

Q3/2021

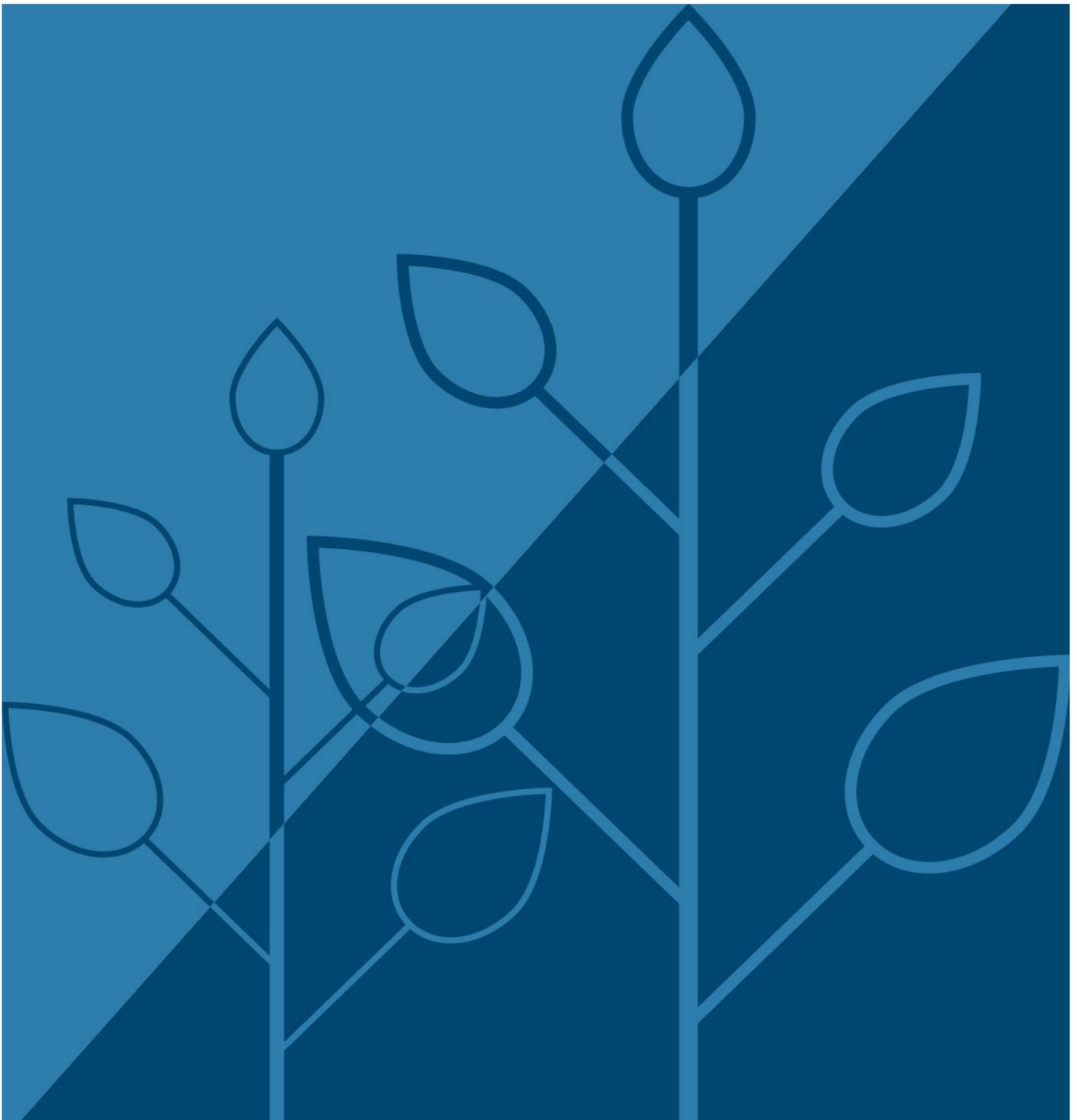


Sievi Capital Plc

Business Review

January–September 2021

29 October 2021



January-September 2021

EVENTFUL QUARTER

July-September 2021

- Operating profit was EUR 5.2 (8.2) million
- Net profit for the period was EUR 4.1 (7.0) million
- Earnings per share (undiluted and diluted) were EUR 0.07 (0.12)
- Jussi Majamaa started as Sievi Capital's CEO on 1 September 2021
- Sievi Capital and Boreo signed a combination agreement on 29 September 2021
- The agreement on the acquisition of Rakennuttajatoimisto HTJ was signed and the transaction was completed in October
- After the end of the review period, Indoor Group decided on a significant dividend distribution

January-September 2021

- Operating profit was EUR 18.3 (5.7) million
- Net profit for the period was EUR 15.2 (4.9) million
- Earnings per share (undiluted and diluted) were EUR 0.26 (0.08)
- Net asset value per share at the end of the review period was EUR 1.55 (1.25)
- Return on equity for rolling 12 months was 24.9% (16.2%)
- Gearing at the end of the review period was -4.7% (-18.2%)

Figures in parentheses are figures from the corresponding period in the previous year, unless indicated otherwise. Information in the Business Review is unaudited. Sievi Capital does not consolidate the data of its subsidiaries into Group-level calculations line item by line item but recognises investments in the companies at fair value through profit or loss.

CEO Jussi Majamaa:

"I started as Sievi Capital's CEO on 1 September 2021, in the middle of a major transformation in the company's operations. In August, Sievi Capital and Boreo Plc signed a letter of intent related to their contemplated combination and, at the end of September, they signed a combination agreement and a merger plan. Assessment work for the combination has required – and its preparations still require – considerable time from our team and a wide range of external advisors. The decision on the proposed combination will be made at the general meetings of both companies, which are scheduled to take place in December 2021.

Alongside the combination preparations, we have continued active development of our target companies and the promotion of new investments. The M&A market has continued to be active and there are plenty of new investment opportunities available. During the third quarter, the acquisition announced by Logistikas in June was completed and the agreement on the acquisition of our new target company Rakennuttajatoimisto HTJ (hereinafter "HTJ") was signed. The acquisition of HTJ was completed at the beginning of October and our close cooperation with the company began immediately. HTJ is a well-managed company with a strong market position. We see good potential in the company for growing operations organically and through possible acquisitions.

