Suomen Hoivatilat

Company Report

5/2018

inderes.

Strong growth continues

We reiterate our Accumulate recommendation and EUR 9.10 target price for Suomen Hoivatilat. After a financing agreement made in April 2018 we believe that Hoivatilat has good prospects to continue growing strongly and profitably as seen in recent years, thanks to the strong demand drivers on the markets. According to our view, the market undervalues the company's development business and we see clear upside potential in the valuation.

Comprehensive owner and real estate developer

Suomen Hoivatilat is a real estate company specialized in producing, developing, owning and leasing out day-care centers, nursing homes and schools, as well as service blocks. Hoivatilat cooperates with municipalities and private service providers and offers turnkey solutions for care premises. From the investor's viewpoint, Hoivatilat's operating model provides higher returns than traditional real estate investment, as the company receives part of the development margin itself through its own development business. Managing the entire value chain of the real estate also brings a competitive edge as it enables customer-specific tailoring and quick project implementation. The fair value of Hoivatilat's real estate portfolio at the end of Q1'18 was EUR 268 million, net rental income was 6.5% on an annual level, and return on equity was around 25% in 2017. The company's real estate are practically new, the average lease length is 14 years, and the occupancy rate is 100%. Hoivatilat has a 100% leased real estate portfolio with an acquisition cost of some EUR 103 million under construction and in the licensing phase, and thanks to a relatively strong balance sheet and the EUR 50 million financing agreement made in April 2018 with the European Investment Bank, we believe the company has good prospects to further grow its project portfolio. According to Inderes' estimate, the company's development projects and the drop in yield requirements for care premises will raise the net asset value (NAV) per share of the real estate portfolio to around EUR 7.1 in 2018 (Q1'18: EUR 5.7).

Strongly growing end-market demand over the next few decades

Several drivers are currently visible in Finland which, according to our view, will clearly increase the demand for Hoivatilat's real estate over the next few decades. These operating environment drivers are: urbanization and population concentration, aging, the public sector becoming indebted, and the social welfare and health care reform, as well as the use of the service voucher becoming more popular. According to current estimates, at least 1,000 new nursing homes and hundreds of new day-care centers and schools will be needed in Finland in the next few decades, which means that over EUR 4 billion in investments are needed in care premises alone.

Markets undervalue the company's development business

According to Inderes' view, the fair value of Suomen Hoivatilat's share is EUR 9.1. The estimate is based on a sum of parts analysis that other valuation methods support. We believe the markets undervalue Hoivatilat's development business and/or the markets do not include the drop in yield requirements of care premises that has already materialized on the care facility markets in the pricing of Hoivatilat's share. The biggest risk for the valuation is, in our opinion, a possible faltering in the company's growth rate and tighter competition in real estate development.

Analyst

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Recommendation and target price

Accumulate
Previous: Accumulate

EUR 9.10
Previous: 9.10

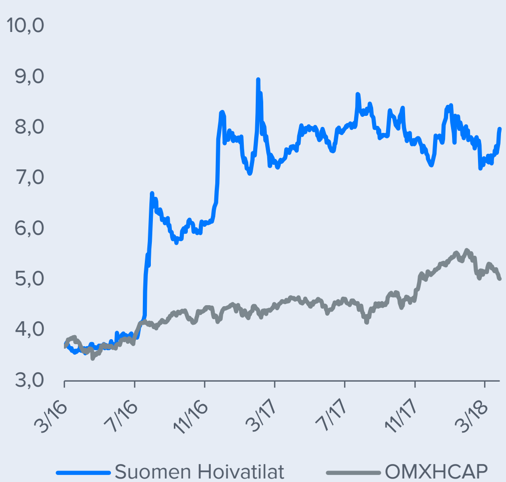
Share price: EUR 8.10
Potential: +12.3 %

Key figures

	2017	2018e	2019e
Net sales	12,4	17,7	25,5
-growth-%	*67 %*	*43 %*	*44 %*
Fair value changes	25,1	35,5	15,0
Net result	25,5	36,2	23,1
EPRA result	5,4	7,8	11,1
Fair value of property	247	373	488
EPRA NAV per share	5,7	7,1	8,0
Yield requirement-%	6,5 %	6,0 %	6,0 %
ROE-%	25 %	25 %	13 %
Dividend yield-%	1,8 %	1,9 %	2,7 %
Equity ratio-%	50 %	43 %	37 %

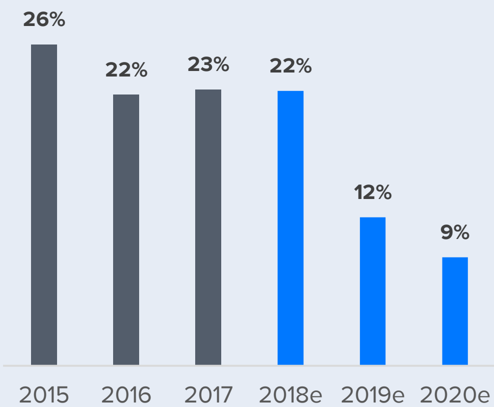
Source: Inderes

Share price performance



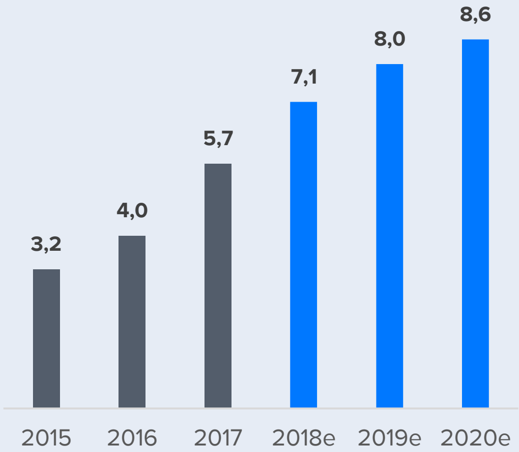
Source: Reuters

Total return-% on NAV



Source: Inderes

NAV per share (euros)



Source: Suomen Hoivatilat, forecasts by Inderes

P/NAV
1,1x
2018e

Total return-%
22%
2018

NAV/Share
7,1 EUR
2018e

Dividend-%
1,9 %
2018e

Value drivers

- The strongly growing end demand of care properties and the financing agreement made in April 2018 create good prospects for growth to continue
- Scalable expense structure
- Yield compression is continuing

Risk factors

- Tighter competition in real estate development
- Political risk and uncertainty related to the social welfare and health care reform (SOTE)
- Possible faltering of growth
- Reputation risk due to the nature of the operations
- The share of two customers relatively high in the customer portfolio

Valuation

- According to Inderes' view, the fair value of Suomen Hoivatilat's share is EUR 9.1. The estimate is based on a sum of parts analysis that other valuation methods support.

Contents

Company description

Real estate company specialized in care properties

Suomen Hoivatilat is a real estate company established in 2008, that specializes in producing, developing, owning and leasing out day-care centers, nursing homes and schools, as well as service blocks. Hoivatilat cooperates with municipalities and private service providers and offers turnkey solutions for real estate. From the investor's viewpoint, Hoivatilat's operating model provides higher returns than traditional real estate investment, as the company receives part of the development margin itself through its own real estate development business. Managing the entire value chain of the real estate also brings a competitive edge as it enables customer-specific tailoring and quick project implementation.

The fair value of Hoivatilat's real estate portfolio was EUR 268 million at the end of March 2018. In March 2018, the company owned 92 completed day-care center and nursing home facilities located across Finland, mainly in the Helsinki metropolitan area and university cities. In 2017, Hoivatilat's return on equity was 25.0% and net rental income (initial yield) stood at 6.5% per year at the end of 2017.

Hoivatilat's real estate have been constructed in 2012 to 2018 and their occupancy rate is full 100%. In accordance with its strategy, the company tries to balance the portfolio's geographical and customer-specific diversification and, therefore, the company has also sold property throughout its history. Thanks to these sales, Hoivatilat's oldest property was constructed in 2012. Hoivatilat has not publicly announced how its real estate portfolio is divided between day-care centers, nursing homes and service blocks but according to Inderes' view, the fair value is divided roughly 50/50 between day-care centers and nursing homes.

Low tenant risk

The average maturity of the company's leases stood at the end of March 2018 at 14 years. We estimate that the tenant risk of care properties is relatively low because the company's tenants are mainly large and solvent health care companies and the rental deposits are usually long, corresponding with the rent for some 3 to 6 months. Throughout its history of some 10 years, Hoivatilat has had no credit losses based on its financial statements which, in our opinion, is exceptional for a real estate investment company.

Management and personnel

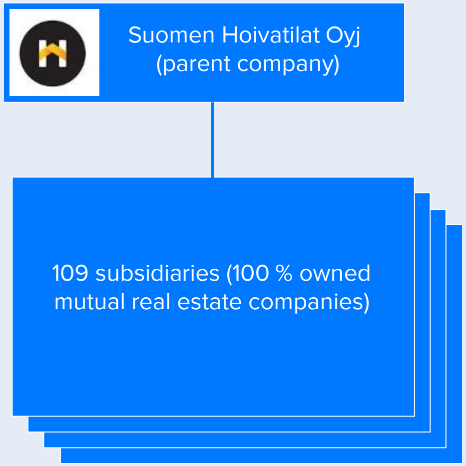
The CEO of Suomen Hoivatilat is Jussi Karjula and the CFO is Tommi Aarnio. The company's board of directors comprises Pertti Huuskonen (Chairman), Satu Ahlman, Timo Pekkarinen, Reijo Tauriainen, Harri Aho and Kari Nenonen.

At the end of 2017, Hoivatilat employed 14 people in addition to the CEO. Hoivatilat's organization has two separate geographical units. The company has its head office in Oulu and another office in Helsinki.

Profit distribution policy

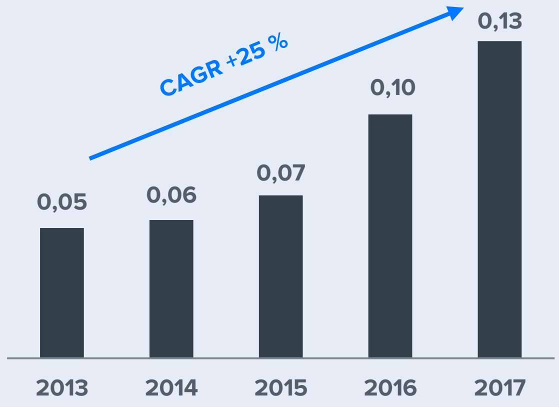
The objective in accordance with Suomen Hoivatilat's dividend policy is to distribute at least 50 % of the operating result as dividends. In 2017, the dividend was higher than this and corresponded with 60.5% of the operating result. The EPS has been on the rise in 2013 to 2017 and the CAGR % has on average been around 25%.

Organizational structure Dec 31, 2017



Source: Suomen Hoivatilat

Dividend per share 2013-2017



Source: Suomen Hoivatilat

Suomen Hoivatilat in brief

Suomen Hoivatilat is a real estate company specialized in producing, owning and leasing out day-care centers, nursing homes and schools, as well as service blocks.

2008
YEAR OF ESTABLISHMENT

2016
IPO

Only publicly listed company in Scandinavia
SPECIALIZED IN CARE PREMISES

EUR 247 million (+60 % vs. 2016)
VALUE OF REAL ESTATE PORTFOLIO 2017

6.5 %
NET RENTAL YIELD

100 %
REAL ESTATE OCCUPANCY RATE

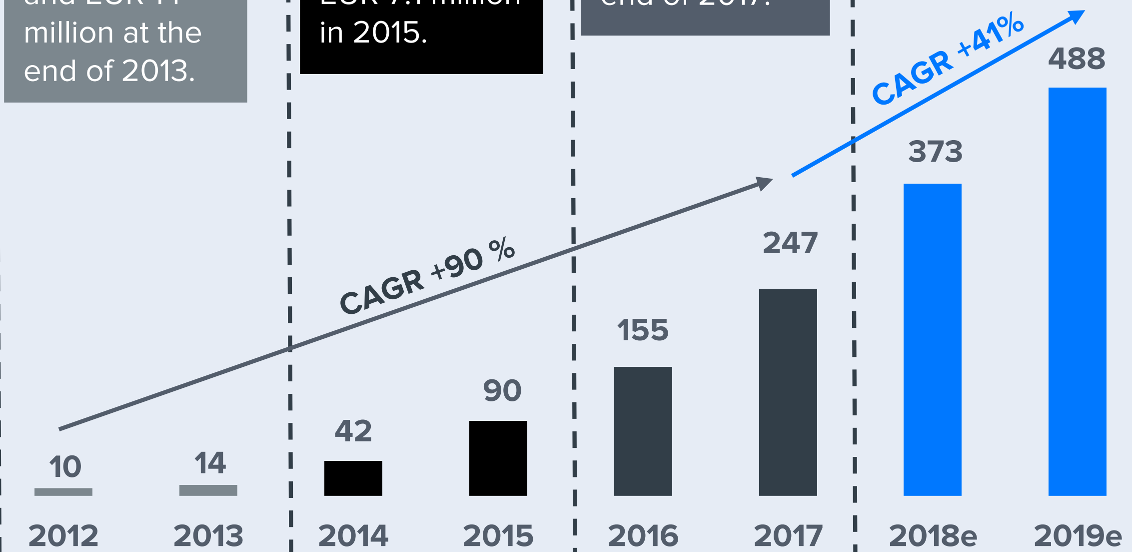
14.3
AVERAGE LENGTH OF LEASES IN YEARS

Business ramp-up. The value of the real estate portfolio stood at EUR 10 million at the end of 2012 and EUR 14 million at the end of 2013.

Growth through share issues. In 2014, the company raised EUR 9.3 million in capital and EUR 7.1 million in 2015.

IPO and share issues. Listing on First North in 2016 and on main list in 2017. Portfolio value EUR 247 million at the end of 2017.

Growth continues. Objective: annual net sales growth at least 30% in 2019 to 2020.



Property types

Service blocks

Day-care centers

Nursing homes

Schools

Business idea

Suomen Hoivatilat is a service company specialized in producing, developing, owning and leasing care premises

Managing the entire value chain of care properties

Proactive operational model

HOIVATILAT

Partner network and own concepts

Strong growth company

Competitors

Care facility funds: EVLI, TITANIUM, eQ

Small and medium sized construction firms: JATKE, LEHTO

Cooperation partners

Other subcontractors

Construction firms

Architects and designers

Banks and financiers

Care operators

Customers

Largest customer 23% of the contract base (2017)

Private care operators: Esperi, Mehiläinen, norlandia, Touhula Päiväkodit, Pilke parasta pienelle, Attendo

Municipalities and cities

Cost structure

15 employees (in 2017)

EUR 4.1 million (2017)

Personnel costs *(46% of costs)*

Property management costs *(24%)*

Other operating expenses *(30%)*

Income flow

Net sales EUR 12.4 million
EPRA EUR 5.4 million (2017)

Rental income

- Cash flow-based yield component with low risk
- Fixed lease agreements of 14.3 years
- 100% occupancy rate
- Low tenant risk

Development margin

- Based on real estate development: value of completed property - development cost
- Invested EUR 67 million in development in 2017
- No effect on cash flow

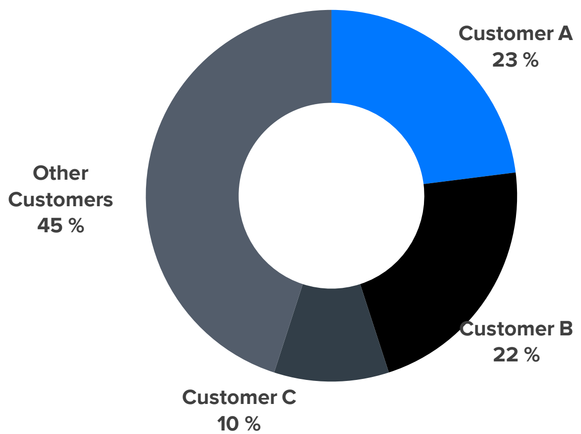
Decreasing yield requirements

- Yield component with highest risk
- Does not affect cash flow
- Partially speculative
- Based on what happens on the real estate markets

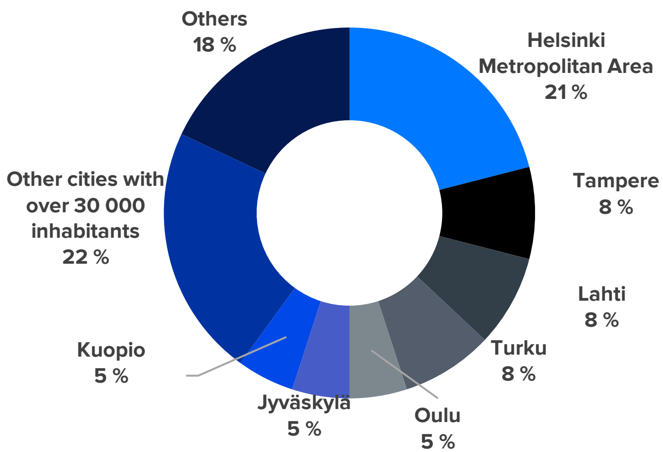
Source: Inderes

Suomen Hoivatilat’s real estate portfolio

Portfolio’s customer distribution on Dec 31, 2017



Portfolio's geographical distribution



Portfolio’s geographical distribution on Dec 31, 2017

Source: Hoivatilat

Investment profile

Defensive growth company

Suomen Hoivatilat is, in our opinion, profiled as a defensive and profitable growth company. According to our estimate, Hoivatilat's risk profile is exceptionally low for a real estate company, as all of the company's properties are practically new, the leases have a fixed term of 12 to 20 years, the occupancy rate is full 100%, and the company's tenants are primarily large and solvent health care companies.

Very high return on equity due to real estate development

Hoivatilat has a very high return on equity thanks to its real estate development business. Hoivatilat's return on equity was 24.5% in 2016 and 25.0% in 2017. According to our view, the company can, with the help of its current balance sheet, maintain its strong growth rate and high yield level also in 2018 to 2019.

Potential

According to our view, Hoivatilat's main positive value drivers are:

- **Good prospects to continue growing profitably.** Based on its relatively strong balance sheet (Q1'18 LTV% 43%) and a financing agreement made in April 2018, we believe that Hoivatilat has excellent prospects to continue growing strongly and profitably as seen in recent years, thanks to the strong demand drivers on the markets. In our view, the company can maintain a very high level of return on equity with real estate development also in the next few years.

