

November 10, 2024

Harvia

Research & Presentation Materials – Investment Committee

The Complutense Finance Society Investment Fund

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Investment Summary

Recommendation: BUY	Current Price: 45,95 €	Target Price: 50,72 €
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Harvia is a global leader in the **sauna and spa market**. Its foundation was in 1950. The company is listed in the **Nasdaq Helsinki** in the Mid-Cap segment.

Growth Drivers

- Strong **market leadership** and industry-best **profitability**, with an adjusted EBIT margin of around 20% in the latest years.
- Sustainable **revenue growth** through strategic acquisitions and expansion of the reseller network.
- **High cash flow** generation with low investment requirements.

Share Price Evolution



Business Model

Products

Product segment		Share of revenue in 2023
Heaters		54%
Saunas and still water hot tubs		29%
Accessories and sauna heater stones		6%
Spare parts and services		8%
Steam generators		3%

Brands

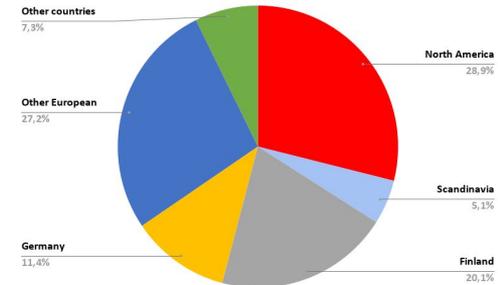
Two-main global brands

Harvia EOS

Others Brands

Almost Heaven Saunas Kirami Sentiotec

Revenue segments



Business Model

Sauna Experience

Types of Sauna

Temperature

Traditional Sauna



65-110°C

Infrared Sauna



45-60°C

**Steam and sauna
Showers or rooms**



40-45°C

**Scandinavian hot
tubs**



37-40°C

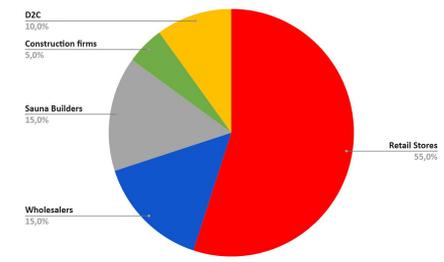
Cold tubs



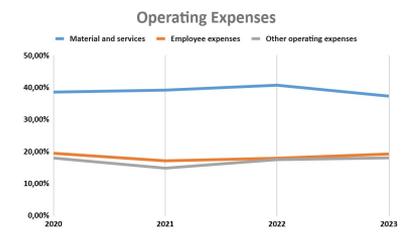
4-15°C

Revenue & Cost Structure

Revenue Structure



Cost Structure



Competitive advantage

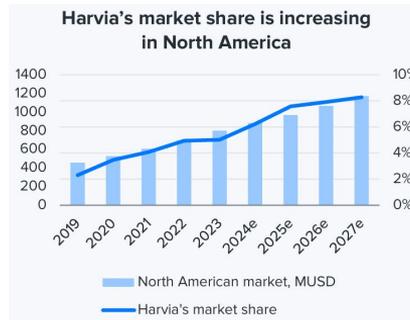
Vertical integration

- Designs and manufactures almost all products
- Broader supply chain management
- Larger share of the overall product margin



Economies of scale

- As production volume increase, efficiency improve
- More saunas, specially in USA where competitors are very fragmented and very small



Strong Brands

- Reputable and well-known brands
- Key brands alongside in all types of sauna (traditional, infrared, steam and tubs)
- Over 70 years of experience
- Operating in 80 countries

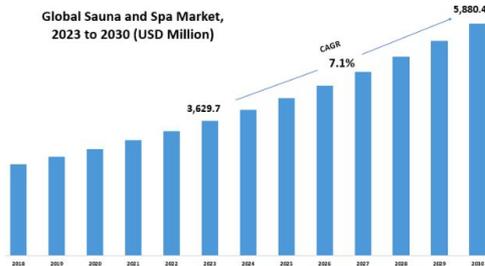


Industry Overview

The **size of the global sauna and spa market** is over **3,5 billion euros** and it has historically grown at **4.5% CAGR** (2008-2019).

In 2023, Harvia's **share of the sauna and spa market** was estimated to be **5%**, and the company's share of the sauna heater and sauna component market was estimated to be over **20%**.

Market growth

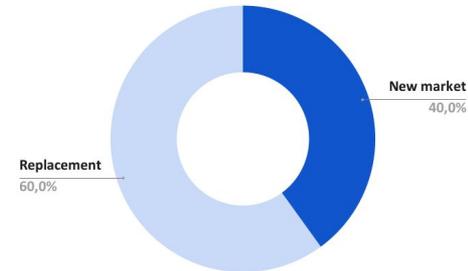


Growth drivers → **Sauna is becoming more known:** increasing awareness of the health benefits related to saunas and people focusing more on wellbeing

Growth of the average purchase: the growth in average purchases is estimated to affect the development of the sauna and spa market.