The development of our target companies' business operations continued to be varying in the third quarter. We are satisfied with the development of Indoor Group and KH-Koneet Group this year. In particular, KH-Koneet Group's success in Sweden after the major changes made last year has been great. The financial development of Logistikas has not fully met our expectations and that of Nordic Rescue Group has clearly been disappointing. However, we are convinced of the opportunities for these companies to improve their performance in the future when their operating environments return to normal.

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Sievi Capital's third-quarter result was again strong as a result of the positive value development of our largest target companies Indoor Group and KH-Koneet Group. Sievi Capital's return on equity for rolling 12 months was 24.9%."

Target companies

Indoor Group

In July–September, there were no major changes in Indoor Group's operating environment. The overall demand situation was good, but availability challenges and upward pressure on product purchase prices continued.

The company's January–September net sales increased from the corresponding period last year and its operating profit also improved. In the third quarter, net sales decreased and operating profit was significantly smaller than in the very strong comparison period. Net sales development in the past quarter was partly influenced by the fact that the undelivered order book grew more than in the comparison period. Online sales continued to grow briskly and cash flow was very strong in July–September, as is typical considering the seasonal fluctuation.

Indoor Group's ERP system renewal project proceeded as planned in the third quarter. During the quarter, the project moved from the analysis phase to the planning and deployment phase. The new system will be deployed in several phases by the end of 2022.

KH-Koneet Group

The demand situation in the earth-moving machinery market remained good in the third quarter. However, machine availability challenges continued, as did uncertainties in the arrival schedules of future deliveries.

