

VMP and Smile unite to become the front-runner of the HR services industry

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VMP and Smile unite to become the front-runner of the HR services industry

VMP Plc (“VMP”) has on 5 July, 2019 signed a share purchase agreement with NoHo Partners Oyj (“NoHo Partners”) and the minority shareholders of Smile Henkilöstöpalvelut Oyj (“Smile”) to acquire the share capital of Smile (the “Transaction” or “Combination”) as share consideration. The Transaction brings together two industry leading HR services companies, who together have a stronger market position and a better ability to reform working life. The Combination is a strategically important step for both companies, enabling investments into digitalisation and developing new services. The Combination is expected to create value for the company’s customers, employees and shareholders.

Based on preliminary illustrative combined 2018 financials, VMP and Smile had a combined revenue of EUR 253.5 million, adjusted EBITDA of EUR 21.8 million and adjusted EBITA of EUR 20.6 million (according to Finnish Accounting Standards, “FAS”) (see section Financial information of the combined company). In 2018, VMP employed approximately 19,400 staffed employees either directly or through its franchise companies, while Smile employed approximately 10,000 staffed employees. Thus, the combined company has a significant number of employees at its disposal.

Key information of the Transaction

- The Transaction will be executed as a share exchange, in which Smile’s shareholders will receive 0.8087 new shares in VMP as share consideration for each share in Smile owned by them, corresponding to a debt-free purchase price of approximately EUR 82 million (based on the closing price EUR 4.92 of VMP as at 4 July, 2019)
- As part of the terms of the Transaction, the Board of Directors of VMP will propose to the Extraordinary General Meeting (the “EGM”) a dividend and capital repayment amounting to EUR 3.5 million in total to be paid to its shareholders before the closing of the Transaction
- The largest shareholders of VMP, Sentica Buyout V Ky and Sentica Buyout V Co-investment Ky (together “Sentica”) and Meissa-Capital Oy (“Meissa-Capital”), who together hold approximately 58.1% of VMP’s shares, support the Combination and have committed in advance to vote in favour of the Transaction in the EGM of VMP
- The current shareholders of VMP and Smile will hold approximately 59.6% and 40.4%, respectively, of the shares in VMP after the Transaction
- The completion of the Transaction is subject to approval by VMP’s shareholders in the EGM of VMP by a majority of two-thirds of votes cast and shares represented at the EGM and the approvals and commitments from the financing banks
- Sami Asikainen will act as the CEO of the combined company and Hannu Nyman as the CFO
- The board of VMP will include board members from both companies. It is proposed that the Chairman will be Mr. Tapio Pajuharju
- The EGM of VMP is expected to be held in August 2019, and the Transaction is expected to be completed during the third quarter of 2019
- The combined company intends to release further information on strategy and the integration plan during the autumn after the completion of the Transaction

Smile in short

Smile is one of the leading HR services companies in terms of revenue and one of the fastest growing companies providing staffing services in Finland. Smile provides HR services nationwide for different industries,

such as hotels, restaurants and catering (HoReCa); events and promotions; healthcare; and industry, construction and logistics (TRL). The company is known for its positive and humane working culture. NoHo Partners is Smile's largest owner.

The company recorded revenues of EUR 128.6 million, adjusted EBITDA of EUR 11.5 million and adjusted EBITA of EUR 11.3 million in 2018 (adjusted from IFRS to resemble FAS for illustrative purposes) (see section Financial information of the combined company). In 2018, Smile provided staffing services to over 1,000 customers, and approximately 10,000 employees received salary from the company during that year.

Main benefits of the Transaction

- The Transaction brings together two industry leading HR services companies, creating a significant player with a stronger market position and increased competitiveness
- The combined company has a nationwide network in Finland through its own group companies and the franchising chain, and a larger number of staffed employees to serve the changing customer needs
- The company's comprehensive service offering from staffing to recruiting, organisational development and self-employment can be offered to a larger clientele
- For employees, the company can offer a wider range of work opportunities and more options, thus being a more attractive employer
- The combined company will have stronger resources and capabilities to invest in digitalisation and in the development of new services, with which the company can respond even better to the changing needs of the labour market
- The new company is the front-runner in its field with a mission to actively reform working life in Finland

The Combination of VMP and Smile is expected to strengthen the company's market position considerably and to create added value to its shareholders through synergies arising from unifying operations and the increasing amount of business opportunities. Operative strategic synergies are expected to be achieved, for example, by providing a comprehensive service offering for a larger clientele, by utilising a combined pool of staffed employees in filling vacancies, and by utilising both companies' know-how, resources and data in developing new services. The Transaction is expected to create cost savings especially through combining organisations, enhancing operational efficiency and sharing best practices.

