Purmo Group

Company report

7/20/2023

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Inderes corporate customer

This report is a summary translation of the report “Kulusäästöt tukevat tulosta” published on 07/20/2023 at 8:21 am.

Cost savings support the bottom line

Purmo's Q2 net sales fell significantly and missed expectations. However, cost savings and other margin management supported a small margin improvement year-on-year, but the result was also below expectations. The company reiterated its guidance for the full year of adjusted EBITDA being at last year's level. We lowered our estimates based on the report and now expect a result of EUR 93 million, exactly the same as last year. The company's valuation is at the lower end of acceptable multiples for this year, and we believe that earnings growth in the coming years will support the stock. We reiterate our Accumulate recommendation but lower our target price to EUR 8.5 (was EUR 9.5) due to cut estimates.

Demand fell sharply in Q2 both year-on-year and quarter-on-quarter

Already in the June analyst call, Purmo commented that volumes had weakened and fallen short of the company's expectations during Q2. As a result, we lowered our pre-result estimates, but net sales were still 8% below our expectations, with net sales down 25% year-on-year. However, Purmo's cost savings have been effective and the margin improved year-on-year despite the large volume reduction (adjusted EBITDA margin 11.8% vs. 11.4%). The result was slightly below our forecast, but adjusted EBITDA was at a reasonable level of EUR 21.2 million (Q2'22: 27.8 MEUR and Q1'23: 26.4 MEUR).

Guidance unchanged despite weaker demand outlook

The company reiterated its guidance and expects the adjusted EBITDA margin for 2023 to be at the same level as in 2022, i.e., around EUR 93 million. This represents a change of +/- 5%, or around EUR 88-97.5 million. After H1'23, Purmo had accumulated EUR 48 million, about 9 MEUR less than last year, but the H1 comparison figures are significantly better than H2. The company also commented that it does not expect demand to pick up significantly for the rest of the year, but normal seasonality should support demand compared to Q2 levels. Thus, the demand outlook is also weaker towards the end of the year. The company will therefore continue to work hard on margin management in order to reach the targeted earnings level. We lowered our estimates by 5-7% for 2023-25.

Value creation through efficiency and growth – we expect the company's margin will be below the target

Purmo's value creation in the next few years is expected to take place in two ways. Firstly, with the EUR 40 million efficiency program, whose full effect will be visible in 2025. The efficiency measures mainly concern the CPS division. Secondly, it aims to grow in the Solutions division, where profitability is better than for CPS and thus the growth supports the company's margin. We believe that the company will be able to improve its performance in both ways in the coming years. The growth is supported, e.g., by the need for energy renovations in buildings. Purmo's financial objective is an EBITDA margin of more than 15%. Our estimates are far from this, about 12%, because we do not believe that the radiator business will reach 15% profitability and at best the margin has been 12-13%.

Neutral valuation multiples, earnings growth from 2024 and dividend yield drive expected return

We consider the 2023 earnings multiples (P/E 10x, EV/EBIT 9x) to be at the lower end of the acceptable range for Purmo. The company's acceptable valuation is limited by the subdued growth potential in radiators and the return on capital of about 10%. With multiples already relatively low, we believe the earnings growth we forecast will translate into a higher share price. Our DCF and sum of the parts indicate a clearly higher level than the current share price. This requires, however, a sustainable improvement in profitability and/or a better growth profile.

Recommendation

Accumulate

(previous Accumulate)

EUR 8.50

(previous EUR 9.50)

Share price:

7.16

Key figures

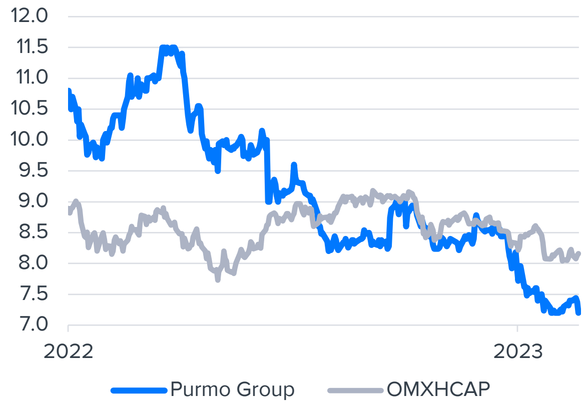
	2022	2023e	2024e	2025e
Revenue	904.1	769.1	803.2	838.6
growth-%	7%	-15%	4%	4%
EBIT adj.	60.7	61.1	67.4	71.0
EBIT-% adj.	6.7 %	7.9 %	8.4 %	8.5 %
Net Income	13.2	2.6	30.8	43.5
EPS (adj.)	0.85	0.72	0.82	0.89
P/E (adj.)	9.7	10.0	8.7	8.1
P/B	0.9	0.7	0.7	0.6
Dividend yield-%	4.3 %	4.9 %	4.9 %	5.4 %
EV/EBIT (adj.)	10.3	9.1	8.0	7.3
EV/EBITDA	6.8	6.0	5.4	5.0
EV/S	0.7	0.7	0.7	0.6