In January–September, KH-Koneet Group's net sales increased significantly from the corresponding period last year, and as a result of the strong growth, EBITDA also improved significantly. In the third quarter, net sales and EBITDA were higher than in the comparison period, although business growth slowed down clearly from the first half of the year.

One of the key issues for the company over the past few months has been to ensure the availability of products for sales both at the end of this year and at the beginning of next year. The company has taken a number of measures to ensure the availability of products and is prepared to operate temporarily with higher stock levels than normally in order to ensure delivery reliability.

Logistikas

Logistikas' operating environment was more stable in the third quarter than during the first half of the year, but still clearly more challenging than in the previous year. Challenges in global supply chains have continued to complicate the operations of many of the company's customers, which has had negative impacts on the demand for Logistikas' services.

The company's January–September net sales were at the same level as pro forma net sales in the corresponding period last year, but EBITDA was somewhat below the comparison period's pro forma level⁽¹⁾. In the third quarter, net sales grew significantly from the comparison period's pro forma level as a result of the acquisition

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completed in July. Despite net sales growth, the July–September EBITDA was smaller than the comparison period's pro forma EBITDA due to the exceptionally strong profitability during the comparison period.

For Logistikas, the third quarter's most significant event took place in July when the acquisition of Piccolo Packing Oy (current Logistikas Vaasa Oy) and Piccolo Solutions Oy (current Logistikas Tehdaspalvelut Oy), for which the agreement was signed in June, was completed. With the acquisition, Logistikas expanded into the Vaasa region, thus strengthening its geographical presence and its ability to better serve new and existing customers. The takeover of the acquired companies has proceeded according to the plans and the companies' development after the transaction has met expectations. As part of the arrangement, Logistikas directed a share issue to Piccolo Group Oy, which acted as the seller in the transaction, and as a result, Sievi Capital's holding in Logistikas decreased to 65.9% after the completion of the transaction.

(1) The pro forma figures for 2020 that are used as reference figures take into account Logistikas Palvelut Oy and Logistikas Hankinta Oy, acquired in 2020, for the entire year 2020, but exclude the acquisition made in 2021.

Nordic Rescue Group

Nordic Rescue Group's operating environment was very challenging in July–September. Global availability challenges and delivery delays of raw materials, components and truck chassis made the company's production planning more difficult and delayed the planned product deliveries to customers. The development of new orders did not achieve the targets set but, due to the acquisition, the order book at the end of September was clearly higher than a year ago.

Nordic Rescue Group's January–September net sales grew somewhat from the pro forma level of the corresponding period last year, but EBITDA was considerably below the comparison period's pro forma level⁽¹⁾. In addition to net sales falling short of plans, factors contributing to the weak result development included extraordinary expenses related to, among other things, the move of Vema Lift as well as warranty repairs related to certain deliveries made before the establishment of Nordic Rescue Group. In the third quarter, net sales grew considerably from last year's pro forma level, partly as a result of the acquisition completed in June. Along with net sales growth, the July–September EBITDA improved significantly from the comparison period's pro forma level. Nordic Rescue Group has initiated active measures to improve result. The action plan includes, among other things, measures to ensure delivery reliability, increase sales and improve profitability.

In June, Nordic Rescue Group acquired the entire share capital of Swedish Sala Brand AB. With the acquisition, Nordic Rescue Group expanded its operations into Sweden and became a leading Nordic rescue and fire vehicle group. The takeover of Sala Brand and its integration into Nordic Rescue Group have proceeded as planned. Key issues in the near future include increasing Sala Brand's production capacity, seeking synergies within the Group in areas such as purchasing and technical and operational expertise and, in particular, developing the Group's centralised sales.

(1) The pro forma figures for 2020 that are used as reference figures take into account Saurus Oy and Vema Lift Oy, acquired in 2020, for the entire year 2020, but exclude the acquisition made in 2021.

