535	0.6	0.6	11.3	11.3	4.7%	4.7%	5.1%	4.9%
Azimut Holding Spa	AZMIM	23.60	3,441	4.3	3.8	11.0	14.5	5.2%	5.1%	39.5%	26.6%
BlackRock	BLK US	536.84	83,317	2.5	2.4	18.8	16.8	2.5%	2.6%	13.3%	14.1%
Blackstone	BX US	62.21	73,575	5.4	5.1	27.6	20.1	3.1%	4.3%	19.5%	25.6%
CI Financial	CIX CN	23.17	5,214	3.4	2.8	9.8	9.2	3.1%	3.1%	34.6%	30.4%
DWS Group	DWS GR	32.45	6,490	1.0	0.9	13.2	11.6	5.0%	6.0%	7.3%	8.1%
Eaton Vance	EV US	46.71	5,305	4.5	4.4	13.5	13.3	3.1%	3.3%	33.2%	33.2%
EQT	EQT SS	122.00	116,264	20.7	9.6	53.6	35.0	1.8%	2.1%	38.5%	27.5%
Federated Investors	FIUS	33.87	3,426	3.5	3.5	13.1	11.9	3.2%	3.5%	26.9%	29.6%
GAM Holding	GAM SW	2.83	452	0.5	0.5	29.8	29.8	0.0%	0.9%	-0.1%	1.8%
IGM Financial	IGM CN	39.12	9,322	2.1	1.9	12.3	11.3	5.8%	5.8%	16.9%	17.2%
Invesco	IVZ US	18.17	8,247	0.6	0.6	7.0	6.7	6.8%	7.0%	8.6%	8.3%
Janus Henderson	JHG US	25.26	4,736	1.0	1.0	10.2	9.8	5.7%	5.9%	9.7%	9.8%
Legg Mason	LM US	38.86	3,373	0.9	0.8	10.6	9.4	4.1%	4.3%	8.4%	9.0%
Man Group	EMG LN	1.53	2,311	1.8	1.8	11.1	10.8	4.6%	5.0%	16.5%	16.5%
Manning & Napier	MN US	1.95	30	1.0	1.0	12.3	11.2	4.1%	4.1%	7.9%	8.5%
Rathbone Brothers	RAT LN	20.10	1,133			15.4	14.9	3.4%	3.6%		
Schroders	SDR LN	32.65	8,772	2.4	2.3	16.9	15.5	3.5%	3.6%	14.4%	14.7%
T. Rowe Price	TROW US	131.18	30,654	4.4	4.0	15.4	14.9	2.3%	2.4%	28.8%	27.1%
Waddell & Reed Financial	WDR US	16.45	1,157	1.4	1.4	9.5	10.3	6.1%	6.1%	14.9%	13.6%
WisdomTree Investments	WETF US	3.82	593	1.2	1.2	18.2	15.4	3.1%	3.1%	6.6%	7.8%
CapMan	CAPMAN FH	2.31	354.4	3.0	2.8	23.1	15.4	5.6%	6.1%	13.0%	18.4%
EAB	EABGB FH	3.14	70.8	2.1	2.0	n.a.	28.9	0.8%	2.2%	-3.4%	7.0%
eQ	EQV IV FH	12.80	490.3	7.8	7.3	22.9	17.9	4.7%	5.7%	34.1%	41.0%
Evli	EVLI FH	11.75	281.7		3.4	16.3	13.1	5.6%	6.8%		26.4%
United Bankers	UNIAV FH	8.85	92.4	3.0	2.9	20.6	16.1	5.1%	6.2%	14.5%	18.1%
Titanium	TITAN FH	10.55	107.8	4.9	5.1	13.9	12.1	7.1%	7.6%	35.5%	42.1%
Aktia	AKTIA- FI	9.75	674.4	1.1	1.1	13.0	12.3	6.5%	6.6%	8.5%	8.8%
<b>Average</b>				<b>3.2</b>	<b>2.7</b>	<b>15.8</b>	<b>14.7</b>	<b>4.1%</b>	<b>4.5%</b>	<b>17.6%</b>	<b>18.4%</b>
<b>Median</b>				<b>2.1</b>	<b>2.1</b>	<b>13.2</b>	<b>13.1</b>	<b>4.1%</b>	<b>4.3%</b>	<b>14.5%</b>	<b>16.8%</b>
<b>Finnish average</b>				<b>3.7</b>	<b>3.5</b>	<b>18.3</b>	<b>16.5</b>	<b>5.1%</b>	<b>5.9%</b>	<b>17.0%</b>	<b>23.1%</b>
<b>Finnish median</b>				<b>3.0</b>	<b>2.9</b>	<b>18.5</b>	<b>15.4</b>	<b>5.6%</b>	<b>6.2%</b>	<b>13.7%</b>	<b>18.4%</b>
<b>Taaleri</b>	<b>TAALA FH</b>	<b>8.62</b>	<b>244</b>	<b>1.8</b>	<b>1.7</b>	<b>20.7</b>	<b>11.9</b>	<b>3.7%</b>	<b>3.9%</b>	<b>8.8%</b>	<b>14.2%</b>
<b>Taaleri vs. median</b>				<b>-15%</b>	<b>-21%</b>	<b>57%</b>	<b>-9%</b>				
<b>Taaleri vs. Finnish median</b>				<b>-39%</b>	<b>-42%</b>	<b>12%</b>	<b>-22%</b>				

Note: Prices as at close on 24 January 2020

Source: FactSet prices and consensus

Taaleri is currently trading at P/E 2020E of 11.9x based on FactSet consensus, which is 14% below the three-year average (14x) and 20% below the Finnish peer median and the lowest among our listed peer group (eQ, CapMan and Evli). This has not always been the case, as before September 2018 the stock traded at a premium to its peers (see below).

Chart 16: Taaleri forward P/E 2020 (x) vs Finnish peer median to date



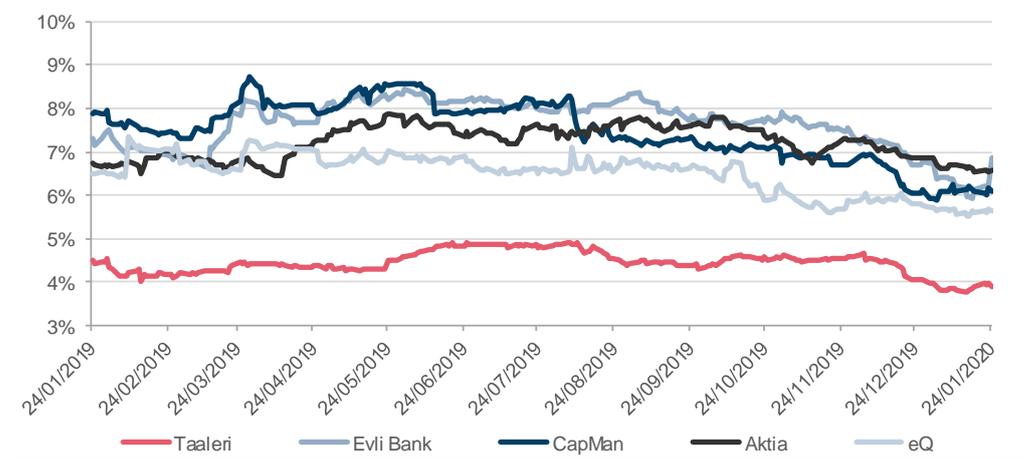
Source: Danske Bank Equity Research estimates

Taaleri is trading at a discount to both its history and local peers on forward P/E

Not for US distribution

Taaleri's shares offer dividend yields of 3.7% and 3.9% for 2019E and 2020E, respectively, below the Finnish peer group median dividend yields of 5.6% and 6.2%, respectively. The main explanation is a clearly lower dividend payout ratio in Taaleri (42% in FY 2018) and this could change significantly with the potential divestment of Garantia. The highest yields among Taaleri's peers are those of Titanium, Aktia and Evli.

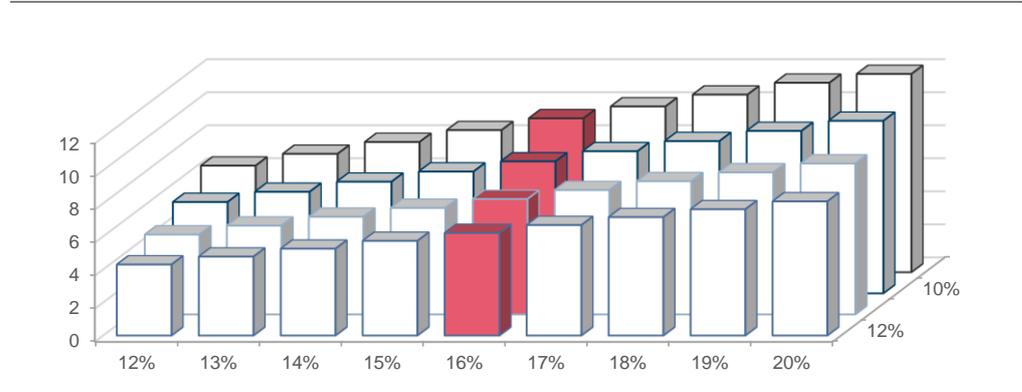
Chart 17: Forward dividend yield



Source: FactSet, Danske Bank Equity Research estimates

Using our 2020E ROE of 16.1%, a Gordon ROE-P/BV model gives a value of EUR6.20-9.30 assuming a cost of equity of 9-12% but a 2022E ROE of 21% would translate to a value of EUR8.6-12.9.

Chart 18: Taaleri P/BV-ROE (Gordon model)



Source: Danske Bank Equity Research estimates

Solvency - some capital uncertainty, again due to Garantia

Solvency capital is an important part of any financials company. When looking at Taaleri, due to the diverse operations, especially due to the exposure to insurance, Taaleri has a fairly complex solvency framework, calculated based on two frameworks.

- Group capital adequacy based on the (insurance) financial conglomerate rules (FiCo) was 195% in H1 19
- Group capital adequacy based on the credit institution rules (CRR/Basel III) was 29.1% in H1 19.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

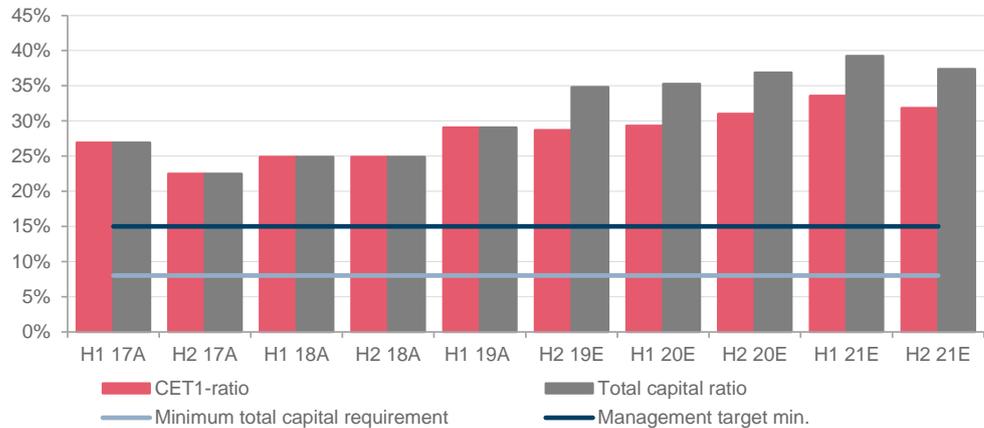
Taaleri has a lower dividend payout ratio and thus a lower dividend yield than its Finnish peers

Taaleri's H1 19 CET1-ratio is 29.1% with transition rules versus the regulatory minimum of 8% and internal target of 15%

This could change if the FSA temporary permission for Garantia solvency is revoked

As is the case with most financial institutions, the financial conglomerate rules treat the insurance operations less strictly than the banking rules. At H1 19, Taaleri's solvency margin based on the financial conglomerate rules was 195% of the minimum, implying a significant buffer versus the minimum requirements.

Chart 19: Taaleri capital ratio H1 17-H2 21E



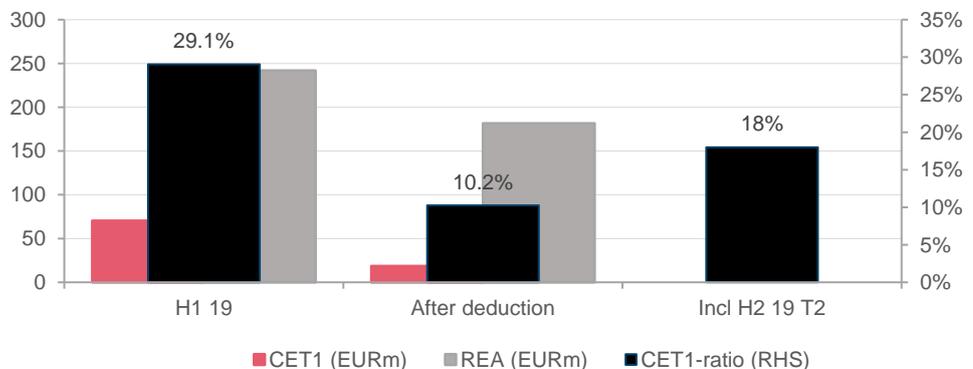
Source: Danske Bank Equity Research estimates

Taaleri's H1 19 CET1 and total capital ratio was 29.1%. However, for the credit institutions, solvency rules do not favour a credit institution owning an insurance company. In Taaleri's case, the insurance exposure is significant. Normally, a credit institution's insurance investment is deducted from own funds, CET1 and total capital (EUR80.3m in H1 19). However, Taaleri has permission from the Finnish FSA until 2020 not to deduct the EUR60.4m insurance investment (Garantia) from own funds. Instead, it can risk-weight the exposure by 100%, which is then added to risk-weighted assets.

If the FSA revokes its permission for the risk weighting, Taaleri's CET1 capital would decline from EUR80.3m to as low as EUR18.6m. We estimate this would lower Taaleri's CET1 ratio to 10.2%. Its internal target is to have 130% of the minimum capital ratio of 8.0%, translating to 10.4%.

In H2 19, Taaleri issued a EUR15m Tier II bond, which increased total capital by around 8pp to around 18% (see below).

Chart 20: Taaleri capital ratio in different scenarios



Source: Danske Bank Equity Research estimates

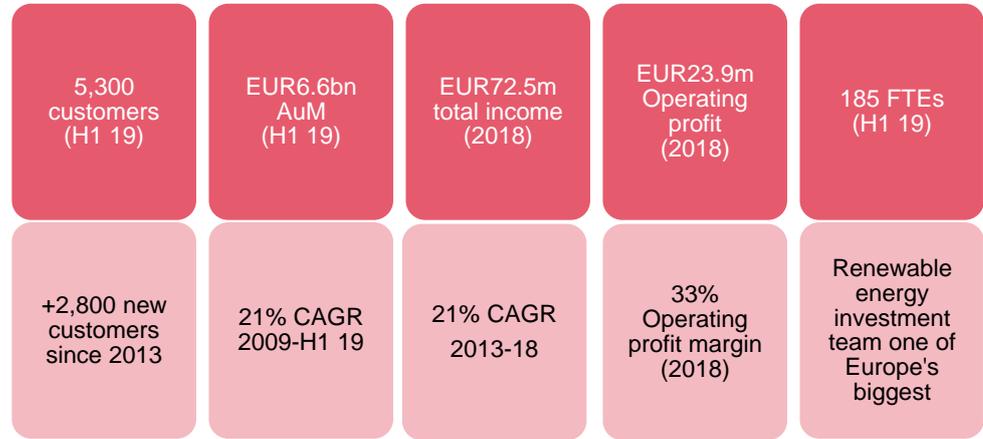
Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

In our opinion, it is difficult to assess whether Taaleri will be able to secure the FSA's risk-weighting permission ahead. However, in our view, the H2 19 capital issue removes the risk to the dividend payout even if the FSA revokes its permission to risk-weight Garantia. However, in our opinion, the suboptimal capital situation and the risk of regulatory changes for the group further underline the benefits of divesting Garantia.

## Company background

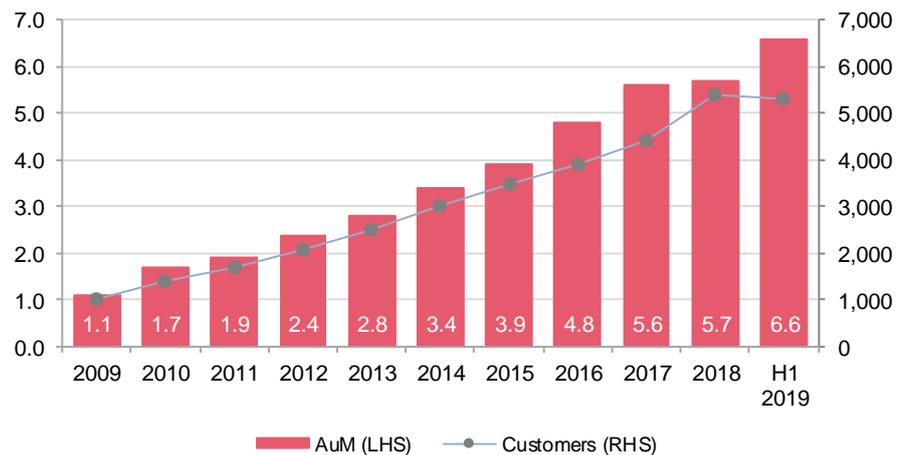
Figure 1: Taaleri in brief



Source: Danske Bank Equity Research

Taaleri is a Finnish financial services company listed on the Helsinki Stock Exchange. The company offers wealth management services for private customers and institutional clients and guaranty insurance for private and corporate customers. Taaleri group consists of three divisions: Wealth Management, Financing and Energia. At the end of June 2019, Taaleri had 5,300 wealth management customers and assets under management totalling EUR6.6bn. The company has offices in Helsinki, Tampere, Turku, Pori and Oulu.

Chart 21: Taaleri's AuM (EURbn) and number of customers 2009-H1 19



Source: Danske Bank Equity Research

Taaleri's AuM grew steadily from EUR1.1bn in 2009 to EUR6.6bn at the end of H1 19, translating to a CAGR of 21%. At the same time, Taaleri's number of customers increased from some 1,000 customers to 5,300 customers at the end of H1 19. The decrease in the number of customers in H1 19 was because while the acquisition of Evervest increased the customer count in 2018, in the first half of 2019 Taaleri adjusted the figure to exclude the number of inactive Evervest users.

### Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

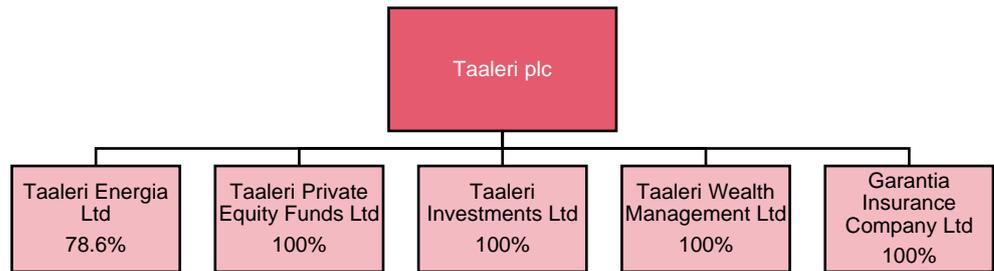
Taaleri is a Finnish wealth management company - it also offers guaranty insurance through its subsidiary Garantia

Taaleri's AuM were EUR6.6bn at the end of June 2019

Taaleri differs from its peers as it offers private equity funds that invest in renewable energy; it not only manages the funds but develops, constructs, finances and operates the projects

Taaleri's special expertise in wealth management is private equity funds that invest in renewable energy. The company has five funds that invest in wind power and solar energy in Europe and selected emerging markets. In total, Taaleri's wind power funds produce approximately 1% of Finland's electricity. Furthermore, its wind power funds' share of the Finnish wind power capacity was 14% in 2018, making Taaleri the second-largest wind power producer in Finland. In its renewable energy projects, Taaleri develops, constructs, finances and operates the projects, separating it from other Finnish asset management companies, which focus mainly on fund management.

Figure 2: Taaleri's legal structure

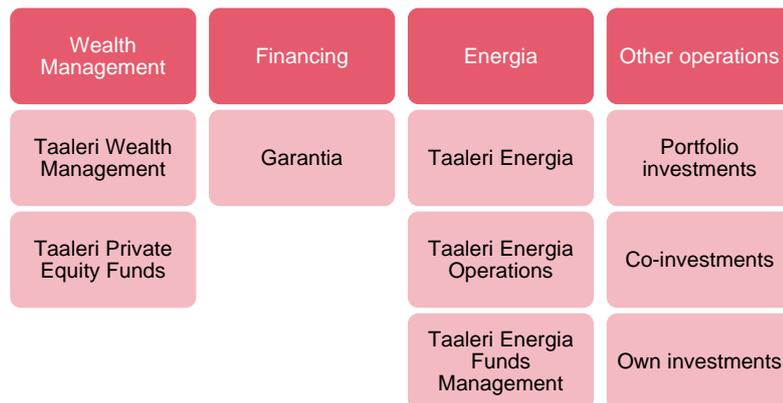


Source: Company data, Danske Bank Equity Research

The chart above illustrates Taaleri's legal structure. The group's parent company is Taaleri plc. The group has four wholly owned subsidiaries: Taaleri Private Equity Funds Ltd, Taaleri Investments Ltd, Taaleri Wealth Management Ltd and Garantia Insurance Company. Taaleri also owns 78.6% of Taaleri Energia Ltd.

Figure 3: Illustration of Taaleri's group structure

### Taaleri



Source: Company data, Danske Bank Equity Research

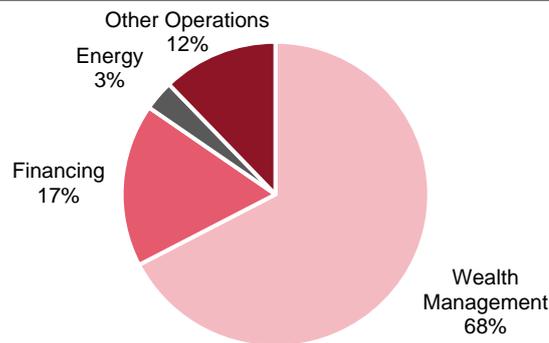
Taaleri consists of three divisions: Wealth Management, Financing and Energia. In addition, it makes investments from its own balance sheet, which it reports under Other Operations.

- **Wealth Management** comprises wealth management services and investment products, offered for private, institutional and corporate customers.

Not for US distribution

- **Financing** consists of the operations of Garantia, an insurance company specialising in guaranty insurance.
- **Energia** manages renewable energy infrastructure funds and also develops, invests and manages wind and solar energy projects in Europe, the United States and emerging markets.
- **Other operations.** Taaleri reports its portfolio investments, co-investments and own investments under the Other Operations division. Portfolio investments include investments in companies such as Fellow Finance, Inderes, ClarkApps, Turun Toripark and Munkkiniemi Group, while co-investments include Taaleri's shares in, for example, Rauma Marine Constructions. Taaleri's own investments include other listed and unlisted investments, as well as granted loans.

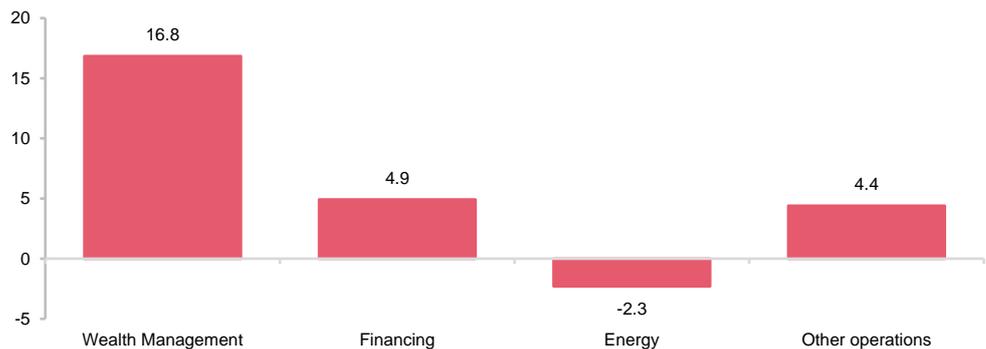
Chart 22: Taaleri's revenue breakdown 2018 (EUR72.5m)



Source: Company data, Danske Bank Equity Research

In 2018, Taaleri's total income was EUR72.5m. The Wealth Management division's income accounted for 68% of Taaleri's total income, while the Financing and Energia divisions had shares of total income of 17% and 3%, respectively.

Chart 23: Operating profit by division 2018 (EURm)



Source: Company data, Danske Bank Equity Research

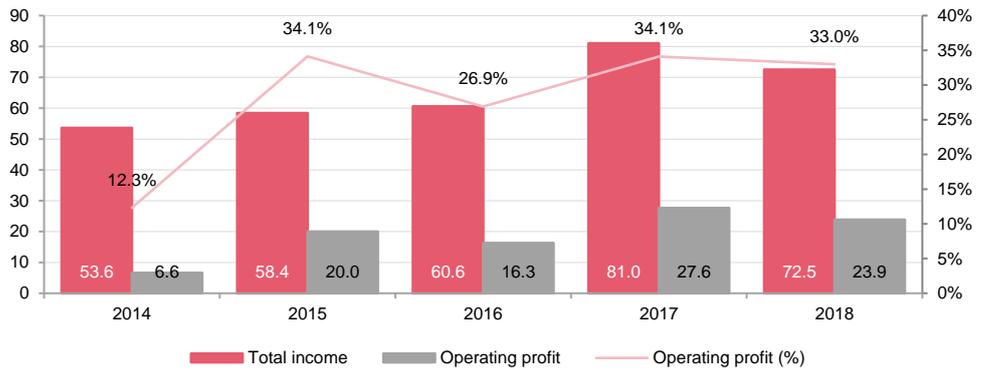
Taaleri's operating profit amounted to EUR23.9m in 2018, of which EUR16.8m came from the Wealth Management division. The Financing and Energia divisions' operating profits equalled EUR4.9m and EUR-2.3m, respectively. The operating profit of Other Operations totalled EUR4.4m.

Not for US distribution

Taaleri's total income was EUR72.5m in 2018, of which Wealth Management comprised 68%

In 2018, Taaleri's operating profit and operating profit margin totalled EUR23.9m and 33%, respectively

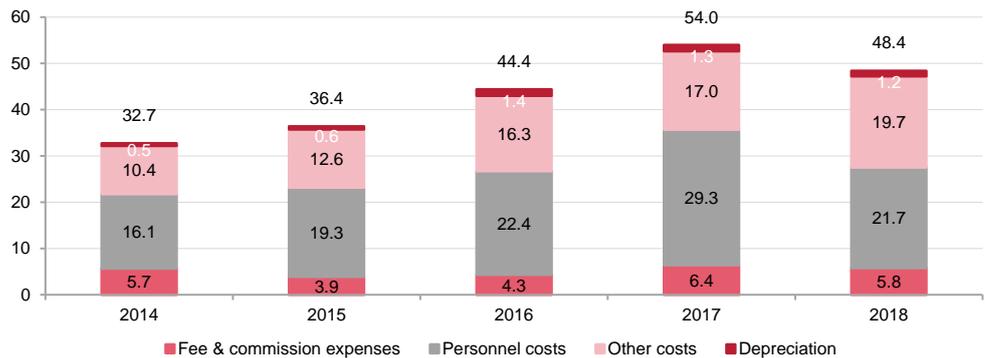
Chart 24: Total income, operating profit and operating profit margin 2014-18



Source: Company data, Danske Bank Equity Research

Taaleri’s total income increased by 35% from 2014 to 2018, from EUR53.6m to EUR72.5m. However, in 2018, total income decreased by 10% y/y, because of lower income from investment operations in the Financing division and decreased performance fees in the Wealth Management division. Operating profit increased from EUR6.6m in 2014 to EUR23.9m in 2018. The operating profit margin was over 30% in the past two years.

Chart 25: Taaleri’s cost structure (EURm)



Source: Company data, Danske Bank Equity Research

Taaleri’s cost structure is presented in the chart above. Typical to a financial services company, staff costs are the largest component of the company’s costs, consisting 45-54% of all the costs in 2014-2018. In 2018, staff costs totalled EUR21.7m, decreasing by 26% from the previous year as a result of decreased variable personnel costs.

History

Founded in 2007 as a wealth management company, Taaleri listed on the First North Helsinki in 2013, from where it moved to the main list in 2016. During its first years of operations, the company focused solely on wealth management. In 2009, it started managing private equity funds when it raised funds for its first real estate fund. Since then, Taaleri’s private equity business has continued to grow, as the company has opened new real estate, forest, wind and solar power funds.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.  
 Staff costs are the largest component of Taaleri’s cost structure, with employee expenses 45-54% of all costs in 2014-18

Founded in 2007, Taaleri listed on First North Helsinki in 2013, from where it moved to the main list in 2016

*When Taaleri sold its consumer loan business to Fellow Finance in 2015, it became a shareholder in Fellow Finance, which listed in 2018; currently, Taaleri has 26% ownership of Fellow Finance*

*In 2015, Taaleri expanded its operations into guaranty insurance by buying Garantia*

*Taaleri established the Energia division in 2016 but the division's operations have been active since 2010*

In 2013, Taaleri expanded its operations into consumer loans and investment loan products when the operations of its funding company Lainaamo started. In 2015, Taaleri sold Lainaamo to Fellow Finance, a peer-to-peer lending company. At the same time, Taaleri became a minority shareholder in Fellow Finance. Fellow Finance later listed on First North Helsinki in 2018. At the end of June 2019, Taaleri was the largest shareholder of Fellow Finance, with 26% ownership.

In 2015, Taaleri bought Garantia, an insurance company specialising in guaranty insurance. Garantia's offering includes mortgage guaranties, loan guaranties and commercial bonds. Historically, Taaleri has also been active in investing in companies from its own balance sheet. Taaleri's portfolio investments include Inderes Oy, ClarkApps Oy, Turun Toripark and Munkkiniemi Group.

Taaleri established a new division named Energia in 2016. The division operates in international energy infrastructure markets, channelling funds into renewable energy, such as wind and solar power.

In 2018, Taaleri also acquired Evervest Oy, a robo-adviser wealth management company. The rationale for the acquisition was Evervest's digital platform, which Taaleri expects to complement its traditional meeting-based service offering for its customers.

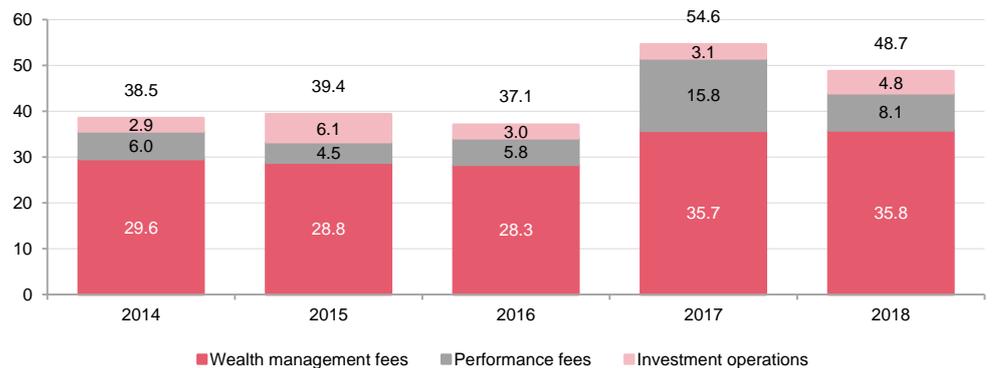
*Not for US distribution*

## Wealth Management

Taaleri manages in total over 40 mutual funds and private equity funds

Taaleri's Wealth Management division offers asset management services to private customers, institutions and companies. Its offering includes, for example, mutual funds, private equity funds, private banking and broker services. Taaleri's area of special expertise in asset management is private equity funds that enable private investors and small institutions to invest in assets that would otherwise be difficult to invest in, such as daycare properties, solar energy and wind power. Taaleri manages over 40 mutual and private equity funds and the division had 119 employees on average in H1 19, of which some 35 were private bankers. The Wealth Management division's AuM were EUR6.3bn at the end of H1 19.

Chart 26: Total income in Wealth Management (EURm)



Source: Company data, Danske Bank Equity Research

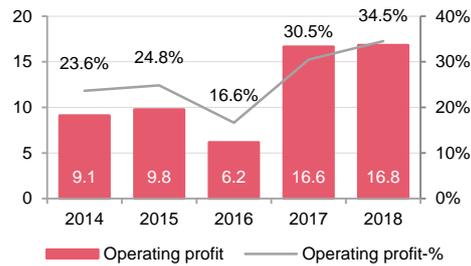
In 2018, Wealth Management's income totalled EUR48.7m, consisting of three components: continuing fees for wealth management (EUR35.8m), performance fees (EUR8.1m) and investment operations (EUR4.8m).

- Wealth management fees** consist of purchase, redemption and management fees for Taaleri's mutual funds and private equity funds, as well as brokerage fees from discretionary and consultative wealth management. In Taaleri's mutual funds, the management fee range was 0.2-2.0% p.a. according to the Taaleri Fund Management Company's mutual fund prospectus. In private equity funds, Taaleri does not disclose the management fee level but we believe it is in the same range as the industry average of 0.5-2.0%. Wealth management fees have historically been the largest and most stable source of income for the division.
- Performance fees** are based on the return of Taaleri's funds that exceeds the return of the respective benchmark index. For Taaleri Fund Management Company's funds, the usual performance fee is 20% of the return that exceeds the return of the benchmark index. In private equity funds, Taaleri receives carried interest when exiting the funds if the fund return exceeds the hurdle rate. For Taaleri, we believe the normal carry is some 20% of the excess return of the fund compared with the hurdle rate. The hurdle rate is normally some 7-8% p.a., which we believe is also the case for Taaleri. Performance fees are the most volatile component of Wealth Management's income.
- Investment operations income** consists of exits from projects developed by private equity funds. However, there is only one project left that is booked under the Wealth Management division: the Posio wind farm. Hence, we believe that after 2020, investment operations income will decline close to zero, as future development projects will not be booked under the Wealth Management division.

Not for US distribution

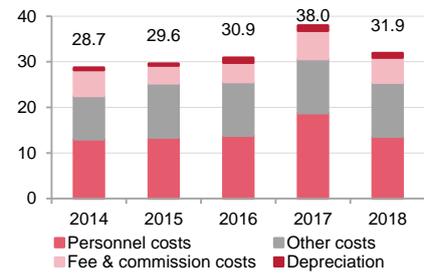
The Wealth Management division's income comes from three sources: management fees, performance fees and investment operations

Chart 27: Operating profit and operating profit margin in Wealth Management



Source: Company data, Danske Bank Equity Research

Chart 28: Cost structure of Wealth management



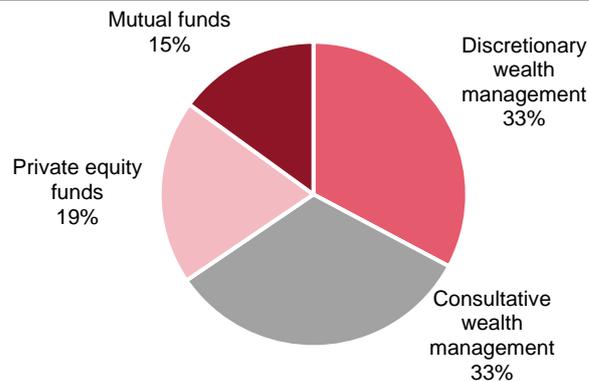
Source: Company data, Danske Bank Equity Research

The Wealth Management division's operating profit margin was 30.5% and 34.5% in 2017 and 2018, respectively, clearly surpassing Taaleri's long-term group level operating profit margin target of at least 20%. In the past five years, 2016 was the only year when Wealth Management's operating profit margin was below 20%.

In 2014-16, the income of the Wealth Management division was relatively stable. However, in 2017, the division's total income increased by 47% to EUR54.6m, driven by the increase in AuM, which lifted the continuing fees of wealth management by 26% from EUR28.3m to EUR35.7m. During 2017, Taaleri sold its share of the Mattiivi Oy co-investment and Taaleri Forest Fund I private equity fund, which increased performance fees significantly, from EUR5.8m to EUR15.8m.

Continuing fees remained at the 2017 level in 2018, despite the decreased trading activities compared with 2017. Even though the division's total income decreased by 11% from EUR54.6m in 2017 to EUR48.7m in 2018 because of decreased performance fees, operating profit was almost flat at EUR16.8m in 2018 versus EUR16.6m in 2017, as costs decreased. The decline in costs was mainly because of decreased variable personnel costs.

Chart 29: Wealth Management AuM in H1 19 (EUR6.3bn)



Source: Company data, Danske Bank Equity Research

In H1 19, Wealth Management's AuM totalled EUR6.3bn, while the Taaleri group's AuM were EUR6.6bn. The difference comes from the Energia division's AuM and Garantia's investment portfolio, which Taaleri includes in group AuM. The company divides the AuM of the Wealth Management division into four components.

- **Discretionary wealth management** had EUR2.1bn AuM at the end of H1 19, accounting for 33% of the total AuM of the division. In discretionary wealth management, Taaleri makes investment decisions based on an investment strategy agreed with the client. We estimate that the average management fee in discretionary wealth management AuM is some 0.4% p.a.