- **Scalable cost structure.** Hoivatilat's cost structure is primarily fixed and the company's costs are scalable so they do not grow at the same rate as the real estate portfolio. According to our view, this has a clear positive effect on the company's profitability in the long term and, from an investor's viewpoint, this is what separates Hoivatilat from care property funds.

- **Decreasing yield requirements.** One clear value driver for Suomen Hoivatilat is, in our view, the decreasing yield requirements for care properties. According to our estimates, the yield requirements for care premises are still relatively high in Finland compared to other types of real estate and care properties in other countries, and we expect the downward trend of the yield requirements to continue in 2018, which supports the company's earnings development.

Risks

For investors, the key risks according to our view are:

- **Tighter competition in real estate development.** We believe that the competition in care property development will inevitably tighten in the long term and current, relatively high development margins, will drop closer to the level of other greenfield construction. This will, in our opinion, slightly weaken the company's earnings development already in the medium term.

- In our view, **faltering growth** is a risk for valuation as the valuation of the share is based on continued growth. We currently view this risk as relatively low due to the demand drivers on the market.

- **Reputation risk.** Care properties are usually very important for the companies and parties that operate them which, to some extent, increases the risk profile of these properties. A possible construction error or other unexpected problem in the real estate could weaken Suomen Hoivatilat's reputation as a reliable actor and make it hard to acquire new customers. Secondly, a possible construction error (e.g. indoor air problems in a real estate) could also result in a claim for compensation and cause financial losses for the company. Suomen Hoivatilat tries to reduce these risks with insurances. According to our estimates, the risks related to real estate are currently relatively low for Suomen Hoivatilat as the company's real estate are practically new and the company has also developed its properties itself, which means that it has been able to supervise the construction and tried to minimize any construction errors.

- We believe that **political and legislative risks** are considerable risks related to care properties. Legislation often closely regulates care properties and their activities and changes, for example, to requirements concerning care properties could cause additional costs for the owners of such real estate. Historically, authorities in Finland have unexpectedly changed, for example, requirements concerning the number of rooms or toilet facilities in care properties. According to Inderes' estimate, Suomen Hoivatilat has, however, been able to limit political and legislative risks with contractual measures.

- **Concentrated customer portfolio.** The weight of Hoivatilat's two largest customers is relatively high (45%), which in our opinion raises Hoivatilat's risk profile slightly.

Investment profile

Special characteristics of care premises

In Finland, e.g. nursing homes for the elderly, residential care homes for special groups, health centers, day care centers and properties related to social services and youth work are included in care properties. There is no public statistics on the returns of care premises from 2017 but in 2016 the total return of care premises was 9.8% in Finland, and care premises generated the highest return among all real estate types.

The special characteristics of care premises as an investment is that their risk profile is typically low compared to commercial real estate. This is because the end customers for care premises in Finland are often municipalities and the public sector, as well as private health care companies or so-called care operators that produce these statutory services. This limits the tenant risk to some extent. care premises are also usually less cyclical compared to commercial real estate as general economic development seldom has considerable effect on the end demand of these properties.

According to KTI, long lease agreements of around 10 to 15 years are typical for care properties. By comparison, the typical duration for lease agreements of office real estate is, according to KTI, three to five years. Furthermore, care premises typically have only one tenant and, thus, their occupancy rate is often 100%. In commercial real estate types the occupancy rate is typically lower than this, often between 85 and 95%. In addition, the leases of care premises are often net leases, i.e. the tenant pays the property management costs themselves. This in turn reduces the risks for the property owner and decreases the seasonal variations in cash flow from rents. The supply of care premises is partially limited as their operation often involves restrictions and various regulations. This also restricts the supply of care premises.

The downside of care premises, in turn, is the often limited use purpose of the property and limited demand. For example, converting a nursing home for intensified service housing for another purpose can be expensive and hard later if there is no longer use for it as a nursing home. Care premises activities typically also involve more legislation and limitations than other real estate types, which increases the risk profile of their ownership somewhat. Especially in Finland, authorities have unexpectedly changed the physical requirements of care properties.

Care Property funds

Several real estate funds that specialize in care premises have been established in Finland in recent years. In addition, institutional investors have invested directly in care premises. Based on KTI's estimates the combined value of the care premises owned by these investors was around EUR 1.6 billion in 2016.

Total returns of real estate investments in Finland in 2016

Source: KTI

Characteristics of care properties as an investment

- \+ Long leases, typically 10 to 15 years
- \+ Occupancy rate typically 100%
- \+ Low tenant risk because the tenants are often municipalities or the public sector and so-called care operators
- \+ Typically less cyclical than commercial real estate
- \+ Often real estate subject to authorization which limits supply
- \+ Currently competitive rental yields in Finland
- – Often limited purpose of use
- – Involves a lot of legislation and limitations, political risk

Source: Inderes

Investment profile

1. High return on equity
2. Low risk profile
3. 100% occupancy rate
4. Long leases
5. Growing strongly

Potential

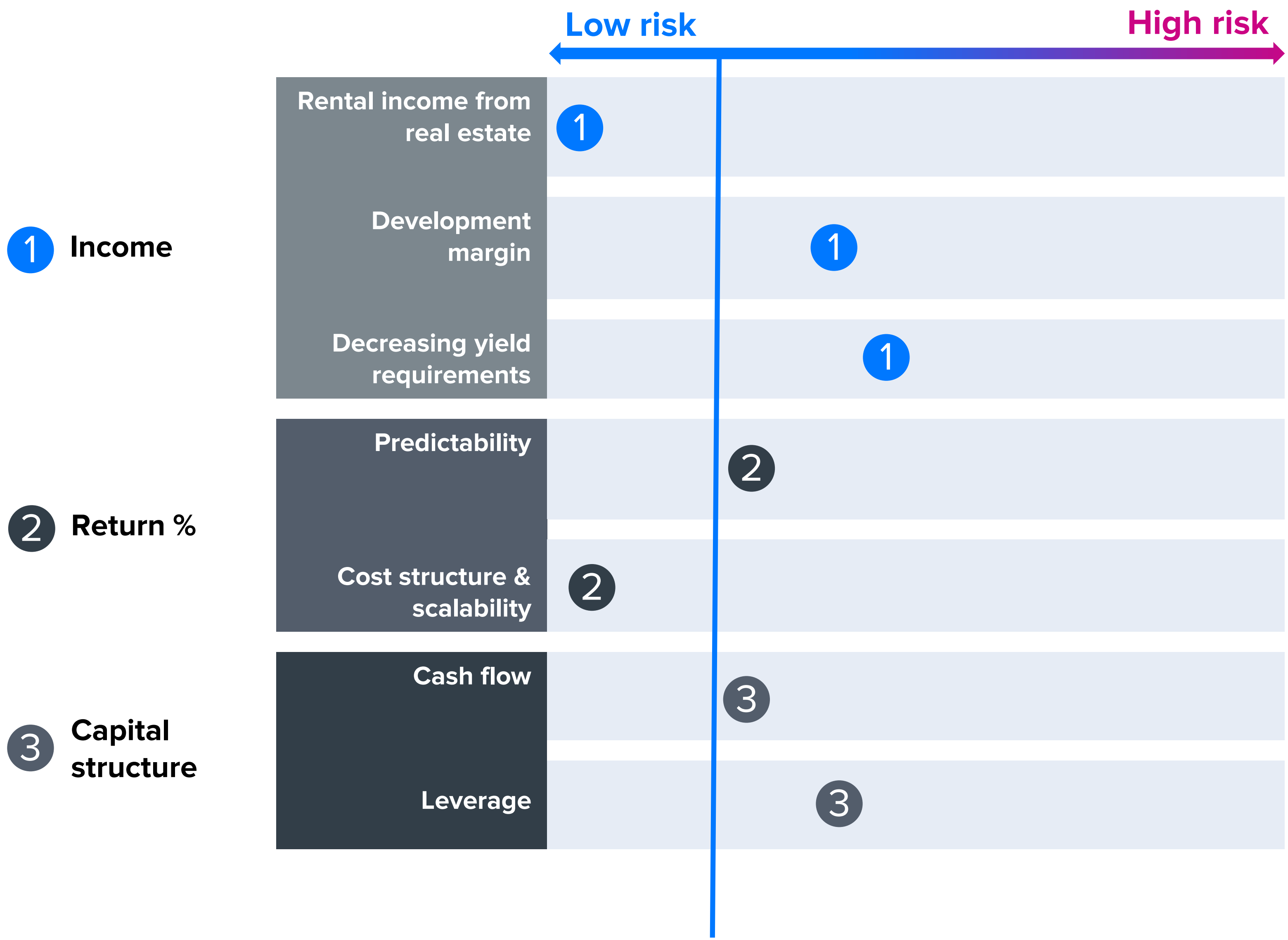
- The strongly growing end demand of care premises and the financing agreement made in April 2018 create good prospects for future growth
- Scalable cost structure
- Yield requirements decreasing from current level

Risks

- Tighter competition in real estate development
- Possible faltering of growth
- Political risk and uncertainty related to the social welfare and health care reform
- Reputation risk due to the nature of the operations
- The share of two customers relatively high in the customer portfolio

Source: Inderes

Business model risk profile



Continuous, stable and predictable income item. Relatively low tenant risk.

Demand for care premises growing heavily but, correspondingly, competition tightens in development.

Partially speculative return item. Does not affect cash flow.

Rental income highly predictable thanks to long leases, development margin not as predictable.

Relatively light and scalable expense structure. No management fees.

Positive EPRA result that is not dependent on value increases.

Indebtedness (LTV %) relatively modest 43%. Real estate portfolio is good collateral.

Our view of Suomen Hoivatilat's overall business risk level

Source: Inderes

Day care center market

Day care market

Day care center activities are a statutory municipal obligation in Finland. Roughly EUR 3 billion is spent on this obligation annually of which the share of private day care centers is around 14%. We estimate that the private day care center market will grow by over 10% per year and, according to our view, this provides good prospects for growth for Hoivatilat.

Day care becomes more common

In Finland, the number of children aged between 1 and 6 decreased further from 2011 to 2016 and Statistics Finland predicts that the drop will continue until 2020. By contrast, the share of children in day care has risen continuously from some 59% in 2000 to around 68% in 2016. We expect this share to grow further as the share of children in day care is clearly higher in the other Nordic countries. For example, the share of children in day care in Sweden was around 71% and around 76% in Norway in 2014. Touhula Päiväkodit estimates that the share of children in day care will grow in Finland to around 70% and the penetration rate of private day care centers will grow to 21% by 2020. These estimates are realistic in our opinion considering the historic development and they would translate to an annual average growth of over 10% in 2016 to 2020 (CAGR-%).

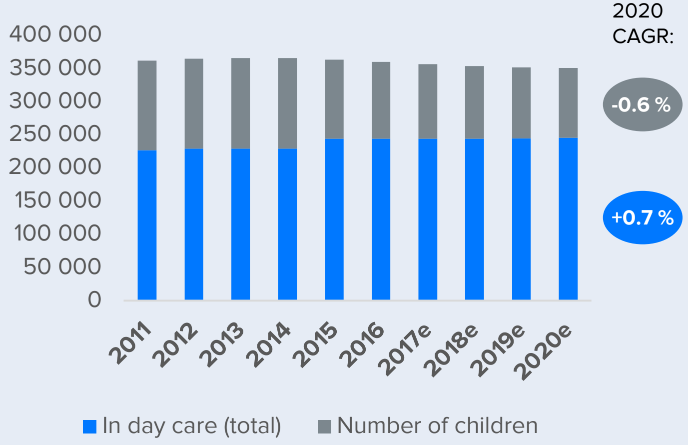
The share of private day care centers has grown in Finland from around 4% in 1997 to some 14% (incl. service vouchers) by 2016. However, the share varies by municipality and city. For example, the share of private day care centers in Oulu was nearly 40 per cent in 2016. We estimate that the annual market growth from 2010 to 2016 was on average around 11%.

Suomen Hoivatilat's customers are care operators and the public sector

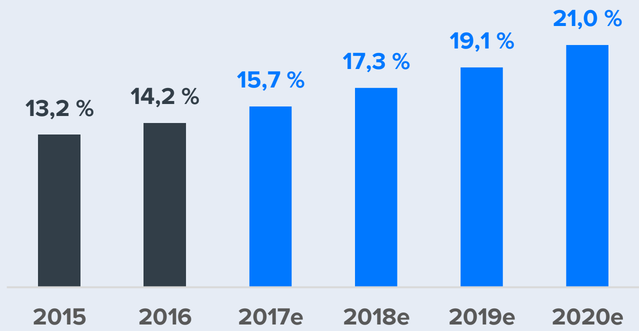
We expect the number of private day care centers to increase considerably in the next few decades as the penetration rate of private day care centers in Finland is relatively low and, thus, the industry offers considerable growth possibilities for large care industry companies. There is also a growing need for new day care centers due to urbanization and the public sector becoming indebted. Care companies operating on the markets or so-called care operators are customers for Suomen Hoivatilat because they do not typically want to tie up capital in real estate but prefer to be tenants.

Private day care is often also attractive for the municipality because it does not cause separate investment costs nor does it tie up capital in day care centers. Private day care centers are also on average more cost effective than municipal day care centers. Based on a study of Finland's six largest cities, private operators can arrange day care 15 to 30% cheaper than the municipality.

Day care in Finland (1 to 6 year olds)



Penetration rate of private day care centers %



Source: THL, Statistics Finland, estimates Touhula Päiväkodit

Nursing home market

Nursing home market

Municipalities' purchases in private service housing and housing services for the elderly and disabled were around EUR 1.3 billion in 2016 according to Statistics Finland, and we estimate the entire market size to be around EUR 3 billion at the moment. According to THL, at the end of 2016 around 21 per cent of persons aged 75 or over in Finland or some 106,000 persons received residential care and housing services for the elderly. The number of customers has grown evenly in the 21st century and private service producers produce a considerable share of service housing for the elderly. In the most significant service housing for the elderly, i.e. intensified service housing, the share of private service providers was 49 per cent in 2015 according to THL.

The aim of the government in the past ten years has been to reduce expensive residential care activity and steer customers towards more home-like service housing. This development has been positive for Suomen Hoivatilat as the company's nursing homes are practically such intensified service housing premises, the segment that grows most strongly. Due to the aging of the population, municipalities currently have a strong need to increase the number of nursing service facilities and we, therefore, expect the demand for intensified service housing and private nursing homes to grow significantly over the next couple of decades. According to our estimate, strengthening demand creates good prospects for growth for Suomen Hoivatilat in the future.

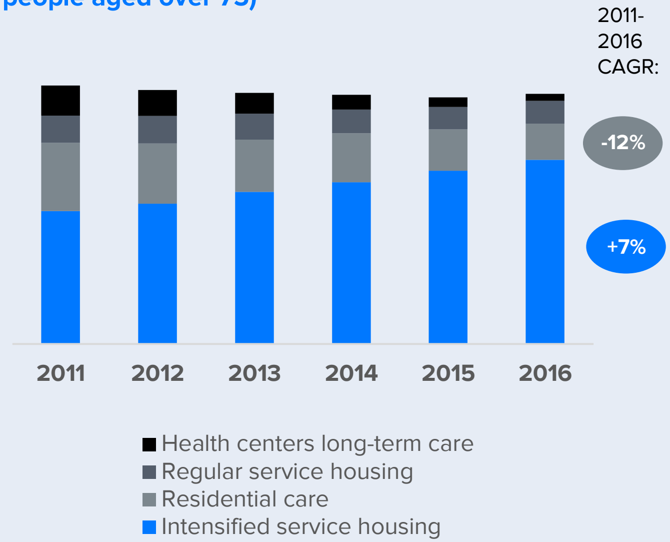
Temporary oversupply is possible

Based on ARA's 2017 report, a lot of non-subsidized intensified service housing facilities for the elderly have been built in Finland in recent years, which means that there is likely to be oversupply in some areas in the next few years. According to ARA, the increased supply is based, for example, on strong growth in care property funds. We are not concerned about possible over supply in the long term because market growth is extremely strong and the number of old people is predicted to nearly double by 2040. Temporary regional over supply situations are, however, possible in the next few years, and this may also temporarily make the growth of Hoivatilat more difficult in this market segment.

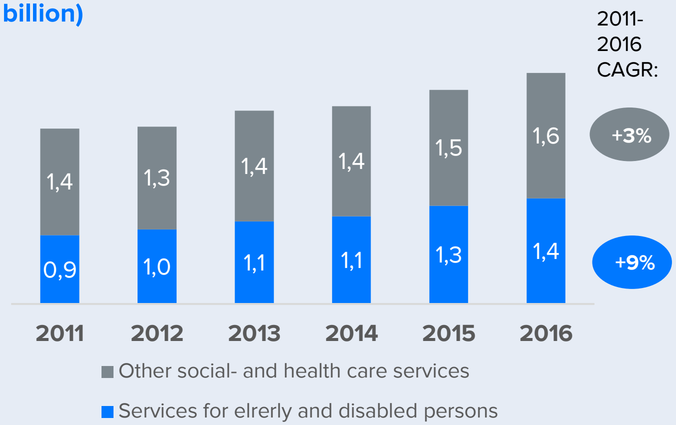
The social welfare and health care reform may cause a growth impulse on the market

We find it possible that the social welfare and health care reform (SOTE) and its freedom of choice legislation could, if materialized, cause a growth impulse especially in investments in private nursing homes and these would then boost the demand for Suomen Hoivatilat's real estate in this segment. Correspondingly, if the social welfare and health care reform fails, it would be a disappointment for private care operators but it is unlikely to affect the current privatization rate. For example, in intensified service housing, privatization has happened already before the social welfare and health care reform as the share of private service providers was 49% already in 2016.

Structure of nursing services in Finland (number of people aged over 75)



Municipal purchases from the private sector (EUR billion)



Source: Statistics Finland

School market

Annual market size roughly EUR 0.5 to 0.7 billion

According to Statistics Finland, around 0.2 to 0.3 million square meters of education and school, as well as research activity buildings were completed in Finland in recent years. Based on this, we have estimated that roughly 50 to 70 school buildings are completed per year and the market size is approximately EUR 0.5 to 0.7 billion.

Finnish schools are in poor condition

We believe schools offer Hoivatilat considerable long term potential. According to Statistics Finland, there were 3,395 educational establishments in Finland at the end of 2016, and according to a study by the Association of Finnish Local and Regional Authorities, 12 to 18% of day care centers and schools suffer from considerable moisture and mold damage. The figure may be higher for schools because according to a study made in 2012, moisture and mold damage was found in 24% of school buildings. Furthermore, based on OAJ's survey in 2012 there were some kind of indoor air problems in 2/3 of schools. According to the Association of Finnish Local and Regional Authorities, the problems are caused, e.g. by lack of preventive real estate management and maintenance and the aging building stock.