Source: Inderes

Guidance (Unchanged)

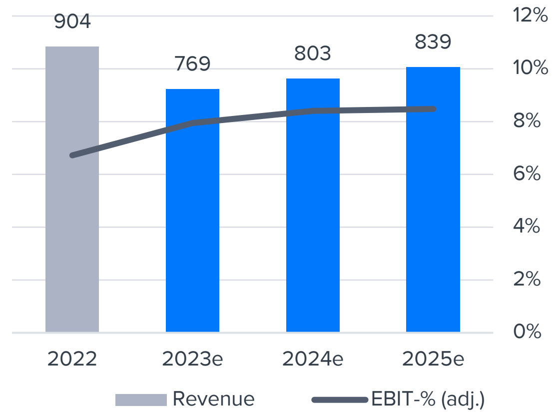
Purmo Group's adjusted EBITDA in 2023 is expected to be on a similar level to 2022 (EUR 92.9 million). Similar means being within +/- 5 per cent of the previous year.

Share price



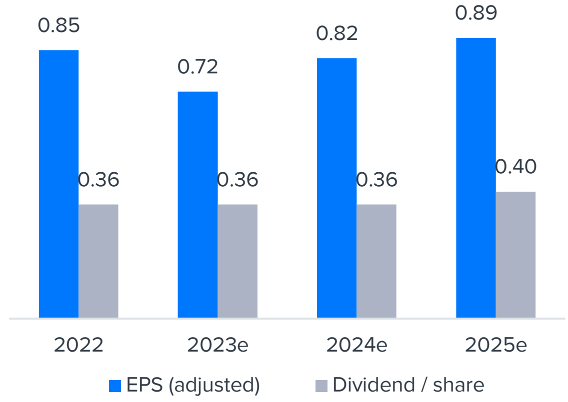
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- One of the largest product portfolios on the market
- Strong brands and market positions in Europe's radiator business
- Sustainable development, renovation debt, digitalization support the growth outlook of the market

Risk factors

- Dependency on construction cycles, especially in housing construction
- Distribution is dependent on large wholesale customers
- Capacity management and successful growth investment

Valuation	2023e	2024e	2025e
Share price	7.16	7.16	7.16
Number of shares, millions	42.7	42.7	42.7
Market cap	305	305	305
EV	616	600	578
P/E (adj.)	10.0	8.7	8.1
P/B	0.7	0.7	0.6
P/S	0.4	0.4	0.4
EV/Sales	0.7	0.7	0.6
EV/EBITDA	6.0	5.4	5.0
EV/EBIT (adj.)	9.1	8.0	7.3
Payout ratio (%)	neg.	60%	44%
Dividend yield-%	4.9 %	4.9 %	5.4 %

Source: Inderes

Net sales fell more than expected, margins supported by cost savings

Sharper-than-expected drop in net sales

Purmo's figures in the comparison period were still quite good and the company had indicated that demand had weakened in Q2'23 from previous quarters as well. Despite this, the net sales drop of ~25% year-on-year was well above expectations and was almost entirely organic. Net sales fell sharply in both divisions and across a broad range of product groups as construction activity slowed. Net sales were also down significantly (around 15%) from Q1'23. The fall in net sales was due to lower volumes and came from a wide range of markets.

The decline in demand in the Climate Solutions division was driven by the continued normalization of demand in Italy, the main market for the Solutions division, which has been strong in recent years.

Margins maintained thanks to cost savings

Despite the sharp and larger-than-expected decline in net sales, the company's adjusted EBITDA was at a reasonable level of EUR 21.2 million (Q2'22: 27.8 MEUR and Q1'23: 26.4 MEUR). This means that the margin has even improved slightly year-on-year (11.8% vs. 11.4%) despite the significant decrease in net sales. However, the margin fell from 12.5% in Q1'23. According to the company, Purmo's efficiency program is progressing faster than expected and at the end of Q2 the company had already accumulated run-rate savings of EUR 16 million, when the estimate was EUR 20 million by the end of the year. The result was slightly below our expectations, but we consider the earnings/margin level to be a good performance given the larger-than-expected decline in net sales. The result decreased significantly, but the margin improved in both divisions year-on-year.

The reported result was better than expected, as Purmo has recorded relatively low efficiency program costs during H1. However, this will level off as higher one-off costs are expected in H2. Otherwise, the lines below EBITDA were roughly in line with our expectations.

