

Investment Services

Key data

Price (EUR)	11.2
Country	Finland
Bloomberg	TAALA.FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	319
No. of shares (m)	28.4
Next event	Q1: 3-May

* Price as at 16:20 CET on 13 April 2023

CEO	Peter Ramsay
CFO	Minna Smedsten

Company description

Taaleri is a Finnish financial services company. Taaleri focuses on Private Equity funds, mainly on renewables and other alternative investments. The company also has a strategic guaranty insurance subsidiary Garantia. Taaleri consists of two key divisions: Private Asset Management & Strategic Investment Garantia.

Ownership structure

Veikko Laine Oy	11.5%
Hermitage Oy	10.3%
Juhani Elomaa	6.3%

Source: Company data ("d Mmmm YYYY")

Estimate changes

	23E	24E	25E
Tot inc	-9.5%	-9.4%	-13.5%
Op prof	-3.2%	1.5%	-6.1%
EPS (adj.)	-7.6%	-3.0%	-11.6%

Source: Danske Bank Equity Research estimates

Analyst(s)

Daniel Lepistö

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Important disclosures and certifications are contained from page 22 of this report

Taaleri plc

Focus on sustainability enhances valuation

We revisit our investment case in Taaleri and focus on the company's new Bioindustry fund offering. We believe that Taaleri's Renewables and Bioindustry funds will support 15% AUM CAGR until 2025, offsetting likely sluggishness in the Real estate division. Strategic investment Garantia is also set to continue to support earnings until the ramp-up is completed. We raise our 12M fair value range to EUR10.5-12.0 (EUR10.0-11.5).

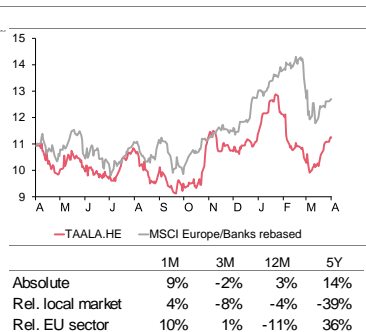
- Focus on sustainability to support AUM growth ambitions.** Taaleri's Renewable energy funds have a very good reputation with the company currently commanding close to EUR1.4bn AUM. Taaleri is currently fundraising its biggest Renewables fund yet, SolarWind III, and current ambitions suggest some EUR700m fund size. Moreover, the close of the newest Bioindustry fund is approaching with already at least EUR100m in commitments. We believe that these sustainability-driven fund divisions will support our 15% AUM CAGR estimates for 2022-25E, despite general market uncertainty.
- Long-term value in divestments of non-core assets.** We continue to see value in strategic investment Garantia, which we believe would be even higher outside Taaleri. However, we view a divestment of Garantia as unlikely; at least until Taaleri's private equity operations have reached a sufficient size, i.e. not until at least 2025, unless Taaleri decides to strengthen these operations inorganically. Moreover, Taaleri still has some smaller non-strategic investments on its balance sheet that we expect the company to divest in the medium term.
- Estimates.** We make various changes to our estimates, including the IFRS 17 reporting change for Garantia and the moving forward of some longer-term carried interest estimates.
- Valuation.** We revisit our valuation considerations and raise our 12M fair value range to EUR10.5-12.0 (EUR10.0-11.5 previously). Based on our 2024 estimates, the midpoint of the range implies P/E of 16.9x, which is 16% above the company's five-year NTM average valuation. We have argued that Taaleri should be trading at a premium to its historical multiples due to its growing exposure to ESG-driven products.

Key financials

Year-end Dec (EUR)	2021	2022	2023E	2024E	2025E
Total income (m)	72.6	58.9	62.0	59.2	57.7
Total income growth	4.4%	-18.8%	5.1%	-4.5%	-2.5%
Total expenses (m)	-43.8	-31.6	-32.2	-33.1	-34.2
Operating profit (m)	28.8	27.3	29.7	26.0	23.5
Operating profit growth	63.5%	-5.2%	8.9%	-12.4%	-9.8%
Operating profit margin	39.7%	46.3%	48.0%	44.0%	40.7%
EPS (adj.)	0.75	0.75	0.68	0.64	0.58
DPS	1.20	0.70	0.70	0.50	0.50
Dividend yield	10.7%	6.3%	6.2%	4.4%	4.4%
ROE	74.0%	10.3%	10.1%	9.6%	8.5%
P/E (adj.) (x)	15.0	15.0	16.6	17.5	19.4
P/BV	1.38	1.58	1.59	1.61	1.59

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Executive summary

In this report, we take a closer look at Taaleri's new Bioindustry fund offering, its market potential and competitive advantages. We believe that the Bioindustry operations together with the Renewable Energy division create a strong foundation for a sustainability-focused asset manager, as we expect it to have a more resilient AUM growth outlook even in uncertain times. Overall, we view Taaleri as a sustainability-driven asset-management growth case with high carried interest potential due to upcoming fund exits and divestments of non-core assets, thereby streamlining the investment case.

We reiterate most of our key views on the case and underline the following.

Renewable and Bioindustry funds form 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 162 turbines producing almost 2% of all the country's electricity. Moreover, Taaleri's new Bioindustry I fund is a first-of-its-kind product in Europe, aiming to enable investments towards new sustainable technologies seeking to find industrial scale. We see these divisions as the main future drivers of Taaleri's AUM and continuing earnings growth. The company is now able to attract institutional money but remains small enough not to be competing with the larger global players and it is able to invest in smaller assets.

Sustainability focus and impact investing should expand valuation multiples. We believe the increasing focus on ESG among investors will benefit companies such as Taaleri, which promotes sustainability in its strategy and operations. Institutional investors are increasingly interested in alternative sustainable funds that have long time horizons and return potential. In our view, now that Taaleri has streamlined its business and better underlined its exposure to ESG, its valuation should benefit in the end. Moreover, 75% of Taaleri's current AUM is categorised either under the SFDR article 9 (funds have sustainable investments as their objective, i.e. 'dark green funds') or Article 8 (the fund promotes environmental and social characteristics), with 55% of the total AUM being taxonomy aligned.

Carried interest to continue to give support to earnings. Taaleri still has several private equity funds well past their investing period, steadily approaching the end of the fund lifecycle. We believe, that Taaleri would be seeking to exit at least some 5-10 currently invested private equity funds during 2023-25, naturally depending on the general economy and financial conditions, resulting potentially in EUR15-30m of carried interest from various fund exits for the same period. We believe that each successful fund exit gives further backing on Taaleri's ability to create value-creating investment products for its customers in the future, as well.

Long-term divestment potential in strategic investment Garantia. Taaleri's strategic investment Garantia remains a separate entity from the private equity operations, not only due to limited synergies with Taaleri's historical core competence, but also its long-term divestment potential. As we expect Garantia to represent some 40-60% of Taaleri's total operating income in the coming years, the divestment of such an earnings driver during the ramp-up of private equity operations seems unlikely to us. However, in the medium term, once Taaleri has successfully bulked up its private equity operations and has a stable earnings profile, we expect Garantia to be divested for further streamlining of the investment case.

Taaleri's long-term financial targets. As the company does not give implicit short-term guidance, the long-term financial targets are used to find the growth and margin profile for the company for the coming years. Taaleri at this point aims for >15% earnings growth, operating profit at least 25% of income and ROE of at least 15%. The company has somewhat achieved these figures in recent years, mainly on the operating profitability front. For coming years we

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expect continuing earnings improvement through new fund launches but at the current pace >15% is a quite ambitious target without any inorganic measures, we believe.

Private asset management

Taaleri has some EUR2.5bn assets under management in its private equity funds. The majority of the company's AUM is under the Renewable energy segment, representing some 55% of the total. The new Bioindustry segment represents just 6% of the total, but will represent the fastest growth in coming years, we believe. Real estate and other miscellaneous funds represent the rest. In this chapter, we focus mostly on the Bioindustry and Renewables segments, which we view as the key value creators for Taaleri in the long term.