Competition for building schools may be tighter than for day care centers and nursing homes

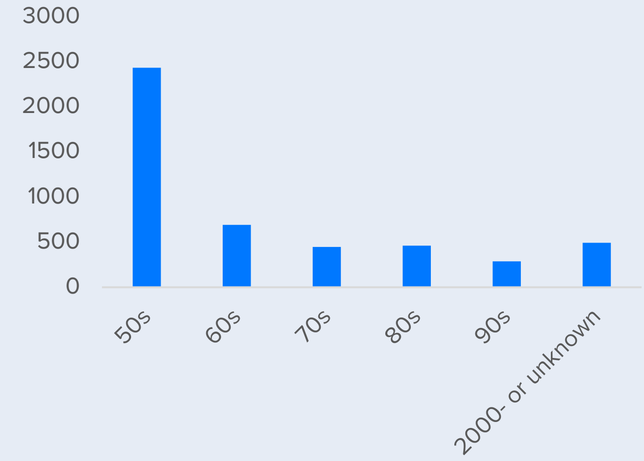
Individual school real estate projects can in Finland be worth around EUR 10 million and, therefore, their investment value is clearly greater than that of day care center and nursing home projects (often around EUR 2 to 4 million in investment value). Therefore, we believe that construction and development of schools also interests larger construction firms and competition in building schools is probably tighter than for nursing homes and day care centers. For example, YIT and Lehto Group offer financing models and life-cycle models for schools just like Hoivatilat. Therefore, we estimate that the development margins for school development are lower for Suomen Hoivatilat than the margins for day care centers and nursing homes.

Share of private operators is small

Only a fraction of Finnish schools are private (according to The Finnish Broadcasting Corporation there were around 80 private schools in Finland in 2012) and Hoivatilat's potential customers in the school sector are primarily municipalities and the public sector. This separates the market from day care centers and nursing homes, where the biggest customers for Hoivatilat, according to our information, currently are private care operators. Therefore, the sales cycles in school projects are likely to be long for Hoivatilat.

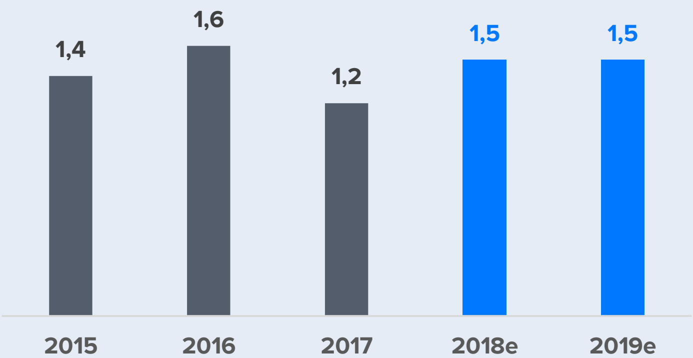
Hoivatilat published its school concept in fall 2017 and by May 2018 it had not yet reported its first orders. The company management, however, announced in the Q1'18 news conference that it has several school projects in a bidding stage and hinted that the first school project may materialize soon.

Finnish primary schools and secondary schools by year of construction (2005)



Source: Association of Finnish Local and Regional Authorities

Building starts of educational buildings, m^3 million



Source: Statistics Finland, estimates Rakennusteollisuus RT

Operating environment trends 1/4

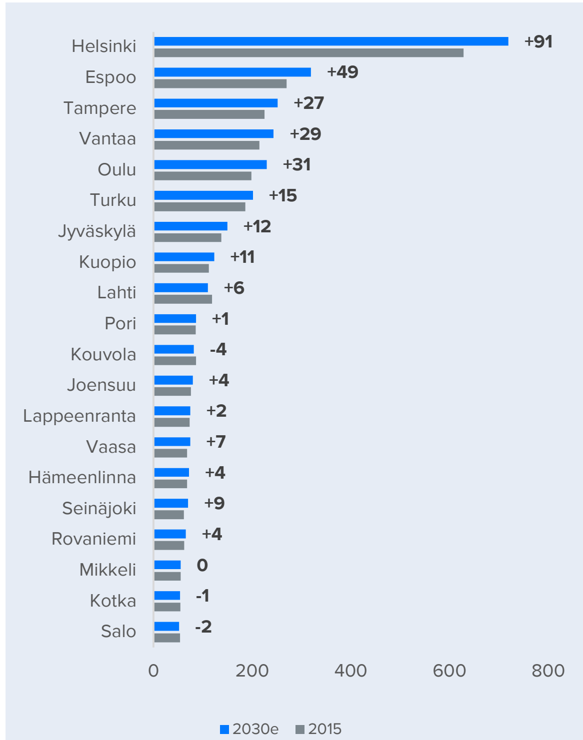
Positive drivers in the operating environment

Suomen Hoivatilat specializes in care premises whose end demand is not, according to our view, heavily dependent on the general economic cycle but on the purchases of the public sector and the growth of private service producers' market share. There are currently drivers visible in Finland, which according to our view will clearly increase the demand for private day care centers, schools and care premises in 2018 to 2040. These operating environment drivers are: urbanization and population concentration, aging, the public sector becoming indebted, and the social welfare and health care reform. According to current estimates, at least 1,000 new nursing homes and hundreds of new day-care centers and schools will be needed in Finland in the next few decades, which means that an estimated over EUR 4 billion investments are needed.

Urbanization and population concentration

A histrionically rapid migration from the countryside to cities is ongoing in Finland. For example, the population of the Helsinki metropolitan area grew by 18,300 persons in 2017, i.e. by some 1.6%. This was mainly based on people moving for jobs to growth centers and cities. We expect this trend to continue as Finland's degree of urbanization is, according to our estimates, clearly lower than in other industrialized countries and, e.g. Sweden. Based on VTT Technical Research Centre of Finland's 2016 estimate, more than 620,000 persons can still move to urban areas in Finland by 2040 as a result of the urbanization development. In our opinion, population concentration creates a strong demand and need for day care centers, nursing homes and schools during the next 25 years.

Population growth in Finland's 20 largest cities in 2015 to 2030e (thousand persons)

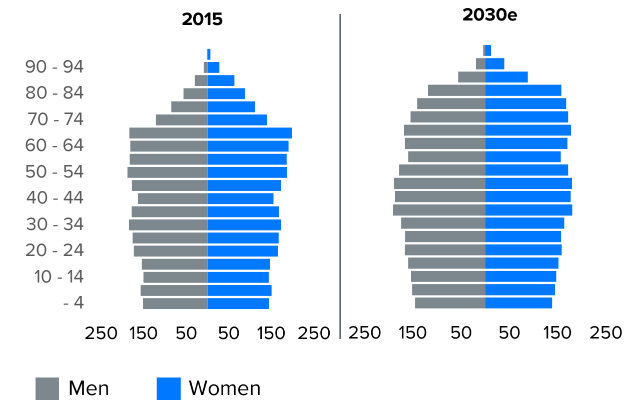


Source: Statistics Finland

Aging of the population

Finland's population is one of the fastest aging in Europe. According to Statistics Finland, the number of persons aged over 75 is expected to nearly double from 2016 to 2040. Aging is based on the baby-boom generation born after the second world war, improved health of the elderly and the strongly increased life expectancy as a result of this. The growing number of old people will cause clear growth in the demand for health and social services for the elderly in the future, like nursing homes.

Age structure of the population in 2015 and 2030e



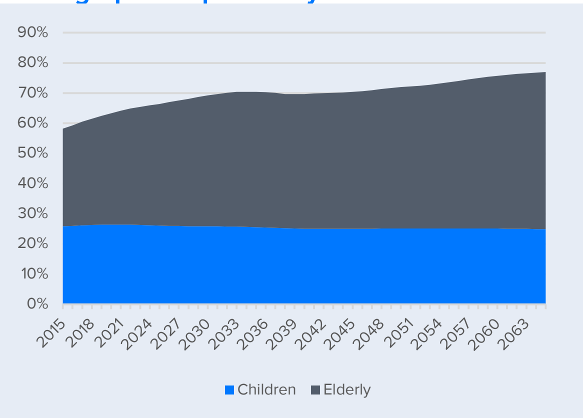
Source: Statistics Finland

Public sector becoming indebted

Aging will cause major challenges for the economy of the public sector in the future. The demographic dependency ratio, i.e. the share of children aged under 15 and old people aged over 65 to the working-age population is estimated to grow clearly. According to Statistics Finland, the dependency ratio will grow from around 58% in 2015 to 77% by 2065. This means that the working-age population will decrease from the current 63% to around 57%. In practice, the expenditure for the public sector will grow as pensions and health and social services grow, while tax revenue decreases as the labor force shrinks.

Operating environment trends 2/4

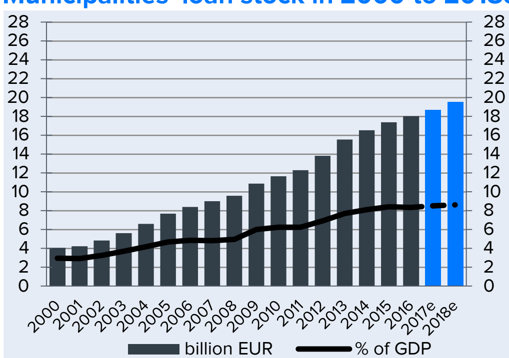
Demographic dependency ratio 2015 to 2065e



Source: Statistics Finland

The aging population and weakening dependency ratio will cause major challenges especially for the municipal sector that will become further indebted. In the past 10 years, municipalities' loan stock has more than doubled and, according to the Association of Finnish Local and Regional Authorities, it was around EUR 18 billion or 8% of the GDP in 2016.

Municipalities' loan stock in 2000 to 2018e



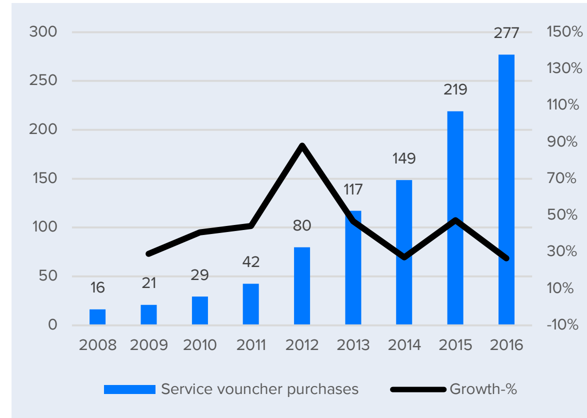
Source: Statistics Finland and Association of Finnish Local and Regional Authorities

The long term financial position of the public economy is measured with the sustainability gap, which means the present value of the future general government deficit. According to an estimates by the Ministry of Finance, the sustainability gap is currently around 3% of GDP or some EUR 7 billion. Social and health services form the biggest individual item in local government expenditure and curbing them is essential when municipalities try to balance their economy. Municipalities are increasingly seeking private operators to produce social and health services because this lessens the debt burden of municipalities. We expect this trend to continue and believe that the demand for private service producers like Hoivatilat will grow considerably in the future.

Service vouchers and the social welfare and health care reform

We expect the use of service vouchers to continue growing and clearly increase the demand for private day care center and care premises. The idea of the service voucher is that a municipality can give the service voucher to a person that needs a municipal service. With the voucher, the person can select and buy the needed service from a private service provider. In 2009, the use of service vouchers was extended to all social and health services. Since then, the use of service vouchers has increased strongly in social and public health services, as well as day care services. For example, in early childhood education, service voucher purchases increased by some 33% in 2016 to EUR 113 million.

Municipalities' service voucher purchases, EUR million



Source: Association of Finnish Local and Regional Authorities, Finnish Association of Private Care Providers

In November 2015, the Finnish Government decided to carry out a social welfare and health care reform. As part of the reform, the government will decree a new freedom of choice legislation based on which the user can in future freely choose between a public, private or third sector service producer. The legislation is to come into force on January 1, 2020. In practice, the legislation means extensive privatization and we expect it to increase the demand for private nursing homes clearly in the future. There is still room for privatization to grow as we estimate that the share of the private sector in intensified service housing is currently around 50%. The social welfare and health care reform does not, however, apply to day care or schools and thus the effect of the reform on Hoivatilat is likely to be limited.

Operating environment trends 3/4

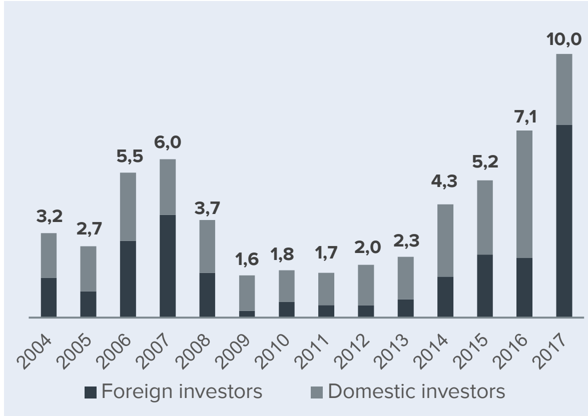
Clear demand growth

Based on the estimates by the Prime Minister's Office, the strongly increasing number of old people will result in a need of around 40,000 new nursing places over the next 20 years in Finland. This translates to an estimated 1,000 new nursing homes and investments of EUR 4 billion. In addition, due to population concentration and migration we estimate that hundreds of new day care centers and schools will be needed over the next 25 years corresponding to investments of hundreds of millions of euros. Increasing outsourcing and privatization in municipalities are likely to spur growing demand further.

Increasing investor demand

Real estate trade markets are currently very lively in Finland. Based on Catella's statistics, the real estate transaction volume rose in 2017 by some 41% to around EUR 10 billion, which is the highest level seen in these statistics. In 2017, transaction volumes clearly exceeded the levels of the real estate boom in 2006 to 2007. We expect investment demand for real estate investments to remain high in Finland in the short term, and we also expect this development to be reflected in care premises. We expect the yield requirements for care premises to decrease, which will, to some extent, raise the valuation level of such real estate. We also expect strengthening investor demand to increase competition in the construction of care premises, which may, in the medium term, lower the development margins of Suomen Hoivatilat's development activities.

Transaction volume of real estate in Finland in 2004 to 2017



Source: Catella

Increased demand for real estate investments is a European phenomenon. The real estate investment markets are currently supported by the ECB's recovery measures and historically low interest rate levels, which have made real estate a more attractive investment object for investors in recent years. Sensible revenue has not been available on interest markets and investors' money has moved from the interest markets to real estate that is considered relatively safe. This has raised real estate demand and lowered their yield requirements. The situation is especially emphasized on real estate markets that are considered stable and safe and in safe real estate types. We expect yield requirements to decrease in the short term relatively strongest in care premises because we consider it to be a defensive and low risk profile form of real estate investment especially in Finland.

Positive drivers in the operating environment support the share

We believe the value drivers of Suomen Hoivatilat's operating environment to be positive as a whole, and these support the valuation level of the share. There is a strong need for new day care and nursing home properties, as well all schools in Finland due to urbanization and population concentration, aging, the public sector becoming indebted, service vouchers becoming more popular, and the social welfare and health care reform. Strongly growing market provides good prospects for Suomen Hoivatilat's real estate development activities. Investor demand for care premises is also strong, which according to our estimates, is likely to lower the yield requirements for care premises and raise the valuation level of such real estate.

The current historically low interest rate level also supports real estate companies keeping their interest expenses low. In 2016, the ECB lowered its key interest rate to a record low 0.0% to support recovery in the euro area and prevent deflation. At the same time, the ECB increased the monthly amount of securities purchases initiated in 2015 from EUR 60 billion to EUR 80 billion. In December 2016, the securities purchasing program was extended to December 2017 but the purchases were lowered to EUR 60 billion starting from April 2017. Since January 2018, the purchases were lowered to EUR 30 billion and the plan is to continue making them until the end of September 2018 and longer if necessary. In light of the latest estimates, the markets expect the ECB to keep the key interest rate low for years to come.

Operating environment trends 4/4

Uncertainty of the social welfare and health care reform increases the risk profile

The negative value drivers of the operating environment are, in our opinion, currently relatively small. However, we believe that the current political uncertainty surrounding the social welfare and health care reform (SOTE in Finnish) increases the risk premium of companies in the industry, at least to some extent. In addition, increasing investor demand will, according to our estimate, increase competition in care premises projects in the short and medium term, which will probably lower the development margins of Suomen Hoivatilat's development activities in the future.