"The Transaction is a step in line with our strategy by which we will achieve significant growth and strengthen our position as the front-runner in the HR services industry. With our combined know-how, we are even better positioned to respond to the changing needs of working life and to offer employment enhancing services", says VMP's Chairman of the Board Liisa Harjula.

"I believe that together we can offer even more value to our customers and attractive opportunities for our employees. In recent years, VMP has evolved from a staffing-focused company into a comprehensive HR services company, whereas Smile has grown rapidly into one of the largest staffing companies in Finland. Together, we are a significant player in the labour market and can accelerate digitalisation in the industry, provide employment enhancing services as well as provide a wider range of services to our customers", says the CEO of VMP Juha Pesola.

"It has been great to be a part of Smile's growth during the last five years. We have a great growth story behind us and now in line with our strategy we will take the next step, when we combine two successful players and form a new player in HR services in Finland. It is amazing to get the opportunity to lead the combination of two winning firms", says Smile CEO Sami Asikainen.

"We have been a part of building Smile's success story, which has been exceptional in the industry, since 2014, when the company became a part of our group of companies. Back then, Smile had revenue of under EUR 7 million, whereas in 2018, its revenue exceeded EUR 127 million. The new company created together with another industry leading company, VMP, will become a reformer of the labour market and the HR services industry. We have the privilege of being in the forefront of building the future of the whole industry as the largest shareholder of the new company", says NoHo Partners' Chairman of the Board Timo Laine.

Financial information of the combined company

Basis of preparation

The illustrative, combined, unaudited financial information presented below is based on VMP's and Smile's audited consolidated financial statements for the year ended December 31, 2018, and on the unaudited interim reports for the first quarter of 2019 ended March 31, 2019.

The combined financial information is presented for illustrative purposes only. The combined financial information gives an indication of the combined revenue and earnings, assuming the activities were included in the same group of companies from the beginning of each period, and assuming that the financial information was reported according to FAS. The aggregated combined financial information is based on a hypothetical situation and should not be viewed as pro forma financial information, as no purchase price allocation, transaction costs or differences in accounting principles have been taken into account. The illustrative, combined financial information presented below does not necessarily predict the future results of the combined operations or VMP's financial position, and the financial information published by the combined company or VMP in the future might significantly differ from the illustrative information presented below.

Smile reports its financial information according to IFRS; therefore, Smile's IFRS figures have been adjusted to correspond to FAS. However, the adjustments are preliminary and should not be considered as final. See Appendix 1 for the adjustments.

Illustrative combined income statement information

1-3/2019 (EURm)	Combined for illustrative purposes	VMP FAS (unaudited)	Smile IFRS adjusted to FAS (unaudited)
Revenue	68.9	38.2	30.7
Adjusted EBITDA ¹⁾	5.0	2.6	2.5
<i>Adjusted EBITDA-%</i>	<i>7.3%</i>	<i>6.7%</i>	<i>8.0%</i>
Adjusted EBITA ¹⁾	4.7	2.3	2.4
<i>Adjusted EBITA-%</i>	<i>6.8%</i>	<i>6.0%</i>	<i>7.8%</i>
EBITDA	6.1	3.7	2.5
<i>EBITDA -%</i>	<i>8.9%</i>	<i>9.6%</i>	<i>8.0%</i>
EBITA	5.8	3.4	2.4
<i>EBITA-%</i>	<i>8.4%</i>	<i>8.8%</i>	<i>7.8%</i>

1-12/2018 (EURm)	Combined for illustrative purposes	VMP FAS (audited)	Smile IFRS adjusted to FAS (unaudited)
Revenue	253.5	124.9	128.6
Adjusted EBITDA ¹⁾	21.8	10.2	11.5
<i>Adjusted EBITDA-%</i>	<i>8.6%</i>	<i>8.2%</i>	<i>9.0%</i>
Adjusted EBITA ¹⁾	20.6	9.2	11.3
<i>Adjusted EBITA-%</i>	<i>8.1%</i>	<i>7.4%</i>	<i>8.8%</i>
EBITDA	20.5	9.8	10.7
<i>EBITDA -%</i>	<i>8.1%</i>	<i>7.8%</i>	<i>8.3%</i>
EBITA	19.3	8.8	10.5
<i>EBITA-%</i>	<i>7.6%</i>	<i>7.0%</i>	<i>8.2%</i>

1) The adjustments made to the adjusted EBITDA and the adjusted EBITA of VMP are based on VMP's published annual and interim reports. Smile's adjusted EBITDA and adjusted EBITA for 2018 include an adjustment for IPO expenses (EUR 818 thousand).