Not for US distribution

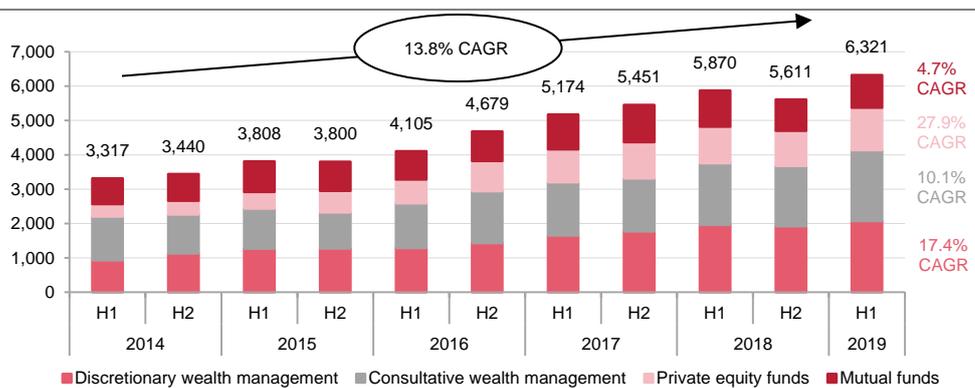
Wealth Management's operating profit margin has been above 30% for the past two years

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Taaleri divides Wealth Management's AuM into four components: discretionary wealth management, consultative wealth management, private equity funds and mutual funds - we believe management fees are highest in private equity and mutual funds

- **Consultative wealth management** had EUR2.1bn AuM and a 33% share of the division's AuM at the end of H1 19. Consultative wealth management consists of broker services, where Taaleri makes investment recommendations for its customers but the clients make the final investment decisions. Of the four AuM types, consultative wealth management AuM are the least profitable, as clients do not necessarily invest the AuM in any of Taaleri's funds. We estimate that the average management fee for consultative AuM is some 0.1% p.a.
- **Private equity funds** had EUR1.2bn AuM and a 19% of share of the division's AuM at the end of H1 19. Taaleri's private equity funds consist of, for example, real estate and energy infrastructure funds. The company manages some 20 private equity funds. We believe that private equity funds have the highest management fees and estimate the fee to be some 1.5% p.a. on average.
- **Mutual funds** had EUR0.9bn AuM and a 15% share of the segment's AuM at the end of H1 19. Taaleri Fund Management Company manages 23 mutual funds, consisting of fixed income, equity, alternative and hybrid funds. As of June 2019, the range of the funds' management fees was 0.2-2.0% p.a, according to the fund management company's mutual fund prospectus. We estimate that the average management fee is some 1% p.a.

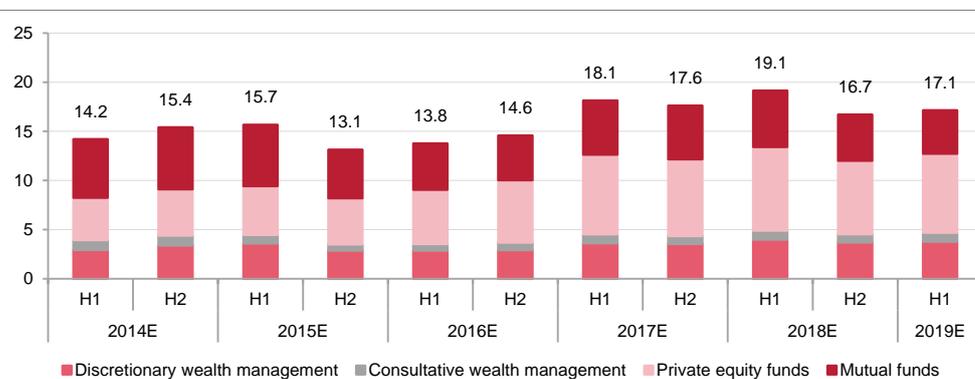
Chart 30: Assets under management in Wealth Management (EURm)



Source: Company data, Danske Bank Equity Research

Over 2014-H1 19, the Wealth Management division's AuM grew by 91%, translating to CAGR of 13.8%. Growth was fastest in private equity funds and discretionary wealth management, with CAGRs of 27.9% and 17.4%, respectively. Over the equivalent time period, the AuM by consultative wealth management grew at a CAGR of 10.1%, while AuM of mutual funds grew at a CAGR of 4.7%.

Chart 31: Estimated breakdown of continuing fees in Wealth Management (EURm)



Source: Danske Bank Equity Research estimates

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Wealth Management's AuM grew by a 13.8% CAGR over 2014-H1 19; growth was fastest in private equity funds (27.9% CAGR) and discretionary wealth management (17.4%)

The chart above shows our estimates of the components of Wealth Management's continuing fees, assuming that the average management-fee level is 1.0% for mutual funds, 1.5% for private equity funds, 0.4% for discretionary wealth management and 0.1% for consultative wealth management. We estimate that as private equity fund AuM almost tripled between H1 14 and H1 19, private equity fund management fees have become the biggest source of income in the Wealth Management division before mutual funds' management fees.

### Private equity funds

Taaleri's area of special expertise in wealth management is private equity funds, which enable private investors and institutions to invest in assets in which it would otherwise be difficult to invest. We list Taaleri's private equity funds in the table below. Based on the information on Taaleri's websites, the company has 21 alternative funds, consisting of real estate funds (12 funds), energy infrastructure funds (five) and other private equity investment funds (four).

Table 4: Taaleri's alternative investment funds

Fund	Established	Investment commitments (EURm)
<b>Real estate funds</b>		
Housing fund IV	2011	1
Linnainmaankulma	2011	2
Housing fund VI	2012	40
Forest fund III	2014	18
Africa I fund	2014	40
Real estate development fund	2015	67
Property fund I	2015	54
Rental home	2016	30
Property fund II	2016	28
Africa II fund	2017	73
Multifunctional premises	2018	25
Daycare properties	2019	n.a.
<b>Total</b>		<b>376</b>
<b>Energy infrastructure</b>		
Wind Power fund II	2014	84*
Wind Power fund III	2016	45
SolarWind	2016	87
SolarWind II	2019	220**
Wind Power fund IV	2019	50
<b>Total</b>		<b>486</b>
<b>Private equity investments</b>		
Circular economy	2016	40
Telakka	2016	10
Datacenter	2018	16
Varustamo	2018	16
<b>Total</b>		<b>82</b>
<b>Total, all</b>		<b>944</b>

\* Partly exited in 2019

\*\* AuM at the first close; the target size of SolarWind II is EUR300m, with a maximum size of EUR400m

Source: Company data, Danske Bank Equity Research estimate for Wind Power fund I

Private equity funds are usually fixed term, meaning they make an exit by selling the portfolio's investments after a period of time, usually seven to 10 years. For some funds, however, the term can be shorter: in 2017, Taaleri sold the forest fund it established in 2012.

Not for US distribution

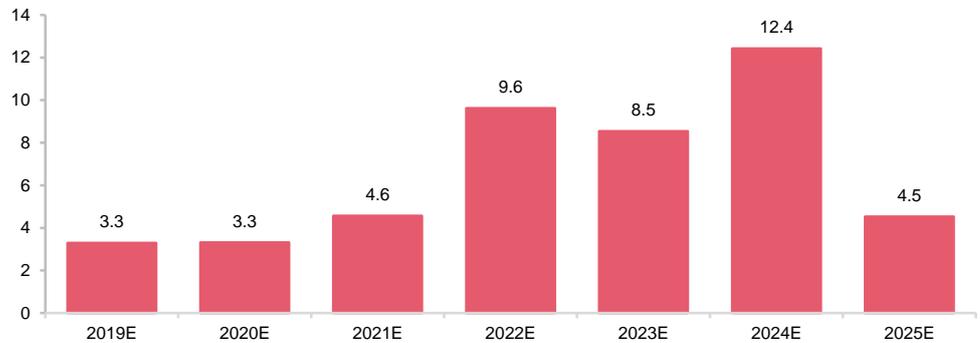
Based on the information on Taaleri's websites, the company has 21 private equity funds, consisting of real estate funds (12 funds), energy infrastructure funds (5) and other private equity investment funds (4)

Taaleri earns performance fees, or carried interest, in fund exits if the fund return exceeds the hurdle rate; the normal carry in the industry is some 20%, which we believe is also the case for most of Taaleri's private equity funds

We estimate carried interest from alternative funds will increase from EUR3-5m in 2019-21E to EUR8-12m in 2022-24E, driven by exits of larger funds

Taaleri earns performance fees, or carried interest, in its private equity funds if the fund return exceeds the pre-determined IRR, or hurdle rate. In most of Taaleri's private equity funds, we believe the hurdle rate is some 7-8% p.a. and carry 20% of the return that exceeds the hurdle rate as discussed earlier.

Chart 32: Taaleri - carried interest from alternative funds 2019-25E (EURm)



Source: Danske Bank Equity Research estimates

We make rough carried interest estimates assuming that the average fund lifetime is seven years for real estate funds and 10 years for energy infrastructure funds, the multiple on invested capital (MOIC) is on average 1.8x, the hurdle rate is 7% and the carry is 20% of the excess return. With these assumptions, we estimate that in 2020 and 2021, carried interest would be some EUR3.3m and EUR4.6m, respectively, as Taaleri would sell Housing fund VI in 2020 and Forest Fund III and Africa fund I in 2021. In 2022, we estimate carry would increase to EUR9.6m as Taaleri would sell the Real estate development fund and Property fund I. In 2023, we estimate EUR8.5m carried interest from the exits from Rental Home, Property fund II, Circular Economy and Telakka.

**Mutual funds**

Taaleri's mutual funds are operated by Taaleri Fund Management Company. Currently, the company operates 20 mutual funds, including equity, fixed income and combined investment funds. At the end of September 2019, the net asset value of the funds totalled EUR984m, with the average fund size EUR49m. The largest funds were Stable Yield (EUR198m AuM), Rhein Value (EUR190m) and Micro Rhein (EUR85m). In terms of earnings, Taaleri's Stable Yield fund has only a 0.1% management fee p.a., as the fund invests only by making fixed deposits with commercial banks in Finland, whereas Rhein Value and Micro Rhein have a management fee of 1.2% p.a. Overall, the average management fee p.a. for Taaleri's mutual funds was 0.9% at the end of September 2019 and the majority of the funds had a 20% performance fee.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Table 5: Taaleri's mutual funds

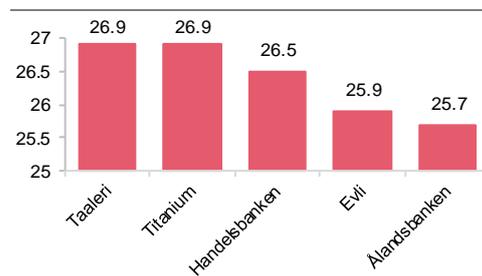
Fund	Established	AuM (EURm) Sep-19	Management fees p.a.	Performance fee
<b>Equity</b>				
European Cash Machines	2018	34	1.0%	20.0%
Finland Value	2010	40	1.2%	20.0%
Micro Markka	2013	43	1.2%	20.0%
Micro Rhein	2015	85	1.2%	20.0%
New Europe	2018	9	1.2%	20.0%
Nordic Value	2014	35	1.2%	20.0%
Rhein Value	2019	190	1.2%	20.0%
Global Equity	2013	22	0.7%	20.0%
<b>Fixed income</b>				
Corporate Bond	2013	58	0.6%	10.0%
Higher Yields	2014	38	0.8%	10.0%
Short Bond	2017	55	0.5%	0.0%
Stable Yield	2012	198	0.1%	0.0%
Global Fixed Income	2019	10	0.5%	10.0%
<b>Combined</b>				
Active	2014	11	1.2%	20.0%
Allocation 25	2013	25	0.6%	20.0%
Allocation 50	2019	47	0.7%	20.0%
Alternatives	2019	11	0.8%	0.0%
Cautious Owner	2016	34	0.7%	20.0%
Courageous Owner	2016	8	0.9%	20.0%
Moderate Owner	2016	30	0.8%	20.0%
<b>Total</b>		<b>984</b>		
<b>Average</b>		<b>49</b>	<b>0.9%</b>	

Source: Danske Bank Equity Research estimates

**Awarded asset management**

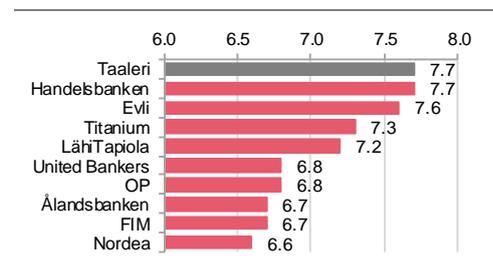
In October 2019, a study conducted by Finnish business magazine *Arvopaperi* chose Taaleri as the best asset manager in Finland. In the survey, *Arvopaperi* asked Finnish investors seven questions related to the performance of their asset managers. Taaleri received the highest points together with Titanium, with 26.9 out of a maximum of 35.0.

Chart 33: Top 5 asset managers in Finland based on sum of scores from seven questions (maximum points 35)



Source: *Arvopaperi*

Chart 34: How likely would you be to recommend your asset manager to a friend (0=highly unlikely, 10=very likely)



Source: *Arvopaperi*

Taaleri's points were higher than average for all of the questions and the company was chosen as the asset manager most likely to be recommended to a friend.

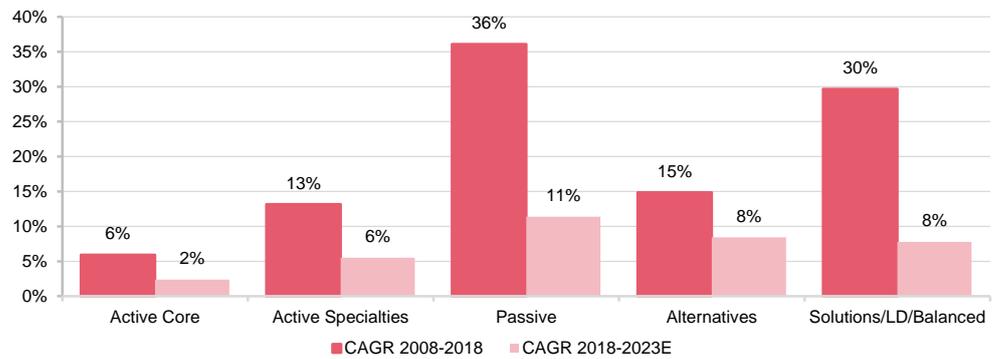
Not for US distribution

*Taaleri was chosen as the best Finnish asset manager in a study conducted by a Finnish business magazine Arvopaperi in October 2019*

*Private equity growth expected to continue in coming years*

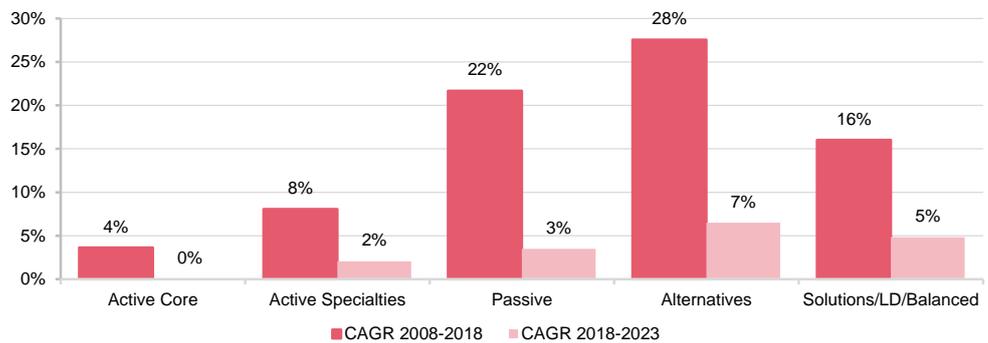
Since the financial crisis, alternative investments have seen capital inflow, not least because of the low interest rate environment. The AuM of alternative investments grew at a CAGR of 15% over 2008-18 according to Bloomberg Intelligence and it estimates growth will continue in coming years. Bloomberg estimates alternative AuM will grow at a CAGR of 8% over 2018-23, the second fastest after passive investments.

Chart 35: AuM CAGRs for different investment types 2008-18 and 2018-2023E



Source: Bloomberg Intelligence, Danske Bank Equity Research

Chart 36: Revenue CAGRs for different investment types 2008-18 and 2018-23E



Source: Bloomberg Intelligence, Danske Bank Equity Research

Bloomberg Intelligence estimates AuM growth for alternative investments will turn into revenue growth as well. It estimates a CAGR in revenue of 7% over 2018-23, the fastest among the different investment types listed by Bloomberg.

Not for US distribution

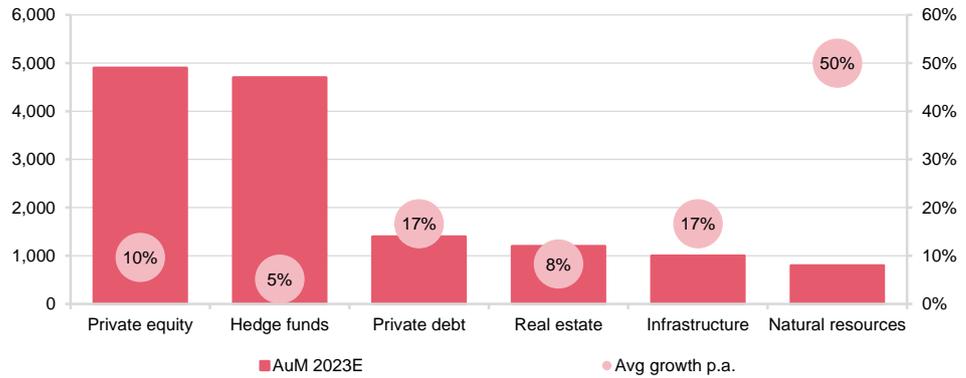
According to Bloomberg Intelligence, passive investments had the highest growth over 2008-18; alternative investments grew at a more modest CAGR of 15% over 2008-18. Bloomberg expects growth to continue at a CAGR of 8% over 2018-23E...

...but revenues from alternatives investments are likely to have the highest growth of any asset class in 2018-23E

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Bloomberg Intelligence expects natural resources to be the fastest growing alternative investment type over 2017-23E, with an average annual growth rate of 50%

Chart 37: AuM 2023E (EURbn) and average growth rate p.a. of different alternative investment classes over 2017-23E



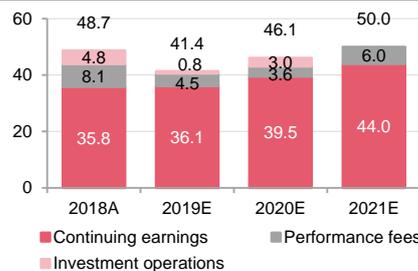
Source: Bloomberg Intelligence, Danske Bank Equity Research

Of the different alternative investment types, Bloomberg Intelligence estimates natural resources will grow the fastest, with an average annual growth rate of 50% over 2017-23. For private equity, Bloomberg Intelligence estimates that AuM will reach almost EUR5,000bn in 2023, growing at an average rate of some 10% p.a., supporting Taaleri's private equity funds' growth outlook.

Financial estimates

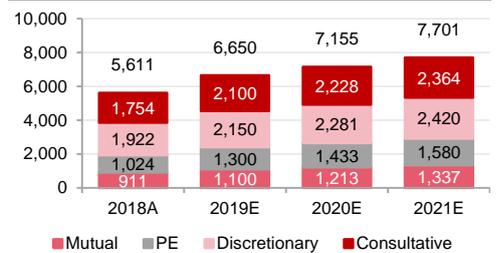
We estimate the Wealth Management division's income decreased by 15% in 2019 to EUR41.4m, driven by decreased performance fees and income from investment operations. However, in 2020, we estimate income will grow by 11% to EUR46.1m, as we believe continuing earnings will increase to EUR39.5m driven by AuM growth. Further, we estimate EUR3.0m investment operations income from Taaleri's Posio wind-power development project, which we expect Taaleri to sell in H1 20.

