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Company Comment	Industrial Sales	Finland	09 May 2023
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Meeting with portfolio companies to discuss life in compounder portfolio

Today we met the management of Boreo as well as a few leading people from selected Boreo portfolio companies. The MD of Yleiselektroniikka and former entrepreneur of Tornokone discussed the life of a portfolio company under the Boreo umbrella. Our interpretation is that the selected portfolio companies have been happy with their life in Boreo's portfolio and have benefited from the group support, and their expertise has been used in other acquisitions as well.

The portfolio companies we met seem to have benefited from Boreo's support

Yleiselektroniikka and Tornokone operate in different industries and have different backgrounds before the Boreo era; Yleiselektroniikka used to be a listed company itself, and it operates as a electronics and technology wholesaler and importer. Boreo was built on the Yleiselektroniikka foundation. Tornokone, on the other hand, serves the concrete industry in Finland by selling and renting machines, especially the Putzmeister dealership. Tornokone was acquired by Machinery in 2019 that was later acquired by Boreo (Yleiselektroniikka) in 2020. Both companies were positive on the collaboration and support from Boreo. Our takeaway is that profitable use of capital is emphasised now more as part of the Boreo portfolio. For example, according to our understanding, Yleiselektroniikka aims now to allocate time more efficiently between clients depending on EBIT impact. The profitability of the company has also improved from 2020 levels, noting that 2021 and 2022 were good years in the market. However, it may take time to change old habits. Profitability of Tornokone decreased in 2022 after positive development in 2021.

Boreo's acquisitions are mainly not synergy-driven, but still some synergies can be generated. Costs have been made more efficient by e.g., concentrating different companies at the same location and utilising common sourcing. Some sales synergies could also be generated through cross-selling, and especially Tornokone's collaboration is close with the corresponding businesses in Sweden and Estonia. The companies in Boreo's portfolio maintain quite strong independence. Being part of the larger company still creates more requirements for reporting. We believe this may take time to get used to, but should not be a heavy extra burden.

Boreo aims to run acquisition processes efficiently with low external costs, utilising internal expertise. Industrial knowledge from other portfolio companies is utilised in evaluating new potential transactions, and both portfolio company representatives from the meeting had been involved in acquisitions. Boreo aims also to utilise personnel from portfolio companies to source transactions. In fact, expertise and relationships from Tornokone played a big role in Boreo's Swedish expansion as

Boreo acquired similar business (PM Nordic and Sany Nordic) from Sweden in 2021. On the other hand, Boreo expanded organically to a similar distribution business in Estonia. The Baltic expansion had been considered by Tornokone also when the company was independent, but was never done. We believe that being a part of a larger group can make investments feel more 'safe' from a smaller company's point of view. Boreo supports its portfolio companies in organic investments in addition to the acquisition mentality, but both inorganic and organic investments need to fulfill the return on investment criteria.

Performance of many small companies may be very dependent on key personnel. This is acknowledged by Boreo. Earn-outs are part of payment structures in some of the transactions made by Boreo, and many earn-out periods are ongoing. Boreo finds it important to create a motivating and interesting environment for key personnel to develop over a longer time also. Boreo aims to secure continuation of the business by choosing and training the successor well in advance if there is a possible change in management in one of the portfolio companies ahead.

Key figures				
(EURm)	2022	2023E	2024E	2025E
Revenues (m)	161	180	177	186
Adj. EBIT	9	12	11	13
PTP (m)	6	6	6	9
EPS	1.12	1.39	1.29	1.99
EPS (adjusted)	1.82	2.22	2.12	2.62
DPS	0.44	0.46	0.46	0.60
Revenue growth (%)	31.4	11.7	(1.2)	5.0
EPS growth (%)	(2.0)	21.8	(4.4)	23.3
Operating margin (%)	4.0	4.9	4.8	5.8
ROCE (%)	10.0	10.9	10.4	11.5
Net Debt/EBITDA (x)	4.6	3.5	3.4	2.8
PER (adjusted)	20.2	17.7	18.5	15.0
Dividend yield (%)	1.2	1.2	1.2	1.5
Free Cash Flow Yield (%)	0.7	4.5	5.6	5.0
P/BV (x)	2.4	2.5	2.3	2.1
EV/EBIT (x)	17.1	13.4	13.4	11.5
EV/Sales (x)	0.93	0.87	0.86	0.80

Source: SEB

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