Table 1. Taaleri's Private Equity funds (Q4 22)

	Founded	Product	AUM (EURm)	Stage
Renewable Energy			1379	
SolarWind II	2019	Private Equity Fund		Investing
Wind Power II	2014	Private Equity Fund		Invested
Wind Power III	2016	Private Equity Fund		Invested
SolarWind I	2016	Private Equity Fund		Invested
SolarWind II feeder	2019	Feeder fund		Investing
Wind Power IV	2019	Co-investment fund		Investing
Managed accounts	2019-	Managed accounts		Invested
Real Estate			816	
Real Estate Development	2015	Private Equity Fund		Invested
Forest III	2014	Private Equity Fund		Invested
Housing IV	2010	Private Equity Fund		Invested
Multifunctional Premises	2018	Private Equity Fund		Investing
Property I	2015	Private Equity Fund		Invested
Property II	2016	Private Equity Fund		Invested
Rental Home	2016	Private Equity Fund		Investing
Housing VIII	2021	Private Equity Fund		Fundraising
Managed accounts	2021-	Managed accounts		Investing
Bioindustry			163	
Biorefinery	2020	Co-investment fund		Investing
Joensuu Biocoal	2021	Co-investment fund		Fundraising
Bioindustry I	2021	Private Equity Fund		Fundraising
Other			158	
Total			2516	

Source: Company data

Bioindustry

Taaleri Bioindustry invests in disruptive technologies and develops industrial-scale plants to accelerate growth within the sector on a global scale, especially in resource-efficient and sustainable materials. The team of Taaleri Bioindustry has both the technically oriented skills and investment expertise and is one of the first owner-operators in the Finnish bioindustry market. We see the Bioindustry segment as a clear continuum from Taaleri's more mature Renewables (previously Taaleri Energy) segment, where the company has one of the largest Private Equity investment teams in Europe.

As Taaleri's vision is to be a front-runner in alternative investments focusing on sustainable development, Taaleri launched its first (Bioindustry I) fund under its Bioindustry segment, which focuses purely on bio-industrial investments that are sustainable by for example, aiming to curb climate change, and enable scaling of the targets' operations. The products produced by these portfolio companies or plants could include items bio- and recycling fibres, organic fertilizers, functional biomaterials, or renewable materials replacing virgin products.

Taaleri Bioindustry Fund I

The fund is classified as 'dark green', meaning that its investments fall completely under SFDR article 9. The fund widely reports the sustainability measures of its investments and is a closed-end private equity fund, of which the original target size was EUR80m. However, Taaleri already

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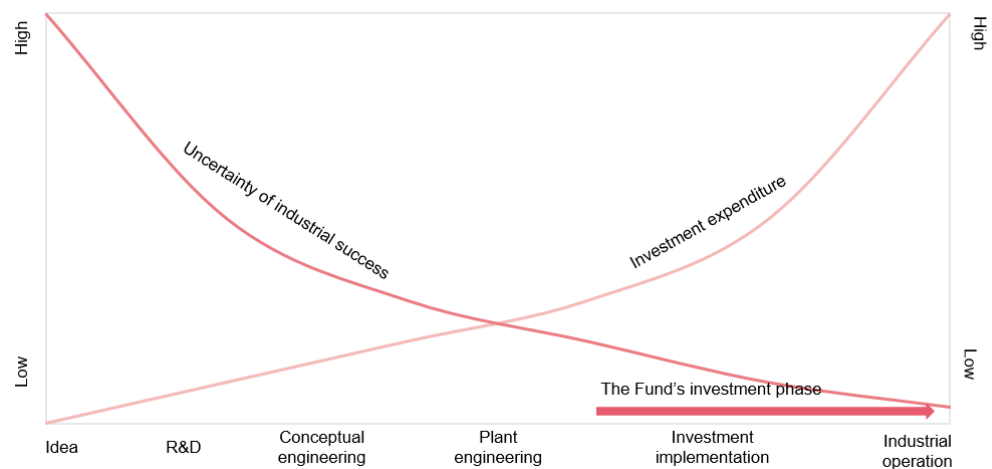
managed to secure EUR100m for the second close and it will continue its fundraising, aiming for a hard cap of EUR120m, with an investment horizon of 10 years.

Figure 1. Taaleri Bioindustry I summary

Mission	To profitably support, finance and accelerate the transition from fossil fuels and non-renewable materials to resource-efficient sustainable goods and renewable energy
Expertise	Skilled team with an extensive experience in production technologies, industrial scale project development, technical due diligence, construction, transaction execution and operations
Value add	Utilizing in-house abilities in order to find attractive opportunities and to optimize construction, ramp-up and operational efficiency of the investment targets' production facilities
The Fund	The first alternative investment fund to invest in industrial scale production facilities within the bioindustry and circular economy space primarily in Finland

Source: Company data

Chart 1. The Fund's investment phase logic illustrated



Source: Company data

The Bioindustry I fund is the first of its kind in European scope, enabling investors to obtain exposure to highly ESG-driven private investments, which seems thematically on point, especially considering the ongoing environmental initiatives (such as European Fit-for-55) providing support for climate-change mitigation related products and technologies. Despite being an early mover in this emerging segment, Taaleri recognises the following direct and indirect competitors operating in the field.

- **Industrial competition.** Industrial companies trying to make their operations more sustainable through an arm that focuses on developing new technologies.
- **Direct competition.** Pure circular economy, case by case or IPO investors focusing on renewable energy.
- **Traditional PE.** Mature phase private equity companies moving their focus towards early stage investments.

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- **VC competition.** Later stage venture capitalists, potential competition in some cases.

Target market segments for Taaleri Bioindustry I

Taaleri recognises seven key segments that direct the scope of the investments made for the fund and gives examples of some players operating in the field. The segments are the following.

Organic fertilisers. Demand for organic and/or non-fossil fertilisers is driven by the input-efficient industry's attempts to reduce the negative impacts of agrochemicals, while also focusing on biodiversity and soil productivity. Companies operating in the organic fertiliser segment include YARA, EuroChem and Nutrien.

Recycling technologies. Disposed waste material can be used to replace virgin raw materials as feedstock in a variety of products, enabling a circular economy with little to no unfavourable impact on the product's physical properties. Companies operating with recycling technologies include Neste, LyondellBasell and Fortum.

Textile and fibre. Cotton-like fibre production from recycled clothing, clothing grade fibre production from feedstock like straw, bagasse and wood. Textile and fibre-focused companies include Patagonia, UPM and Ahlström Munksjö.

Metal recovery. Recovering critical metals from various waste sources and industrial side streams sustainably. Supports circular economy initiatives and provides an option for virgin raw materials. Companies operating in metal recovery business include SSAB, Hydro and Glencore.

Functional biomaterials. Certain plastics are replaceable with sustainable biomaterial solution, which can benefit industrial side streams or renewable carbon sources, consequently acting as a substitute for virgin resources. Huhtamäki, BASF and Metsä Group are examples of companies operating in this field.

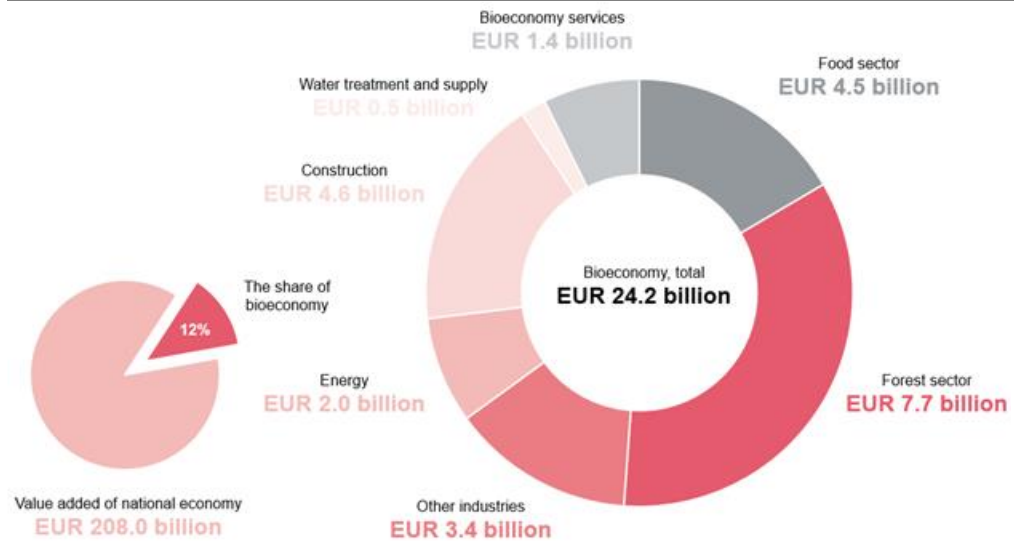
Geothermal energy. Geothermal energy is heat energy from the earth that can be used almost everywhere. It can be used for heating and cooling purposes or to generate renewable energy. Taaleri focuses purely on geothermal heat, not electricity. Companies that operate with geothermal energy include EnBW, Uniper and Vattenfall.

Bioindustry market

A key trend in the Bioindustry market is the global transition towards a more sustainable way of living regarding for example the fuels or materials that we use. Renewable resources are playing a key role here as they have the potential to replace fossil-based materials and work as enablers for a sustainable and circular bioeconomy. This emphasises the role of bioindustry investments in general, and explains the robust growth outlook in the segment. We see the bioindustry segment for Taaleri to be a new, rapidly expanding segment, which has the potential to become a large domain parallel to renewable energy.