Chart 38: Income in Wealth Management 2018-21E (EURm)



Source: Company data, Danske Bank Equity Research estimates

Chart 39: Estimated AuM 2018-21E (EURm)



Source: Company data, Danske Bank Equity Research estimates

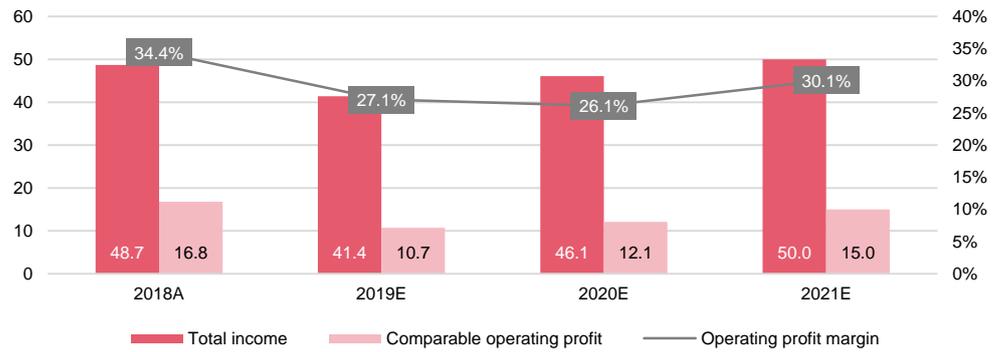
Overall, we note that the biggest growth driver for the division's income is AuM growth. We estimate AuM growth of 19% and 10% for 2019E and 2020E, respectively, as we expect Taaleri to continue launching new funds, especially in the private equity segment.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

We estimate Wealth Management's income will increase by 11% to EUR46.1m in 2020, driven by AuM growth

Chart 40: Wealth Management income, operating profit and operating profit-margin 2018-21E



Source: Danske Bank Equity Research estimates

In terms of profitability, we estimate that Wealth Management’s operating profit margin decreased to 27% in 2019, driven by decreasing performance fees and income from investment operations. In 2020, we expect performance fees to continue decreasing and expect meaningful revenue only from the sale of Housing IV. Thus, we expect the operating profit margin to decrease to 26.1% in 2020. In 2020-21, we estimate minor growth in staff costs, as Taaleri reduced the group’s headcount by 6%, or by 13 employees, in H1 19, of which we believe it cut the majority from the Wealth Management division. We estimate other costs will grow moderately and as a result we expect profitability to increase in 2021 given moderate pressure in costs and income growth driven by continuing earnings and increasing performance fees from fund exits.

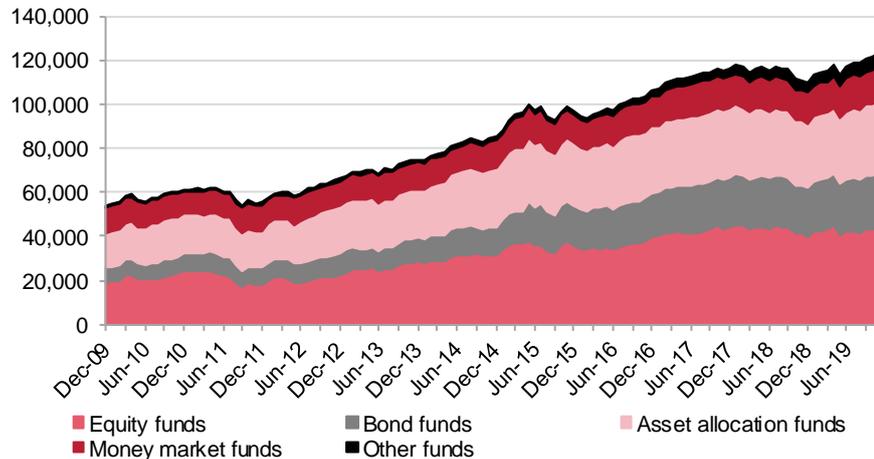
Not for US distribution

## Finnish asset management market

AuM of Finnish mutual funds grew by a CAGR of 12.4% over 2000-9M 19

The Finnish asset management market has grown rapidly over the past couple of decades, as the AuM of mutual funds based in Finland grew by a CAGR of 12.4% over 2000-9M 19.

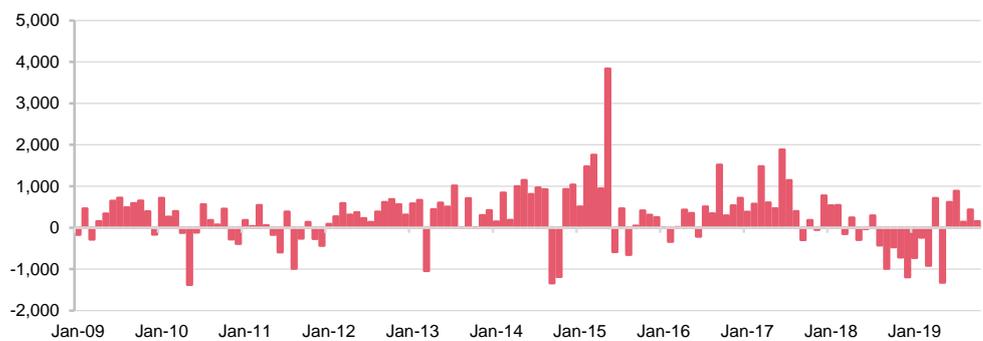
Chart 41: AuM in Finnish mutual funds (EURm)



Source: Investment Research Finland

The AuM of mutual funds domiciled in Finland totalled EUR120.8bn at the end of September 2019, with 35% of assets invested in equity funds, 27% in bond funds, 20% in asset allocation funds, 13% in money market funds and 5% in other funds.

Chart 42: Net inflows in Finnish investment funds (EURm)



Source: Bank of Finland

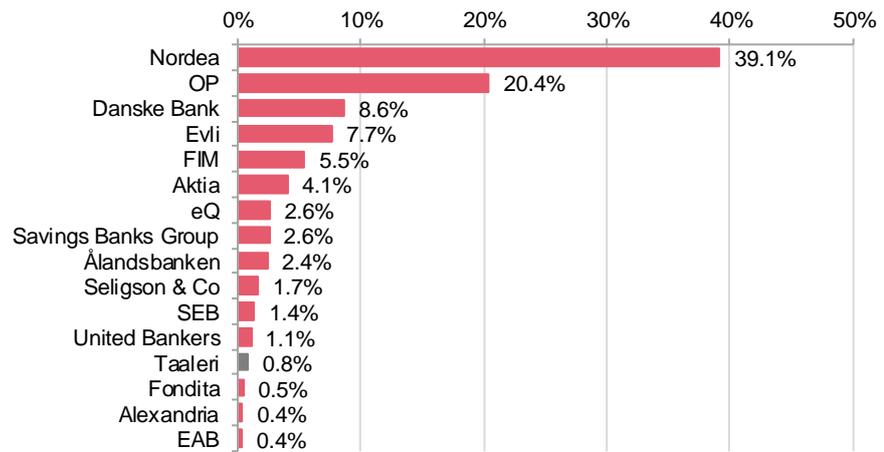
The average monthly net inflow to Finnish investment funds was EUR265m over 2009-October 2019. Net inflows have been positive since June 2019, after a period starting from mid-2018 when redemptions exceeded new investments most months.

Average monthly net inflow to Finnish mutual funds was EUR265m over 2009-October 2019

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

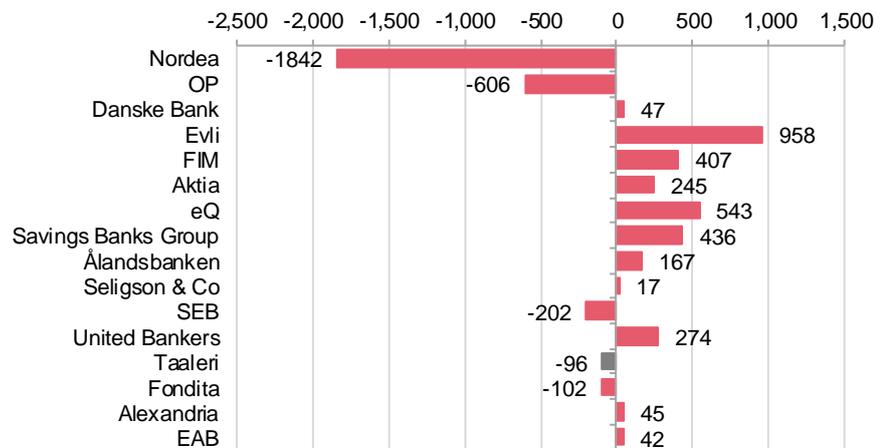
Chart 43: Market shares of the 16 largest Finnish fund management companies December 2019



Source: Finance Finland, Danske Bank Equity Research

According to Finance Finland, Taaleri Fund Management Company was the 13th largest fund management company in Finland at the end of December 2019, with AuM of EUR1.1bn, translating to a market share of 0.8%. The three largest fund management companies – Nordea, OP and Danske Bank – have almost 70% market share between them.

Chart 44: Net subscriptions of the 16 largest Finnish fund management companies in 2019 (EURm)



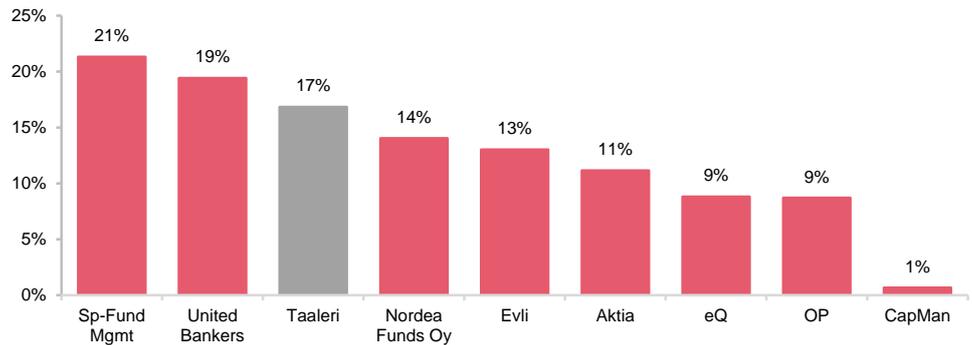
Source: Finance Finland, Danske Bank Equity Research

Taaleri Fund Management Company's net subscriptions were EUR-96m in 2019, which was the fourth lowest among the 16 largest fund management companies in Finland. Evli, eQ and Savings Bank Group had the highest net subscriptions with figures of EUR958m, EUR543m and EUR436m, respectively.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.  
 Taaleri Fund Management Company had a market share of 0.8% at the end of December 2019, making it the 13th largest fund management company in Finland

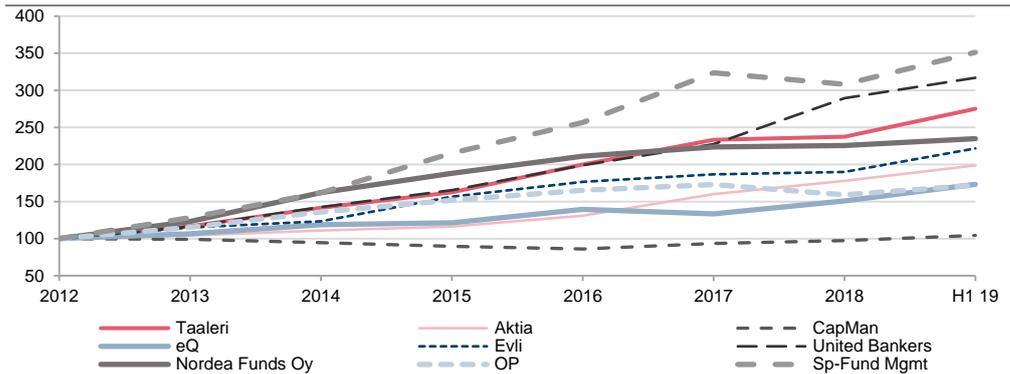
Chart 45: Assets under management CAGR 2012-H1 19



Source: Company data, Danske Bank Equity Research

Over 2012-H1 19, Taaleri's AuM grew at a CAGR of 17%. Compared with selected peers, Taaleri's AuM grew the third fastest and grew faster than that of Nordea Fund Management, Evli, Aktia, eQ, OP and CapMan. Sp-Fund Management Company grew the fastest at a CAGR of 21%.

Chart 46: Assets under management development 2012-H1 19 (2012=100)



Source: Company data, Danske Bank Equity Research

### Peer comparison

We divide Taaleri's competitors into two groups.

- **Banks that offer private banking services**, such as OP, Nordea, Danske Bank and Aktia.
- **Medium-sized asset management companies**, such as CapMan, eQ, Evli, EAB Group, United Bankers (UB) and Titanium.

Table 6: Summary of Taaleri and its asset management peers

Company	Income 2018 (EURm)	Operating profit margin 2018	AuM H1 19 (EURbn)	Wealth management	Private equity	Corporate finance	Guaranty insurance
Taaleri	72.5	33%	6.6	x	x	x	x
CapMan	36.0	36%	3.3	x	x		
EAB	19.6	9%	3.2	x	x		
eQ	45.4	49%	10.9	x	x	x	
Evli	68.5	28%	13.3	x	x	x	
UB	33.7	12%	3.2	x	x	x	
Titanium	16.7	49%	0.9*	x	x		

Note: Income and operating profit margin are as of 2018, while AuM is at the end of H1 19

Source: Danske Bank Equity Research estimates

### Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited. Over 2012-H1 19, Taaleri's AuM grew the third fastest among Finnish peers at a CAGR of 17%

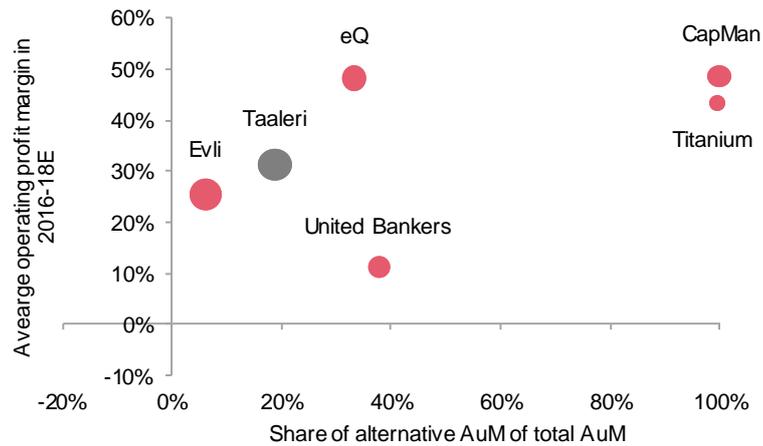
We believe Taaleri's closest listed peers in Finland are CapMan, EAB, eQ, Evli, United Bankers and Titanium

Taaleri has more traditional AuM than alternative AuM (private equity, real estate, commodity AuM, etc.) than its Finnish peers and its historical operating profit margin is at an average level at some 30%

The table above lists Taaleri and its asset management peers' total income and operating profit margin in 2018 and AuM at the end of H1 19 and their service and product offerings.

The core business of all the companies listed in the table is wealth management and all the companies have private equity funds in their offering. In addition to traditional asset management, Taaleri, eQ, Evli and United Bankers have corporate finance advisory operations. Furthermore, unlike other Finnish asset management companies, one of Taaleri's core businesses is guaranty insurance, which differentiates it from its peers that focus mainly on asset management.

Chart 47: Share of alternative AuM of total AuM and average operating profit margin for Finnish asset management companies 2016-18E



Note: The size of the shape reflects total income in 2018 relative to the peer group  
 Source: Company data, Danske Bank Equity Research estimates.

The chart above illustrates the Finnish asset management landscape by showing the share of alternative AuM (private equity, real estate, commodity AuM, etc.) as a percentage of total AuM and the average operating profit margin in 2016-2018. Asset managers with the most alternative AuM are CapMan and Titanium, which have all (CapMan) or almost all (Titanium) of their AuM invested in alternative investments. CapMan and Titanium, along with eQ, were also the most profitable asset managers. Compared with its peers, Taaleri has more traditional AuM than CapMan, Titanium, eQ and United Bankers and its historical operating profit margin is at an average level, at some 30%.

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

## Benchmarking Taaleri Wealth Management vs Finnish asset management peers

Table 7: AuM, income and staff costs per full-time equivalent (FTE) for Finnish asset management companies 2018

Company	FTEs	AuM (EURm)	AuM/FTE (EUR000)	Income (EURm)	Income/FTE (EUR000)	Staff costs (EURm)	Staff costs/FTE (EUR000)
Taaleri WM	120	3.9*	33	48.7	406	13.6	113
CapMan	117	3.0	26	33.5	286	19.9	170
EAB Group	108	3.0	28	19.6	181	7.6	70
eQ	86	5.5*	64	45.4	528	18.3	213
Evli	254	11.3*	44	68.5	270	27.9	110
United Bankers	130	2.9	22	33.7	259	12.0	92
Titanium	45	0.9**	19	16.7	371	2.5	55
Median	117	3.0	28	33.7	286	13.6	110
Average	123	4.4	34	38.0	329	14.5	118
<b>Taaleri vs avg.</b>	<b>-2%</b>	<b>-10%</b>	<b>-3%</b>	<b>28%</b>	<b>23%</b>	<b>-6%</b>	<b>-4%</b>

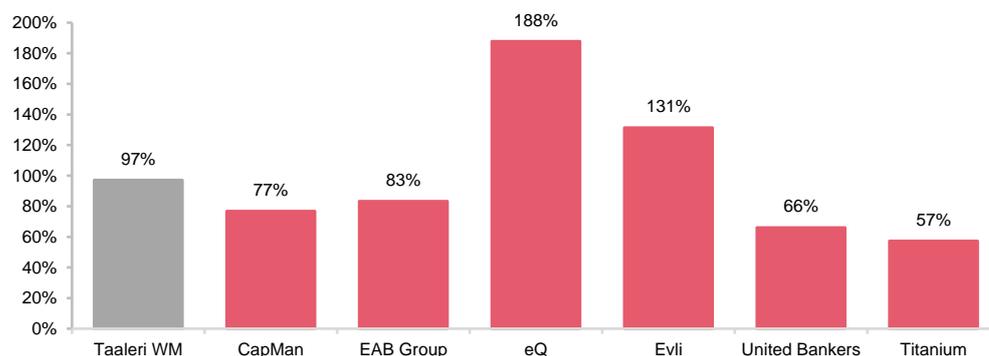
\* Excluding AuM in consultative wealth management (Taaleri and Evli) or assets covered by reporting services (eQ)

\*\* Danske Bank Equity Research estimates

Source: Company data, Danske Bank Equity Research

The table above lists the AuM, total income and staff costs of Taaleri's Wealth Management division and its respective Finnish asset management peers divided by the number of full-time employees in 2018.

Chart 48: AuM per FTE for Finnish asset management companies in 2018 (% of the peer group average)



Note: Excluding AuM in consultative wealth management (Taaleri and Evli) or assets covered by reporting services (eQ)

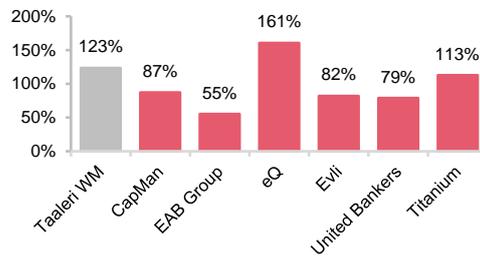
Source: Company data, Danske Bank Equity Research

In 2018, Wealth Management's AuM per full-time equivalent (FTE) was EUR33,000, the third highest in the peer group. eQ had the highest AuM per employee, with a figure of EUR64,000 ahead of Evli with EUR44,000.