Concentration of the care industry increases the risk profile

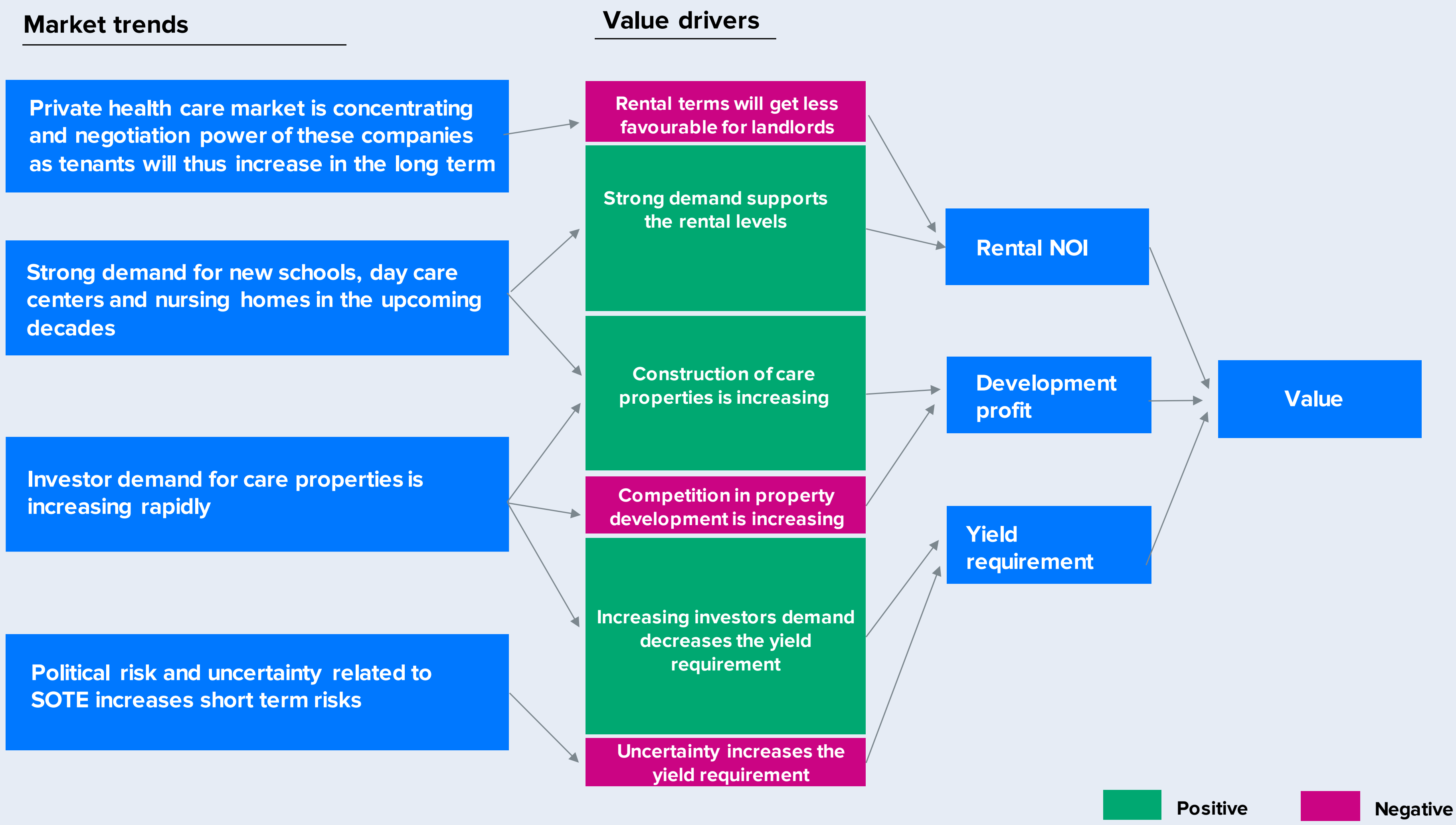
In recent years, large health care companies have raised their market share at an accelerating rate by purchasing small players and growing organically by opening new sites. This concentration of the private care service market to a few large companies may, in the long term, increase the negotiating power of these companies towards the owners of care premises, which could result in weaker lease terms in the long term. For example, the current relatively long lease contracts of 10 to 20 years may also decrease and there may be downward pressure directed at rent levels in the long term.

Our view of Suomen Hoivatilat's main operating environment drivers and their impact on the value of Hoivatilat's share are presented on page 20.

Growth driver	Impact
Urbanization and population concentration	• Strong demand and need for hundreds of new day care centers and also nursing homes and schools.
Aging of the population	• About 30 000-40 000 additional persons need a place in nursing homes which means that 3-4 billion EUR investments are needed.
Public sector indbted	• Municipalities are increasingly seeking private operators and they will rather rent than buy the care properties because this lessens their debt burden.
Service vouncher and SOTE	• Private sector penetration is going to increase especially in the day care centers where it is currently only 14 %. • In the short term social welfare and health care reform (SOTE) increases uncertainty.

Source: Inderes

Operating environment trends and value drivers



Source: Inderes

Business model and strategy

Comprehensive service provider

Suomen Hoivatilat's special characteristics is the comprehensiveness of the operating model. Hoivatilat is not merely a company that owns and rents out real estate, it is a comprehensive builder-real estate developer. Hoivatilat works in cooperation with municipalities and private service providers and it offers a turnkey solution for day care centers and nursing homes, schools and service blocks, starting from finding a plot and developing the real estate all the way to the completed and ready for use care premises.

Manages the entire value chain of care premises

Hoivatilat manages the entire value chain of nursing homes and day care centers: acquires the plot, carries out the background discussions for the project in the municipality, plans, finances, develops, handles the permit process and authority contacts, and acquires a private operator for the premises. Finally, the company remains as the owner of the real estate that is rented to private service providers or municipalities for providing services.

Proactive operational model

The company works in close cooperation with municipalities and service providers and tries to proactively get real-time information on their service and premise needs, and on suitable plots for new care premises. Proactivity enables fast reaction to investment and space needs and, at best, enables the company to agree on care premises projects before the competitors.

Own day care center, school and nursing home models

Hoivatilat has developed its own day care center, school and nursing home models that are used as the basis for planning new development projects. The space is adjusted to the available plot and the interior is tailored to suit the end customers if necessary. The own line increases efficiency and allows small economies of scale during construction.

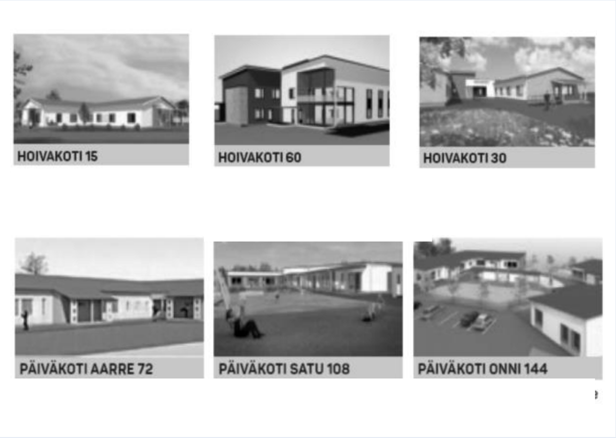
Development activities create a competitive advantage

From the investor's viewpoint, Hoivatilat's operating model provides higher returns than traditional real estate investment, as the company receives part of the development margin itself through its own real estate development business, which, according to Inderes' estimate, is around 10 to 20% of the project value. Managing the entire value chain of the real estate also brings a competitive edge as it enables differentiation, fast project implementation and, from the customer's viewpoint, delivery of an easy comprehensive solution. Management of the value chain also lowers the risk related to real estate ownership because the company can also affect, e.g. the terms of the plot leasing contracts, official permits and design of the buildings.

Specialization and tailored solutions

Hoivatilat's own development activity also enables differentiation of the premises, with which the company seeks a competitive advantage. Hoivatilat has, for example, constructed a private day care center in Tampere tailored for nature and environmental education. In 2015, the company developed a service block concept where a private day care center and a private nursing home are combined into one entity. In addition to differentiation, the concept also offers benefits of scale in real estate maintenance, catering and cleaning services.

Day care center and nursing home models



Source: Hoivatilat

School concept

Source: Hoivatilat

Business model and strategy

No real estate sold in recent years

Hoivatilat's revenue comes from rents received from owned real estate, development margins from construction, and possible sales gains from selling real estate. The purpose of selling real estate is primarily to balance the company's real estate portfolio and improve its diversification. Since 2015, the company has not sold any properties.

Hoivatilat is a growth company

The aim of Suomen Hoivatilat is to be a long term owner and lessor of real estate. The company's strategic aim in the near term is to continue growing strongly. According to Hoivatilat's objective, the growth must also be a controlled and profitable so the projects to be implemented must fulfill certain economic and qualitative criteria. In practice, we believe, the growth objective requires construction of objects worth more than EUR 150 million in 2018 to 2020, which we believe is an achievable level taking into account the company's historic growth rate and the current real estate portfolio under construction and in the licensing phase with an acquisition cost of some EUR 103 million.

Growth centers in focus

In accordance with its strategy, Hoivatilat's real estate projects focus on Finnish growth centers (Helsinki metropolitan area, Turku, Tampere, Oulu, Jyväskylä, Kuopio) or their immediate vicinity where population growth or the development of the population structure is expected to support efficient use of the premises in future as well. Real estate projects are also implemented in regionally strong provincial centers if the service need is on a stable basis, for example, based on the demographic structure.

Targeting large day care center and nursing home chains

The company's strategic objective is that a majority of its real estate portfolio is rented to Finland's largest and best known day care center and nursing home chains, whose financial resources are sufficient to handle the rent payment obligations. In terms of real estate projects implemented for smaller operators, before launching the project the company ensures that the financial resources of the party that will use the premises are sufficient to handle the rent payment obligations. In addition, the lease contracts of the real estate objects are dispersed in such a way that no individual tenant's share of the rental revenue becomes too large.

Long leases and stable income flow

Typically 15 to 20 year fixed-term lease contracts are signed for the properties, which ensures stable income flow. The rent levels are tied to the cost of living index and the lease contracts typically include a security deposit corresponding with the rent for 3 to 6 months. The premises are only built based on need, and real estate projects are only started when a binding lease has been signed with the customer. This helps avoid the risk that there would not be a tenant for the real estate when it is completed.

Service block concept

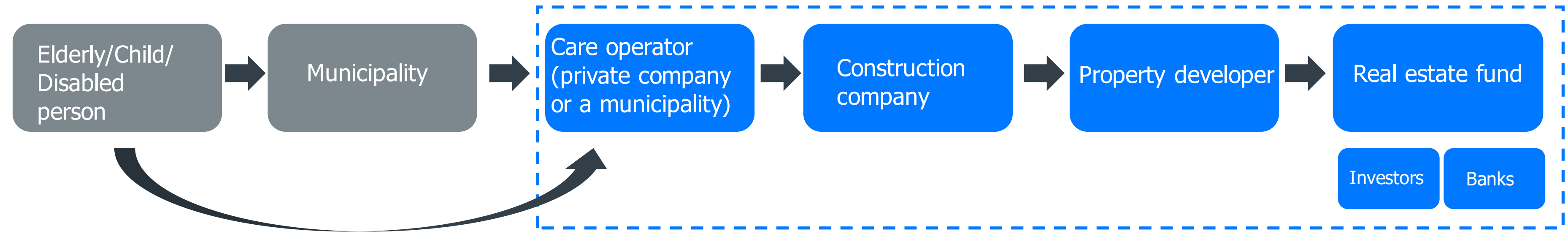
Source: Hoivatilat

Hoivatilat's financial objectives for 2018 to 2020

- Net sales growth in 2018 at least 40% and in 2019 to 2020 at least 30% per year
- Operating result on average of 40% of net sales
- Equity ratio on average at least 35%
- Annual dividend at least 50% of the operating result

Business model of Suomen Hoivatilat

Statutory obligation is behind the demand



Customer decides (service vouncher-model) or the municipality decides (traditional model).

HOIVATILAT

Hoivatilat is able to bundle many services that other ”traditional” players are providing due to its co-operation partners and own concept. Hoivatilat in not a care operator nor a construction company, but it works in close co-operation with care operators and launches call for tenders to select construction companies.

Source: Inderes

Competition and competitive advantages

Real estate funds are primary competitors

Suomen Hoivatilat's competitors are other entities that construct and rent day care centers and nursing homes in Finland. Construction firms compete with Suomen Hoivatilat for the development margins of constructing care premises, and institutional investors that own care premises and care property funds compete with Hoivatilat for the renting business. According to our view, the level of competition for renting care premises has not been tight in Finland, because the rental yield of the industry has historically been quite high. The competitive situation in constructing care premises has not, in our view, been high either, at least not historically and Suomen Hoivatilat has been able to generate healthy margins in its real estate development business.

According to our view, large construction companies do not generate a clear competitive threat for Suomen Hoivatilat' day care center and nursing home construction activities because care premises projects are individual projects that are worth only a couple of millions of euros and thus the projects are often too small to attract the interest of large construction companies. Small and medium sized construction companies are, in our opinion, Suomen Hoivatilat's main competitors in development. According to Inderes' estimates, Hoivatilat has been able to reach relatively high development margins of 10 to 20% in real estate development, while the average level for greenfield construction in Finland is currently clearly below this, often only around 10%.

We believe that the competition in real estate development will inevitably tighten in the long term and development margins will drop closer to the level of other greenfield construction. In care premises leasing activities, Suomen Hoivatilat's competitors are care property funds and other entities that own and rent care premises. Currently, based on Inderes' information, there are 7 care property funds operating in Finland (Hemsö, Titanium, Trevian, eQ, Evli, Northern Horizon Capital and FinCap) and the competitive pressure these generate is increasing in our view.

Main competitive advantages

According to our view, it is hard to achieve long term competitive advantages in the industry but Suomen Hoivatilat has some operative competitive advantages related to its current operating model:

- **Comprehensiveness and ease for the customer:** Cooperation with Suomen Hoivatilat is easy for municipalities and care operators because the company offers a turnkey solution for care premises. The customer does not have to separately acquire a plot, design the building, negotiate the financing, as Hoivatilat can handle the entire process as a turnkey service for the customer.

- **Speed and efficiency:** Managing the entire value chain and the company's own ready care property models, as well as the construction partner network enable, in our opinion, a more efficient and faster acquisition process than most of its competitors. According to Hoivatilat's value proposition the company can deliver a care premises in under a year when care property projects often take up to 36 months.

- **Scalability and cost-effectiveness:** Suomen Hoivatilat's cost structure is primarily fixed and the company handles the development and other process mainly with its own personnel. Therefore, the company's growth is scalable as its costs does not grow at the same rate as its activities which is the case for its main competitors, that is real estate funds. In the long term, this enables lower pricing than among competitors and helps winning care property projects in municipalities' tender processes.

- **Refined concept:** Suomen Hoivatilat has operated on the care property markets since 2008 and completed over 120 care property projects. We believe the company's concept has been well refined and is quite efficient. This is reflected, e.g. in the company's high return level (2017 return on equity 25%).

- **Committed personnel:** The board of directors and personnel of Suomen Hoivatilat personally own a considerable share of the company according to the share register and they have a strong incentive to develop its shareholder value persistently. We believe this also secures the position of outside investors in the company.

Estimates 1/6

Historical performance

2008 to 2014 operational ramp-up time

2008 to 2014 were the time of operational ramp-up for Suomen Hoivatilat. The company's accounting practices from that time are not comparable with those for 2015 to 2017, and we believe that they do not give a correct picture of the company's full earnings potential. In 2014, the company's business achieved in our opinion critical mass in terms of the size of the real estate portfolio (EUR 42 million) and therefore the 2015 accounting figures are in our opinion the earliest starting point when assessing the company's operational performance. In 2015, Suomen Hoivatilat's return on equity was around 29%, in 2016 it was 24.5% and in 2017 it was 25.0%. In our view, these are very strong figures for a real estate company in relative terms.

Estimates

Estimates for 2018 to 2019

Our 2018 to 2019 estimates for Suomen Hoivatilat are based on the leases of the existing real estate portfolio, the real estate development projects that we expect to be completed and our estimate of decreasing yield requirements. At the end of March 2018, Hoivatilat had 92 completed care premises whose net rental yield at fair value was 6.5%. Rental income is very predictable as the financial occupancy rate of the real estate is full 100% and current leases are on average 14.3 years long. The company is also currently planning and constructing 48 real estate projects worth some EUR 103 million that will start generate cash flow during 2018 to 2019 according to our estimates.

We estimate that in addition to these projects, the company will implement EUR 87 million worth of development projects in 2018 to 2019 and we expect Hoivatilat to reach an average development margin of 15 to 16% on the development projects when they are completed.

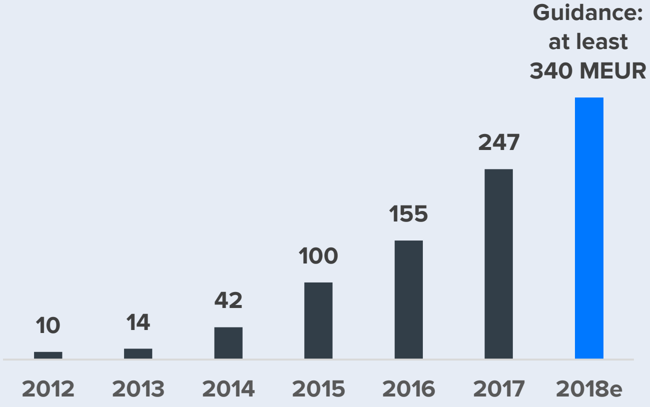
With our estimates, the 2018 net sales will be EUR 17.7 million and the operating result EUR 7.8 million. In 2018, the fair value of Hoivatilat's real estate portfolio will reach EUR 373 million. NAV per share grows in our estimates to around EUR 7.1 in 2018 and to some EUR 8.0 in 2019. Our estimates are pretty much in line with the company's guidance for 2018 as in its Q1'18 business review Hoivatilat predicted that 2018 net sales will be at least EUR 17.5 million, the fair value of the real estate at the end of 2018 will be at least EUR 340 million and the operating result to be some 40% of net sales, i.e. EUR 7 million,

Our 2018 to 2020 estimates are also in line with the company's financial targets (2018 net sales growth at least 40% and at least 30% per year in 2019 to 2020, operating result on average of 40% of net sales, equity ratio at least 35% and dividend at least 50% of ERPA result).

2019 to 2020 return level

Hoivatilat's business is partly scalable as the company's fixed costs do not, in our view, grow at the same rate as the real estate portfolio. When Hoivatilat grows, the company's real estate specific and geographical diversification also improve, which lowers the company's overall risk profile. Taking into account the growth we predict for the real estate portfolio and the cost structure of the company, we expect Hoivatilat to reach an average total return of 11% in 2019 to 2020.

Real estate portfolio 2012-2018e (million EUR)



Source: Hoivatilat

Development portfolio as of 31st of March 2018

	Current	Under constr.
Number of properties	92	48
Leasable area (thousand m^2)	79,9	43,2
Investment cost (MEUR)	174,1	102,9
Annual rents (MEUR)	16,3	8,3

Source: Hoivatilat

Estimates 2/6

Internationalization

In its Q1 business review, Hoivatilat said that the company had launched a thorough investigation into the company's possibilities to expand to the other Nordic countries. This was news from the company, and, according to our information, the first time the company publicly announced any internationalization plans. Throughout its history, Hoivatilat has only operated in Finland. In the Q1 news conference, the company management hinted that internationalization could be directed at Sweden.

Many of Hoivatilat's customers (care operators) already operate in other Nordic countries and the business models of these customers are in our view similar in Finland and in the other Nordic countries. Furthermore, Nordic social structures are similar and the care industry is driven by many similar mega trends as in Finland (e.g. aging of the population). We believe that Hoivatilat could operate with the current business model also in, for example, Sweden. In practice, internationalization would probably require a local cooperation partner and /or investments in local talent and a sales team.

We believe that construction competition in the other Nordic countries and especially in Sweden is in general tighter than in Finland and the return level of care premises is also lower due to low yield requirements. For example, according to Realia, the prime yield requirement or care premises in Sweden was only around 4.0% in 2017 which is clearly lower than in Finland (the yield requirement for Hoivatilat's real estate at the end of 2017 was 6.5%). Therefore, the return levels in other Nordic countries could be lower for the company than in Finland.