VMP will publish potential implications of the Combination on VMP's financial guidance later in connection with the completion of the Transaction.

Information on Smile's financial position

The financial information presented below is based on Smile's audited, consolidated financial statements for the year ended December 31, 2018, and it is presented according to IFRS.

31-Dec-2018 (EURm)	Smile IFRS (audited)
Non-current assets	48.2
Current assets	22.8
Cash and equivalents	0.0
Total assets	71.0
Equity	11.6
Non-current liabilities	22.3
Current liabilities	37.1
Total equity and liabilities	71.0

The net effect of the Combination on VMP's financial position will be published when a reasoned estimate can be made.

Key terms in brief

VMP will purchase the entire share capital of Smile according to the terms of the share purchase agreement. The Transaction will be executed as a share exchange, in which Smile's shareholders will receive 0.8087 new shares in VMP as share consideration for each share in Smile owned by them, corresponding to a debt-free purchase price of approximately EUR 82 million (based on the closing price EUR 4.92 of VMP as at 4 July, 2019). The number of new VMP shares to be issued is expected to be 10,050,177 shares.

The share consideration to be paid as the purchase price has not been agreed to include adjustments. The number of shares to be paid as the purchase price is agreed to be fixed, and will not be adjusted for any changes in the share price.

The completion of the Transaction is subject to, among other things, the approval by the EGM of VMP by a majority of two-thirds of votes cast and shares represented at the EGM and approvals and commitments by the financing banks.

As part of the terms of the Transaction, The Board of Directors of VMP will propose to the EGM a dividend and capital repayment amounting to EUR 3.5 million in total to be paid before the closing of the Transaction to its shareholders.

Smile and NoHo Partners reorganize their internal receivables so that the net amount of receivables arising from their mutual staffing agreement will remain as interest-free unsecured loan amounting to approximately EUR 1.7 million, which is intended to be paid back to NoHo Partners by 31 December 2020.

The share purchase agreement includes certain typical representations and warranties from both Smile and VMP related to both companies' organisation and businesses. If an event that leads to the breach of the representations and warranties given by Smile or VMP (or to material breach for certain warranties and representations) takes place or becomes known between the signing and closing of the Transaction, and such breach has not been remedied in accordance with the terms and conditions of the share purchase agreement (to the extent such breach is remediable), the party suffering of the breach has a right to terminate the share purchase agreement in accordance with its terms. The share purchase agreement also includes undertakings from Smile and VMP, which are typical in similar transactions, such as the undertaking that both Smile and VMP will continue to conduct their business in the ordinary course before the Transaction takes place. Smile has granted an indemnity to VMP, and VMP has granted an indemnity to Smile as regards certain qualified breaches of the above-mentioned representations, warranties and undertakings.

The share purchase agreement will lapse automatically, if the EGM of VMP does not approve the Transaction by a majority of two-thirds of votes cast and shares represented at the EGM. In addition, the share purchase agreement can be terminated on certain conditions. Termination is justified, for example, if approvals

and commitments by the financing banks or the approval of VMP's shareholders are not obtained within the time limit prescribed in the share purchase agreement.

In connection with the Transaction, NoHo Partners and certain Smile's minority shareholders have submitted a lock-up undertaking, according to which, subject to certain customary exceptions, they have undertaken not to sell the shares they receive in connection with the Transaction in VMP during a period of 180 days after the completion of the Transaction. The lock-up commitments concern approximately 89.1 % of the new shares in VMP issued in connection with the Transaction.

The EGM of VMP is expected to be held in August 2019, and the Transaction is expected to be completed during the third quarter of 2019. The combined company intends to release further information about its strategy and integration plan in autumn after the closing of the Transaction.

Governance

After the completion of the Transaction, Sami Asikainen will become the CEO of the company and Hannu Nyman the CFO.