We note that we exclude consultative wealth management AuM for Taaleri and Evli and AuM covered by reporting services for eQ. For these items, we believe the management fees are clearly below mutual fund and private equity management fees. For Taaleri, consultative wealth management AuM totalled EUR1.8bn in 2018, or 31% of the company's total AuM of EUR5.7bn in 2018. For Evli, the figure was only EUR0.1m, or 1% of the total AuM, whereas for eQ, 42% (EUR4.0bn) of AuM were assets covered by the company's reporting services. The rest of the peers do not disclose their AuM breakdown in a similar way to Taaleri, Evli and eQ.

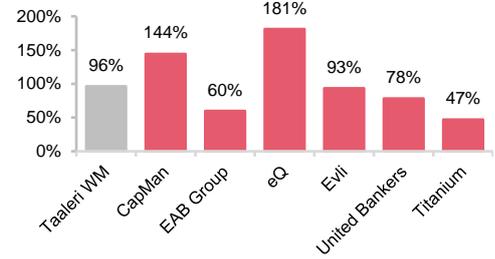
Not for US distribution

Chart 49: Income per FTE for Finnish asset management companies in 2018 (% of the peer group average)



Source: Company data, Danske Bank Equity Research

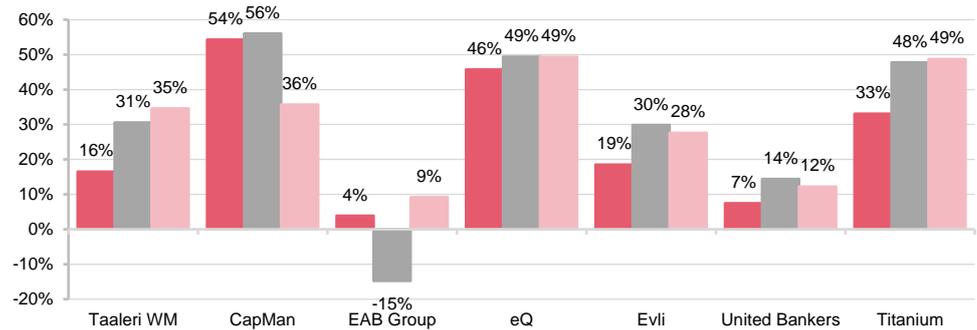
Chart 50: Staff costs per FTE for Finnish asset management companies in 2018 (% of the peer group average)



Source: Company data, Danske Bank Equity Research

The Wealth Management division's income per FTE in 2018 was 23% above the peer group average and the second highest among the group at EUR406,000. Taaleri's unit staff costs totalled EUR113,000 in 2018 and were on par with the peer group average. eQ had clearly the highest staff costs per FTE, at 81% above the peer group average, but it also had the highest unit income, which was 61% above the average. The most cost-efficient asset management company in terms of employee costs in 2018 was Titanium, with only EUR55,000 staff cost per FTE.

Chart 51: Operating profit margin of Finnish asset management companies 2016-18



Source: Company data, Danske Bank Equity Research

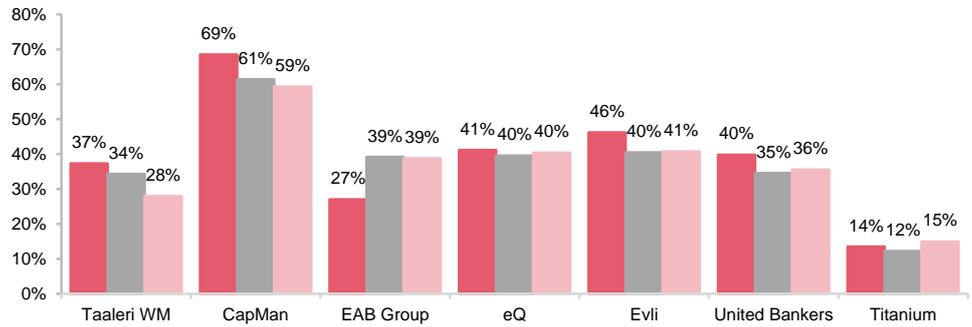
Wealth Management's operating profit margin in 2016-18, which ranged from 16% to 35%, was at an adequate level compared with its Finnish peers. We note that Wealth Management's profitability can fluctuate quite heavily depending on performance fees and investment income. For example, performance fees were EUR15.8m in 2017, while they were only EUR5.8m in 2016. This largely explains the improvement in the operating profit margin in 2017.

The most profitable asset management companies in Finland over the past three years were eQ, Titanium and CapMan. eQ's operating profit margin has consistently been close to 50%, while Titanium's operating profit margin increased from 33% in 2016 to 48% in 2017 and 49% in 2018. CapMan's operating profit margin was over 50% in 2016-17 but decreased to 36% in 2018 due to the challenging market environment at the end of 2018 and decreased performance fees. Of our selected Finnish asset management companies, EAB and United Bankers were the least profitable in 2016-18, as their operating profit margins for the period were clearly below 20%.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.  
 Wealth Management's income per FTE was EUR406,000 in 2018, 23% above the peer average  
 Taaleri's staff costs per FTE were 4% below the peer group average in 2018  
 Wealth Management's operating profit margin increased from 16% to 35% over 2016-18 - compared with peers, we view this as an adequate level

Chart 52: Staff costs as a share of income of Finnish asset management companies 2016-18



Source: Company data, Danske Bank Equity Research

Wealth Management's staff costs as a share of total income decreased from 37% in 2016 to 28% in 2018. Overall, the division's staff costs are at a relatively low level compared with its peers. In 2018, Titanium was the only asset management company that had lower staff costs per sales than Taaleri. The companies with the highest share of staff costs to total income in the past three years were CapMan (range of 55-69%), eQ (40-41%) and Evli (40-46%).

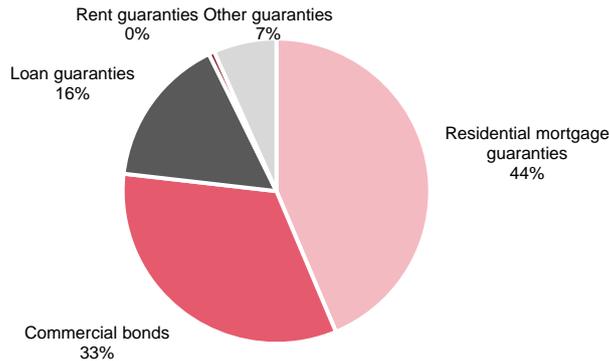
This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited. Taaleri's staff costs per total income were 28% in 2018, the second lowest in the peer group after Titanium

## Financing

Taaleri acquired Garantia in 2015 for EUR60m from a group of Finnish pension insurance companies; Garantia offers its customers mortgage guaranties, loan guaranties, commercial bonds, investment guaranties and rent guaranties

The Financing division consists of the operations of Garantia, an insurance company specialising in guaranty insurance. Founded in 1993, Taaleri acquired Garantia in 2015 for EUR60m from a group of Finnish pension insurance companies. Garantia offers its customers mortgage guaranties, loan guaranties, commercial bonds, investment guaranties and rent guaranties. Garantia divides its business into guaranty insurance operations and investment operations.

Chart 53: Garantia's guaranty insurance portfolio end-H1 19 (EUR1,645m)

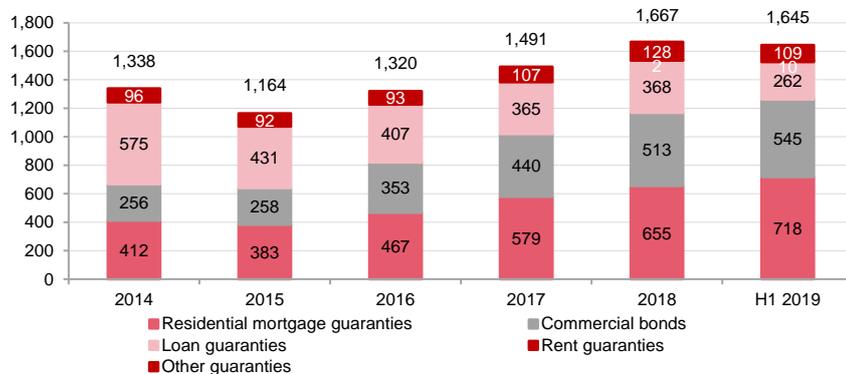


Source: Company data, Danske Bank Equity Research

Residential mortgage guaranties form the largest part of Garantia's insurance portfolio, as at the end of June, 44% of the EUR1.6bn portfolio consisted of residential mortgage guaranties, 33% was commercial bonds, 16% was loan guaranties, 1% was rent guaranties and 7% was other guaranties.

In mortgage loans, Garantia's co-operation partners include Aktia, Danske Bank, Handelsbanken, HYPO, OmaSp, POP Bank Group, S-Bank and Savings Bank Group. Of the largest banks operating in Finland, Nordea and OP are the only ones who do not use Garantia as their mortgage guaranty provider. Overall, Garantia has a solid market position in the niche Finnish guaranty insurance market, where its competitors include other banks such as OP and Arch Capital Group, which is the guaranty insurance provider for Nordea's mortgages.

Chart 54: Guaranty insurance portfolio by product type in 2014-H1 19 (EURm)



Source: Company data, Danske Bank Equity Research

Not for US distribution

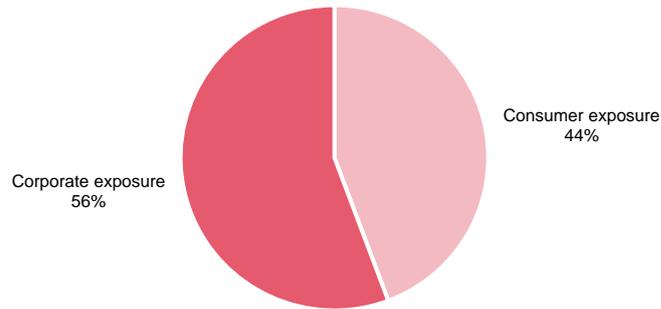
This report is for Matti Ahokas @Danske Bank. Unauthorized redistribution of this report is prohibited.

Garantia's insurance portfolio totalled EUR1.6bn at the end of H1 19, of which mortgage guaranties formed the largest part (44%) before commercial bonds (33%), loan guaranties (16%) and other guaranties (7%)

Over 2014-H1 19, Garantia's insurance portfolio grew by a CAGR of 5%, with growth being fastest in mortgage guaranties (13% CAGR) and commercial bonds (18%)

Garantia's insurance portfolio grew by a CAGR of 5% over 2014-H1 19, with the growth being fastest in residential mortgage guaranties (13% CAGR) and commercial bonds (18%), which more than doubled over the given time period. Loan guaranties fell by 54% from EUR575m in 2014 to EUR262m in H1 19. We believe the decline in loan guaranties is partly a result of a decline in corporate pension loans, where companies can borrow back their pension contributions from their pension insurance companies.

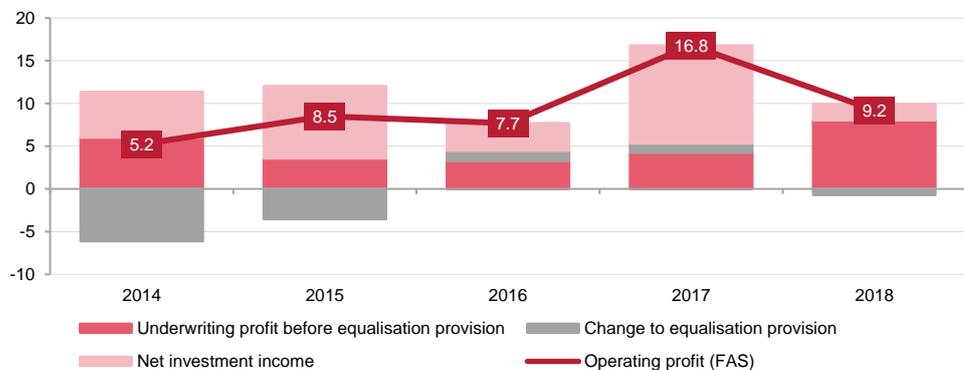
Chart 55: Guaranty insurance portfolio by exposure type end-H1 19



Source: Company data, Danske Bank Equity Research

At the end of June 2019, Garantia's guaranty-insurance portfolio's corporate exposure was 56% and consumer exposure was 44%. Of the corporate exposure, the main exposure was to the construction sector (59%) and the manufacturing sector (18%). Further, 55% of Garantia's construction guaranties were reinsured.

Chart 56: Operating profit of Garantia 2014-18 (EURm)



Source: Company data, Danske Bank Equity Research

Garantia's operating profit as reported according to Finnish Accounting Standards (FAS) varied between EUR5.2m and EUR16.8m over 2014-18.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Of the insurance portfolio, 56% was corporate guaranties at the end of H1 19

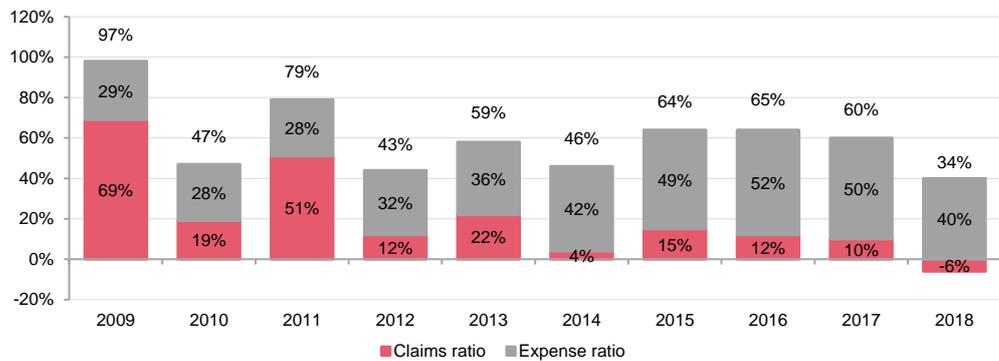
Chart 57: Gross premiums written (EURm)



Source: Company data, Danske Bank Equity Research

Garantia's gross premiums written increased by 54% over 2014-18, driven by the increase in the guaranty insurance portfolio.

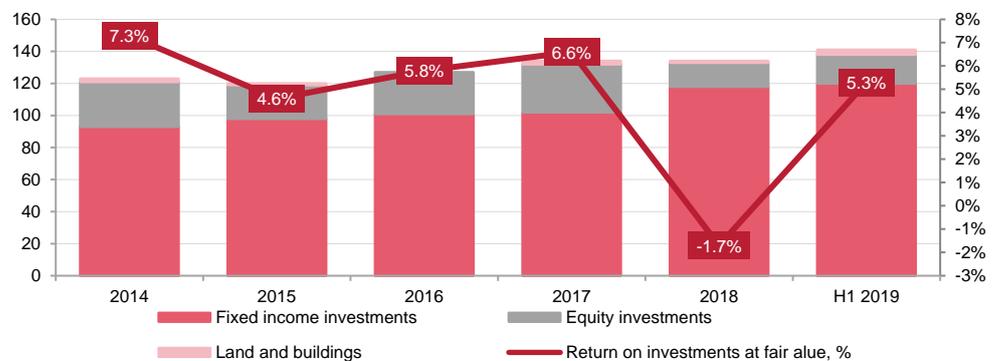
Chart 58: Claims ratio, expense ratio and combined ratio



Source: Company data, Danske Bank Equity Research

Garantia's selective risk taking is visible in the company's claims ratio, as the five-year average claims ratio is 6.3% and the 10-year average is 20.2%. Given the low claims ratio, Garantia's combined ratio has been below 70% since 2012.

Chart 59: Garantia's investment portfolio (EURm) and return on investment at fair value (%)



Source: Company data, Danske Bank Equity Research

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

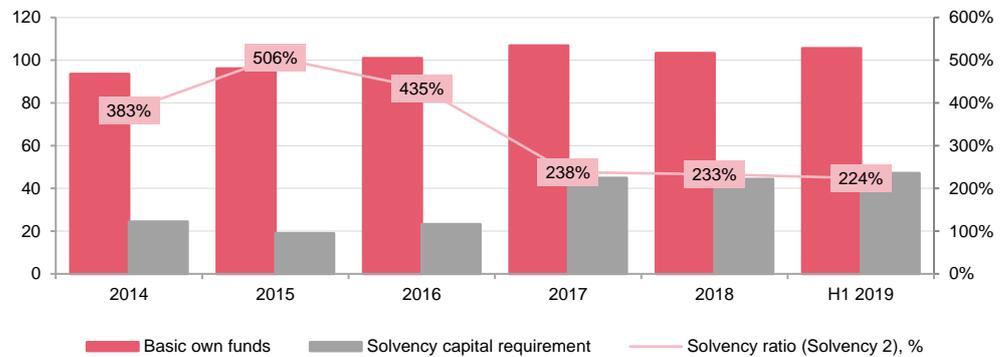
Garantia's five-year average claims ratio is 6.3% and the 10-year average is 20.2%; thus, Garantia's combined ratio has been below 70% since 2012

Garantia's investment portfolio totalled EUR141m at the end of June 2019; fixed-income investments accounted for 86% of investments and equities 13%

10-year average return on  
Garantia's investments at fair value  
was 5.1% in 2009-18

Garantia's investment portfolio totalled EUR141m at the end of June 2019, with fixed-income investments making up EUR120m, or 85.5%, of the investment portfolio and equities accounting for EUR18m, or 13%. Garantia's fixed-income investments consist mainly of bonds from Finnish and Nordic companies and credit institutions with high creditworthiness. Garantia's 10-year average return on investments at fair value was 5.1% in 2009-18.

Chart 60: Garantia's basic own funds (EURm) and solvency ratio



Source: Company data, Danske Bank Equity Research

Garantia's solvency ratio has been clearly above the regulatory requirement of 100% in the past and at the end of June 2019, its solvency ratio stood at 224%. In June 2018, the Finnish FSA increased Garantia's solvency capital requirement by EUR17.8m, because according to the FSA, 'the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation.' The Financial Supervisory Authority also stated that the requirement to use the internal model is not appropriate in Garantia's case. The company estimates the capital add-on lowered Garantia's solvency from 435% in 2016 to 238% in 2017.

Garantia does not publish the combined ratio by business line given its small size. We note that the business lines that Garantia underwrites have very different solvency requirements, which makes the value-creation analysis more difficult. The loan guaranties have clearly higher solvency requirements than, for example, the residential mortgage guaranties. In our opinion, from this perspective, Garantia has steered the business in the right direction, as shown in the chart below. However, we believe the internal actions are not enough to change the picture. The main reason for this is the rating capital requirements that are the most binding for Garantia.