Of the Nordic care premises markets, for example Sweden is, in our view, clearly bigger than in Finland (more than double in size) and thus the company could grow into a new size category in the Nordic countries. Possible internationalization would also improve the geographical diversification of Hoivatilat's real estate portfolio and lower the company's overall risk profile.

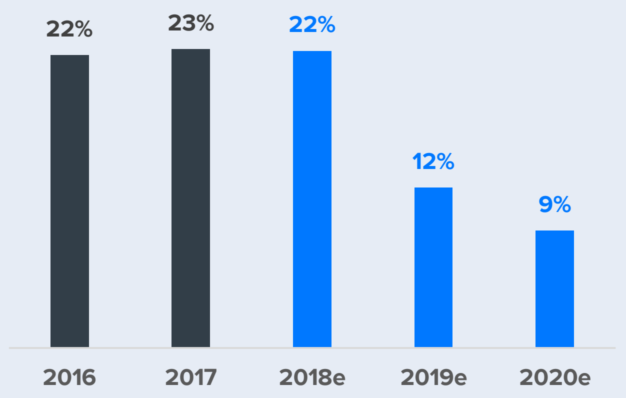
At this stage, we have not included internationalization in Hoivatilat's estimates due to the lack of a concrete plan. We consider internationalization at this point mainly as an option for investors that supports our growth estimate.

On the next page we will discuss the assumptions on which our estimates for Suomen Hoivatilat are based in more detail.

Net sales and EPRA result (million EUR)

Source: Inderes

Forecasted total return-% on NAV



Source: Inderes

Estimates 3/6

Rental income

Inderes estimates that Hoivatilat's binding leases and ongoing development projects will raise the 2018 net sales (gross rental income) to around EUR 17.7 million and the 2019 net sales to some EUR 25.5 million. After this, net sales growth is based on a net rental income of 6.0% for new leases.

Property management costs

The leases of Suomen Hoivatilat are net leases and, as a general rule, the tenants pay for the property management costs. The company is, however, responsible for some management costs is certain properties, such as real estate insurance, real estate tax and plot rents. These totaled EUR 1.0 million in 2017 or some 0.5% of the average fair value of the properties. We expect the management costs to remain at this relative level in the short and long term in our estimates.

Fixed costs

Suomen Hoivatilat's personnel costs in 2017 amounted to EUR 1.9 million and other operating expenses totaled EUR 1.2 million. We expect the personnel costs to be EUR 2.5 million and other fixed costs EUR 1.6 million in 2018 and EUR 3.1 million and EUR 2.0 million respectively in 2019. We estimate that these will grow on average by 5% per year after this.

According to our estimates, the company can increase the size of its real estate portfolio manyfold with relatively small additions to its personnel and fixed costs. We expect personnel costs and other costs to grow on average by 5% per year in the long term. The growth will also, in our opinion, offer some benefits of scale in financial expenses.

Financial expenses

In the balance sheet from December 31, 2107, Hoivatilat had EUR 110.1 million in interest bearing liabilities, formed of EUR 101.2 million in long term interest bearing liabilities and EUR 8.9 million in short term interest bearing liabilities. Interest bearing liabilities consisted entirely of financing loans in the balance sheets of the real estate companies, In addition, the company had EUR 4 million available in credit limits at the end of 2017 of which EUR 0.0 million were in use. The average interest rate of the group's loans at the end of 2017 was 1.51%, which we consider to be an exceptionally low average interest rate for a real estate company. We estimate that the maturity of the loans is long and their covenants are typical. The company has partially hedged against interest rate risks with interest rate swaps that end in 2020 to 2023.

In April 2018, Hoivatilat announced that it had agreed on EUR 50 million long term financing with the European Investment Bank (EIB). The first loan of EUR 30 million has already been signed and it supports the investment projects made by the company in new properties. We believe EIB's loans are typically surety-type loans with collateral. Hoivatilat has not announced the average interest rate or maturity of this type of financing but typically EIB's corresponding loan periods are to our understanding long, over 10 years, and the interest rate levels are relatively competitive. According to our view, the interest of the loan could be between 2 and 3%. Therefore, we do not expect the average interest rate of the company's loans to grow considerably as a result of the arrangement. We estimate that the company's financial costs will rise to 1.9% in 2019 and be on average 3.0% in the long term.

Thanks to the loan from EIB, we believe the company will be able to finance the growth projects we predict for 2018 to 2019 and we do not expect the company to have to collect equity on the market to finance them. Therefore, we do not consider a share issue likely for Hoivatilat in 2018.

Taxes

Investors should note that even though the company pays the normal corporate tax (20%) its effective tax rate is significantly lower. This is due to the fact the tax liability generated from changes in the fair value of real estate is accumulated as deferred tax liabilities in the balance sheet, which is only realized if the property is sold. As a rule of thumb, the company only pays corporate tax in a tax year based on its sales gains and rental income. Thus, the effective tax rate was below 5% in 2017. In our model, we assume that the company does not sell its properties at all and the deferred tax is never realized.

Estimates 4/6

Real estate development

One significant factor that separates Suomen Hoivatilat from other listed real estate companies is its development business. As a general rule, the company does not buy completed real estate but develops them itself and receives a development margin form this development business. The company's organization model has been planned for development and a majority of its personnel works in development. In 2017, Hoivatilat developed real estate worth EUR 67 million in acquisition cost on which it achieved, according to Inderes' estimates, a relatively high development margin of some 21% or around EUR 14 million in profits (fair value - development costs).

In March 2018, Suomen Hoivatilat had 48 ongoing real estate development projects with a combined acquisition cost of around EUR 103 million. Binding lease agreements have been signed for all of these properties and their occupancy rate is full 100%. Thus, we believe the risk related to them being completed is low. We estimate that the company will be able to complete projects worth EUR 90 million in 2018, and in 2019 we estimate that development projects will reach EUR 100 million (nursing homes, day care centers, schools and service blocks total).

Cherry picking over in the industry

We believe the competition has increased in care premises development in recent years, especially due to growth and increased activity in care property funds. We expect that the development margin of Hoivatilat's development business will decrease to around 16% in 2018 and to 15% in 2019. We also feel that a level of around 15% is realistic for the company in the long term.

Development does not generate cash flow

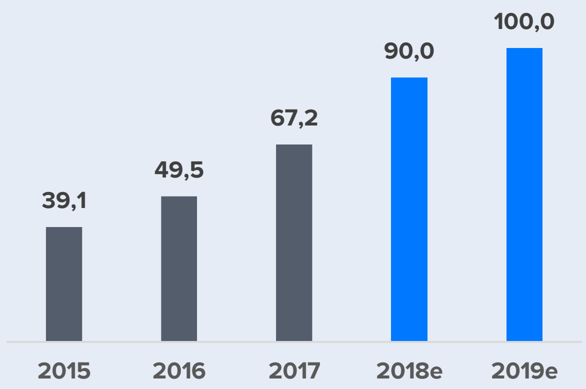
The development margin is theoretical non-cash flow generating return for Hoivatilat because the company does usually not sell its real estate to others. The risk related to return is, however, low in our opinion because care premises has a working transaction market in Finland and the end demand for care premises is growing strongly. The fair value of the real estate presented by Hoivatilat (6.5% yield requirement) are, in our opinion, conservative compared to the level at which care premises are traded at the markets (around 5.3% yield requirement) so the development margin could also be realized if necessary.

In our estimates, growth will stabilize from 2020

In our estimates, Hoivatilat's annual development projects will decrease to some EUR 50 million in 2020 and after that settle at around EUR 30 million per year. This is due to the company, according to our estimates, not being able to carry out more projects than this with its own balance sheet without collecting more equity from the markets and we do not model possible future share issues in advance. In our estimates, the company's equity ratio drops to 35% by 2020 (Q1'18: 47.4%) and remains at this level until 2026.

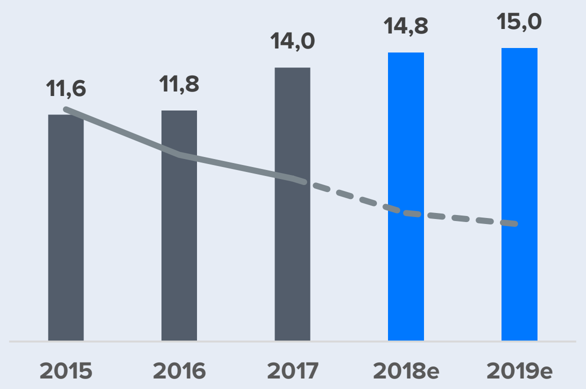
We believe the company could, if it wanted, change its operating model so that it would sell all the real estate it has developed, for example, to care property funds. Therefore, it would not have to (unlike in our model) reduce the number of annual development projects. In our opinion, this is why the company's development business should be included in the share valuation as a continuing operation.

Annual development projects by costs



Source: Hoivatilat, forecasts by Inderes

Development margin



Source: Inderes

Estimates 5/6

Decreasing yield requirements

One key earnings driver for Suomen Hoivatilat is, in our view, the decreasing yield requirements for care premises. Hoivatilat's real estate portfolio was valued by an outside evaluator at a yield requirement of around 6.5% in 2017. We consider this valuation to be very conservative and we expect the yield requirement to decrease in 2018 closer to that other real estate types in Finland and that of care premises in other countries.

According to our estimates the yield requirements for care premises are still relatively high in Finland compared to other types of real estate and care premises in other countries. For example, the yield requirement for prime office real estate in Finland is currently around 4.1% according to Catella and that of prime dwellings around 3.8% according to KTI. We do not believe that such a big difference in the yield requirements is justified as we estimate that the risk profile of care premises is clearly lower than for commercial real estate and their yield requirement should be below that of commercial real estate. In an international comparison, the yield requirement for care premises was around 4% in 2017 in Sweden according to Realia. We expect the yield requirement of Finnish care premises to decrease gradually closer to these levels.

Based on Inderes' estimates, portfolio trades of care premises have been made in Finland in 2018 at a yield requirement of only 5.3%. This estimate also supports our view that there is clear downside potential in Suomen Hoivatilat's yield requirement. We do not, however, expect the company's yield requirement to drop to such a low level as portfolio trades include a so-called portfolio premium so a higher price can be achieved on care premises if they are sold as large ppackages. Hoivatilat records its real estate as the sum of individual properties, which means the portfolio premium is not included in the value.

Non-recurring return

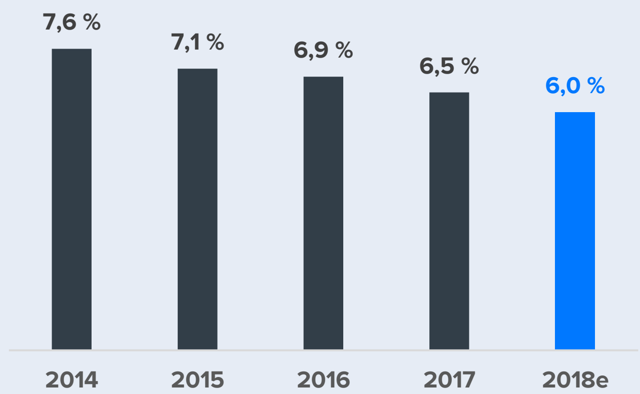
We expect the yield requirement of Suomen Hoivatilat to drop to around 6.0% by the end of 2018. This downward trend would correspond with the development already seen in 2014 to 2017. We also consider a larger drop than this theoretically possible and we discuss this possibility in the sensitivity calculations. As a result of the drop in the yield requirement, we predict the value of Suomen Hoivatilat's real estate portfolio would grow by around EUR 20.7 million to EUR 373 million in 2018.

We emphasize that the return generated by the drop in the yield requirement is theoretical and non-cash flow generating, as long as the company does not sell its real estate. It is also non-recurring in our estimate as we expect the company's yield requirement to drop to 6.0% and stay at this level throughout out estimate period.

Yield requirements are also a risk factor

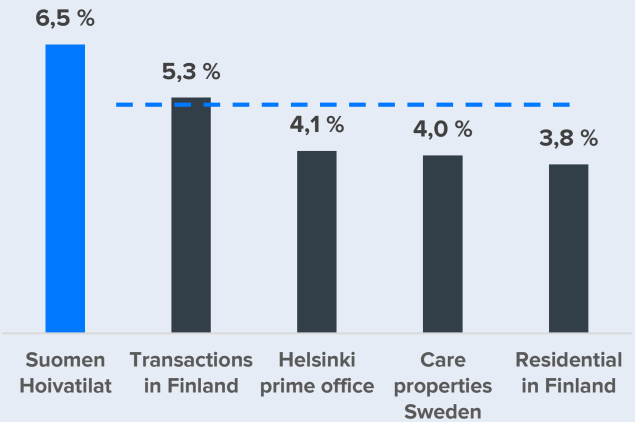
The development of the yield requirement also involves risk as if the market interest rates would clearly increase and the market risk premiums would grow, the yield requirements could also increase and the company would probably be forced to record fair value losses. However, in the current market situation we do not consider it likely that the yield requirement would increase over the next few years.

Forecasted yield requirement-%



Source: Inderes

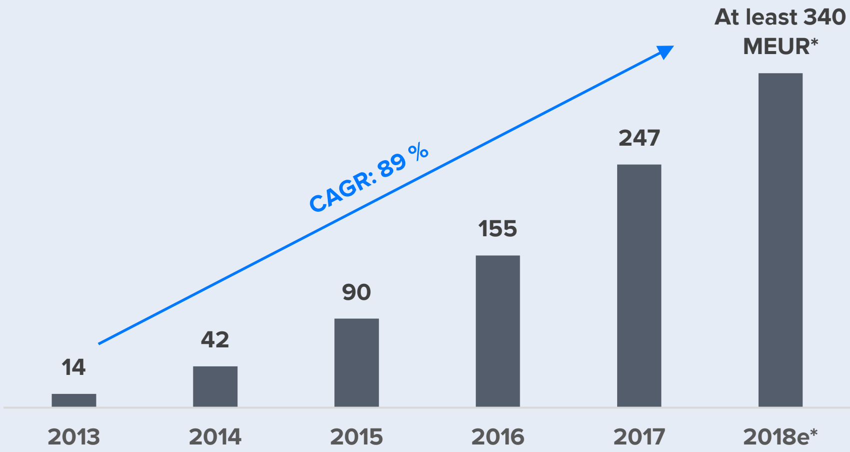
Yield requirement and "peers"



Source: Inderes

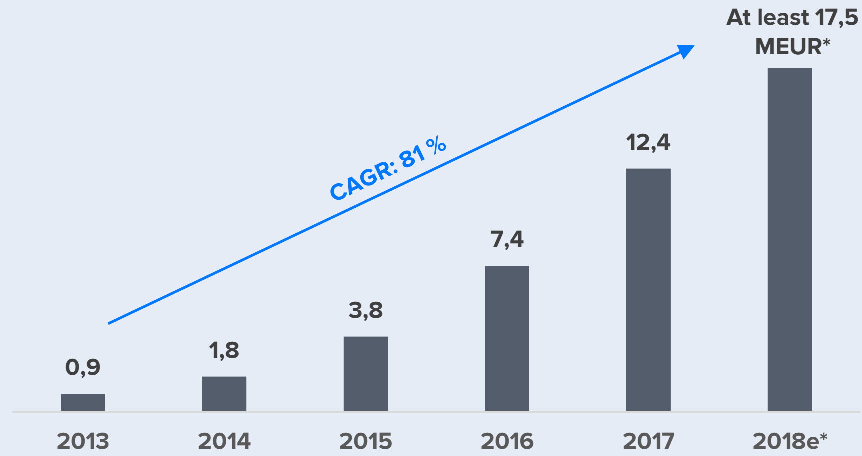
Historical financial performance

Real estate porfolio (million EUR)



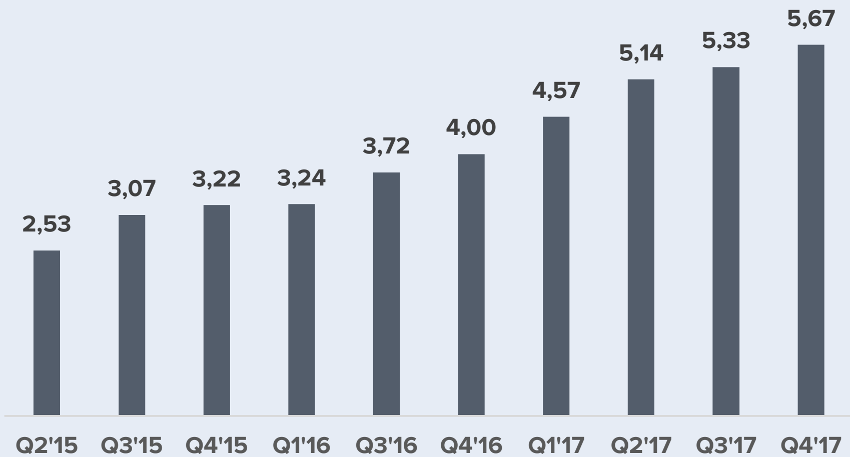
*Guidance by the company

Net sales (million EUR)

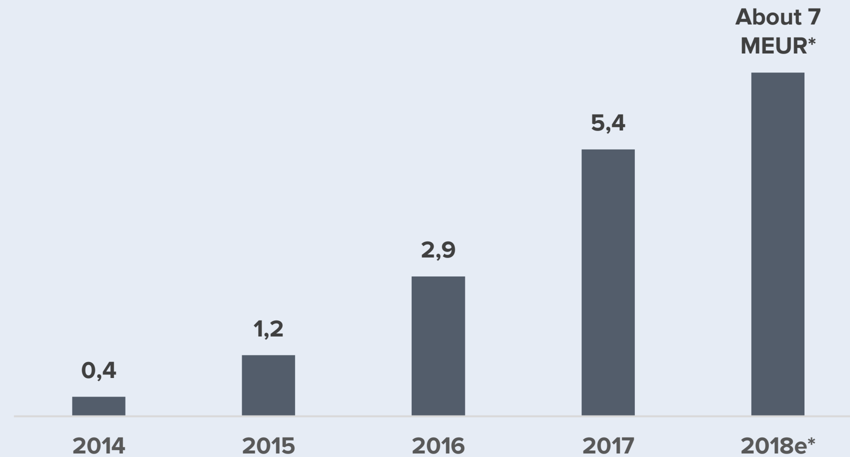


*Guidance by the company

NAV per share (euros)