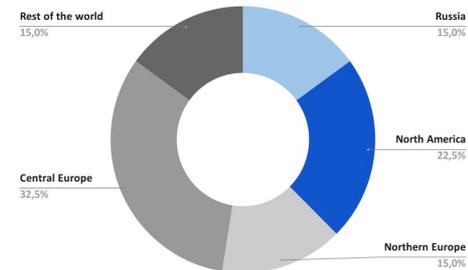
Demand breakdown

Replacement demand vs new demand



A non cyclical and stable market in particular because of the frequent need to replace heaters

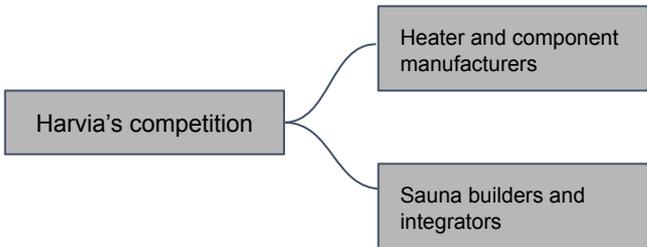
Geographic demand breakdown



Industry Overview

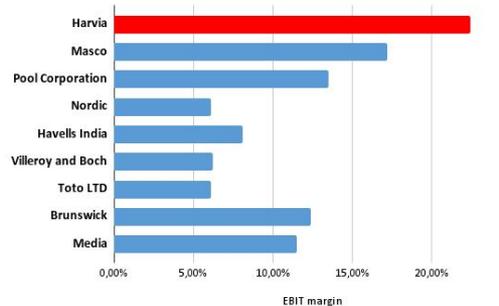
Competitive landscape

The global sauna and spa market remains fairly **fragmented**, with active involvement from venture capital firms. This suggests that consolidation is likely to continue, and we expect Harvia to keep expanding its portfolio through acquisitions.



Industry comparable

EBIT margin

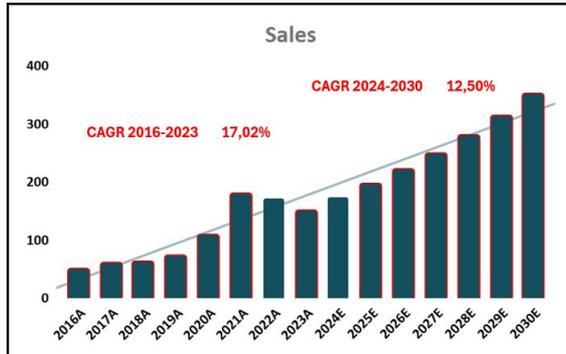


Harvia's **profitability is the best** among its competitors and its EBIT margin has been around 20% for the past 10 years. This is supported by vertical integration and long experience.

Financial Analysis

Growth

Historical & Estimated



Target of the company

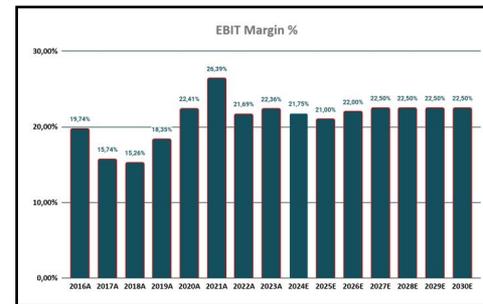
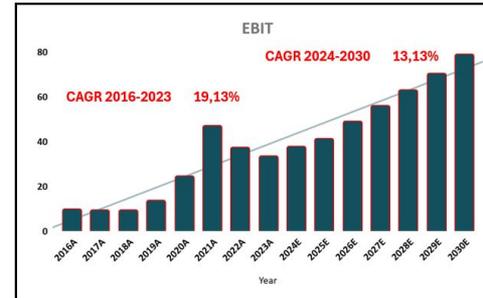
10%

→ Ours higher due to:

More
M&A

Prudent

Profitability



Financial Analysis

Cash Flow

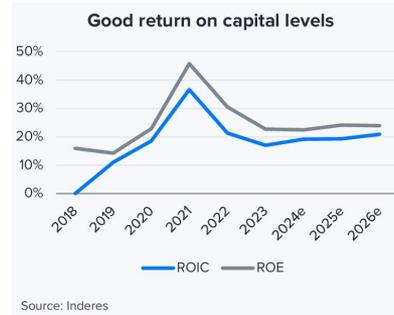


In 2018 shareholders were heavily diluted due to the Almost Heaven Saunas acquisition.