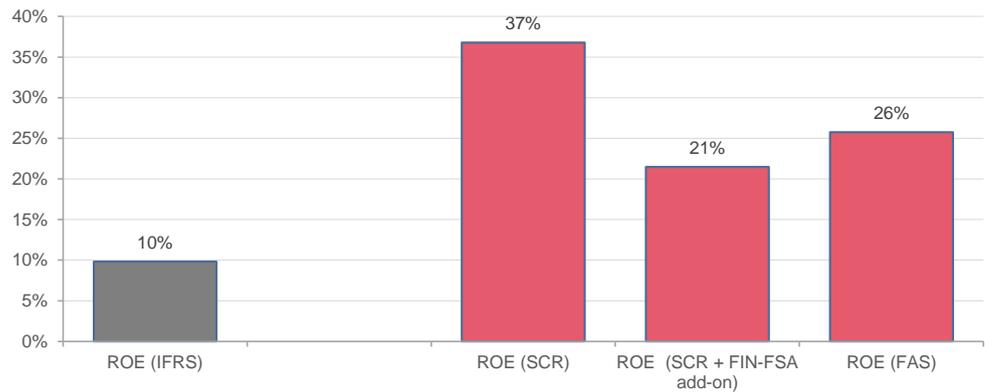
Garantia's solvency is strong and Standard & Poor's (S&P) has issued Garantia a credit rating of A-. While Garantia's very high actual capital position (solvency margin of 224% at H1 19) should allow for an AAA rating based on S&P's capital model, the actual S&P rating is A- due Garantia's small size and its business concentration. In H1 19, Garantia's regulatory capital requirement was EUR24m, compared with IFRS equity of EUR100m. This means that the return on equity depends almost entirely on allocated equity. Below we identify the 2020E return on equity in different capital-allocation scenarios.

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Garantia's ROE depends heavily in the allocated equity versus requirement (SCR)

Chart 61: Garantia's return on equity (ROE) 2020E

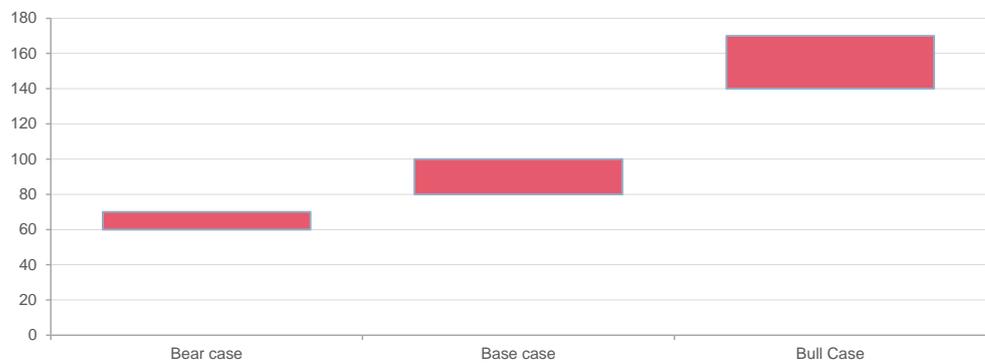


Source: Company data, Danske Bank Equity Research

In turn, this means that the value of Garantia also depends significantly on the capital required. In our view, we can get a justified value range from EUR60m or EUR2.1 per share (P/BV 2020E of 0.7x) to as high as EUR170m or EUR6.0 per share (P/BV 2020E 1.7x) in the high leverage scenario. We believe this highlights the value-creation opportunities from a divestment of Garantia. We note that Garantia's acquisition price was EUR60m in 2015.

Despite the very high reported solvency, we do not believe that S&P will allow a lower solvency in Garantia with the current set-up. This highlights the value-creation problem with Garantia, as, even with large internal action, we believe a larger player would be able to run the business with a clearly lower capital requirement.

Chart 62: Garantia's estimated value in different scenarios (EURm)



Source: Danske Bank Equity Research estimates

One important factor in analysing Garantia is that, in our opinion, the most accurate way to look at the underwriting profit trend is to look at the financial accounts based on Finnish Accounting Standards (FAS). However, FAS still uses an old technical reserve adjustment, or equalisation provision. In FAS, the equalisation provision (EUR72m in H1 19) is a claims-adjustment reserve that is used to cover all reported claims in the reporting period. Under IFRS, this item is included in shareholders' equity. The Taaleri Group accounts report the profits of the Garantia division according to IFRS.

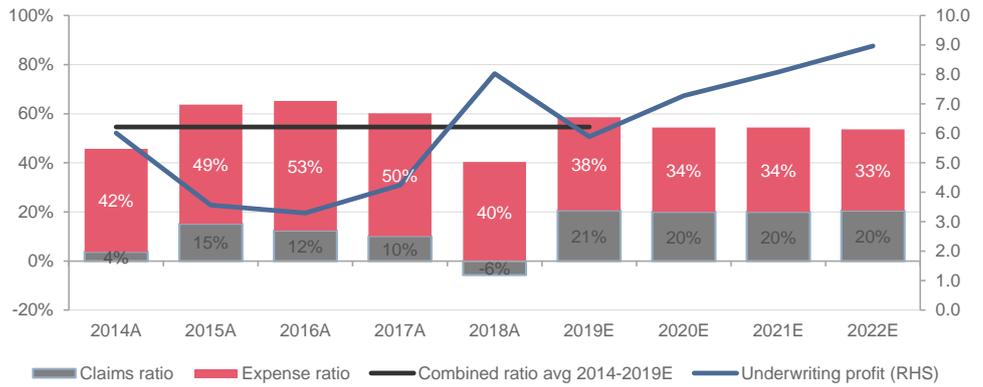
Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

We forecast a 55% combined ratio for 2019-22E or in line with history

This is outstanding compared with any peer but the business is also very different to that of any peer

Chart 63: Garantia's combined ratio and underwriting profit 2014-21E (FAS) (EURm)

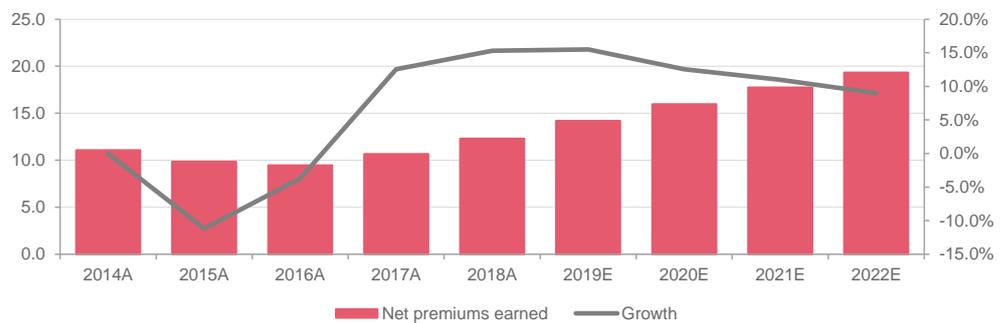


Source: Company data, Danske Bank Equity Research estimates

Garantia's combined ratio (55% over 2014-19) is outstanding versus almost any Nordic insurance peer. However, due to the operation's small size, the combined ratio has been quite volatile. In FY 2018, Garantia even had a negative claims ratio due to run-off gains.

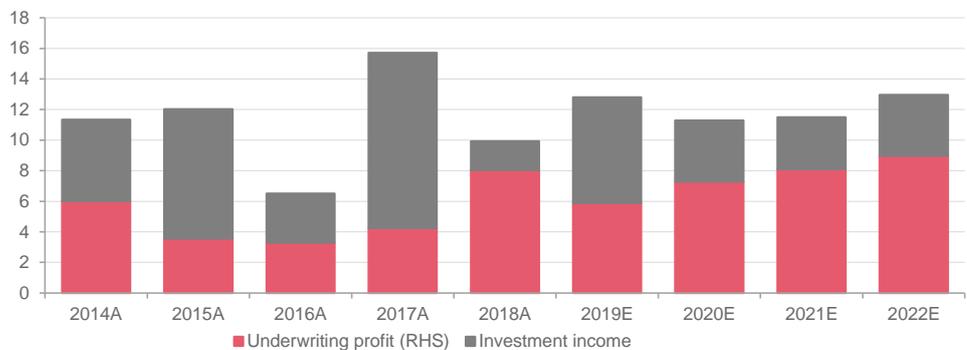
Our financial forecasts assume average premium growth of 12% over 2019-24E, with an average combined ratio of 55% (FAS). We estimate that Garantia can distribute around 50% of annual profits without hurting the rating requirements.

Chart 64: Garantia's net premiums earned 2014-22E (FAS) (EURm)



Source: Company data, Danske Bank Equity Research estimates

Chart 65: Garantia's operating profit 2014-22E (FAS) (EURm)



Source: Company data, Danske Bank Equity Research estimates

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

We forecast 12% average premium growth over 2019-22E

## Energia

*The Energia division develops, invests and manages wind power and solar energy projects*

*The division manages a 1.6GW portfolio of onshore wind and solar assets*

*Energia's income comes from fund management fees, performance fees and operating and maintenance service fees for wind farms*

The Energia division develops, invests and manages wind power and solar energy projects, mainly in Europe and the US. The division's investments cover the whole lifecycle of the production facilities, including the identification of investment targets, project development, construction and operation, all the way to the controlled shutdown of the energy plants. This differentiates Taaleri from the majority of other asset management companies, which do not develop and operate the power plant facilities but focus only on the fund management business. While the division's energy infrastructure operations have been active since 2010, Taaleri formed the division only in the second half of 2016.

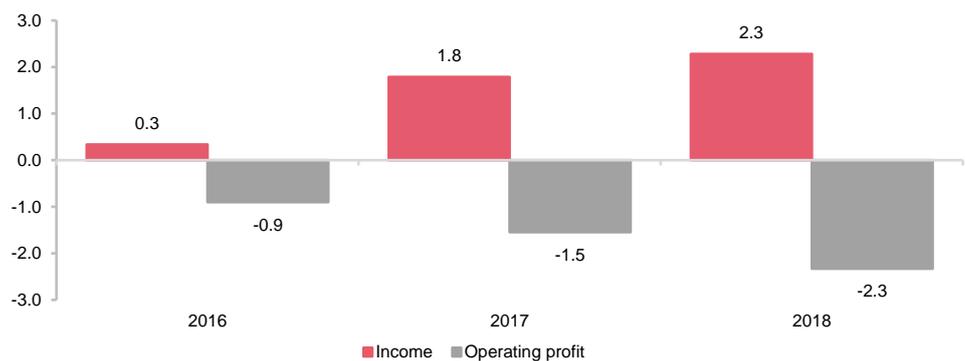
The Energia division manages a 1.6GW portfolio of onshore wind, as well as solar assets in Europe, the US and the Middle East. In the future, we believe the division's target markets for investments include the Nordic region, the Baltic States, Eastern Europe, Spain, Portugal and the US. The division is also the largest private equity owner-operator in the Finnish wind energy market, producing some 1% of the country's electricity.

At the end of H1 19, the division employed on average 22 employees, including some 10 engineers, making the team one of Europe's biggest specialising in renewable energy, according to Taaleri. Taaleri owns 78.6% of the division and uses the minority shares as incentives for the division's key personnel.

Income in the Energia division comes from the following.

- Fund management fees.
- Performance fees, or carried interest, in fund exits.
- Operating and maintenance services for wind farms, intended to bring continuing and steady cash flow for the segment.
- Development business, where the division develops energy projects and sells them to third parties.

Chart 66: Income and operating profit of Energia division (EURm)



Source: Company data, Danske Bank Equity Research

The Energia division is still in the start-up phase and has a minor impact on the group's income: its income totalled EUR2.3m in 2018, or 3% of Taaleri's total income. We believe that majority of the income comes from fund management fees and that maintenance services account for some hundreds of thousands of euro of income. The division's operating profit was EUR-2.3m in 2018.

### Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

*Energia consists of two funds:  
SolarWind and SolarWind II*

*In SolarWind I, Taaleri splits the  
fund's management fees between the  
Energia and Wealth Management  
divisions*

*In SolarWind II, all of the AuM and  
management fees are booked under  
the Energia division; we expect  
Taaleri to book the future funds fully  
under Energia too*

The Energia division currently consists of two funds: SolarWind and SolarWind II. In SolarWind I, Taaleri splits the fund's management fees between the Energia and Wealth Management divisions based on the sales breakdown of the divisions. In contrast, for SolarWind II, AuM and management fees are fully booked under the Energia division.

### SolarWind

In 2017, Taaleri launched its first fund under the Energia division, SolarWind. The fund focuses on greenfield wind and solar investments in Europe and emerging markets. The fund raised investment commitments worth some EUR87m from a total of approximately 500 investors. It divides AuM between Wealth Management and Energia but Taaleri has not disclosed the breakdown between the divisions. The fund has been fully invested since January 2019 and the investments comprise four projects.

- In 2017, the fund acquired 30% together with Finnfund of the shares in a 158MW wind power project in Čibuk, Serbia. All the plant's wind turbines have been generating electricity since the beginning of 2019.
- In late 2017, the fund acquired 30% of a 200MW solar energy project in Baynouna, Jordan. Taaleri expects energy production to begin in the first half of 2020.
- In 2018, the fund acquired 100% of the 23MW Slageryd wind power project in Vetlanda, Sweden. The wind farm has been under construction since late 2018.
- In 2019, SolarWind started construction of a 14.4 MW Måljord wind farm project in Växjö, Sweden. The project was developed by BayWa r.e., which is also providing engineering, procurement and construction management services, as well as technical and commercial management services. Taaleri expects the wind farm to reach full operation in Q3 21.

### SolarWind II

In H1 19, Taaleri established the Energia division's second fund, SolarWind II, raising EUR220m in commitments in its first closing in June 2019. The target size of the fund is EUR300m, which we believe it is likely to exceed when the fund has its final close in late 2020. The maximum size of the fund is EUR400m and we believe the fund will have more fundraising rounds before the final close.

According to Taaleri, the investors at the first closing included European Investment Bank, a range of pension funds including Ilmarinen and Varma, the Finnish Construction Trade Union, foundations and family-owned companies. Some private investors have also invested in SolarWind II through a fund managed by Taaleri Private Equity Funds. However, we believe the AuM of the SolarWind II fund consist mostly of domestic and international institutional capital rather than retail capital.

SolarWind II plans to invest in wind and solar assets. The fund's target is to invest in solar and wind assets located in Texas (wind, maximum 20%), the Nordic region and the Baltic States (wind, c.20%), Poland (wind, maximum 20%), Spain and Portugal (solar, c.20%) and south-eastern Europe (wind and solar, maximum 20%). According to Energia, the net IRR target of the investments is 9-14%, depending on the target market. At the end of H1 19, the fund had made two investments.

- In July 2019, the fund acquired 100% ownership in the 91MW Oltava wind farm in Pyhäjoki, Finland. Taaleri expects the farm to reach full operation in Q1 21. Taaleri is developing the project in-house and its engineering team is responsible for managing the construction of the wind farm.

*Not for US distribution*

- In September 2019, the fund acquired 100% ownership of the 34MW Haram wind farm in Norway. Taaleri expects the wind farm to start operations in early 2021. Zephyr, a Norwegian company specialising in the development, construction and operation of wind farms in Norway, developed the project. Zephyr will continue as the construction management consultant and the technical and commercial management provider during the operational phase of the wind farm.

**Texas wind power project**

In the first half of 2018, Taaleri Energia acquired the rights to build a 275MW wind power farm in Texas. The selection of a turbine supplier was in progress at the end of H1 19 and the aim is for the wind farm to start electricity production in 2021.

The total investment size of the Texas project is some EUR300m. Taaleri has financed the development phase of the Texas project from its own balance sheet but plans a partial exit from the project in 2020, as the size of the investment would be too big solely for Taaleri. At the end of H1 19, Taaleri's CEO mentioned that Taaleri was in talks with counterparties about the partial sale of the project and finding a partner for co-development of the project in the future. We expect the sale of Texas to take place in early 2020. We estimate some EUR3.5m income from the divestment.

**Co-operation with Masdar**

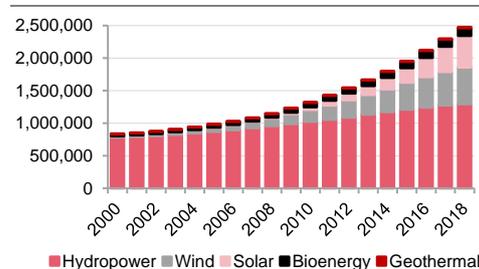
Taaleri's partner in the SolarWind I fund's projects in Serbia and Jordan is Masdar, one of the world's biggest investors in renewable energy projects. The Abu Dhabi Emirate's investment company Mubadala owns Masdar.

In January 2019, Taaleri and Masdar signed an agreement to establish a joint venture to expand their collaboration, which began with the wind and solar power projects in Serbia and Jordan. The aim of the joint venture is to develop onshore wind and solar energy projects in Central and Eastern Europe. We see significant growth opportunities for Taaleri in the co-operation with Masdar.

*Renewable energy market set to grow significantly over the next decades*

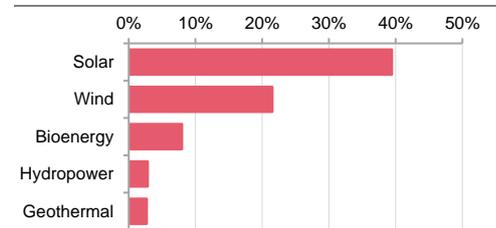
Renewable energy capacity has grown rapidly in the 21st century, with a 7% CAGR over 2000-18, according to the International Renewable Energy Agency. The growth has come largely from the increase in solar and wind energy capacity, with CAGRs of 39% and 22%, respectively, over 2000-18.

Chart 67: Capacity (MW) of different renewable energy types



Source: International Renewable Energy Agency

Chart 68: Capacity CAGRs of different renewable energy types over 2000-18



Source: International Renewable Energy Agency

One of the drivers of the rapid increase in solar and wind power is that wind and solar electricity has become more affordable and thus more competitive against other forms of energy production measured by levelised cost of energy. Indeed, wind and solar power are cheaper to produce than coal and gas, as illustrated in the chart below.