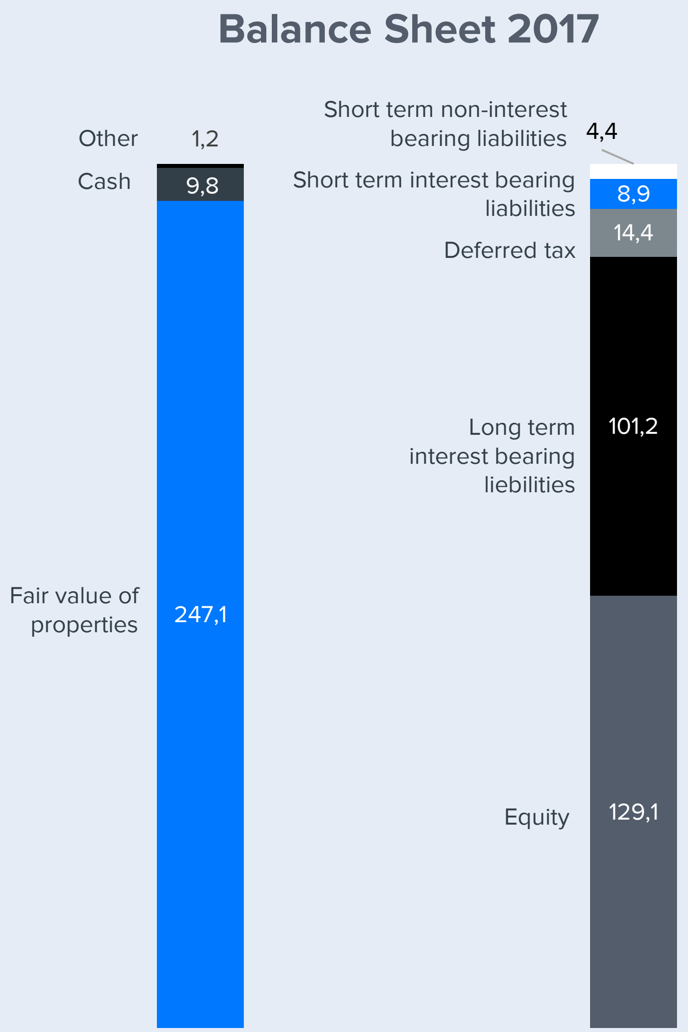
Operative profit (EPRA, million EUR)

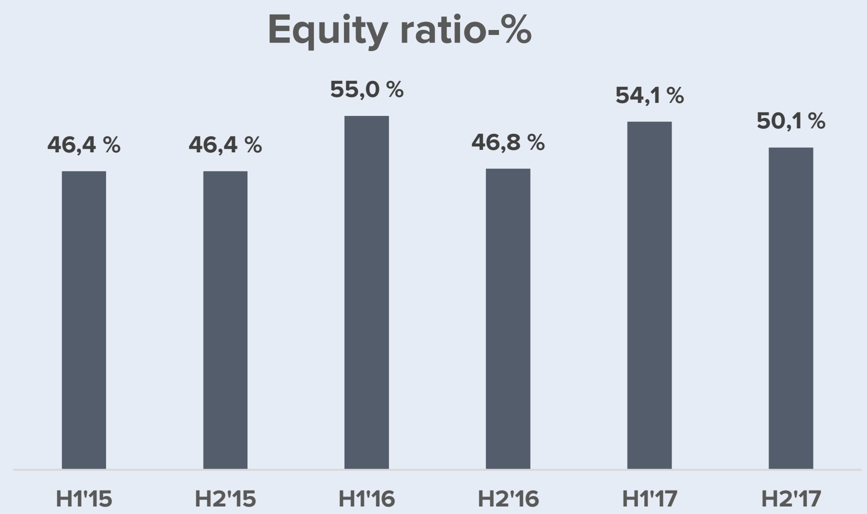


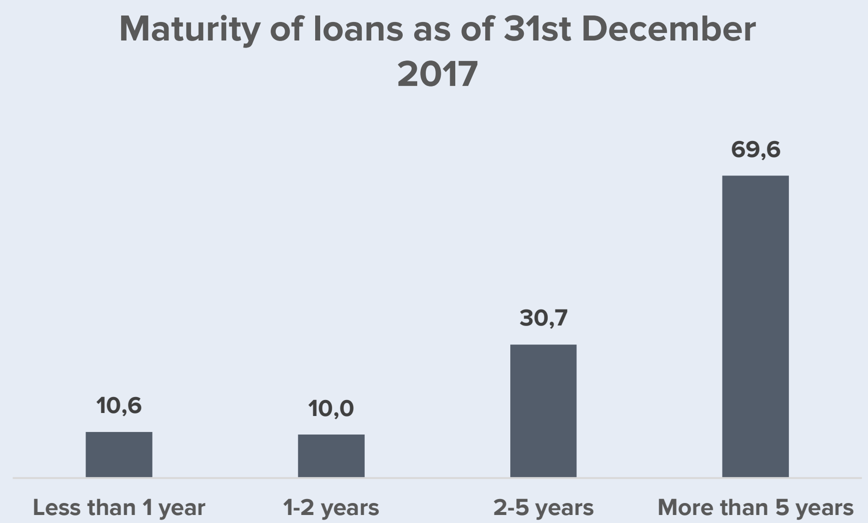
*Guidance by the company (about 40 % of the net sales)

Source: Inderes and Suomen Hoivatilat

Balance sheet







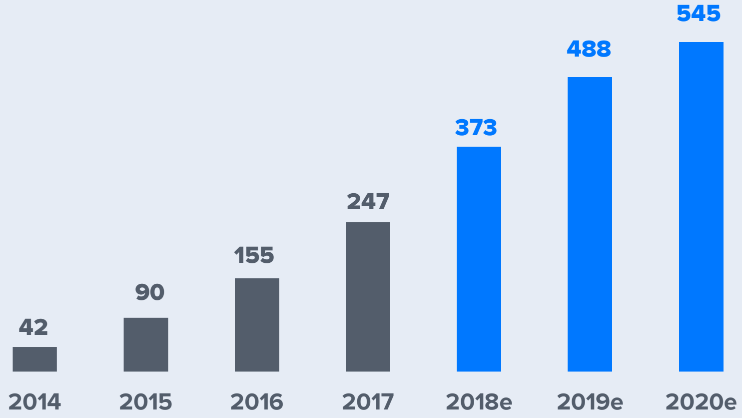
Source: Inderes and Suomen Hoivatilat

Estimates 5/6

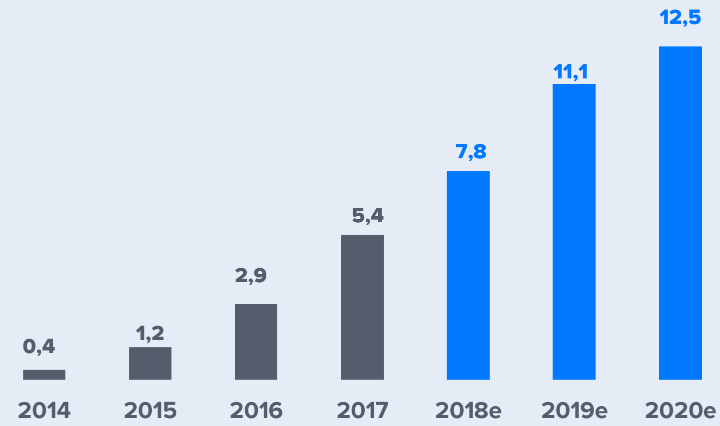
Assumptions, EUR million	2014	2015	2016	2017	2018e	2019e	2020e
Yield requirement	7,6 %	7,1 %	6,9 %	6,5 %	6,0 %	6,0 %	6,0 %
Fair value change (yield compression)	-		3,0	14,0	20,7	0,0	0,0
Fair value of properties, end year	42	90	155	247	373	488	545
Fair value of properties (avg.)	-	53	123	201	310	430	516
Year end NAV	30	50	83	143	179	202	216
NAV (avg.)	-	40	66	113	161	191	209
Net rental yield-% (avg.)	-	-	7,5 %	7,4 %	6,5 %	6,3 %	6,1 %
Personnell costs growth-%	-	61 %	100 %	28 %	30 %	25 %	5 %
Fixed costs growth-%	-	-11 %	67 %	55 %	30 %	25 %	5 %
Development projects	-	39,06	49,5	67,2	90	100	50
Development gain	-	30 %	24 %	21 %	16 %	15 %	15 %
Maintenance expenses-%	-	-0,8 %	-0,5 %	-0,5 %	-0,5 %	-0,5 %	-0,5 %
Cost of debt-%	-	1,8 %	1,5 %	1,5 %	1,6 %	1,9 %	3,0 %
Income tax-%	20 %	20 %	20 %	20 %	20 %	20 %	20 %
Net sales	**1,8**	**3,8**	**7,4**	**12,4**	**17,7**	**25,5**	**32,5**
Development gain (fair value change)	8,7	11,6	11,8	14,0	14,8	15,0	7,5
Fair value changes (yield compression)	-	-	3,0	11,1	20,7	0,0	0,0
Maintenance expenses	-	-0,4	-0,6	-1,0	-1,5	-2,2	-2,6
Personell costs	-0,5	-0,7	-1,5	-1,9	-2,5	-3,1	-3,2
Fixed costs	-0,5	-0,5	-0,8	-1,2	-1,6	-2,0	-2,1
Depreciation	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBIT	**9,6**	**13,8**	**19,3**	**33,3**	**47,6**	**33,3**	**32,1**
Financial expenses	-0,3	-0,6	-0,9	-1,4	-2,3	-4,4	-8,9
Pre-tax profit	**9,2**	**13,2**	**18,4**	**31,9**	**45,3**	**28,9**	**23,2**
Taxes	-1,8	-2,7	-3,7	-6,4	-9,1	-5,8	-4,7
Net earnings	**7,4**	**10,5**	**14,7**	**25,5**	**36,2**	**23,1**	**18,5**
Operational result (EPRA result)	**0,4**	**1,2**	**2,9**	**5,4**	**7,8**	**11,1**	**12,5**
Total return on NAV-% (avg.)	**-**	**26 %**	**22 %**	**23 %**	**22 %**	**12 %**	**9 %**
Payout ratio of EPRA result	131 %	83 %	73 %	60 %	50 %	50 %	50 %
Dividend	0,5	1,0	2,1	3,3	3,9	5,5	6,3
Dividend yield to NAV-%	**1,7 %**	**2,1 %**	**2,5 %**	**2,3 %**	**2,2 %**	**2,8 %**	**2,9 %**
NAV per share	**2,4**	**3,2**	**4,0**	**5,7**	**7,1**	**8,0**	**8,6**
Dividend per share	**0,06**	**0,07**	**0,10**	**0,13**	**0,15**	**0,22**	**0,25**
EPS	**0,82**	**0,79**	**0,75**	**1,05**	**1,43**	**0,91**	**0,73**
EPS (EPRA)	**0,04**	**0,09**	**0,15**	**0,22**	**0,31**	**0,44**	**0,50**

Estimates 6/6

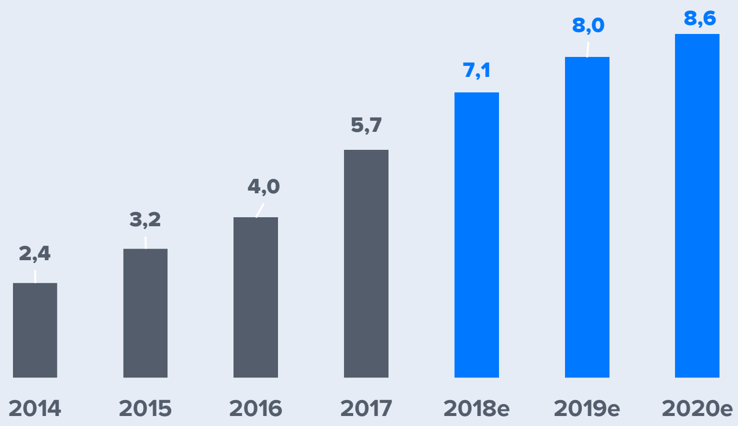
Fair value of properties (million EUR)



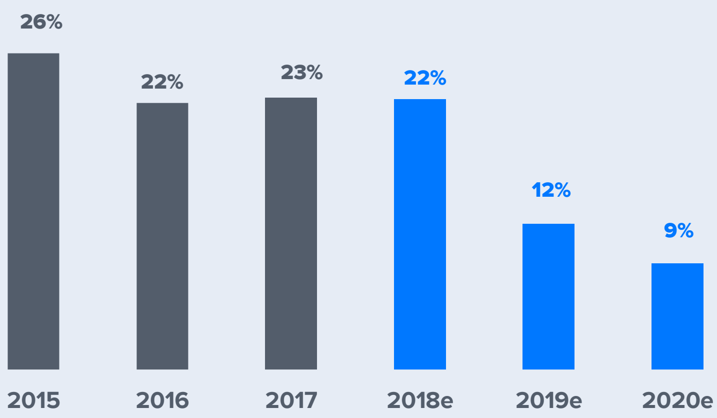
EPRA earnings (million EUR)



NAV per share (euros)



Total annual return-% on NAV (adj.)



Source: Inderes

Sensitivity calculation

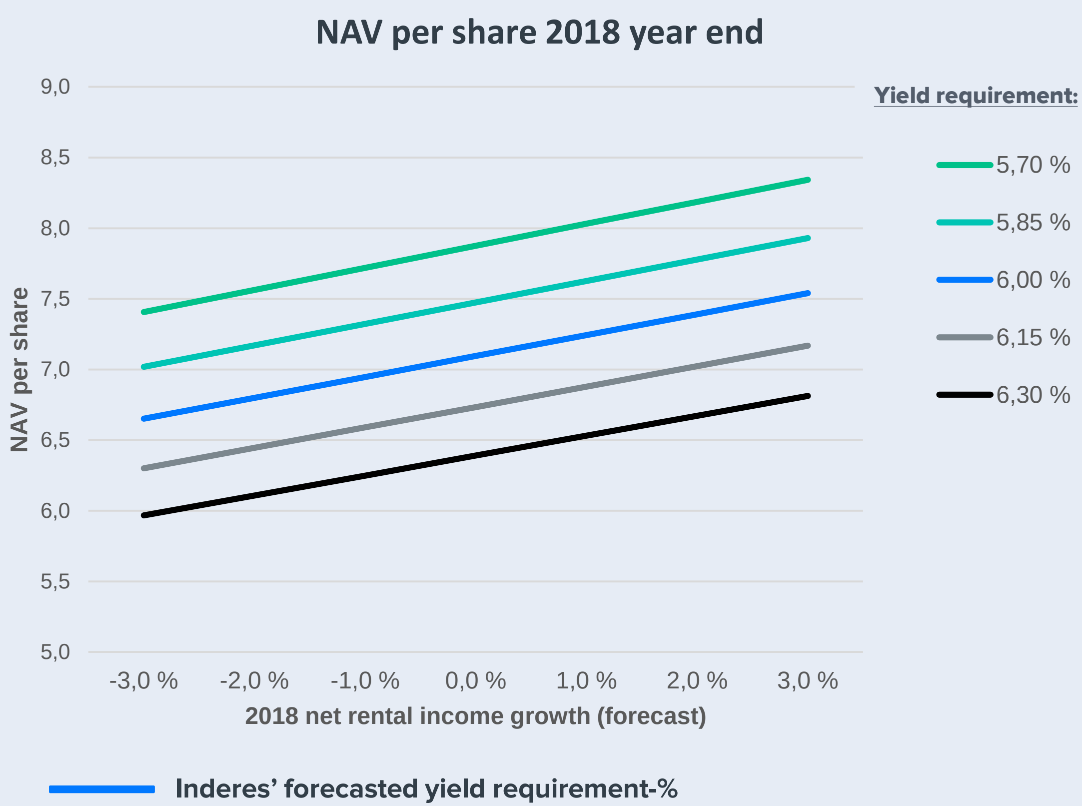
Sensitivity calculation

Drop in yield requirements and change-% in net rental income

Suomen Hoivatilat's real estate portfolio offers, according to our opinion, clear revenue potential through a drop in the yield requirements. At the end of 2017 and the end of Q1'18, the company's real estate portfolio was valued at an average yield requirement of 6.5% (net rental return-%). In our opinion, this is a relatively high yield requirement and we expect it to decrease this year.

In the figure on the right, we depict how Suomen Hoivatilat's NAV per share would change is the yield requirement was between 5.7 and 6.3% at the end of 2018 and, at the same time, the estimated 2018 net rental income would fluctuate +/-3% from the level we have estimated. The most likely scenario we have estimated is indicated with a blue line.

In our sensitivity calculation, the NAV per share for 2018 varies between EUR 6.0 and 8.3 (Inderes' estimate EUR 7.3). A possible drop in the yield requirement offers clearly more potential return than our model, and investors should be aware of this potential.



Source: Inderes

Valuation

Valuation summary

When determining the value of Suomen Hoivatilat's share we have used the following valuation methods: value based on the share's total return, peer group valuation, sum of parts calculation and historic valuation relative to NAV. We weight the sum of parts valuation highest because, in our opinion, it takes Hoivatilat's development business and its risk/return profile correctly into account.

The range for the fair value of the share based on different valuation methods is between EUR 8.8 and 9.1. According to our view, the fair value of Suomen Hoivatilat's share is **EUR 9.1**. The estimate is based on a sum of parts analysis that other valuation methods support. We discuss the different valuation methods in more detail on the next page.

A key factor that affects Hoivatilat's value determination is the company's development business, and whether this business can be seen as continuous operation. As we have previously noted, we do not believe the company can, with its current balance sheet, maintain the current development rate after 2019 without raising equity. However, the company also has the option to sell real estate and finance development with the sales gains. In the current active transaction market this should not become a problem. In our value determination, our premise is that the development business is continuous operation and thus has considerable value.