Sentica and Meissa-Capital will propose to the EGM that Tapio Pajuharju, Kati Hagros, Liisa Harjula, Paul-Petteri Savolainen and Mika Uotila from the VMP Board of Directors will continue as members of the Board of Directors, whereas Joni Aaltonen, Heimo Hakkarainen and Timur Kärki will resign from the Board of Directors of the combined company with effect from completion. Timo Laine, Timo Mänty and Jarno Suominen from the Smile Board of Directors will be proposed to join the Board of the combined company upon completion of the Transaction. It is proposed that Tapio Pajuharju will become the Chairman of the Board.

Following the Transaction, the current shareholders of VMP and Smile will hold approximately 59.6% and 40.4%, respectively, of the shares in VMP. As a consequence of the completion of the Transaction, the largest shareholder of Smile, NoHo Partners, will become the largest shareholder of the combined company with approximately 30.3% shareholding. The largest shareholders of VMP, Sentica and Meissa-Capital, will hold approximately 23.1% and 11.5%, respectively.

The largest shareholders of the combined company

Based on the latest available information assuming that all the current shareholders of VMP and Smile are shareholders also at the date of the completion of the Transaction, the 15 largest shareholders of the combined company would be the following (VMP as at 30 June, 2019). Calculations are based on the actual information of VMP and Smile and are for illustrative purposes only. The calculations do not necessarily illustrate the actual ownership structure at the time of the completion of the Transaction or after it.

Shareholder	Number of shares	% of shares
1. NoHo Partners Oyj	7,520,910	30.27
2. Sentica Buyout V Ky	5,523,072	22.23
3. Meissa-Capital Oy	2,852,307	11.48
4. Eteläaho Pasi Antero	627,946	2.53
5. Ilmarinen Mutual Pension Insurance Company	450,000	1.81
6. Asikainen Sami Matias	404,350	1.63
7. Odin Finland	397,000	1.60
8. Evli Finnish Small Cap Fund	385,000	1.55
9. Sijoitusrahasto Taaleritehdas Mikro Markka	380,000	1.53
10. Eteläaho Anu-Maria	279,344	1.12
11. Oy Jobinvest Ltd	259,835	1.05
12. Sentica Buyout V Co-investment Ky	228,928	0.92
13. Pajuharju Tapio Olavi	182,077	0.73
14. Viitala Teemu Ilmari	158,388	0.64
15. Pesola Juha Olavi	140,030	0.56
15 largest total	19,789,187	79.64
Others	5,060,188	20.36
Total	24,849,375	100.00

Shareholder support

Sentica and Meissa-Capital, who together hold approximately 58.1% of shares and votes in VMP, have committed with certain typical terms to participate in the EGM of VMP and to vote in favour of the Transaction.

Advisors

Danske Bank A/S, Finland Branch acts as the financial advisor and Roschier, Attorneys Ltd as the legal advisor to VMP. Carnegie Investment Bank AB, Finland Branch acts as the financial advisor and Castrén & Snellman Attorneys Ltd as the legal advisor to NoHo Partners and Smile.

Press and analyst conference

A joint press conference will be held today, 5 July, 2019, at 11:30 a.m. Finnish time at Kasarmin Salit (Kasarmikatu 21 B) in Helsinki in Finnish language.

Presentation material from the press conference will be made available on both VMP's and Smile's websites today.

The press conference can be followed live as a webcast at: <https://vmp.videosync.fi/webcast-2-040719>. A recording of the webcast will be available on the same site later today.

Additional information

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VMP in brief

VMP is a Finnish HR services company with a comprehensive offering of staffing, recruiting and organisational development, and self-employment services. VMP's mission is to help companies and individuals in succeeding in the changing working life. VMP serves its customers in Finland and Sweden and it has a recruitment hub for staffed employees in Romania. VMP Group provides services under the brands of VMP Varamiespalvelu, Voima, Enjoy, Extraajat, Personnel, Corporate Spirit and Eezy.

VMP has grown rapidly through organic growth and acquisitions. In 2018, VMP recorded a revenue of EUR 124.9 million and in the first quarter of 2019, a revenue EUR 38.2 million.

Smile in brief

Smile is one of the leading HR services companies in terms of revenue and one of the fastest growing companies providing staffing services in Finland. Smile provides HR services nationwide for different industries, such as hotels, restaurants and catering (HoReCa); events and promotions; healthcare; and industry, construction and logistics (TRL). The company is known for its positive and humane working culture. NoHo Partners is Smile's largest owner.

The company recorded revenues of EUR 128.6 million, adjusted EBITDA of EUR 11.5 million and adjusted EBITA of EUR 11.3 million in 2018 (according to FAS). In 2018, Smile provided staffing services to over 1,000 customers, and approximately 10,000 employees received salary from the company during that year.