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Figure 2. Value added by bioeconomy in Finland, 2020

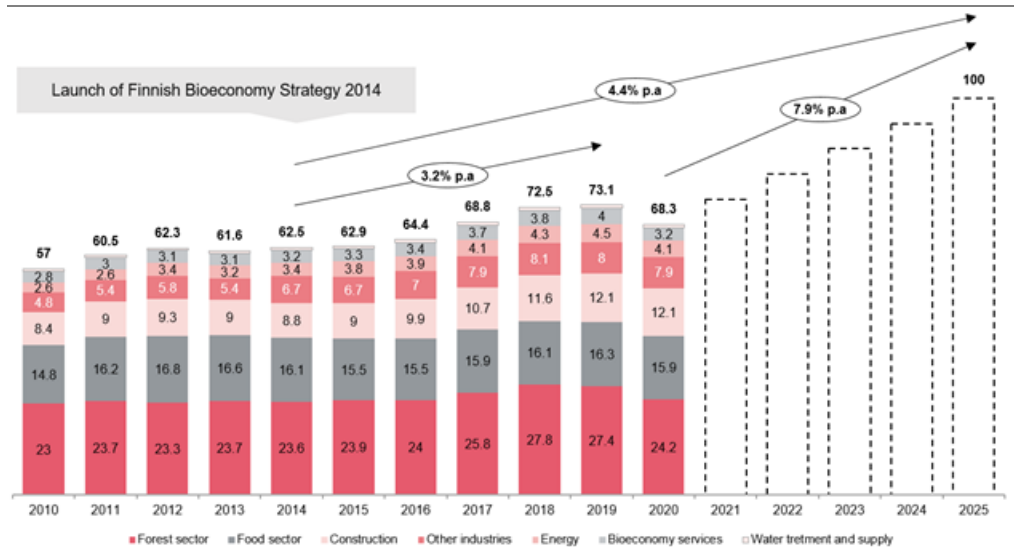


Source: Statistics Finland, Natural Resources Institute Finland; VTT; Luke

Finland's total bioeconomy output, of which the bioindustry is the part where the materials and products are processed, was estimated to be approximately EUR75bn in 2019, and the value added by the Finnish bioeconomy totalled EUR26.0bn in the same year. The forest sectors and food sector are the largest sectors within the bioeconomy.

The output of the total bioeconomy has been increasing and if the current trend continues, the objective of the Finnish Bioeconomy Strategy 2014 of achieving a total output of EUR100bn by 2025 would be achieved. The goal of EUR100bn in 2025 meant a CAGR of 4.4% back in 2014, but currently, after the COVID-19 setback, achieving the ambition would mean a 7.9% CAGR. Overall, we think that Taaleri focusing its asset management expertise on this cornerstone of the Finnish economy is understandable and thematically sound.

Figure 3. Total output of Finnish bioeconomy, 2010-25



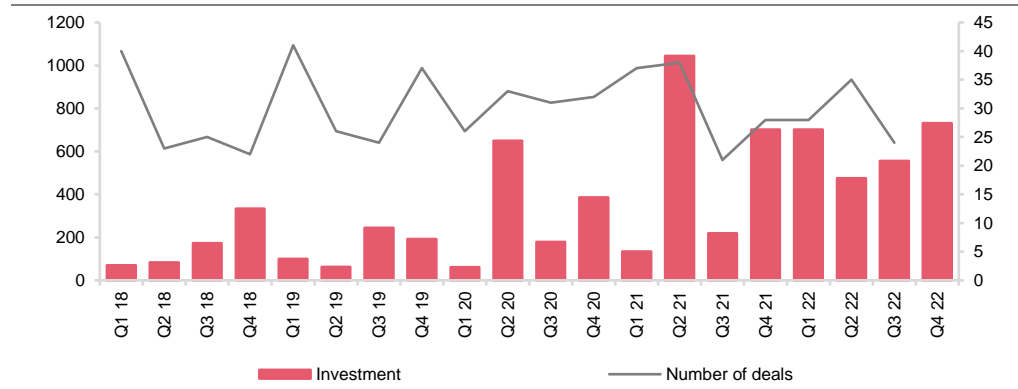
Source: Statistics Finland, Natural Resources Institute Finland; VTT; Luke

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Growing interest in nature tech investing

Moreover, as more than half of the world's GDP is dependent on nature, new capital has increasingly been invested in technologies that enable nature-based solutions. Investments in nature tech start-ups have had an average growth rate of 52% annually since 2018 (see this article from PwC: *A surge in nature tech investing*).

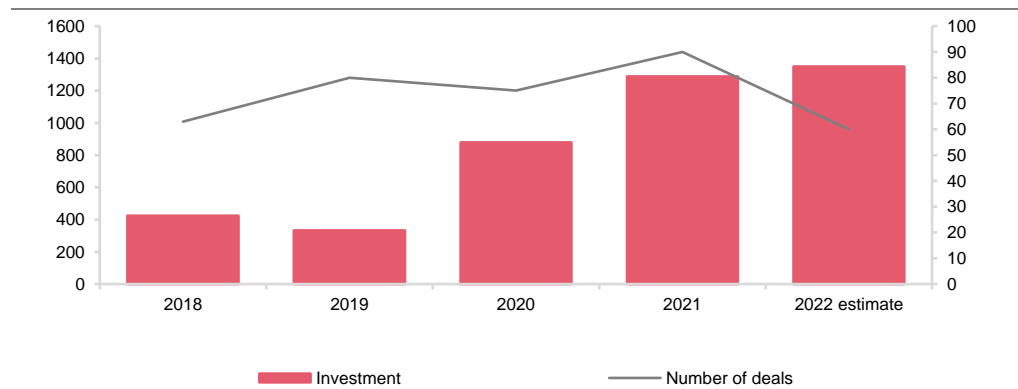
Chart 2. Global venture fund investment in nature tech start-ups (EURm LHS)



Source: PwC

By utilising natural climate solutions, it is possible to mitigate greenhouse gas emissions by more than a third of the amount required. The solutions include technologies that help manage, restore and protect natural and agricultural environments. As shown in the graph, investors' curiosity about these opportunities seems to be increasing.

Chart 3. Global venture fund investment in nature tech start-ups working on nature climate solutions (EURm LHS)



Source: PwC

We believe that the abovementioned market and industry trends point towards Taaleri being an early mover in a still relatively niche segment (for example in comparison to renewable energy), where the long-term growth and sustainability impact potential is considerable. By successfully ramping up the fund operations in this niche and cementing its name within the segment, this is a compelling avenue for Taaleri for numerous new fund launches and AUM growth in the future domestically and internationally in our view.

Taaleri's current investments in Bioindustry

Fintoil. The company refines crude pine oil-producing, among other things, CFA (crude fatty acids), which is the main raw material for renewable second-generation diesel as well as some health and welfare product raw materials. The crude pine oil is a side product of pine and spruce pulp, utilisation of which is considered a sustainable and responsible use of natural resources.

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The carbon footprint of the refined products is some 90% less than comparable fossil-based products, with very little waste generated in the production.

According to the issued environmental permit, the Fintoil biorefinery in the Kotka-Hamina harbour area aims for input capacity of approximately 200,000 tonnes of crude pine oil. That will make Fintoil the world's fourth-largest producer with a market share of ~10%. The project's total budget is over EUR 100m and the production started in H2 22. Fintoil aims for an annual revenue of EUR150m at full capacity. Taaleri's purchase price (of some 24% ownership) in the case is reported as EUR4.8m on the balance sheet (up from previous EUR3m fair value assessed in 2021). We continue to see upside risk to the asset revaluation in short to medium term.

Fintoil's offering addresses the transition towards fossil-free transportation. The plant will refine crude tall oil (CTO), a by-product of the kraft pulp process, to produce feedstock for second-generation renewable diesel (aka HVO), and will utilise other fractions from its process to cater to the needs of chemicals, foodstuffs, and pharmaceuticals industries. CTO is classified as a sustainable feedstock for advanced biofuels in the EU's Renewable Energy Directive (RED II).

Over 50% of the facility's total production is directed towards crude fatty acid (CFA), or so-called Fintoil Pine Diesel, a raw renewable diesel that is then further refined at a refinery. The CFA volume allows for the annual production of 100m litres of pure, renewable HVO.

In June 2022, Taaleri announced that Fintoil signed a significant offtake agreement with Swiss VARO Energy and entered a strategic co-operation. In the agreement, VARO will buy Fintoil crude fatty acid, which can be used to produce second-generation biofuels. The agreement covers a significant part of the refinery's CFA production.