HTJ

In September, Sievi Capital agreed on the acquisition of Rakennuttajatoimisto HTJ Oy (hereinafter "HTJ") and the transaction was completed in October, after the end of the review period. Sievi Capital's investment in the new company that carried out the transaction (HTJ Holding Oy) was approximately EUR 7.8 million and its holding in the company after the transaction is approximately 92.4 per cent. The other owners of the company include HTJ's executives and members of the company's Board of Directors. Sievi Capital financed the investment with

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its cash and cash equivalents and a new loan of EUR 5.5 million. The loan is due in full 24 months after its withdrawal.

HTJ is one of the leading construction consulting companies in Finland and offers its customers a wide range of expert services in construction management, site supervision, energy and environmental consulting and project management. The company employs approximately 150 experts and has offices in Vantaa, Tampere, Turku and Hämeenlinna. In 2020, Rakennuttajatoimisto HTJ Oy's net sales according to FAS (Finnish Accounting Standards) were EUR 18.5 million and EBITDA was EUR 2.3 million.

Result, financial position and net asset value

Sievi Capital's operating profit in the third quarter was EUR 5.2 (8.2) million, its net profit for the period amounted to EUR 4.1 (7.0) million and earnings per share (undiluted and diluted) were EUR 0.07 (0.12). The key factors influencing the third-quarter result were the positive change in fair values of Indoor Group and KH-Koneet Group investments and the negative change in fair value of the Nordic Rescue Group investment. The July–September result was also influenced by the approximately EUR 0.7 million expenses related to the contemplated combination of Sievi Capital and Boreo.

Sievi Capital's operating profit in January–September was EUR 18.3 (5.7) million, its net profit for the period amounted to EUR 15.2 (4.9) million and earnings per share (undiluted and diluted) were EUR 0.26 (0.08). An essential factor contributing to the January–September result was the EUR 17.2 million positive change in fair value of the Indoor Group investment. Sievi Capital's return on equity for rolling 12 months was 24.9%, which is clearly above the company's long-term minimum target level of 13%.

Gearing at the end of the review period was -4.7% (-18.2%). During the review period, the company strengthened its liquidity by agreeing on a EUR 2.0 million credit line.

At the end of the review period, the total value of private equity investments was EUR 93.1 million (9/2020: EUR 62.5 million and 12/2020: EUR 72.4 million). In addition to changes in value of investments, another factor contributing to the increase in the total value of private equity investments from the end of 2020 was the EUR 2.5 million follow-on investment in Nordic Rescue Group made in June.

Sievi Capital Plc's net asset value per share on 30 September 2021 was EUR 1.55 (9/2020: EUR 1.25 and 12/2020: EUR 1.33). The change in the net asset value resulted from the net profit for the period and the dividend paid during the review period, EUR 0.04 per share.

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Distribution of investments and net asset value

EUR million	30 Sept. 2021	%	30 Sept. 2020	%	31 Dec. 2020	%
Private equity investments						
Indoor Group Holding Oy	58.6	65.0%	35.6	49.2%	41.5	53.6%
KH-Koneet Group Oy	20.8	23.1%	17.3	23.9%	17.0	22.0%
Logistikas Oy	6.4	7.1%	-	-	6.1	7.9%
Nordic Rescue Group Oy	7.2	8.0%	7.7	10.6%	7.9	10.2%
Suvanto Trucks Oy	-	-	2.0	2.8%	-	-
Private equity investments, total	93.1	103.2%	62.5	86.5%	72.4	93.7%
Cash and cash equivalents and other financial assets	4.5	5.0%	13.2	18.2%	8.6	11.1%
Deferred tax liabilities and assets, total	-7.5	-8.4%	-3.5	-4.8%	-4.4	-5.7%
Other liabilities, receivables and assets, total	0.1	0.1%	0.0	0.1%	0.7	0.9%
Total net asset value	90.2	100.0%	72.3	100.0%	77.3	100.0%
Net asset value per share	1.55		1.25		1.33	

The percentages in the "Distribution of investments and net asset value" table have been calculated on the basis of net asset value.