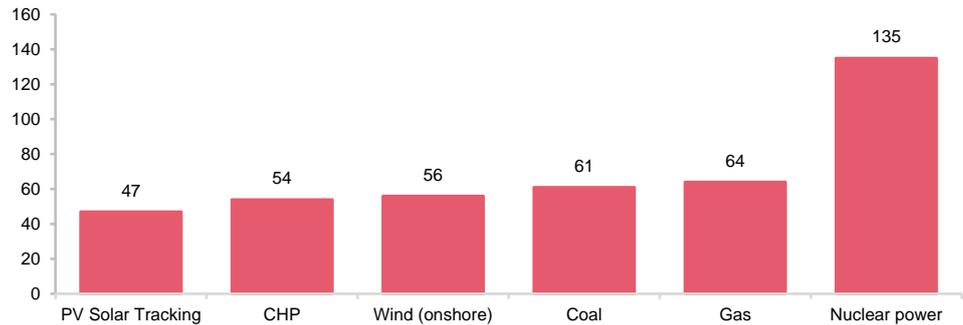
*Not for US distribution*

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

*Taaleri has financed the development phase of a 275MW wind power farm project in Texas from its own balance sheet; we estimate that Taaleri will partially exit from the project in 2020 and we forecast EUR3.5m income from the divestment*

*Solar and wind energy capacities grew with CAGRs of 39% and 22%, respectively, over 2000-18*

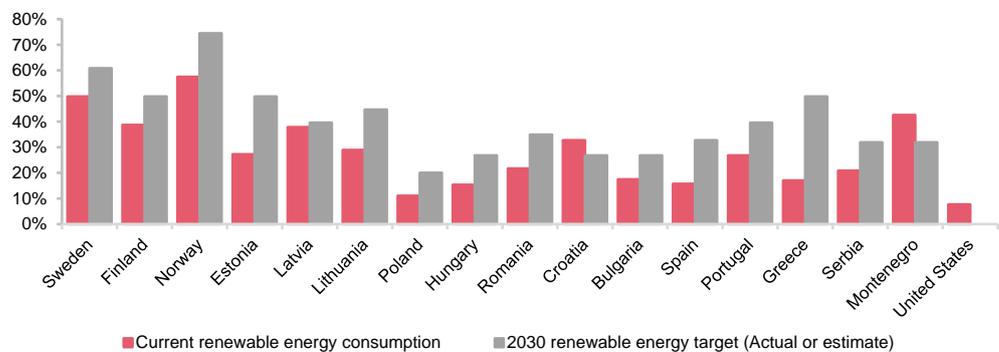
Chart 69: Global levelised cost of energy (EUR/MWh)



Note: EUR/USD rate of 1.19 used  
 Source: Bloomberg New Energy Finance H1 17

Renewable energy is set to continue to grow significantly over the next few decades, supporting Energia’s growth outlook. *Bloomberg New Energy Finance* estimates that some USD13.3trn will be invested in new power generation by 2050, of which 77% will go into renewables. Bloomberg estimates that wind will attract investments totalling USD5.3trn and solar USD4.2trn. In Energia’s target markets, Bloomberg estimates that 93GW of renewable energy capacity, requiring EUR247bn in investments, will be needed in the next five years. The chart below lists Taaleri’s target markets and their current renewable energy consumption as a percentage of total energy consumption and target levels for 2030, showing a clear gap between current levels and targeted levels in the majority of the countries shown.

Chart 70: Renewable energy in Energia’s target markets



Source: European Commission, Individual Country NREAPs, KeepOnTrack for Sweden, Taaleri’s estimate for Norway

*Energia division has potential to be much bigger*

In total, Taaleri currently has five energy infrastructure funds. It established the oldest Wind Power II in 2014 and the newest SolarWind II in 2019. Taaleri books the AuM and management fees of SolarWind II and part of SolarWind I under the Energia division, while it books the Wind Power II-IV funds’ AuM and management fees under the Wealth Management division. We believe that, in the future, Taaleri will book its new energy infrastructure funds primarily under the Energia division.

*Not for US distribution*

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

*Renewable energy market set to grow significantly over the next few decades, supporting Energia’s growth outlook*

Taaleri currently has five energy infrastructure funds; it established the latest, SolarWind II, in 2019, and this is notably larger than the previous funds, as its investment commitments at the first close were EUR220m compared with EUR45-87m for the previous funds

Table 8: Taaleri's energy infrastructure funds

Fund	Established	Commitments (EURm)
Wind Power II	2014	84*
Wind Power III	2016	45
SolarWind I	2017	87
Wind Power IV	2019	50**
SolarWind II	2019	220
<b>Total</b>		<b>486</b>

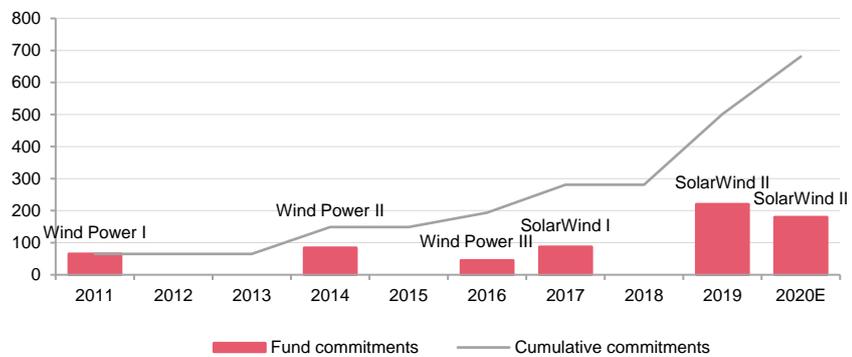
\* Partly exited in 2019

\*\* Danske Bank Equity Research estimate

Source: Company data, Danske Bank Equity Research estimates

We note that the newest fund, SolarWind II, is notably larger than the four previous energy funds, as its initial commitments at the fund's first close were EUR220m, compared with EUR45-87m in commitments for the previous funds. We believe that in the future Taaleri's energy funds' AuM will increase given the structural demand towards wind and solar power as discussed earlier.

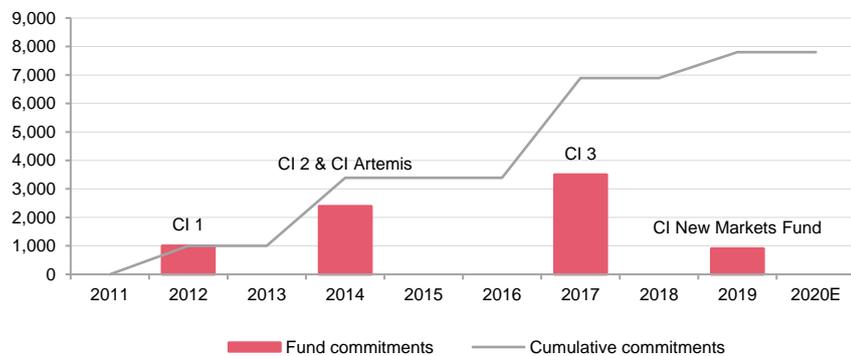
Chart 71: Investment commitments in Taaleri's energy infrastructure funds (EURm)



Source: Company data, Danske Bank Equity Research estimates

The chart above illustrates the investment commitment development of Taaleri's energy funds. We estimate that SolarWind II will raise initial commitments worth EUR180m in 2020, reaching the funds' maximum size of EUR400m. This would increase the energy funds' AuM to close to EUR700m.

Chart 72: Investment commitments in Copenhagen Infrastructure Partners' funds (EURm)



Source: Company data

Not for US distribution

This report is for Matti Ahokas@Danske Bank. Unauthorized redistribution of this report is prohibited.

We estimate SolarWind II will reach its maximum size of EUR400m by the end of 2020; this would increase energy funds' AuM to close to EUR700m

*We see little reason why Energia would not be able to increase the size of its future funds closer to Copenhagen Infrastructure Partners' levels of over EUR1bn, given the structural demand for renewable energy, Energia's record and the credibility of the division from the co-operation with Masdar*

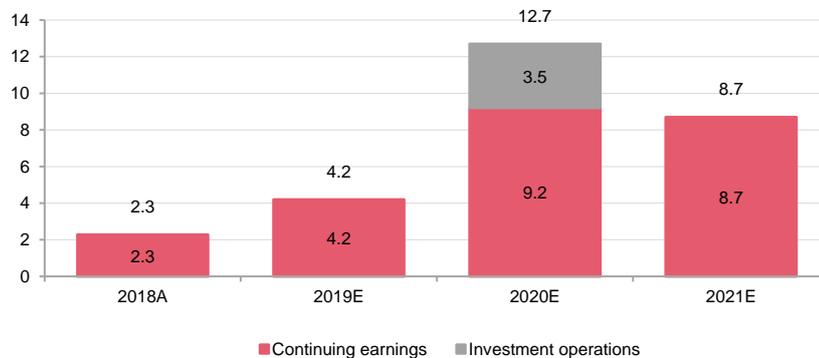
Comparing the Energia division to Copenhagen Infrastructure Partners (CIP), a Danish fund management company focused on energy infrastructure including offshore and onshore wind and solar photovoltaics, we note that Taaleri's funds are still relatively small. All of CIP's five funds have raised commitments of at least EUR392m, with the largest fund CI 3 raising EUR3.5bn. In total, CIP's funds have AuM of almost EUR8bn. CIP has approximately 110 employees, compared with Energia's 22.

We see little reason why Energia would not be able to increase the size of its future funds closer to CIP's level, as the structural demand towards renewable energy is evident and Energia has a record of successfully operating its wind and solar power projects. In addition, we underline that the co-operation with Masdar brings credibility to the division, which should help Taaleri to operate larger international projects in the future.

*Financial estimates*

We estimate that Energia's income will grow from EUR2.3m in 2018 to EUR12.7m in 2020. We estimate the main growth in continuing earnings will come from SolarWind II, which raised investment commitments worth EUR220m at its first closing in July 2019. As the fund continues to raise new capital in 2020, we expect management fees to grow as well. We expect the SolarWind II fund to reach its maximum size of EUR400m by the end of 2020, increasing AuM and, therefore, continuing earnings from EUR4.2m in 2019E to EUR9.2m in 2020E. We estimate some EUR3.5m income in 2020 from the divestment of the Texas wind farm project in H1 20. We estimate slightly lower continuing earnings in 2021, as Taaleri will retroactively receive management fees from new investment commitments from SolarWind II in 2020E.

Chart 73: Income in Energia 2018-21E (EURm)



Source: Company data, Danske Bank Equity Research estimates

We estimate that the division will turn profitable in 2020. We forecast an operating profit of EUR5.5m, of which EUR3.5m is attributable to the estimated income from the Texas divestment. In 2021, we expect operating profit margin to decline from 43% to 15%, because of the one-off income from the Texas project. In terms of costs, we see moderate pressure for staff costs to increase given the larger projects Energia is set to handle. However, we note that with a relatively small number of new employees, the division should be able to handle more AuM than it has currently.

*Not for US distribution*

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

*We estimate Energia's income will increase from EUR4.2m in 2019E to EUR12.7m in 2020, driven by increasing management fees and income from the Texas divestment*

*We forecast that the division will turn profitable in 2020, driven by increasing management fees and Texas divestment income*

Chart 74: Total income, comparable operating profit and operating profit margin 2018-21E



Source: Company data, Danske Bank Equity Research estimates

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

Not for US distribution

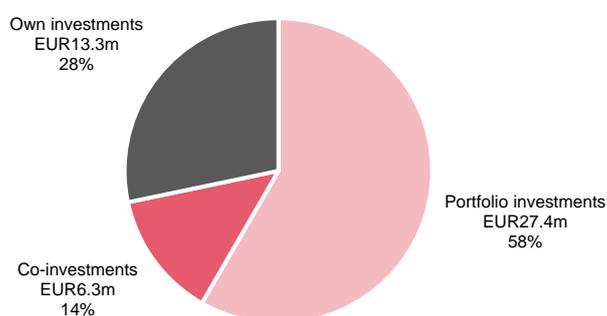
## Other Operations

Other operations include Taaleri's investments from its own balance sheet and admin services

Besides the operations of the three main divisions, Taaleri has also invested in several companies from its own balance sheet. Most of the investments are in unlisted companies and the company reports the investments under Other Operations. The division also includes the group's administration services, which support the other divisions.

Taaleri divides its balance sheet investments into three groups: portfolio investments, co-investments and own investments. According to Taaleri, the target of portfolio investments is to find new business opportunities that support the company's existing operations, whereas the primary aim of co-investments is to increase the value of the target companies. Own investments include other listed and unlisted investments as well as granted loans.

Chart 75: Taaleri's balance sheet investments (EUR47.1m) at the end of June 2019



Source: Company data, Danske Bank Equity Research

At the end of H1 19, the investments and receivables of the Other Operations division totalled EUR47.1m, of which EUR27.4m (58%) was portfolio investments, EUR6.3m (14%) co-investments and EUR13.3m (28%) own investments.

Table 9: Taaleri's selected investments from its own balance sheet H1 19

Investment type	Company	Stake	Business description
Portfolio	Fellow Finance	25.9%	Marketplace lending platform
Portfolio	Inderes	15.0%	Equity research company
Portfolio	Invesdor	11.1%	Equity-based crowdfunding platform
Portfolio	ClarkApps	0.7%	Mobile app for managing invoices and documents
Portfolio	Turun Toriparkki	48.2%	Underground parking lot in Turku market square
Portfolio	Munkkiniemi Group	47.0%	Building quality houses in Helsinki area
Co-investment	Rauma Marine Construction	15.0%	Shipbuilding company
Co-investment	Ficolo	38.9%	Data centres and cloud solutions

Source: Company data, Danske Bank Equity Research

We list Taaleri's portfolio and co-investments in the table above. Taaleri discloses separately only the value of Fellow Finance, a peer-to-peer lending platform provider, which was valued at EUR13.2m in Taaleri's H1 19 report. The rest of the investments it booked either as associated companies (Hernesaaren Kehity Oy, Munkkiniemi Group Oy, Taaleri Datacenter Ky, Taaleri SolarWind II SPV and Turun Toriparkki Oy), totalling EUR6.4m, or as other shares and units at EUR9.4m.

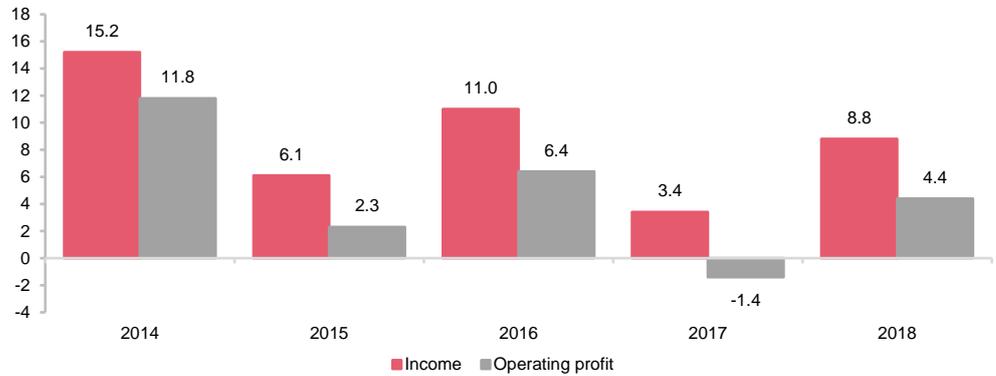
One of Taaleri's most significant investments is Fellow Finance, listed on the First North Helsinki

Not for US distribution

Taaleri classifies Fellow Finance as an asset held for sale, meaning that it books the investment at fair value on its balance sheet; Fellow Finance's share price fell in 2019, meaning Taaleri has to write down the asset in its H2 19 report

We note that Taaleri classifies Fellow Finance as an asset held for sale, meaning that Taaleri books shares in Fellow Finance at fair value on the company's balance sheet. In H2 19, the share price of Fellow Finance fell by 45%, from EUR7.58 to EUR4.15. This means that Taaleri will have to write down the value of Fellow Finance by some EUR5.5m in its H2 19 income statement.

Chart 76: Income and operating profit of Other Operations



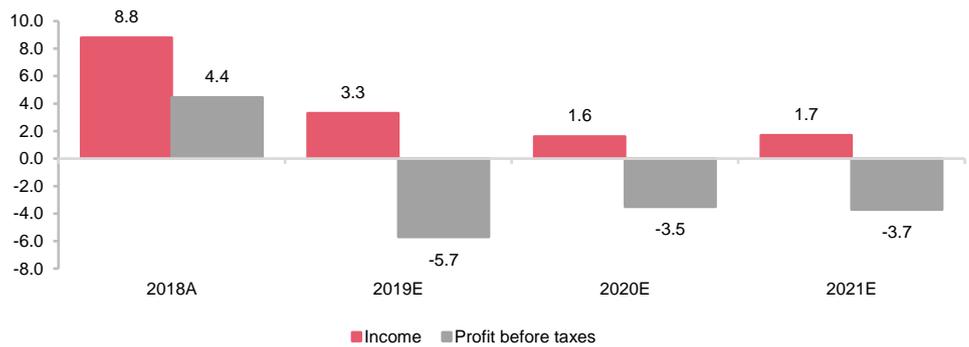
Source: Company data, Danske Bank Equity Research

As the income of the Other Operations division is dependent on the value changes to the investments and divestments from the investments, the division's income has fluctuated between EUR3.4m and EUR15.2m in 2014-18. This has also affected operating profit, which ranges from EUR4.4m to EUR11.8m over the period.

Financial estimates

We do not include the divestment of any of Taaleri's portfolio investments in our estimates for 2019-21E. However, our 2019 estimates include the EUR5m writedown of Fellow Finance, as the stock price declined some 45% in H2 19.

Chart 77: Income and profit before taxes in Other Operations 2018-21E



Source: Company data, Danske Bank Equity Research estimates

Not for US distribution

This report is for Matti Ahokas @ Danske Bank. Unauthorized redistribution of this report is prohibited.

## Management team and ownership

Taaleri's management team has six members.

Table 10: Taaleri's management team

Name	Year born	Position	Employed since
Robin Lindahl	1964	Group CEO	2019
Karri Haaparinne	1967	Group Deputy CEO	2007
Janne Koikkalainen	1971	Head of Legal	2007
Minna Smedsten	1976	CFO	2013
Titta Elomaa	1967	CEO, Garantia	
Kai Rintala	1975	Managing Director, Taaleri Energia	2016

Source: Company data

Robin Lindahl has been Taaleri's CEO since June 2019. He joined Taaleri from Normet Group and has an MSc in Economics and Business Administration. Taaleri's CFO Minna Smedsten joined the company from GreenStream Network in 2013. She has an MSc in Economics and Business Administration.

At the end of November 2019, Taaleri had 28,350,620 shares, of which Taaleri Oyj held 45,000, or 0.16% of the shares. Of the shares, 7.06% were nominee registered or in foreign ownership. The table below shows Taaleri's 20 largest owners as of 31 December 2019.

Table 11: 20 largest owners of Taaleri as of 31 December 2019

Shareholder	No. of shares	Shares (%)
1 Veikko Laine Oy	2,904,466	10.24
2 Oy Hermitage Ab	2,840,308	10.02
3 Elomaa Juhani	1,721,272	6.07
4 Vakuutusosakeyhtiö Henki-Fennia	1,594,698	5.62
5 Swiss Life Luxembourg S.A.	1,551,354	5.47
6 Haaparinne Karri Erik	1,451,521	5.12
7 Lampinen Petri Juhani	507,067	1.79
8 Berling Invest Oy	450,000	1.59
9 Mathur Ranjit	430,000	1.52
10 Lehto, Vesa	367,100	1.29
11 Kaski Olli Ensio	303,650	1.07
12 Merenlahti Mikko	300,000	1.06
13 Lombard International Assurance S.A.	296,916	1.05
14 Kinnunen Arto Lauri	290,693	1.03
15 Heinonen Jyrki Antero	280,000	0.99
16 Neva-Aho Ronnie Juhani	278,416	0.98
17 Ruusunen Sami Juha-Pekka	273,000	0.96
18 Pekkala Pekka Juhani	272,923	0.96
19 Hirvonen Tomi Harri Olavi	267,060	0.94
20 E-Capital Oy	266,656	0.94
<b>Total of 20 largest shareholders</b>	<b>16,647,100</b>	<b>58.72</b>
Nominee registered	491,408	1.73
Others	11,212,112	39.55
<b>Total</b>	<b>28,350,620</b>	<b>100.00</b>

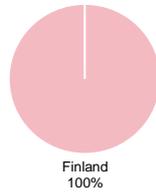
Source: Company data, Danske Bank Equity Research

Taaleri's largest owner is Veikko Laine Oy. Pertti Laine, one of Taaleri's founders, holds 20% of Veikko Laine Oy's shares, representing 83.3% of the votes in the company. The second largest owner Oy Hermitage Ab is the family investment company of Taaleri's Chairman of the Board Peter Fagernäs, who is one of the founders of Taaleri. Further, Taaleri's other largest owners include Juhani Elomaa and Karri Haaparinne, the company's founders and the first CEO and deputy CEO, respectively.