KaiCell Fibers Oy. At the end of January 2022, Taaleri invested in KaiCell Fibers Oy purchasing 10.7% of the company's equity. KaiCell Fibers aims to build a bioproduct plant in Paltamo, focused on producing bleached pulp and bioenergy. The investment strengthens Taaleri's footprint in the value chain of wood products. The plant enables a sort of 'bioproduct cluster' to be built around the side streams of pulp, in the area.

The total investment in Paltamo's plant is approximately EUR900m. The annual pulp producing capacity of the facility is about 600,000 tonnes per annum, of which some 85% is long-fibre softwood pulp and 15% short-fibre birch pulp. According to the schedule of the project, the environmental permitting process and the letter of intent to acquire the factory site were done in 2019, and the environmental and water management permit was reached in 2020. The plant is aimed to be built in 2023-24, and the production is scheduled to start in 2024-25.

Joensuu Biocoal Oy. Taaleri has invested in Joensuu Biocoal Oy to build a bioindustrial plant producing torrefied biomass in Joensuu. Torrefied biomass replaces the use of coal in the cement and steel industries, and can also be used in soil improvement and water treatment. The plant will be built on the site of Savon Voima Oyj's liksenvaara CHP plant. The plan includes building a cluster around the plant including Natural Resources Institute Finland, University of Eastern Finland, Karelia University of Applied Sciences, and Business Joensuu. Joensuu Biocoal's aim is to develop products and refine new uses for torrefied biomass and biochar.

Other investors in the project include the European Regional Development Fund with a support sum of EUR3.4m, the Climate Fund with a capital loan of EUR5.0m as well as a number of Finnish family-owned investment companies. The total value of the investment is around EUR20m.

The production is expected to start in mid-2023. The planned capacity of the plant is about 60,000 tonnes of torrefied biomass per annum, using by-products from the forest industry and forestry as inputs, totalling at some 250,000 used cubic meters of biomass per annum. The torrefication technology used in the plant is based on technology of NextFuel AB, which is developed in collaboration with Andritz Ag.

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Tracegrow. Taaleri has invested EUR1.5m in a Finnish Tracegrow company, which produces fertilizer (certified as organic) out of used batteries. The fertilizer products are based on the separation of trace elements from used and recycled alkaline battery, and in the future of some industrial side streams. The liquid fertilizers, used in agricultural fields, will bring the metals that are needed for plants to grow, with a proven positive effect on the productivity of farming. Tracegrow's circular economy fertilizers significantly curb carbon emissions compared to traditional fertilizers.

The aim is to use the equity issuance to scale the production and diversifying the product portfolio in Kärsämäki. Taaleri will also support the company's goals to expand its business internationally. The investment included two of Taaleri's funds, Taaleri Sijoitus and Taaleri Bioindustry.

Nordtreat. Taaleri has invested EUR1.0m in Nordtreat, which is a Finnish company producing environmentally friendly and non-toxic fire retardants. The fire retardant chemicals are based on the company's patented fire protection technology, and are produced from non-toxic bio-based acids that are made from renewable raw materials. Nordtreat's developed and commercialized fire retardants especially to be used in wood construction as building materials, and are set to replace the traditional fire retardants that contain harmful compounds to humans and the environment, such as boric acid, formaldehyde, and ammonia.

The funding totalled EUR4.0m in its latest financing round, and the purpose is to use the funds to accelerate international growth, expand the product portfolio and develop production at the company's plant site in Vantaa.

Colombier. Taaleri Bioindustry I invested in Colombier, which is a company producing ecological packaging. The purpose of the investment is to expand Colombier Finland's Ecological Packaging plant production in Pyhtää, Finland. Colombier Finland is part of the international Colombier Group, which has extensive experience in paper and cardboard products. Its vision is to produce, convert and trade sustainable packaging materials that are also recyclable and biodegradable. Colombier Group revenue in 2021 was approximately EUR25m, of which EUR6.4m came from Finland. The value of the investment has not been disclosed.

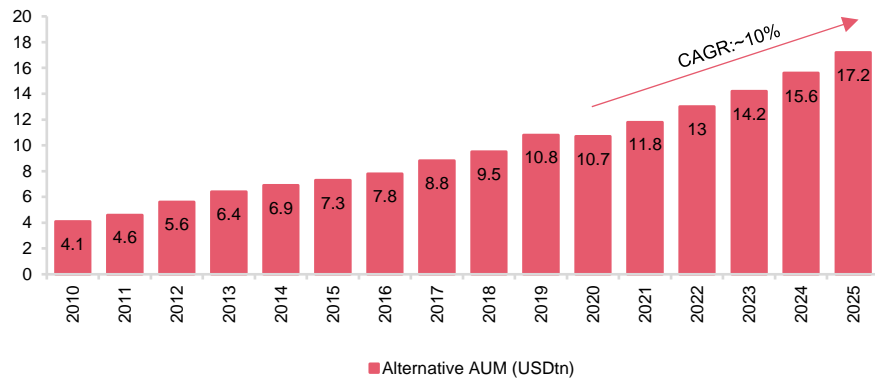
Renewable energy

Taaleri has over 10 years of experience in renewable energy and currently has four renewable energy funds with approximately EUR1.4bn AUM, and the company is in the process of fundraising its biggest fund yet, SolarWind III, aiming for EUR700m. Taaleri participates in screening, developing, constructing, financing, operating and decommissioning of the projects. Taaleri's team of around 40 professionals includes people from both finance and engineering backgrounds, ensuring the highest possible professionalism in project lifecycle monitoring, which distinguishes it from its, often purely financial, competitors. Taaleri also manages wind parks for certain institutional accounts and receives management fees for that activity. Taaleri, through its wind power funds, is the Finland's largest private-equity producer of wind power.

In our view, Taaleri's renewable energy unit remains the spearhead of the company and the successful funds and reputation boost from these are set to push Taaleri's operations in other private equity segments, especially Bioindustry. As Taaleri expects the alternative AUM to keep growing some 10% CAGR during 2021-25, there is significant underlying demand for the company to capitalise on. Moreover, Taaleri has steadily grown its fund sizes over the years.

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Chart 4. Alternative Assets Under Management (2020) (USDtn)



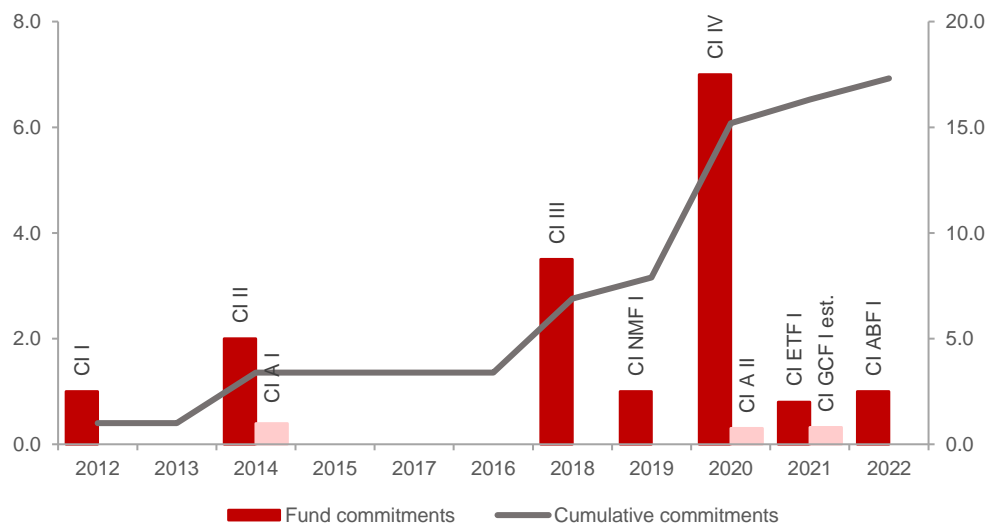
Source: Company data, Preqin

Case: Copenhagen Infrastructure Partners as an aspirational peer

Copenhagen Infrastructure Partners (CIP) was established in 2012 by senior executives from the Danish energy industry together with founding investor PensionDanmark. The company specializes in offering tailor-made investment in energy infrastructure assets globally, especially within renewables and the greenfield segment. The CIP team employs more than 400 professionals, manages 10 different funds and has to date raised approximately EUR18bn for investments.

In December 2020 Vestas, a Danish energy industry company, invested EUR500m in CIP to further expand its presence across a wider range of the renewable chain. Vestas acquired a 25% minority stake, which implies that the value of CIP at the time was approximately EUR2bn. At the time, CIP had AUM worth around EUR14bn and revenue at approximately EUR14.8bn in 2020. By very simple EV/AUM or EV/fee income valuation (our estimates), we could derive a EUR150-200m value for Taaleri’s current Renewables operations, with up to EUR250-300m value after successfully fundraising the SolarWind III fund. It is, however, good to note that CIP had very steep AUM growth targets during the time of the Vestas investment, which at least at this point are not comparable to Taaleri’s ambitions.