2021-2022 was affected by some WC movements

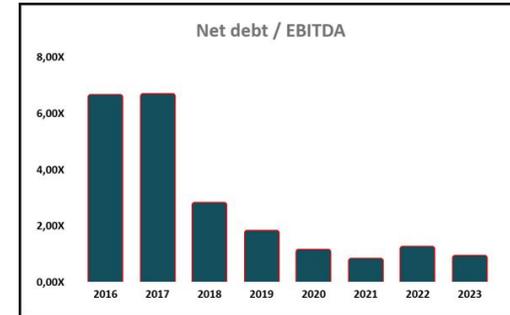
We expect a linear increase in FCF / Share as demand stabilizes and the firm matures

Return



In 2021 demand was at its peak, which increased the returns.

Leverage



Target of the company

Below 2,5X

We expect that Net Debt / EBITDA will increase from actual levels thanks to M&A transactions to increase market share and consolidate as a key player, specially in USA

Valuation

DCF model

Harvia Valuation	Scenario Election >								1 Base Case
Year	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	172.408	150.547	173.129	197.367	223.025	249.788	279.762	313.334	350.934
<i>Revenues Growth</i>	"n.a"	-12,68%	15,00%	14,00%	13,00%	12,00%	12,00%	12,00%	12,00%
EBITDA	42.124	39.298	44.581	49.342	57.986	66.194	74.137	83.033	92.997
<i>EBITDA Margin %</i>	24,33%	25,95%	25,75%	25,00%	26,00%	26,50%	26,50%	26,50%	26,50%
<i>D&A</i>	-6.494	-6.254	-6.925	-7.895	-8.921	-9.992	-11.190	-12.533	-14.037
EBIT	35.630	33.044	37.656	41.447	49.065	56.202	62.947	70.500	78.960
<i>EBIT Margin %</i>	20,67%	21,95%	21,75%	21,00%	22,00%	22,50%	22,50%	22,50%	22,50%
NOPAT	27.185	26.047	28.618	31.500	37.290	42.714	47.839	53.580	60.010
<i>NOPAT Margin %</i>	15,77%	17,30%	16,53%	15,96%	16,72%	17,10%	17,10%	17,10%	17,10%
<i>(+) D&A</i>	6.494	6.254	6.925	7.895	8.921	9.992	11.190	12.533	14.037
<i>(+/-) Changes in WC</i>	-5.371	7.801	-2.597	-2.961	-3.345	-3.747	-4.196	-4.700	-5.264
<i>(-) Capex</i>	-3.587	-3.124	-3.895	-5.428	-6.133	-6.869	-7.693	-8.617	-9.651
FCFF	24.721	36.978	29.051	31.006	36.732	42.089	47.140	52.797	59.132
<i>FCFF Margin %</i>	14,34%	24,56%	16,78%	15,71%	16,47%	16,85%	16,85%	16,85%	16,85%

Valuation

DCF model

Period	9/11/2024	2024E	2025E	2026E	2027E	2028E	2029E	2030E
FCFF		29.051	31.006	36.732	42.089	47.140	52.797	59.132
WACC	6,3%							
Discount factor		0,997	0,885	0,833	0,783	0,737	0,693	0,652
Terminal Value	18,00X							1.064.383
FCFF plus TV		29.051,05	31.006,37	36.732,19	42.089,25	47.139,96	52.796,75	1.123.514,90
PV of FCFF plus TV		28.972	27.443	30.585	32.970	34.739	36.604	732.799
Enterprise Value								924.112
EV to EqV Bridge								29.388
Equity Value								953.500
Nº shares diluted								18.800
EqV per Share								50,72
Current share price								45,95
<i>Difference</i>								10,38%

Weighted Average Cost of Capital (WACC)	
Debt	78.150,00
% Debt	41,83%
Cost of Debt	3,51%
Tax Rate	21,17%
Equity Value	108.656
% Equity	58,17%
Cost of Equity	8,84%
Risk Free Rate	2,85%
Beta	1,05
Expected MR	5,70%
Debt + Equity	186.806,00
WACC	6,30%

Year	2024	2025	2026	2027	2028	2029	2030
EV / EBITDA	20,73X	18,73X	15,94X	13,96X	12,46X	11,13X	9,94X
EV / FCFF	31,81X	29,80X	25,16X	21,96X	19,60X	17,50X	15,63X
FCFF Yield	3,14%						
FCFF Yield + Growth	15,72%						

Valuation

Transaction comparables

Transaction comp - Harvia competitor (Sauna 360)	
EV/ EBIT	14,0X
Multiple applied to Harvia	
EBIT 2024E	37.656
Enterprise Value	527.178
Equity Value	556.566
EqV / Share	29,60

- The sale of Harvia's unlisted competitor Sauna 360 to US Masco in July 2023 offers one approach to the valuation. The EV/S ratio for 2022 was 1.5x and the EV/EBIT ratio about 14x, while the corresponding figures for Harvia (for 2024) are 5.0x and 22x.
- Harvia's clearly **higher EV/S ratio is due to better profitability**. Even on an EV/EBIT basis, the company's valuation is significantly lower than Harvia's current valuation.