IMPORTANT ADDITIONAL INFORMATION

This company release relates to the offer by VMP to the shareholders of Smile to exchange all of shares and convertible securities issued by Smile for new shares of VMP. This company release is for informational purposes only and does not constitute an offer to purchase or exchange, or a solicitation of an offer to sell or exchange, any shares in VMP or Smile.

The information contained in this company release must not be published, released or distributed, either directly or indirectly, in any jurisdiction where the publication, release or distribution of such information is restricted by laws or regulations. Therefore, persons in such jurisdictions in which these materials are published, released or distributed must inform themselves about and comply with such laws and regulations. VMP does not accept any responsibility for any violation by any person of relating to such restrictions.

FORWARD-LOOKING STATEMENTS

This company release includes forward-looking statements regarding future events, including the statements concerning VMP and Smile, the Transaction described in this company release and the expected benefits from such Transaction and VMP's and Smile's future financial performance based on current expectations on VMP's and Smile's combined businesses. Such forward-looking statements are subject to numerous risks and uncertainties that can cause the actual outcomes and results to be materially different from those projected. When used in this release, the words "may", "expects", "intends", "anticipates", "plans", "wants", "will", "predicts" and "estimates" as well as the negatives of these words and other analogous or corresponding expressions are intended to identify forward-looking statements. However, the absence of these expressions does not mean that the statement is not forward-looking. These forward-looking statements are based on VMP's and Smile's current expectations and forecasts on future events. These statements are not guarantees of future performance.

Because forward-looking statements are subject to various risks and uncertainties, the actual results may be materially different from those projected. Such risks and uncertainties, many of which are outside the influence of VMP, are, inter alia: VMP's ability to get approval for Transaction from its shareholders; at the time of Transaction, the total consideration to be paid by VMP to the owners of Smile; the possibility that the time needed to execute the Transaction is longer than expected; achieving expected synergies and benefits from the Transaction; risks related to the integration of Smile's business to VMP; the ability of VMP and Smile to terminate the Share and business purchase agreement in certain situations; VMP's business suffering due to uncertainties related to the Transaction; the financial position of VMP after the Transaction; and other factors, risks and uncertainties, which are disclosed in VMP's annual reports and quarter reports. Several factors might cause the combined group of companies' result and financial position to differ materially from the express or implied information on the result and financial position included in the forward-looking statements. VMP or any of its related parties, advisors or representatives or any other party is not liable to check or confirm or publish changes to any of the forward-looking statements, so that those forward-looking statements would take into account any events or circumstances that have taken place or occurred after the date of this release.

This release includes estimates of cost synergy benefits expected to arise from the combined group of companies, as well as estimates of costs caused by the combination prepared by VMP and Smile which are based on a number of assumptions and conclusions. Such estimates represent the expected future impact of the combination on the combined company's business, financial position and result. The assumptions relating to the estimated cost synergy benefits and combination costs are inherently uncertain and subject to various significant business, economic, and competitive risks and uncertainties that can cause the possible actual cost synergy benefits and combination costs to differ materially from the estimates presented in this release.

Appendix 1: Reconciliation of Smile's profit and loss account information

Smile reports its financial information according to IFRS; therefore, Smile's IFRS figures have been adjusted to correspond to FAS according to the tables below. In addition, adjustments for non-recurring items have been presented in the tables. Smile's financials according to FAS are unaudited.

Reconciliation of revenue

EURm	1-3/2019	1-12/2018
IFRS reported revenue	30.3	127.1
Sales deductions related to growth financing	0.4	1.6
Revenue (FAS)	30.7	128.6

Reconciliation of EBITDA ja EBITA

EURm	1-3/2019	1-12/2018
Reported EBITDA (IFRS)	2.2	8.8
Sales deductions related to growth financing	0.4	1.6
IFRS 16 leasing	-0.1	-
Asset transfer tax from acquisitions	-	0.3
Other transaction costs from acquisitions	-	0.1
Credit loss provision	0.1	0.0
EBITDA (FAS)	2.5	10.7
Depreciation of tangible assets (excluding IFRS 16 depreciation)	-0.1	-0.2
EBITA (FAS)	2.4	10.5
Non-recurring items (IPO expenses)	-	0.8
Adjusted EBITA (FAS)	2.4	11.3
Depreciation of tangible assets (excluding IFRS 16 depreciation)	0.1	0.2
Adjusted EBITDA (FAS)	2.5	11.5