Chart 5. CIP Fund commitments and cumulative commitments 2012-22 (EURbn)



Source: Company data, Preqin

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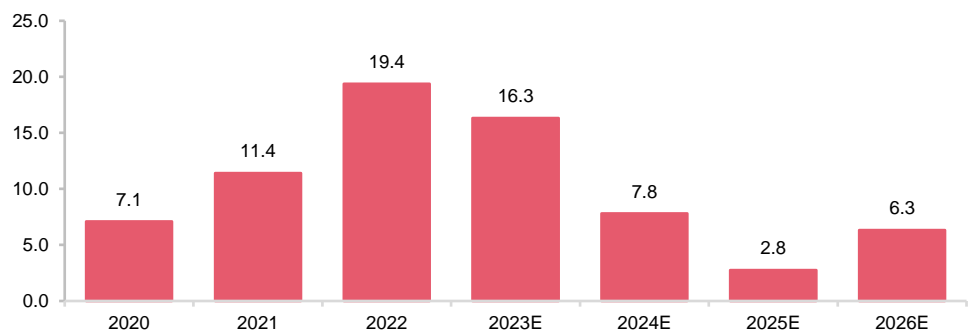
Real estate

Taaleri currently has 12 real estate funds and mandates, and around 14 professionals managing the funds. Taaleri's real estate investments have thus far been in rental homes, property development projects, land lots and forests in Finland. Even though real estate funds are a rather mature asset class already, Taaleri has a solid reputation, especially in the Finnish market, and is set to compete with quality in these funds. As we have moved rapidly towards a higher interest-rate environment, real estate funds could see a general slowdown due to yield requirements rising and general funding terms tightening. We expect Real Estate to remain a 'nice-to-have' segment for Taaleri in the future, as it is a very traditional fund class, and Taaleri already has a competent team in place.

Carried interest and expected fair value changes

As previously noted, Taaleri has several private equity funds that are close to their exit phase currently. Depending on IRR achieved, carried interest for Taaleri for these exits could be around EUR5-15m annually for the coming years on our estimates. We base our estimates on around 1.7x MOIC for each fund, with estimated maturities ranging from 7-10 years. We land at our carry estimates with a hurdle rate of 7% and carried interest split of 20/80.

Chart 6. Carried interest for private equity funds 2020-26E (EURm)



Source: Company data, Danske Bank Equity Research estimates

Strategic investment Garantia

In addition to its core private equity fund business, Taaleri also has an independent non-life insurance company Garantia as a strategic investment, specialising in guarantee insurance. Taaleri acquired Garantia in 2015 from a group of Finnish pension insurance companies, and it offers its customers mortgage guarantees, rental guarantees, loan guarantees, investment guarantees and other tailored guarantee solutions for corporations. In mortgage loans, Garantia's co-operation partners include Aktia, Danske Bank, Handelsbanken, HYPO, OmaSp, OP Group, POP Bank Group, S-Bank and Savings Bank Group. Of the largest banks operating in Finland, only Nordea does not use Garantia as its mortgage guarantee provider at the moment.

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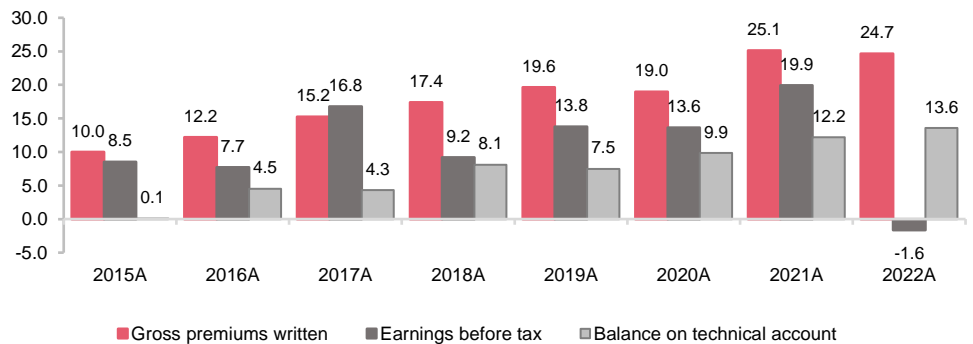
Figure 4. Strategic roadmap for Garantia

2022	2023	2024
<ul style="list-style-type: none"> Maximise the potential of current distribution channels. Creating and launching co-operation with corporations in scalable portfolio guarantee models. Rental guarantee distribution in digital marketplaces. Exploring co-operation possibilities outside Finland. 	<ul style="list-style-type: none"> Expand distribution network channels. Scale portfolio guarantee models with new strategic partners in Finland and abroad. Analyse new possibilities to offer protection (e.g. underwriting reinsurance). 	<ul style="list-style-type: none"> Distribution agreement with a Nordic partner. Exploring "Connected Insurance" possibilities and other new digital solutions provided by data platforms.

Source: Company data

Ever since Taaleri acquired Garantia in 2015, Garantia’s operations have developed positively. Garantia has had extraordinarily good combined ratio levels in recent years, showing ratios as low as 28.4% due to a very moderate expense ratio, and at some years even negative claims ratio. Garantia has a solid base to grow its business in this relatively niche field. Additionally, as Garantia’s strategic roadmap includes exploring opportunities to take its business to the other Nordic countries through co-operation, in our view, Garantia’s current co-operation partners are the natural enablers for this activity.

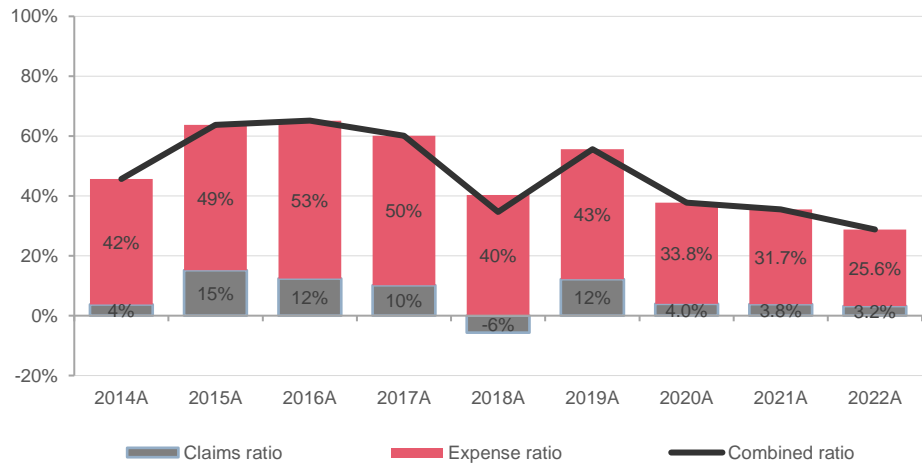
Chart 7. Gross premiums written, PBT and Balance on technical account (FAS) (EURm)



Source: Company data, Danske Bank Equity Research estimates

Not for US distribution

Chart 8. Garantia's Combined ratio % (FAS) (EURm)

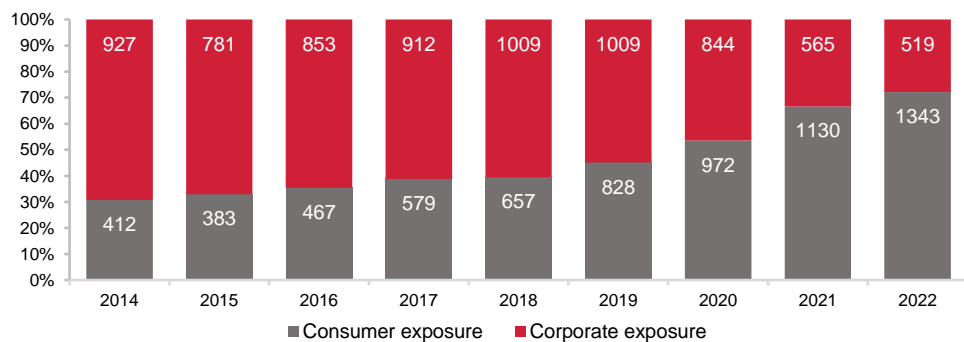


Source: Company data, Danske Bank Equity Research estimates

The guarantees Garantia underwrites have very different solvency requirements and the loan guarantees have clearly higher solvency requirements than, for example, the residential mortgage guarantees. From this perspective, Garantia has steered the business in the right direction and has been able to diversify its risks further by pooling its corporate solutions to a wider base with lower risk concentration on single names, thus decreasing its internal capitalisation requirements. Overall, Garantia's solvency remains strong at some 231% by the end of 2022, and the company is likely to retain this level as it has been seeking to keep its S&P credit rating at A-.