Contemplated combination of Sievi Capital and Boreo

On 18 August 2021, Sievi Capital announced that it had signed a letter of intent, pursuant to which the parties, Sievi Capital and Boreo Plc, were looking into a potential combination. On 29 September 2021, Sievi Capital and Boreo signed a combination agreement and a merger plan to combine the companies through a merger. The contemplated combination would create one of the leading growth platforms of Nasdaq Helsinki Ltd Stock Exchange for small and medium-sized companies that, with its strong financial position and strong independent business operations, will have good preconditions for growth in Northern Europe in the long term.

The proposed combination will be implemented as a statutory absorption merger pursuant to the Finnish Limited Liability Companies Act whereby Sievi Capital will merge into Boreo. The combination requires, among other things, approval by a majority of two-thirds of votes cast and shares represented at the Extraordinary General Meetings of Boreo and Sievi Capital and the obtaining of merger control approvals. Completion is expected to take place in the first half of 2022, provided that all the conditions for completion are met. Upon completion, Sievi Capital's shareholders will receive 0.4492 new shares in Boreo for each share they held in Sievi Capital on the record date as merger consideration. This implies that the shareholders of Sievi Capital would then hold approximately 40 per cent and the shareholders of Boreo approximately 60 per cent of the shares and votes in the combined company.

The contemplated combination is described in more detail in the stock exchange release published on 29 September 2021.

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Changes in the company's management

In July, Sievi Capital announced that the company's CEO Päivi Marttila would leave the company but continue in her position until her successor would start, however no later than until 31 December 2021.

On 1 September 2021, Sievi Capital's Board of Directors appointed Jussi Majamaa as the company's CEO. Jussi Majamaa has long and versatile experience in finance, and he has served both Nordic investment banks and a global investment bank during his career. For the past seven years, he has acted as an entrepreneur in the industry. Majamaa took up his duties on 1 September 2021. The company's previous CEO Päivi Marttila left the company at this point.

Markus Peura, CFO of Sievi Capital, has also announced that he will leave the company. He will remain in his position until March 2022, being responsible for, among other things, the completion of the company's financial statements for 2021.

Future outlook

Sievi Capital will continue to explore new investment opportunities in line with its strategy. The company plans to make an average of 1–2 new investments per year but the number of investments made may vary from year to year. For existing investments, the active development of the companies' business operations will continue.

Sievi Capital does not consolidate the data of its subsidiaries into Group-level calculations line item by line item but recognises investments in the companies at fair value through profit or loss. Changes in the fair values of the investments have a material impact on Sievi Capital's results. In addition to the target companies' own development, factors that influence the development of the fair values of the investments include, for instance, the general development of different sectors and national economies as well as changes in their outlooks, the development of stock market and interest rates and other factors beyond Sievi Capital's control. Furthermore, the coronavirus pandemic increases uncertainty when it comes to anticipating development.

Sievi Capital's financial target is a return on equity of at least 13%, the achievement of which the company considers to be realistic in the long term. Due to the nature of the business, the company's short-term result development is subject to volatility that is difficult to predict. Therefore, Sievi Capital does not provide an estimate of the result development in 2021.

Events after the review period

After the end of the review period, on 19 October 2021, Sievi Capital announced that its target company Indoor Group, through its parent company Indoor Group Holding Oy, is planning a dividend distribution amounting to approximately EUR 15 million. The decision on the dividend distribution was made in Indoor Group Holding Oy's Extraordinary General Meeting on 26 October 2021. Sievi Capital's share of the dividend was roughly EUR 8.7 million.

Helsinki, 29 October 2021

Sievi Capital Plc

Board of Directors

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Sievi Capital

Sievi Capital is a partner for Finnish entrepreneurs. We support the growth, performance and value creation of small and medium-sized companies and concurrently build national competitiveness. We believe that we succeed together as co-entrepreneurs. Sievi Capital's share is listed on Nasdaq Helsinki.