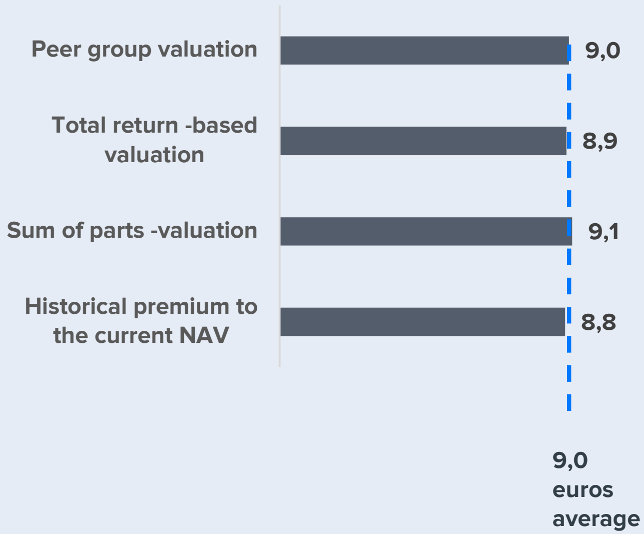
Factors affecting the valuation

Positive factors that affect the valuation of Suomen Hoivatilat's share are, in our view, the very high expected return on equity (2017 return on equity: 25%), defensive and not very cyclical industry, good growth outlook, good predictability in terms of rent income, and a strong track record in recent years in terms of profitability and growth. Factors that, in turn, affect the valuation negatively at the moment are, in our opinion, at least the relatively high weight (45%) of the two largest customers in the company's customer portfolio, the expected tightening competition in the development business, as well as the uncertainty linked to the social welfare and health care reform (SOTE).

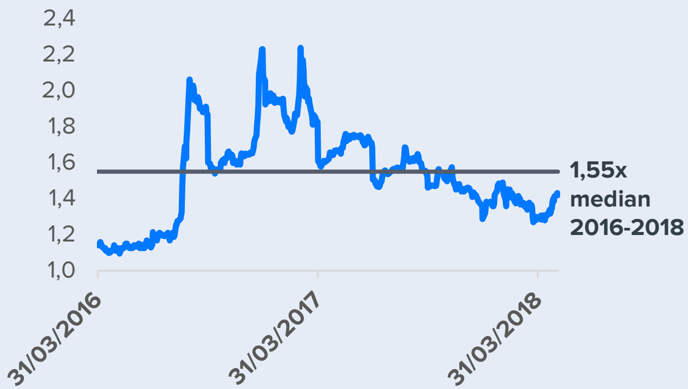
Net assets or NAV

The EPRA NAV or net asset per share that we apply is calculated roughly for real estate companies by deducting interest-bearing net liabilities from the fair value of the real estate portfolio, in addition to which it is adjusted by deferred tax liabilities so the assumption is that the real estate are not sold. Therefore, NAV per share is the theoretical fair value of one share for the investor. However, the NAV per share and the share price often differ from one another. This is because the shareholders do not own the combined value of individual properties (NAV) but they own the company that owns these properties. The value of the NAV per share is in theory the same as the value of the share only if a) the earnings of the share are exactly the same as the combined return of the real estate used in the NAV calculation, and b) if the yield requirement set by the capital markets on the share is the same as the weighted yield requirement calculated for the real estate in the NAV calculation.

Valuation summary

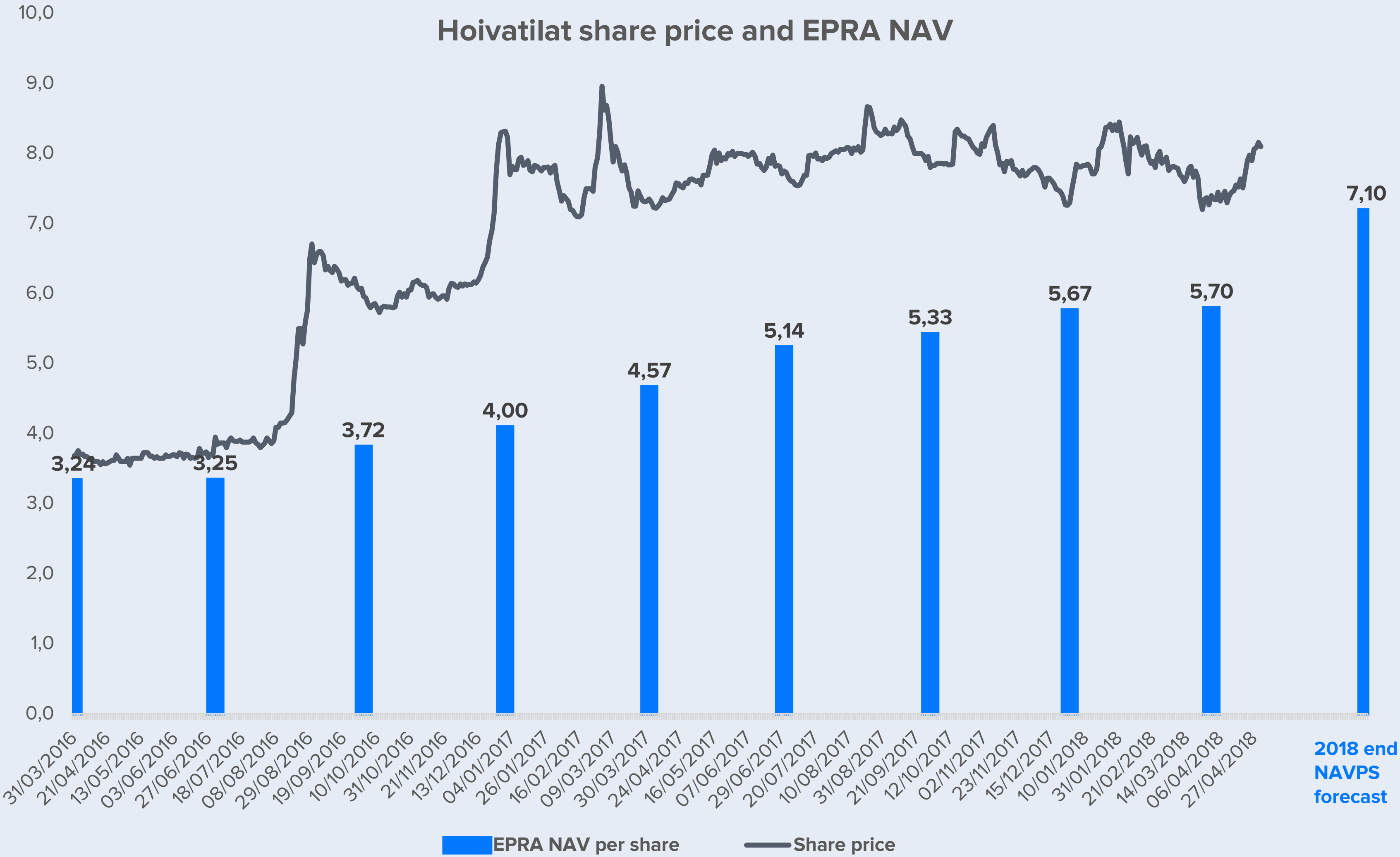


Share price to EPRA NAV



Source: Inderes

Valuation



Source: Reuters and Hoivatilat. Year end 2018 figure is a forecast by Inderes

Valuation

Hoivatilat's risk/return profile differs from the revenue/risk profile of the real estate portfolio is owns especially due to the development business the company owns and the share should also be valued based on other factors than simply the NAV.

Valuation relative to NAV

Since the IPO in March 2016, Hoivatilat's share price has constantly been valued at a premium, i.e. above the NAV at any given time. The premium has varied between 10 and 124% and the median has been 55%. In May 2018, the share was values some 42% above the NAV at the end of Q1'18, which is a relatively high level for a real estate company. We feel, however, that comparing the share price to the NAV for the period is partially misleading because the company has constantly been developing a considerable number of real estate, which have already been leased but are not yet visible in the NAV because these work in progress are partly valued at acquisition cost in the company's balance sheet. NAV does not take the company's development business into account either. For these reasons we believe the company NAV should first be adjusted by the project portfolio under development and then this NAV should be proportioned to the expected overall return of the share.

NAV grows to EUR 7.1 in 2018

On March 31, 2018, Suomen Hoivatilat had agreed on and already leased development projects worth some EUR 103 million. We estimate that the company will be able to complete projects worth EUR 90 million in 2018 (2017: EUR 67 million) measured by acquisition cost. These projects together with the expected development of the yield requirement will, according to Inderes' estimates, raise Suomen Hoivatilat's NAV per share to some EUR 7.1 by the end of 2018.

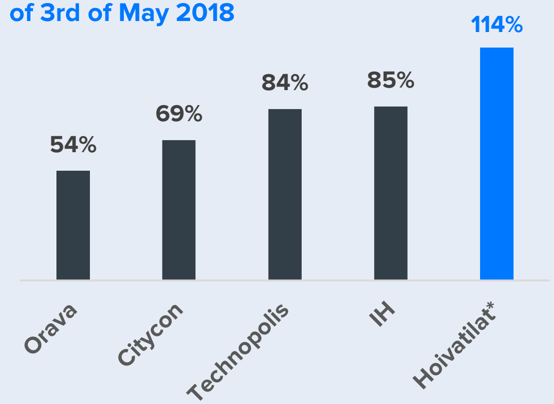
We believe the uncertainty related to this NAV growth is low because the company has the capital required for the growth and a majority of the growth projects have already been agreed on with binding contracts. The company also develops these properties itself together with its construction partners, which helps reduce the overall risk of construction.

Valuation relative to the peer group on the Helsinki Exchange

In May 2018, other real estate investment companies on the Helsinki Stock Exchange were valued at 54 to 85% relative to their latest EPRA net assets from Q4'17/Q1'18. The risk profile of care premises is, however, clearly lower than that of commercial real estate and the return level is clearly higher than for residential real estate. In addition, Suomen Hoivatilat has more construction and real estate development activities than other real estate companies on the Helsinki Stock Exchange, which helps it reach higher return on equity than these peers. For these reasons, the NAV-based valuation multiples of other real estate companies on the Helsinki Stock Exchange cannot, in our opinion, be directly applied to the value determination of Suomen Hoivatilat's share.

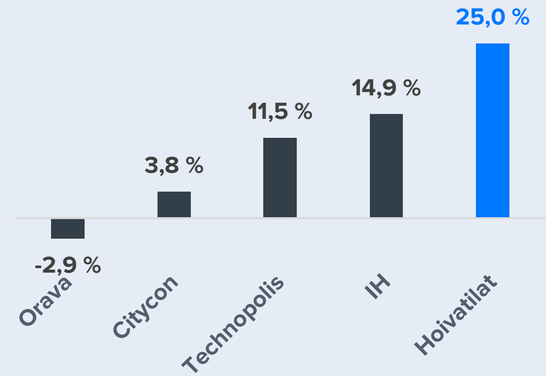
For example, in 2017 Hoivatilat's return on equity was 25%, which was clearly higher than the -2.9 to 14.9% level of other real estate companies. At this return level we feel that Hoivatilat's clearly higher NAV-based valuation level compare to its peers on the Helsinki Exchange is in our opinion fully justified.

P/NAV of Finnish listed real estate companies as of 3rd of May 2018



*Properties under construction are included
Source: Inderes

2017 actualized ROE-% of Finnish listed real estate companies



Source: Inderes

Valuation

Valuation based on the share's total return

The total return of Suomen Hoivatilat's share is, from the investor's point of view, formed of annual dividends and the growth in the net asset value per share (NAV). According to our estimate, with Suomen Hoivatilat's current operating model this total return be on average around 10.5% per year in 2019 to 2020. We believe the dividend yield will be relatively low in the next few years, some 2 to 3%, as the company focuses on growth and, thus, the main return component from the investor's viewpoint will be NAV growth.

It is essential for the investor to understand that as the NAV premium of Hoivatilat's share grows, the effective total return decreases and when the premium decreases, the effective return grows. If the share is priced at a discount relative to NAV, the share offers higher return than the net return in the company's balance sheet.

In the figure at the bottom right-hand side, we have depicted the acceptable valuation of the share relative to NAV when the annual total return of the share would be 9 to 13% and the yield requirement varies between 7.0 and 10.0%. For example, if Hoivatilat's annual total return (dividend + NAV growth) is 12% and equity yield requirement is 8.0%, an acceptable valuation level would be 1.50x relative to NAV. Our yield requirement for Hoivatilat is 8.5% and we consider a share pricing of around 1.25 relative to the NAV at the end of 2018 with an estimated average return level of around 10.5% for 2019 to 2020 justified. Our value determination of EUR 8.9 per share is based on this total return.

Cash flow

We emphasize to the investors that the cash flow of Suomen Hoivatilat will, according to our estimate be clearly negative in the next few years as the company will annually invest EUR 30 to 100 million in growth projects. In our model, the company's annual cash flow will not turn positive until 2027. In our model, the company will, however, be able to pay dividends throughout the growth stage and also finance all investment projects with income financing and debt financing without having to raise equity on the markets.

Effective total return on share with different premiums to NAV

Total return-% to NAV

Premium to NAV	9,0 %	10,0 %	11,0 %	12,0 %	13,0 %
22 %	7,4 %	8,2 %	9,0 %	9,8 %	10,7 %
23 %	7,3 %	8,1 %	8,9 %	9,8 %	10,6 %
24 %	7,3 %	8,1 %	8,9 %	9,7 %	10,5 %
25 %	7,2 %	8,0 %	8,8 %	9,6 %	10,4 %
26 %	7,1 %	7,9 %	8,7 %	9,5 %	10,3 %
27 %	7,1 %	7,9 %	8,7 %	9,4 %	10,2 %
28 %	7,0 %	7,8 %	8,6 %	9,4 %	10,2 %

Source: Inderes

Acceptable valuation level to NAV with different yield requirements

Total return-% to NAV

Return requirement-%	9 %	10 %	11 %	12 %	13 %
7,0 %	1,29x	1,43x	1,57x	1,71x	1,86x
7,5 %	1,20x	1,33x	1,47x	1,60x	1,73x
8,0 %	1,13x	1,25x	1,38x	1,50x	1,63x
8,5 %	1,06x	1,18x	1,29x	1,41x	1,53x
9,0 %	1,00x	1,11x	1,22x	1,33x	1,44x
9,5 %	0,95x	1,05x	1,16x	1,26x	1,37x
10,0 %	0,90x	1,00x	1,10x	1,20x	1,30x

Source: Inderes

Valuation

Valuation relative to European peer group

Hoivatilat does not have direct peers because there are no other listed companies apart from Hoivatilat in the Nordic countries that focus purely on care premises, and even on a European level, only a few listed companies exist. In Europe in May 2018, the valuation level of Suomen Hoivatilat's peer group was on average 14% above these companies' net assets at the end of 2017 and that of all listed real estate investment companies were around 3% above net assets.

We point out that the Finnish operating environment (legislation, taxation, government's role in the care industry) and the fundamentals of the capital market is very different than in other European countries, and, thus, the NAV-based valuation levels of these peer companies cannot, in our opinion, be applied to Hoivatilat as such. They do, however, offer one viewpoint to the valuation of Hoivatilat. Compared to its international peers, Hoivatilat has in recent years, and will, based on our estimates, reach clearly higher return on equity than its peers, based on which we believe a higher NAV-based valuation level than for the international peers is justified. Next we will examine Hoivatilat's value determination in more detail using the peers' multiples.

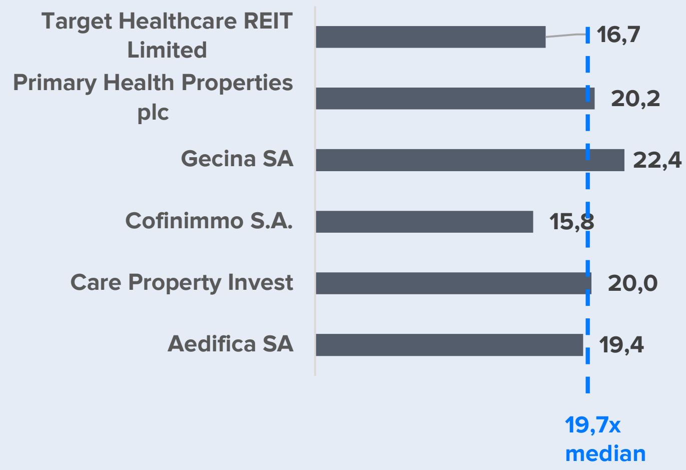
Peer group valuation

In the peer group valuation, we apply the average 2019e EV/EBITDA and adjusted P/E ratios of the European peer companies to Hoivatilat's corresponding ratios so that the changes in the fair value of real estate are fully excluded from our Hoivatilat estimates. So the examination only includes operative, cash flow based EBITDA and EPRA result. This valuation thus gives no value on the company's development business and, thus, we feel it is partly biased. It does, however, provide an impartial, objective viewpoint to assess Hoivatilat's share. We apply 2019 ratios because this means that Hoivatilat's agreed on and fully rented considerable project portfolio (March 31, 2018 EUR 103 million) is included in the value determination.

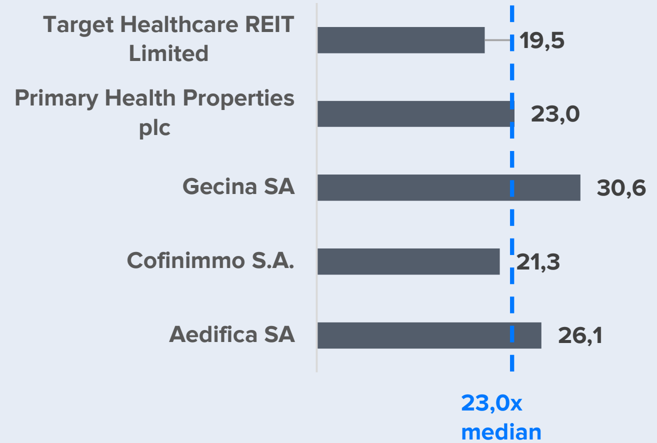
The 2019e adjusted P/E ratios for the peer group are 15.8 to 22.4x and the median P/E ratio is 19.7x. With this ratio, the value of one Hoivatilat's share is around EUR 8.7. Correspondingly, the 2019e EV/EBITDA ratios of the peers are 19.5 to 30.6x and the median is 23.0x. With this ratio and the estimated amount of net debt at the end of 2018, the value of Hoivatilat's share is around EUR 9.3. The average value based on the P/E and EV/EBITDA ratios of the peers with a 50/50% weight is around EUR 9.0.

We emphasize that the peer group value determination presented here is not, in our opinion, the best way to value Hoivatilat's share due to the fact that the company's risk/return profile does not differ from the peers and the company's development business should be taken account in the valuation. We will discuss the value determination of the share considering these aspects next in the sum of parts calculation.