In our view, as Garantia remains a strategic investment that is not incorporated in Taaleri's core business and lacks major synergies with the other operations, the company should be willing to divest Garantia if the right buyer appears with the right price. However, as Garantia's recent performance has been excellent, Taaleri is in our view currently waiting to see how much Garantia's operations can be developed and value maximised. One issue is that we believe Garantia currently represents some 50% of total Taaleri's sum-of-the-parts, and as it is expected to generate some 40-60% of total group operating profit in coming years, divesting such an asset while the ramp-up of Other Private Equity operations is ongoing, seems unlikely.

Chart 9. Garantia's Corporate vs Consumer exposure (EURm)



Source: Company data, Danske Bank Equity Research estimates

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Estimates and key financials

Looking at the financial profile of Taaleri, the key for the investment case in the future will be accelerating the growth of continuing earnings for the company. The private equity operations will tackle this ambition with new funds with larger AUM, with competitive management fees. A solid demonstration of growing the fund size with subsequent successful funds is from the Renewables side with SolarWind I (2016) with investment commitments of some EUR87m, followed by SolarWind II (2019) with total commitments of some EUR354m (4x of first) and finally SolarWind III (2023 est.) aiming for commitments 2x the level of SolarWind II. We believe that Taaleri's Bioindustry segment would prove to be the next segment that could offer steeper AUM growth with solid first mover and competitive advantages discussed earlier.

The second leg of the continuous earnings growth comes from Garantia that has been contributing materially to the group's profitability in recent years. However, the recently volatile investment income, especially after IFRS 17, due to rising interest rates is set to cause volatility in the continuous earnings of Garantia in the future, we believe. Despite this, we are expecting the company to continue solid growth, with slightly more cautious expectations due to perceived sluggishness in the mortgage market.

Despite our 15% AUM CAGR estimate for 2022-25, we view it as unlikely that Taaleri would be reaching its current >15% continuous earnings growth consistently without inorganic measures during our forecast period.

Table 5. Quarterly estimates

EURm	Q1 22A	Q2 22A	Q3 22A	Q4 22A	Q1 23E	Q2 23E	Q3 23E	Q4 23E
Total income	5.7	11.1	25.7	16.2	8.3	11.1	19.3	23.2
Growth y/y	-52.9%	-34.5%	94.8%	-46.4%	45.2%	-0.5%	-24.9%	43.3%
Total expenses	-6.8	-8.3	-7.4	-9.0	-7.7	-7.9	-7.9	-8.3
Operating profit	-1.0	2.8	18.3	7.2	0.6	3.2	11.4	14.9
Operating margin	-18.3%	25.3%	71.2%	44.6%	7.7%	29.1%	58.9%	64.1%
Segment income								
Other Private Equity	1.5	1.5	8.1	5.8	2.0	3.5	3.4	3.5
Insurance	-1.3	-1.8	4.9	1.8	2.0	2.7	3.1	3.6
Renewables	3.8	4.3	4.5	13.1	4.0	4.6	12.4	15.8
Other	1.7	7.1	8.3	-4.5	0.3	0.3	0.3	0.3
Total	5.7	11.1	25.7	16.2	8.3	11.1	19.3	23.2
Income growth (y/y)								
Other Private Equity	27.9%	41.4%	998.4%	-4.7%	30.3%	140.6%	-57.3%	-38.9%
Insurance	-117.8%	-124.7%	-26.0%	-80.6%	-259.0%	-251.2%	-35.6%	99.8%
Renewables	-4.5%	0.9%	26.2%	28.9%	6.1%	5.9%	175.8%	20.6%
Other	13.3%	312.6%	477.9%	-218.8%	-81.9%	-95.8%	-96.4%	-106.7%
Total	-58.1%	-21.9%	109.0%	-44.8%	45.2%	-0.5%	-24.9%	43.3%
Segment operating profit								
Other Private Equity	-0.6	-1.1	5.5	3.3	-1.0	0.5	0.4	0.4
Insurance	-1.3	-1.9	4.7	1.7	1.9	2.6	3.0	3.7
Renewables	0.6	0.4	1.5	9.0	0.5	1.1	8.9	12.3
Other	0.3	5.5	6.6	-6.8	-0.7	-1.0	-1.0	-1.5
Total	-1.0	2.8	18.3	7.2	0.6	3.2	11.4	14.9
Operating profit margin								
Other Private Equity	-42.6%	-74.3%	68.2%	57.9%	-52.5%	12.9%	11.5%	11.0%
Insurance	107.5%	108.6%	96.7%	95.0%	92.8%	98.0%	95.5%	101.9%
Renewables	17.0%	8.7%	33.4%	68.7%	13.4%	23.9%	71.9%	77.8%
Other	18.0%	76.5%	79.8%	152.9%	-239.5%	-319.8%	-318.8%	-490.8%
Total	-18.3%	25.3%	71.2%	44.6%	7.7%	29.1%	58.9%	64.1%
Reported EPS (EUR)	-0.06	0.02	0.53	0.25	0.01	0.08	0.26	0.34
Adj. EPS (EUR)	-0.06	0.02	0.53	0.25	0.01	0.08	0.26	0.34
ROE	-2.9%	0.9%	29.4%	14.4%	0.4%	4.3%	14.9%	19.5%
ROE (adj.)	-2.9%	0.9%	29.4%	14.4%	0.4%	4.3%	14.9%	19.5%
AUM								
Private equity funds	1,144	1,096	1,114	1,114	1,134	1,134	1,134	1,234
Energia / Renewables	1,357	1,357	1,357	1,357	1,357	1,657	1,657	1,907
Total AUM	2,500	2,500	2,500	2,500	2,500	2,800	2,800	3,100

Source: Company data

Not for US distribution

Table 6. Annual estimates

EURm	2017A	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Total income	81.6	72.3	67.2	69.5	72.6	58.9	62.0	59.2	57.7
Growth y/y	34.7%	-11.4%	-7.0%	3.5%	4.4%	-18.8%	5.1%	-4.5%	-2.5%
Total expenses	-54.0	-48.5	-50.7	-51.9	-43.8	-31.6	-32.2	-33.1	-34.2
Operating profit	27.6	23.6	16.5	17.6	28.8	27.3	29.7	26.0	23.5
Operating margin	33.8%	32.7%	24.6%	25.3%	39.7%	46.3%	48.0%	44.0%	40.7%
Segment income									
Other Private Equity*	54.6	48.7	42.9	43.0	9.0	16.8	12.4	15.8	12.2
Insurance	21.8	12.5	21.3	17.2	30.2	3.6	11.5	15.9	16.6
Renewables	1.8	2.3	4.6	9.2	22.0	25.8	36.9	26.2	27.6
Other	3.4	8.8	-1.6	0.1	8.4	12.6	1.2	1.3	1.3
Total	81.6	72.3	67.2	69.5	69.6	58.8	62.0	59.2	57.7
Income growth									
Other Private Equity*		-10.8%	-11.9%	0.1%	-79.1%	86.7%	-26.0%	27.0%	-22.5%
Insurance		-42.6%	70.3%	-19.0%	75.4%	-88.0%	214.6%	38.8%	4.4%
Renewables		27.7%	103.2%	99.5%	138.3%	16.9%	43.2%	-28.8%	5.0%
Other		156.0%	-118.4%	-106.3%	8118.6%	50.4%	-90.5%	5.0%	5.0%
Total		-11.4%	-7.0%	3.5%	0.1%	-15.5%	5.4%	-4.5%	-2.5%
Segment operating profit									
Other Private Equity*	16.6	16.8	11.8	12.2	-0.9	7.1	-0.2	2.8	-1.6
Insurance	13.9	4.9	12.7	9.9	22.7	3.1	11.2	15.2	15.9
Renewables	-1.5	-2.3	-2.6	0.2	6.1	11.5	22.9	11.5	12.1
Other	-1.4	4.4	-5.4	-4.7	1.0	5.5	-4.1	-3.5	-3.0
Total	27.6	23.8	16.5	17.6	30.8	27.3	29.7	26.0	23.5
Operating profit margin									
Other Private Equity*	30.4%	34.5%	27.6%	28.4%	-9.9%	42.3%	-1.6%	17.7%	-12.8%
Insurance	63.9%	39.2%	59.9%	57.5%	75.1%	86.3%	97.6%	95.8%	95.9%
Renewables	-84.0%	-100.9%	-56%	2.0%	27.5%	44.7%	62.0%	44.0%	44.0%
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	33.8%	32.9%	24.6%	25.3%	44.3%	46.4%	48.0%	44.0%	40.7%
Reported EPS (EUR)	0.76	0.75	0.39	0.45	4.80	0.75	0.68	0.64	0.58
Adj. EPS (EUR)	0.76	0.70	0.49	0.45	0.75	0.75	0.68	0.64	0.58
Growth y/y		-8%	-30%	-8%	65%	0%	-9%	-5%	-10%
DPS (EUR)	0.26	0.30	0.32	1.32	1.20	0.70	0.70	0.50	0.50
Growth y/y		15%	7%	313%	-9%	-42%	0%	-29%	0%
Dividend payout ratio	34%	43%	65%	292%	161%	94%	103%	78%	86%
ROE	21.5%	18.7%	8.5%	9.0%	72.8%	9.8%	9.6%	9.2%	8.2%
ROE (adj.)	21.5%	17.4%	10.6%	9.0%	11.3%	9.8%	9.6%	9.2%	8.2%
AUM									
Mutual funds	1,083	911	1,023	1,209	0	0	0	0	0
Other private equity funds	1,052	1,024	1,223	1,282	1,040	1,114	1,234	1,357	1,629
Wealth management	3,316	3,676	4,469	4,629	0	0	0	0	0
Renewables	74	82	307	407	1,357	1,357	1,907	1,945	2,140
Total AUM	5,600	5,700	7,100	7,657	2,400	2,500	3,100	3,500	3,800