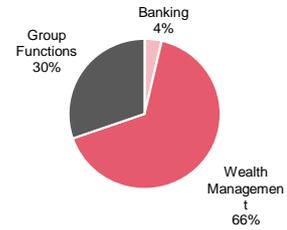
Not for US distribution

## Company summary

### Income breakdown by geographical area



### Income breakdown by division



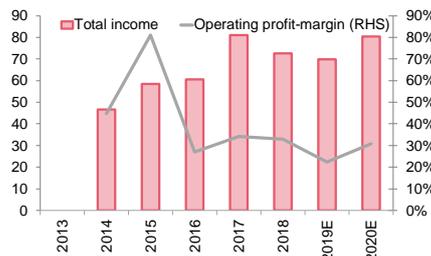
### Company information

Taaleri plc  
 Kasarmikatu 21, 00130 Helsinki  
 Finland  
 www.taaleri.com

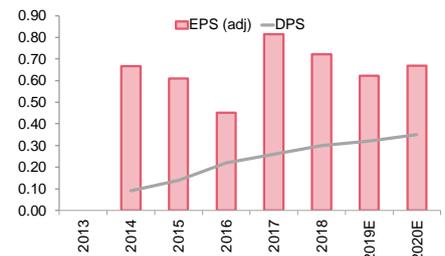
### Main shareholders

Name	Votes (%)	Capital (%)
Veikko Laine Oy	10.2%	10.2%
Hermitage Oy	10.0%	10.0%
Juhani Elomaa excl. related parties	6.1%	6.1%

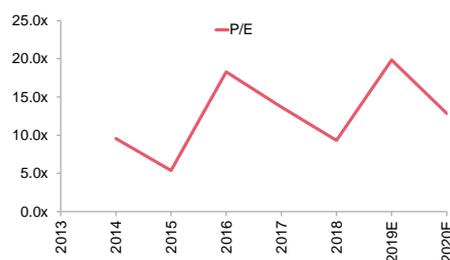
### Total income and operating profit margin (EURm)



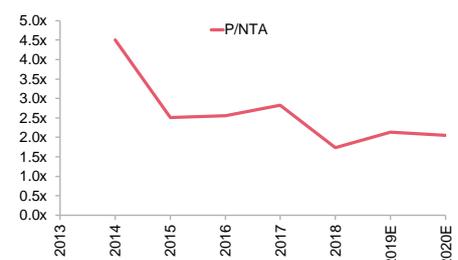
### EPS (adjusted) and DPS (EURm)



### P/E NTM



### P/NTA NTM



Source: FactSet, Company data, Danske Bank Equity Research estimates

Not for US distribution

## Summary tables

<b>INCOME STATEMENT</b>										
<b>Year end Dec, EURm</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Commissions			28	32	33	53	46	44	52	59
<b>Total income</b>			<b>47</b>	<b>58</b>	<b>61</b>	<b>81</b>	<b>73</b>	<b>70</b>	<b>80</b>	<b>83</b>
Costs			-26	-40	-44	-54	-48	-54	-56	-58
<b>Operating profit</b>			<b>21</b>	<b>47</b>	<b>16</b>	<b>28</b>	<b>24</b>	<b>16</b>	<b>25</b>	<b>25</b>
Taxes			-4	-3	-4	-6	-2	-3	-5	-5
<b>Pre-tax profit</b>			<b>21</b>	<b>47</b>	<b>16</b>	<b>28</b>	<b>24</b>	<b>16</b>	<b>25</b>	<b>25</b>
<b>Net profit</b>			<b>17</b>	<b>44</b>	<b>13</b>	<b>21</b>	<b>22</b>	<b>12</b>	<b>19</b>	<b>20</b>
<b>Net profit (adj.)</b>			<b>17</b>	<b>17</b>	<b>13</b>	<b>23</b>	<b>20</b>	<b>18</b>	<b>19</b>	<b>20</b>
<b>BALANCE SHEET</b>										
<b>EURm</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Insurance assets			0	117	126	136	134	141	146	148
Other interest bearing assets			32	28	55	35	26	12	13	13
Goodwill			2	2	3	2	7	7	7	7
<b>Total assets</b>			<b>153</b>	<b>217</b>	<b>213</b>	<b>229</b>	<b>238</b>	<b>243</b>	<b>252</b>	<b>257</b>
Insurance liabilities			0	13	15	20	23	29	30	30
Wholesale funding			30	30	65	55	55	56	58	59
Equity			38	97	94	106	122	121	126	129
<b>NTA</b>			<b>35</b>	<b>95</b>	<b>91</b>	<b>104</b>	<b>116</b>	<b>114</b>	<b>119</b>	<b>121</b>
<b>PER SHARE DATA</b>										
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
No. of shares, fully diluted YE (m)	25.2	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3
No. of shares, fully diluted avg. (m)	25.2	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3
EPS (reported) (EUR)	0.67	1.56	0.45	0.45	0.76	0.76	0.76	0.43	0.67	0.70
EPS (adj.) (EUR)	0.67	0.61	0.45	0.45	0.81	0.72	0.72	0.62	0.67	0.70
DPS (EUR)	0.09	0.14	0.22	0.26	0.30	0.30	0.32	0.35	0.35	0.35
Book value per share (EUR)	1.51	3.43	3.32	3.75	3.75	4.32	4.32	4.28	4.45	4.54
NTA per share (EUR)	1.41	3.35	3.23	3.67	3.67	4.09	4.04	4.04	4.20	4.29
<b>MARGINS AND GROWTH</b>										
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
C/I, adjusted			55.3%	67.8%	73.4%	66.6%	66.8%	77.7%	69.2%	69.7%
Op profit marg			44.7%	81.1%	27.0%	34.1%	32.9%	22.3%	30.8%	30.3%
Op profit grth				n.m.	-65.51%	69.0%	-13.59%	-34.66%	58.9%	0.81%
Tot inc growth				25.2%	3.7%	33.7%	-10.5%	-3.8%	15.3%	2.7%
Cost growth				-53.5%	-12.2%	-21.4%	10.2%	-11.8%	-2.7%	-3.5%
PPP growth				-9.8%	-14.2%	67.8%	-11.0%	-35.2%	58.9%	0.8%
EPS (adj) growth				-8.4%	-26.1%	80.4%	-11.2%	-13.9%	7.7%	4.3%
<b>PROFITABILITY</b>										
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
ROE, reported profits			44.3%	65.3%	13.4%	21.5%	18.9%	10.1%	15.3%	15.5%
RONTA, adj. profits			47.2%	26.6%	13.7%	23.6%	18.6%	15.3%	16.3%	16.5%
<b>VALUATION</b>										
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Share price (EUR)	6.36	8.38	8.24	10.4	7.10	8.62	8.62	8.62	8.62	8.62
Market cap (EURm)	160	237	233	293	201	244	244	244	244	244
P/E (reported) (x)	9.5	5.4	18.3	13.7	9.3	19.9	12.9	12.9	12.3	12.3
P/E (adj.) (x)	9.5	13.7	18.3	12.7	9.8	13.9	12.9	12.9	12.3	12.3
P/BV (x)	4.23	2.44	2.49	2.76	1.64	2.01	1.94	1.94	1.90	1.90
P/NTA (x)	4.51	2.50	2.55	2.82	1.74	2.13	2.05	2.05	2.01	2.01
Dividend yield	1.4%	1.7%	2.7%	2.5%	4.2%	3.7%	4.1%	4.1%	4.1%	4.1%
Total yield (incl. buybacks)	1.4%	1.7%	2.7%	2.5%	4.2%	3.7%	4.1%	4.1%	4.1%	4.1%

Source: Company data, Danske Bank Equity Research estimates

Not for US distribution

*Summary tables*

EURm	H1 17A	H2 17A	H1 18A	H2 18A	H1 19A	H2 19E	H1 20E	H2 20E	H1 21E	H2 21E
Total income	36.2	44.8	35.2	37.3	30.9	39.1	42.4	38.0	40.4	42.1
<i>Growth h/h</i>	3.5%	4.6%	4.5%	4.8%	4.6%	4.3%	0.0%	0.0%	17.0%	13.5%
Total expenses	-20.8	-33.2	-23.1	-25.4	-24.5	-29.9	-27.0	-28.6	-27.9	-29.7
Operating profit	15.6	12.0	12.4	11.5	6.4	9.2	15.5	9.3	12.5	12.5
Operating margin	43.1%	26.8%	35.1%	30.8%	20.6%	23.6%	36.4%	24.5%	30.9%	29.6%
<b>Segment revenues</b>										
Wealth Management	23.9	30.7	29.7	19.0	17.2	24.2	24.3	21.8	24.5	25.5
Financing	11.5	10.7	6.8	7.4	10.5	10.6	9.7	10.3	10.7	11.4
Energia	0.8	1.0	1.1	1.2	1.4	2.8	7.7	5.1	4.4	4.4
Other	2.6	0.9	-1.5	10.3	1.8	1.5	0.8	0.8	0.9	0.9
<b>Total</b>	<b>38.7</b>	<b>43.3</b>	<b>36.1</b>	<b>37.9</b>	<b>30.9</b>	<b>39.1</b>	<b>42.4</b>	<b>38.0</b>	<b>40.4</b>	<b>42.1</b>
<b>Segment operating profit</b>										
Wealth Management	7.9	8.8	14.1	2.7	2.0	8.7	7.5	4.6	7.4	7.6
Financing	7.9	6.0	2.4	2.5	6.1	6.3	5.1	5.6	5.8	6.5
Energia	-0.7	-0.9	-0.9	-1.4	-1.6	-0.3	4.2	1.4	0.7	0.7
Other	0.5	-1.9	-3.3	7.7	-0.1	-5.6	-1.3	-2.2	-1.4	-2.3
<b>Total</b>	<b>15.6</b>	<b>12.0</b>	<b>12.4</b>	<b>11.5</b>	<b>6.4</b>	<b>9.2</b>	<b>15.5</b>	<b>9.3</b>	<b>12.5</b>	<b>12.5</b>
<b>Operating profit margin</b>										
Wealth Management	32.9%	28.6%	47.6%	14.0%	11.7%	36.0%	30.9%	20.9%	30.2%	30.0%
Financing	68.7%	56.0%	35.4%	34.5%	58.1%	59.8%	52.4%	54.4%	54.5%	57.1%
Energia	-87.1%	-86.0%	-84.3%	-118.6%	-116.5%	-9.1%	54.3%	27.1%	15.0%	15.0%
Other	19.6%	-222.0%	220.1%	75.0%	-5.6%	-371.4%	-158.9%	-275.5%	-163.6%	-262.5%
<b>Total</b>	<b>40.3%</b>	<b>27.8%</b>	<b>34.3%</b>	<b>30.4%</b>	<b>20.6%</b>	<b>23.6%</b>	<b>36.4%</b>	<b>24.5%</b>	<b>30.9%</b>	<b>29.6%</b>
Reported EPS	0.44	0.32	0.32	0.44	0.18	0.26	0.41	0.26	0.35	0.35
Adjusted EPS	0.44	0.32	0.32	0.50	0.14	0.26	0.41	0.26	0.35	0.35

Source: Company data, Danske Bank Equity Research estimates

Not for US distribution

*Summary tables*

<b>EURm</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Total income	58.4	60.6	81.0	72.5	69.8	80.4	82.6
<i>Growth y/y</i>	25.2%	3.7%	33.7%	-10.5%	-3.8%	15.3%	2.7%
Total expenses	-39.6	-44.5	-54.0	-48.5	-54.2	-55.6	-57.6
Operating profit	47.4	16.3	27.6	23.9	15.6	24.8	25.0
Operating margin	81.1%	27.0%	34.1%	32.9%	22.3%	30.8%	30.3%
<b>Segment revenues</b>							
Wealth Management	39.4	37.1	54.6	48.7	41.4	46.1	50.0
Financing	13.2	12.3	22.1	14.2	21.1	20.0	22.1
Energia	0.0	0.3	1.8	2.3	4.2	12.7	8.7
Other	6.1	11.0	3.4	8.8	3.3	1.6	1.7
<b>Total</b>	<b>58.4</b>	<b>60.7</b>	<b>81.9</b>	<b>73.9</b>	<b>70.0</b>	<b>80.4</b>	<b>82.6</b>
<b>Segment operating profit</b>							
Wealth Management	9.8	6.2	16.6	16.8	10.7	12.1	15.0
Financing	6.7	4.6	13.9	4.9	12.4	10.7	12.3
Energia	0.0	-0.9	-1.5	-2.3	-1.9	5.5	1.3
Other	2.3	6.4	-1.4	4.4	-5.7	-3.5	-3.7
<b>Total</b>	<b>18.8</b>	<b>16.4</b>	<b>27.6</b>	<b>23.9</b>	<b>15.6</b>	<b>24.8</b>	<b>25.0</b>
<b>Operating profit margin</b>							
Wealth Management	24.8%	16.6%	30.4%	34.5%	25.9%	26.1%	30.1%
Financing	51.1%	37.5%	62.9%	34.6%	59.0%	53.4%	55.8%
Energia		-258.3%	-84.0%	-100.9%	-44.9%	43.5%	15.0%
Other	37.8%	58.4%	-40.8%	50.1%	-172.0%	-217.2%	-213.8%
<b>Total</b>	<b>32.2%</b>	<b>26.9%</b>	<b>33.7%</b>	<b>32.3%</b>	<b>22.3%</b>	<b>30.8%</b>	<b>30.3%</b>
Reported EPS (EUR)	1.56	0.45	0.76	0.76	0.43	0.67	0.70
Adj. EPS (EUR)	0.61	0.45	0.81	0.72	0.62	0.67	0.70
<i>Growth y/y</i>	-8%	-26%	80%	-11%	-14%	8%	4%
DPS (EUR)	0.14	0.22	0.26	0.30	0.32	0.35	0.38
<i>Growth y/y</i>	56%	57%	18%	15%	7%	9%	9%
Dividend payout ratio	23%	49%	32%	42%	51%	52%	54%
ROE	63.1%	7.8%	21.5%	18.9%	10.1%	15.3%	15.5%
ROE (adj.)	24.7%	13.4%	23.0%	17.9%	14.5%	15.3%	15.5%
CET1-ratio	19.4%	18.6%	25.0%	30.2%	32.9%	23.9%	25.9%
<b>AuM</b>							
Mutual funds	850	857	1,083	911	1,100	1,213	1,337
Private equity funds	623	880	1,052	1,024	1,572	1,885	2,032
Discretionary w wealth management	1,275	1,431	1,772	1,922	2,150	2,281	2,420
Consultative w wealth management	1,052	1,511	1,544	1,754	2,100	2,228	2,364
<b>Total AuM</b>	<b>3,900</b>	<b>4,800</b>	<b>5,600</b>	<b>5,700</b>	<b>6,922</b>	<b>7,607</b>	<b>8,153</b>

*Source: Company data, Danske Bank Equity Research estimates*

*Not for US distribution*

## Disclosures

This commissioned research report has been prepared by Equity Research, a division of Danske Bank A/S ('Danske Bank'). The authors of this research report are Matti Ahokas and Olli Eloranta.

This commissioned research report should be considered marketing material, as it has been requested and paid for by Taaleri and has therefore not been prepared in accordance with the legal requirements designed to promote the independence of investment research. However, the report is still subject to prohibition on dealing ahead of the dissemination of the report.

### *Analyst certification*

Each research analyst responsible for the content of this commissioned research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report.

### *Regulation*

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's commissioned research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### *Conflicts of interest*

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence from outside influences. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity of research and independence from outside influence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Danske Bank, its affiliates, subsidiaries and staff may perform services for or solicit business from Taaleri and may hold long or short positions in, or otherwise be interested in, the financial instruments mentioned in this research report. The Equity and Corporate Bonds analysts of Danske Bank and undertakings with which the Equity and Corporate Bonds analysts have close links are, however, not permitted to invest in financial instruments that are covered by the relevant Equity or Corporate Bonds analyst or the research sector to which the analyst is linked.

Danske Bank, its affiliates and subsidiaries are engaged in commercial banking, securities underwriting, dealing, trading, brokerage, investment management, investment banking, custody and other financial services activities, may be a lender to Taaleri and have whatever rights as are available to a creditor under applicable law and the applicable loan and credit agreements. At any time, Danske Bank, its affiliates and subsidiaries may have credit or other information regarding Taaleri that is not available to or may not be used by the personnel responsible for the preparation of this report, which might affect the analysis and opinions expressed in this research report.

Danske Bank is a market maker and a liquidity provider and may hold positions in the financial instruments of the issuer(s) mentioned in this research report.

Within the previous 12 months, Danske Bank has acted as Lead Manager of a public offer of credit bonds for Taaleri Oyj.

Parts of this research report have been disclosed to Taaleri plc for factual check.

As an investment bank, Danske Bank, its affiliates and subsidiaries provide a variety of financial services, including investment banking services. It is possible that Danske Bank and/or its affiliates and/or its subsidiaries might seek to become engaged to provide such services to Taaleri plc in the next three months.

### *Financial models and/or methodology used in this research report*

Investment views and opinions in this research report are formed on the basis of a combined selection of discounted cash flow analysis, industry knowledge, peer group analysis and company-specific and market technical elements (events affecting both the financial and operational profile of the company). Forecasting of company sales and earnings is based on segmented bottom-up models using subjective views of relevant future market developments. In addition, the expected macroeconomic environment is taken into account. The output is aggregated into models for group profit and loss, balance sheets and cash flow estimates – all taking into account the recent development in historical research reports.

More information about the valuation and/or methodology and the underlying assumptions is accessible via [www.danskebank.com/equityresearch](http://www.danskebank.com/equityresearch).

### *Risk warning*

Major risks connected with investment views or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

### *Expected updates*

This research product will be updated on a semi-annual basis as a minimum.

### *Completion and first dissemination*

The completion date and time in this research report mean the date and time when the author hands over the final version of the research report to Danske Bank's editing function for legal review and editing.

The date and time of first dissemination mean the date and estimated time of the first dissemination of this research report. The estimated time may deviate up to 15 minutes from the effective dissemination time due to technical limitations.

See the back page of this research report for the date and time of first dissemination.

### *Recommendation structure*

This report does not have a recommendation or target price but it does include a valuation discussion and a suggested valuation range.

## Not for US distribution

*Validity time period*

This communication as well as previous communications referred to below are valid until the earlier of (a) dissemination of a superseding communication by the author, or (b) significant changes in circumstances following its dissemination, including events relating to the market or the issuer, which can influence the price of the issuer or financial instrument.

*Investment recommendations disseminated in the preceding 12-month period*

Not relevant for this publication as no recommendations are connected to the report.

## *Disclaimer*

This commissioned research has been prepared by Equity Research (a division of Danske Bank A/S). It is provided for informational purposes only and should not be considered investment advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently of outside influence and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in the research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom and may under no circumstances be distributed in the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Report completed: 27 January 2020 at 15:14 CET

Report disseminated: 27 January 2020 at 18:35 CET

*Not for US distribution*