Forecasted 2019 P/E ratios of European peers



Forecasted 2019 EV/EBITDA ratios of European peers



Source: Reuters, information from 3rd of May 2018

Sum of parts calculation

Markets values development business too low

It is useful to assess Suomen Hoivatilat's value through a sum of parts calculation. In this approach, the value is divided into components that are a) real estate, b) development business, c) group costs and d) net debt. According to our view, the markets currently only value the development business to around EUR 48 million, which is not justified as we have estimated the value of the development business to be around EUR 72 million. Our sum of parts calculation gives Hoivatilat's share a value of around EUR 9.1 per share.

Value of the real estate

Considering the WACC of 7.2% we set for Hoivatilat, the risk profile of the real estate and their expected return level, the real estate can, in our opinion, be valued at their balance sheet value in the sum of parts calculation. In the calculation we use the value of the real estate at the end of 2018, EUR 373 million, because the company's considerable development projects that will be completed this year (Inderes' estimate EUR 90 million measured by acquisition cost) have in practice been agreed on and we feel the risk related to their materialization is low. In addition, we consider the drop in the yield requirement included in our estimate to 6.0% (2017: 6.5%) in practice a fact because at the beginning of 2018 a transaction was carried out on the market at a 5.3% yield requirement with care premises corresponding to those of Hoivatilat.

Net liabilities

In our estimates, Hoivatilat finances its 2018 development projects almost entirely with debt financing, and interest bearing net debt will grow by some EUR 86 million to EUR 185.9 million by the end of the year. We do not consider a larger growth in net debt very likely because the company's other investment needs are minimal. The company's real estate are in practice new, as the oldest one was built in 2012, so there are no considerable maintenance investment needs.

Group costs

Hoivatilat's group costs are personnel costs and fixed costs, which we estimate will be EUR 5.1 million in 2019. According to our estimates a majority of these costs are, however, related to the development business and we expect that the company's real estate could be managed with an annual fee of 0.5% of the company's fair value, or with EUR 1.9 million. We have discounted this annual cost with the 7.2% WACC requirement and 1% annual growth assumption. The value of group costs in our calculation is around EUR -30.2 million.

Real estate development

The value of the development business is based on our estimate of EUR 100 million in annual project development and a 15% development margin, which we predict for 2019. In addition, we estimate that EUR 3.2 million of the estimated 2019 fixed costs for Hoivatilat should be directed at the development business, so we estimate the annual 2019 EBITDA of real estate development to be EUR 11.8 million. We have applied a 6.1x EV/EBITDA ratio to the value determination of development. The ratio is 15% lower than that of the chosen peer group, which, in our opinion, is justified based on the relatively small size of the company's development business. The value of the development business is EUR 72 million in our calculation.

Implicit value (EV) of the development business

Market value 3rd May	205
Real estate 2018e	373
Net debt 2018e	-186
Group costs 2018e	-30
Value of development business	**48**

Lähde: Inderes

Development business enterprise value (million EUR)

Peer	2019 EV/EBITD
YIT	6,9
NCC	5,9
SRV	7,2
Peab	9,4
Bonava	9,2
Lehto	7,4
JM	6,4
Median	7,2
Discount	15 %
Multiple	**6,1**
EBITDA 2019e	11,8
EV	**72**

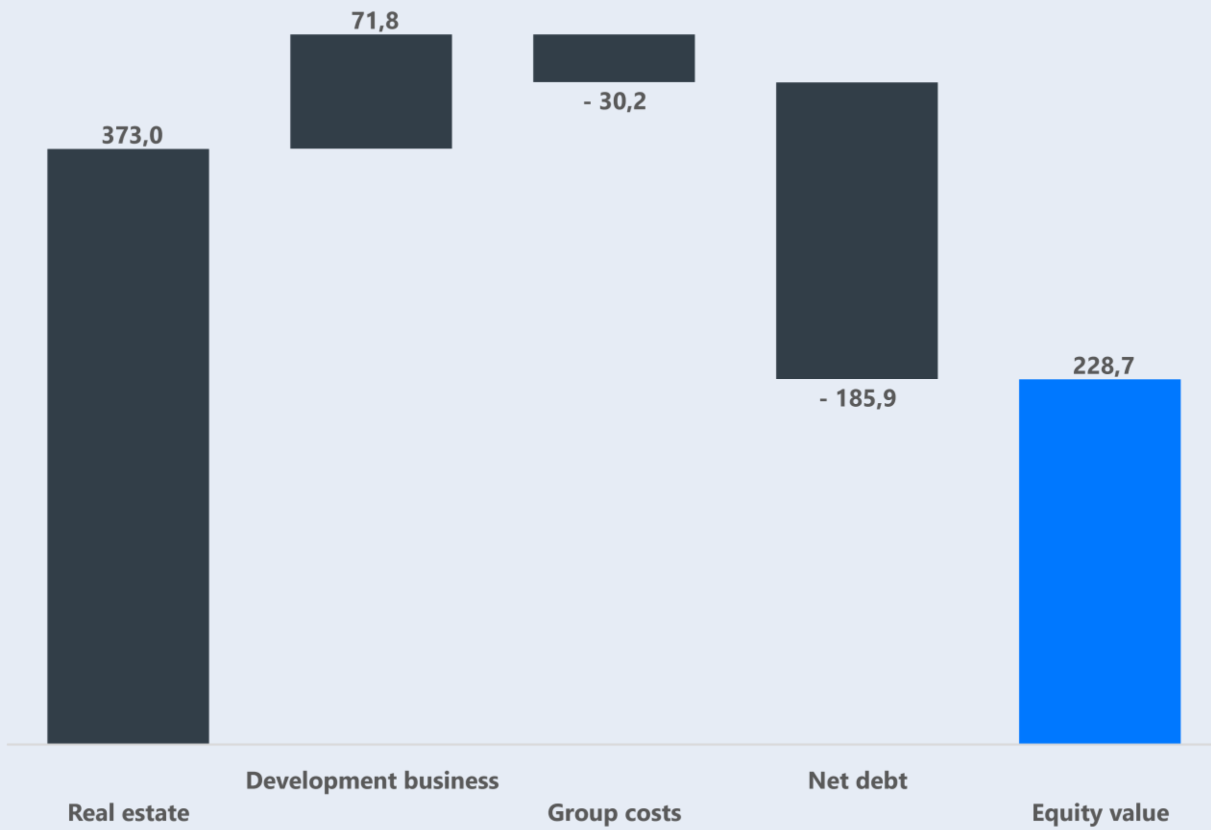
Source: Reuters, forecasts by Inderes. Information is from 3rd of May 2018.

Sum of parts calculation

Sum of parts calculation

In the sum of parts calculation, the value of the company's equity at the end of 2018 is EUR 228.7 million or EUR 9.1 per share with Hoivatilat's current number of shares. Our calculation is based on the following assumptions:

- The estimated fair value of the real estate portfolio at the end of 2018 (EUR 373 million) including EUR 90 million in ongoing development projects and Hoivatilat's yield requirement dropping to 6.0% by the end of 2018 (2017: 6.5 %).
- Group costs that are 0.5% of the fair value of the real estate per year, or some EUR 1.9 million. The costs are discounted with a perpetual assumption applying a 7.2% WACC and their annual growth is 1%.
- The development business is valued assuming that it will be able to develop EUR 100 million worth of projects per year at a 15% development margin. In addition, EUR 3.2 million in annual fixed costs have been directed at the development business. Valued at a 6.1x EV/EBITDA ratio, which is derived from assuming a 15% discount compared to the median valuation level of the peer group.
- At the net debt we estimate for the end of 2018.



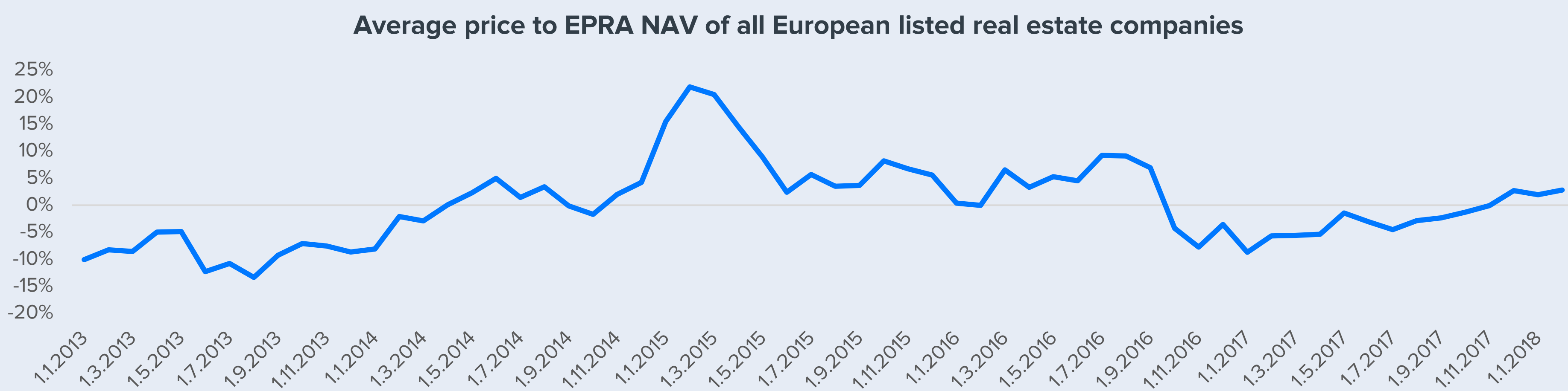
Source: Inderes

Peer group valuation

Peer	NAV*	Share	MCAP**	Premium	2018e ROE	2019e EV/EBITDA	2019e P/E
Aedifica SA	51,69	75,4	1357	45,9 %	11,3 %	26,08	19,39
Care Property Invest	15,45	18,8	361	21,7 %	-	-	20,00
Cofinimmo S.A.	96,22	110	2361	14,3 %	9,0 %	21,26	15,78
Gecina SA	153,3	142,1	10800	-7,3 %	5,0 %	30,61	22,39
Primary Health Properties plc	100,7	114	946	13,2 %	16,9 %	22,97	20,22
Target Healthcare REIT Limited	104,4	108,0	416	3,4 %	7,5 %	19,49	16,69
Average			**2707**	**15 %**	**10 %**	**24,1**	**19,1**
Median			**1152**	**14 %**	**9 %**	**23,0**	**19,7**

*EPRA NAV

**Million EUR. GBP/EUR as of 3rd of May 2018



Key figures

	2016	2017	2018e	2019e	2020e
Share price (euros)	8,3	7,3	8,1	8,1	8,1
Market value (million EUR)	172,7	184,4	204,6	204,6	204,6
Enterprise value (EV), million EUR	240,3	284,6	390,5	480,0	520,0
Fair value of properties (million EUR)	154,8	247,1	372,6	487,6	545,1
EPS (euros)	0,75	1,05	1,43	0,91	0,73
EPRA EPS (euros)	0,15	0,22	0,31	0,44	0,50
EPRA NAV per share (euros)	4,0	5,7	7,1	8,0	8,6
Equity per share (euros)	3,6	5,1	6,4	7,2	7,7
Dividend per share (euros)	0,10	0,13	0,15	0,22	0,25
Equity ratio-%	47 %	50 %	43 %	37 %	35 %
LTV-%	44 %	41 %	50 %	57 %	58 %
EV/EBIT	12,4	8,5	8,2	14,4	16,2
EV/EBITDA	12,4	8,5	8,2	14,4	16,2
P/E (oik.)	11,0	6,9	5,7	8,9	11,0
P/EPRA EPS	56,9	32,5	26,2	18,4	16,3
P/EPRA NAV	2,1	1,3	1,1	1,0	0,9
Total return-% to EPRA NAV	22 %	23 %	22 %	12 %	9 %
ROE-%	24 %	25 %	25 %	13 %	10 %
Dividend/EPRA return-%	73 %	60 %	50 %	50 %	50 %
Dividend yield-%	1,2 %	1,8 %	1,9 %	2,7 %	3,1 %

Income statement and half year forecasts

	FY14	FY15	H1'16	H2'16	FY16	H1'17	H2'17	FY17	H1'18e	H2'18e	FY18e	FY19e	FY20e
Net sales	1,8	3,8	3,4	4,0	7,4	5,3	7,1	12,4	8,0	9,7	17,7	25,5	32,5
Development gain (fair valua change)	8,7	11,6	5,2	6,6	11,8	6,9	7,1	14,0	6,6	8,1	14,8	15,0	7,5
Fair value changes (yield compression)	-	-	1,5	1,5	3,0	8,9	2,2	11,1	9,3	11,4	20,7	0,0	0,0
Maintenance expenses	-	-0,4	-0,2	-0,4	-0,6	-0,5	-0,5	-1,0	-0,7	-0,9	-1,5	-2,2	-2,6
Personnell costs	-0,5	-0,7	-0,7	-0,8	-1,5	-0,9	-1,0	-1,9	-1,1	-1,3	-2,5	-3,1	-3,2
Fixed costs	-0,5	-0,5	-0,4	-0,4	-0,8	-0,6	-0,6	-1,2	-0,7	-0,9	-1,6	-2,0	-2,1
Depreciation	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBIT	9,6	13,8	8,7	10,5	19,3	19,1	14,2	33,3	21,4	26,2	47,6	33,3	32,1
Financial expenses	-0,3	-0,6	-0,5	-0,4	-0,9	-0,6	-0,8	-1,4	-1,0	-1,3	-2,3	-4,4	-8,9
Pre-tax profit	9,2	13,2	8,2	10,1	18,4	18,5	13,4	31,9	20,4	24,9	45,3	28,9	23,2
Taxes	-1,8	-2,7	-1,6	-2,1	-3,7	-3,8	-2,7	-6,4	-4,1	-5,0	-9,1	-5,8	-4,7
Net earnings	7,4	10,5	6,6	8,1	14,7	14,8	10,7	25,5	16,3	19,9	36,2	23,1	18,5
Operational result (EPRA result)	0,4	1,2	1,2	1,6	2,9	2,1	3,3	5,4	3,5	4,3	7,8	11,1	12,5
EPS (reported)	0,82	0,79	0,36	0,39	0,75	0,63	0,42	1,05	0,64	0,79	1,43	0,91	0,73
EPS (EPRA)	0,04	0,09	0,07	0,08	0,15	0,09	0,13	0,22	0,14	0,17	0,31	0,44	0,50

Balance Sheet

Assets (MEUR)	2016	2017	2018e	2019e
Non-current assets	**155,0**	**247,5**	**373,0**	**488,0**
Goodwill	0,0	0,0	0,0	0,0
Intangible assets	0,0	0,0	0,0	0,0
Tangible assets	154,8	247,1	372,6	487,6
Associated companies	0,0	0,0	0,0	0,0
Other investments	0,0	0,0	0,0	0,0
Other non-current assets	0,0	0,0	0,0	0,0
Deferred tax assets	0,2	0,4	0,4	0,4
Current assets	**4,8**	**10,6**	**1,4**	**2,0**
Inventories	0,0	0,0	0,0	0,0
Other current assets	0,0	0,0	0,0	0,0
Receivables	0,4	0,7	1,0	1,5
Cash and equivalents	4,3	9,8	0,4	0,5
Balance sheet total	**159,8**	**258,1**	**374,4**	**490,0**

Liabilities (MEUR)	2016	2017	2018e	2019e
Equity	**74,8**	**129,1**	**162,0**	**181,2**
Share capital	0,1	0,1	0,1	0,1
Retained earnings	35,9	59,5	92,4	111,6
Shares repurchased	0,0	0,0	0,0	0,0
Revaluation reserve	-0,2	-0,2	-0,2	-0,2
Other equity	39,1	69,7	69,7	69,7
Minorities	0,0	0,0	0,0	0,0
Non-current debt	**75,2**	**115,6**	**194,3**	**282,5**
Deferred tax liabilities	8,3	14,4	17,4	20,4
Provisions	0,0	0,0	0,0	0,0
Long term debt	66,9	101,2	176,9	262,1
Convertibles	0,0	0,0	0,0	0,0
Other long term liabilities	0,0	0,0	0,0	0,0
Current debt	**9,7**	**13,3**	**18,0**	**26,3**
Short term debt	5,0	8,9	9,3	13,8
Payables	4,7	4,4	8,7	12,5
Other current liabilities	0,0	0,0	0,0	0,0
Balance sheet total	**159,8**	**258,1**	**374,4**	**490,0**

Largest shareholders as of 30th April 2018

10 largest shareholders by number of shares

		Number of shares	Ownership-%
1	Nurture Property Holding Oy	3 078 381	12,10 %
2	Skandinaviska Enskilda Banken AB	1 833 453	7,21 %
3	Nurture Real Estate Holding Oy	1 688 631	6,64 %
4	OP-Suomi Arvo -sijoitusrahasto	1 587 273	6,24 %
5	Hintsala Eino	941 439	3,70 %
6	Pekkarinen Timo Jaakko	896 489	3,52 %
7	Nordea Bank Ab	732 337	2,88 %
8	Milerosa Oy	604 776	2,38 %
9	OP-Suomi Pienyhtiöt -sijoitusrahasto	574 863	2,26 %
10	Ahola Tuomas Veli	535 664	2,11 %
10 largest total		**12 473 306**	**49,04 %**

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Recommendation	Upside potential*
Buy	> 15 %
Accumulate	5 - 15 %
Reduce	-5 - 5 %
Sell	< -5 %

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Recommendation history, LTM

Date	Recommendation	Target price	Share price
01/04/2016	Accumulate	4,00 €	3,68 €
29/08/2016	Buy	6,70 €	5,76 €
02/11/2016	Accumulate	6,70 €	6,17 €
03/01/2017	Reduce	7,90 €	8,23 €
02/02/2017	Reduce	7,90 €	7,60 €
27/03/2017	Accumulate	8,10 €	7,47 €
18/05/2017	Accumulate	8,50 €	8,01 €
22/08/2017	Accumulate	9,10 €	8,67 €
14/10/2017	Buy	9,10 €	7,85 €
08/11/2017	Accumulate	9,10 €	8,40 €
17/01/2018	Buy	9,10 €	7,78 €
14/02/2018	Accumulate	9,10 €	8,09 €
04/05/2018	Accumulate	9,10 €	8,10 €

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Awards

STARMINE
A THOMSON REUTERS COMPANY

2015, 2018
Estimates

2014, 2016, 2017
Recommendations

2014, 2015, 2016, 2018
Estimates

2012, 2016, 2018
Recommendations

2012, 2016, 2017, 2018
Recommendations

2017
Recommendations

2017
Recommendations

2018
Estimates

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