Source: Danske Bank Equity Research estimates

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Valuation

We raise our fair value range to EUR10.5-12.0 (EUR10.0-11.5 previously). We believe that selling the Wealth Management operations (but keeping the private equity operations) is key for Taaleri to crystallise its company value and execute a clearer strategy with higher earnings potential in the future. In addition, cleaning up the balance sheet of the non-strategic investments is set to streamline the investment case overall.

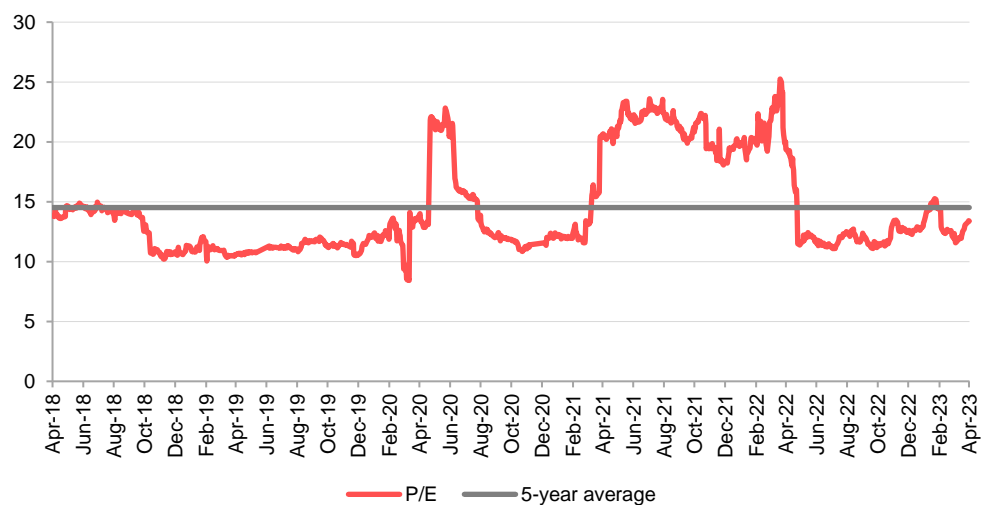
We believe that if Taaleri is able to continue to demonstrate good progress with its Bioindustry and Renewable Energy fund operations, the company's increased exposure to ESG should warrant a clear premium to the historical valuation.

Taaleri's current past 5Y NTM P/E is 14.5x and our 2024E valuation midpoint suggest 16.9x. We have argued that Taaleri should be trading at a premium to its historical multiples, due to its growing exposure to ESG-driven products.

Our multiples-based valuation for the Insurance-leg Garantia suggests some EUR110-150m SOTP value, which is further backed by our Dividend Discount Model suggesting some EUR150m fair value for the strategic investment. As Taaleri's current market cap is some EUR320m, divesting such a core asset from both a valuation and earnings-generation perspective would be difficult to see in the short to medium term in our view.

Overall, we would expect Taaleri to consider AUM-accretive acquisitions during the private equity ramp-up, to better reach the company's current >15% continuous earnings growth target.

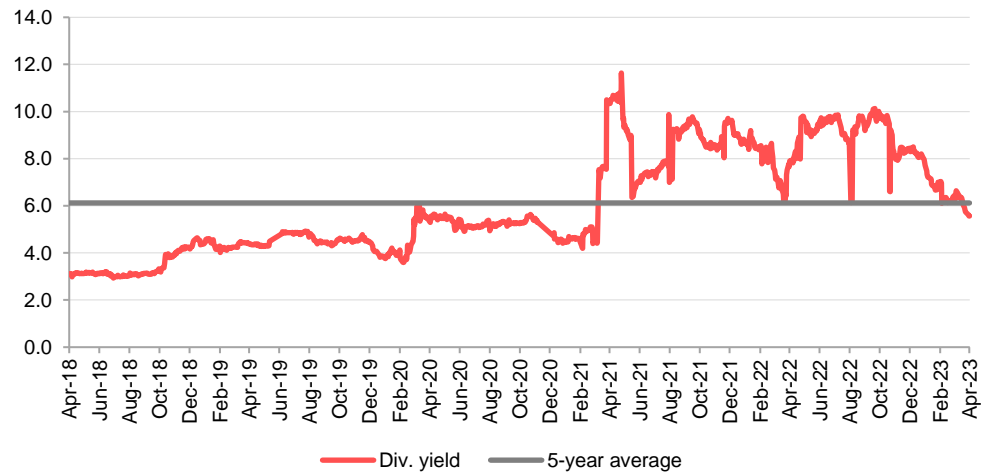
Chart 10. Taaleri NTM P/E and 5-year average



Source: FactSet

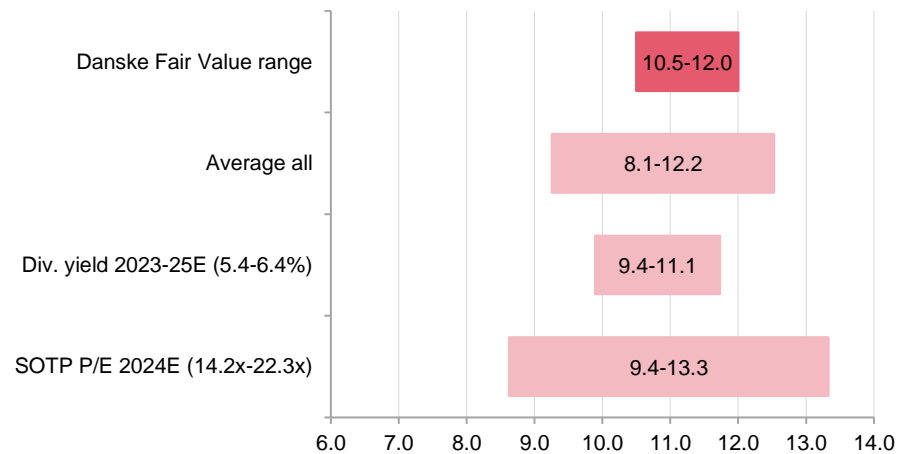
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Chart 11. Taaleri NTM Dividend yield and 5-year average



Source: FactSet

Chart 12. 12M fair value range



Source: Danske Bank Equity Research estimates

Key risks

Disposal of Wealth Management decreased Taaleri’s AUM and continuing earnings. Even though we believe that Taaleri gained significant focus benefits from the transaction, the absolute size of the company’s AUM and continuing earnings decreased notably. The smaller size and excess cash in hand might turn risky in the long term, if the company fails to capitalise on its growth initiatives and new fund ramp-ups. In the worst-case scenario, investors are paid most of the excess capital, but are left with a smaller scale business with low growth.

High earnings volatility. Taaleri’s reported earnings have historically been volatile. This has partly been due 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, and lately the impact of rising interest rates to fair values of investments. Taaleri has been divesting its non-strategic investments during 2021-22, but several small positions remain in the balance sheet. Taaleri made some EUR3.4m worth of impairments in various smaller assets in Q4 22.

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Small size and illiquid shares. Taaleri has very limited institutional ownership at the moment, 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. Additional risk emerges from the fact that most of the Taaleri's personnel has been transferred to Aktia, and as most of them simultaneously own Taaleri's shares, their incentives to keep their ownership in the long term are uncertain.

Rising interest rates and tighter economic conditions can complicate fundraising. The steep rise in interest rates we have seen during the past year has straight adverse effects on the fair values of most investment assets. From an asset allocation perspective, especially Real estate has been an alternative investment segment that has benefitted notably from the lack of yield in the fixed-income market. This has drastically changed in a short period, and can cause headwinds for new fundraising in the future, accompanied with house prices decreasing. Moreover, there is also a risk that decreasing fair values of traditional asset classes (equities, fixed-income) can lead to redemptions from alternative funds or hesitancy towards investing in new funds.

Management team

CEO Peter Ramsay. Been in the company since December 2021, previously CIO and CFO at Veikko Iain Oy.

CFO Minna Smedsten. Been in the company since 2013, previously CFO at GreenStream Network plc.

CEO, Garantia Insurance Company, Titta Elomaa. Been in Garantia since 2002.

General Counsel, Pasi Erlin. Been in the company since 2022, previously senior legal counsel at CapMan.

Head of Sales, Mikko Ervasti. Been in the company since 2022, previously senior Nordic equity sales at SEB.

Head of IR, Sustainability and communications, Siri Markula. Been in the company since 2021, previously account director at Hill&Knowlton Strategies.

Director, Renewable Energy, Kai Rintala. Been in the company since 2016, previously director of Infrastructure & Projects group at KPMG.

Director, Bioindustry, Tero Saarno. Been in the company since 2021, previously production director at St1.

Director, Real estate, Essi Sten. Been in the company since 2020, previously country manager at Hemfosa Fastigheter AB.

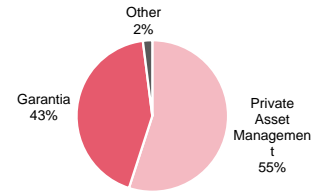
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Company summary

Income breakdown by geographical area



Income breakdown by segment



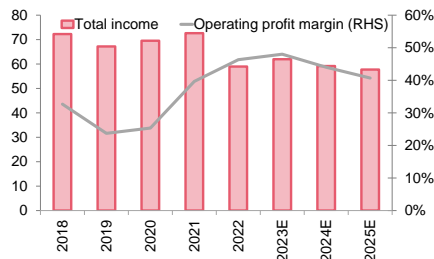
Company information

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

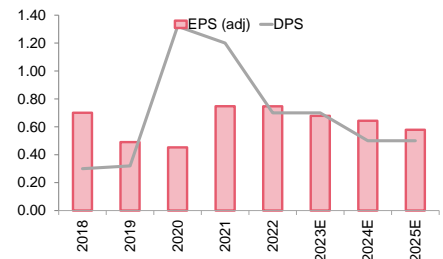
Main shareholders

Name	Votes (%)	Capital (%)
Veikko Laine Oy	11.5%	11.5%
Hermitage Oy	10.3%	10.3%
Juhani Elomaa	6.3%	6.3%

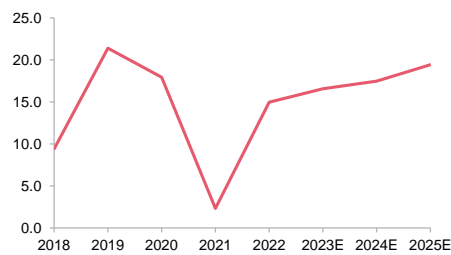
Total income and operating profit margin (EURm)



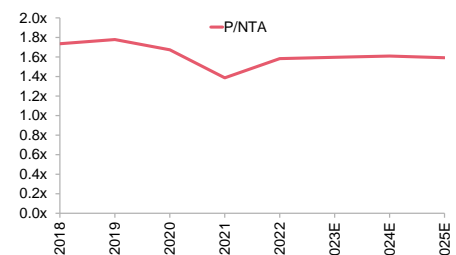
EPS (adjusted) and DPS (EURm)



P/E NTM (x)



P/NTA NTM (x)



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

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Summary tables

INCOME STATEMENT										
Year end Dec, EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Commissions	31.8	33.2	53.0	45.6	46.1	51.5	21.9	20.9	28.5	31.4
Total income	58.4	60.6	81.6	72.3	67.2	69.5	72.6	58.9	62.0	59.2
Costs	-39.6	-44.5	-54.0	-48.5	-50.7	-51.9	-43.8	-31.6	-32.2	-33.1
Operating profit	47.4	16.3	27.6	23.6	15.9	17.6	28.8	27.3	29.7	26.0
Taxes	-3.0	-3.6	-5.8	-2.3	-5.0	-4.4	-5.2	-5.1	-5.9	-5.2
Pre-tax profit	47.4	16.3	27.6	23.6	15.9	17.6	28.8	27.3	29.7	26.0
Net profit	44.1	12.8	21.4	21.3	10.6	12.8	138	22.2	20.2	19.0
Net profit (adj.)	17.3	12.8	21.4	19.8	13.9	12.8	21.2	21.2	19.2	18.2
BALANCE SHEET										
EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Insurance assets	0.0	126	136	134	153	160	169	153	161	164
Other interest bearing assets	0.0	55.1	34.6	26.1	29.1	37.0	53.3	46.8	46.8	46.8
Goodwill	0.0	2.5	2.2	6.6	6.5	6.8	0.7	0.4	0.4	0.4
Total assets	0.0	213	229	238	270	268	319	300	311	316
Insurance liabilities	13.1	15.0	20.3	23.3	32.3	34.7	39.4	44.0	46.1	48.5
Wholesale funding	29.9	64.7	54.8	54.8	34.9	34.9	0.0	0.0	0.0	0.0
Equity	97.1	93.9	106	122	141	144	230	201	200	198
NTA	97.1	91.3	104	116	134	138	229	200	200	198
PER SHARE DATA										
	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
No. of shares, fully diluted YE (m)	28.3	28.3	28.3	28.3	28.3	28.4	28.4	28.4	28.4	28.4
No. of shares, fully diluted av. (r)	28.3	28.3	28.3	28.3	28.3	28.4	28.4	28.4	28.4	28.4
EPS (reported) (EUR)	1.56	0.45	0.76	0.75	0.39	0.45	4.80	0.75	0.68	0.64
EPS (adj.) (EUR)	0.61	0.45	0.76	0.70	0.49	0.45	0.75	0.75	0.68	0.64
DPS (EUR)	0.14	0.22	0.26	0.30	0.32	1.32	1.20	0.70	0.70	0.50
Book value per share (EUR)	3.43	3.32	3.75	4.32	4.97	5.09	8.10	7.07	7.05	6.99
NTA per share (EUR)	3.43	3.23	3.67	4.09	4.73	4.85	8.08	7.06	7.04	6.98
MARGINS AND GROWTH										
	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
C/I, adjusted	73.4%	66.2%	67.1%	75.4%	74.7%	60.3%	53.7%	52.0%	56.0%	59.3%
Op profit marg	27.0%	33.8%	32.7%	23.7%	25.3%	39.7%	46.3%	48.0%	44.0%	40.7%
Op profit grth	-65.51%	69.0%	-14.52%	-32.49%	10.5%	63.5%	-5.19%	8.94%	-12.45%	-9.82%
Tot inc growth	3.7%	34.7%	-11.4%	-7.0%	3.5%	4.4%	-18.8%	5.1%	-4.5%	-2.5%
Cost growth	-12.2%	-21.4%	10.2%	-4.5%	-2.5%	15.6%	27.8%	-1.8%	-2.9%	-3.3%
PPP growth	-14.2%	71.4%	-13.8%	-30.6%	6.6%	63.5%	-5.2%	8.9%	-12.4%	-9.8%
EPS (adj) growth	-26.1%	67.9%	-7.5%	-30.0%	-7.7%	65.1%	-0.0%	-9.2%	-5.2%	-10.1%
PROFITABILITY										
	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
ROE, reported profits	65.3%	13.4%	21.5%	18.7%	8.0%	9.0%	74.0%	10.3%	10.1%	9.6%
RONTA, adj. profits	25.6%	13.6%	22.0%	18.1%	11.1%	9.5%	11.6%	9.9%	9.6%	9.2%
VALUATION										
	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Share price (EUR)	8.38	8.24	10.4	7.10	8.42	8.12	11.2	11.2	11.2	11.2
Market cap (EURm)	237	233	293	201	238	230	318	317	319	319
P/E (reported) (x)	5.4	18.3	13.7	9.4	21.4	17.9	2.3	15.0	16.6	17.5
P/E (adj.) (x)	13.7	18.3	13.7	10.1	17.2	17.9	15.0	15.0	16.6	17.5
P/BV (x)	2.44	2.49	2.76	1.64	1.70	1.59	1.38	1.58	1.59	1.61
P/NTA (x)	2.44	2.55	2.82	1.74	1.78	1.67	1.39	1.58	1.60	1.61
Dividend yield	1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	6.3%	6.2%	4.4%
Total yield (incl. buybacks)	1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	6.3%	6.2%	4.4%

Source: Company data, Danske Bank Equity Research estimates

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