Indebtedness still relatively high

Purmo made a hybrid loan early in the year to support its balance sheet. Excluding the hybrid, its adjusted EBITDA/net debt at the end of Q2 was 2.8x, compared to the company's target of less than 3x. Cash flow this year will be depressed by the costs of the efficiency program, but in turn, the efficiency program will also free up working capital and naturally support cash flow through higher earnings. We expect debt levels to fall towards the end of the year, partly due to normal seasonality.

Estimates	Q2'22	Q2'23	Q2'23e	Q2'23e	Consensus		Difference (%)	2023e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	245	180	197	207			-8%	769
EBITDA (adj.)	27.8	21.2	22.5	-			-6%	93.1
EBIT	15.9	9.0	4.5	3.8			100%	28.5
EPS (reported)	0.29	0.04	-0.06	0.14			-167%	0.73
Revenue growth-%	-	-26.4 %	-19.6 %	-15.5 %			-6.8 pp	-14.9 %
EBITDA-% (adj.)	11.4 %	11.8 %	11.4 %				0.3 pp	12.1 %

Source: Inderes & Bloomberg, 4 analysts (consensus)

Estimates cut

Guidance on flat full-year results unchanged

The company reiterated its guidance and expects the adjusted EBITDA margin for 2023 to be at the same level as in 2022, i.e., around EUR 93 million. Purmo says this means a +/- 5% change, or about EUR 88-97.5 million. After H1'23, Purmo had accumulated EUR 48 million, about EUR 9 million less than last year, but the comparison figures were significantly better at the beginning of the year than at the end of the year. At a steady pace, the full-year result would thus land at EUR 96 million. The company also commented that it does not expect demand to pick up significantly for the rest of the year, but normal seasonality should support demand compared to Q2 levels. Thus, the demand outlook is also weaker than previously expected towards the end of the year. In addition, the company will continue to work hard on margin management in order to maintain a reasonable level of profitability even at the current level of net sales.

We lowered our estimates

A weaker-than-expected Q2 and lukewarm demand outlook for the rest of the year led to a sharp decline in our net sales estimate for this year. At this stage, we do not expect a rapid turnaround in 2024-2025, although we still forecast growth in those years. As a result, our net sales estimates for the coming years also came down.

For this year's result, we lowered our forecast for adjusted EBITDA to EUR 93 million, around the mid-point of the company's guidance. Provided there is no further downward drop in demand, we believe this level should be well within reach, as progress on efficiency measures will support earnings towards the end of the year. However, the market is also under price pressure due to falling raw material costs and weak market conditions.

For the coming years, we did not make any significant changes to our EBITDA estimates. However, slightly lower operational forecasts and higher financing costs pushed our EPS forecast down by 5% in 2024-25. If the market recovers faster than we expect in 2024-2025, Purmo should also have potential for margin improvement, which we do not currently expect to a significant extent.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	827	769	-7%	857	803	-6%	881	839	-5%
EBITDA (adj.)	95.9	93.1	-3%	100	100	0%	105	103	-1%
EBIT	30.6	28.5	-7%	57.6	57.4	0%	72.4	71.0	-2%
PTP	10.0	7.9	-21%	41.6	39.4	-5%	57.4	55.0	-4%
EPS (excl. NRIs)	0.79	0.73	-7%	0.86	0.82	-5%	0.93	0.89	-5%
DPS	0.36	0.36	0%	0.36	0.36	0%	0.40	0.40	0%

Source: Inderes

Valuation 1/2

Summary – recommendation and target price

We reiterate our Accumulate recommendation for Purmo. Our positive view is supported by the estimated annual growth of around 1% (2022-2025) and a dividend yield of 5% and upside in multiples, which together offer an expected return of 15-20% in the coming years.

Earnings-based valuation on target

Purmo's historical profile is of a company with relatively weak growth and average profitability. We believe the company's valuation level is negatively affected at least by the fact that nearly half of its sales come from radiators, where the market has been structurally declining for a long time and stable development is expected for the next few years. In addition, the company's return on capital is average, reflecting historically weak capital allocation (a large amount of goodwill in the balance sheet). The company now aims to focus on growing segments in heating and cooling solutions, but we do not believe the company will be able to achieve significant (over 5%) sustainable net sales growth with its current structure. Acquisitions create an opportunity to accelerate growth, but these are unlikely in the near future, at least on a significant scale.

We believe the acceptable valuation level for Purmo's share is P/E 10-12x and EV/EBIT 9-11x. This includes an assumption of a positive earnings trend from 2024 onwards at the latest. If we were convinced that the company could achieve its margin target in the medium term, the valuation could be higher, as faster earnings growth in the coming years would compensate for it.

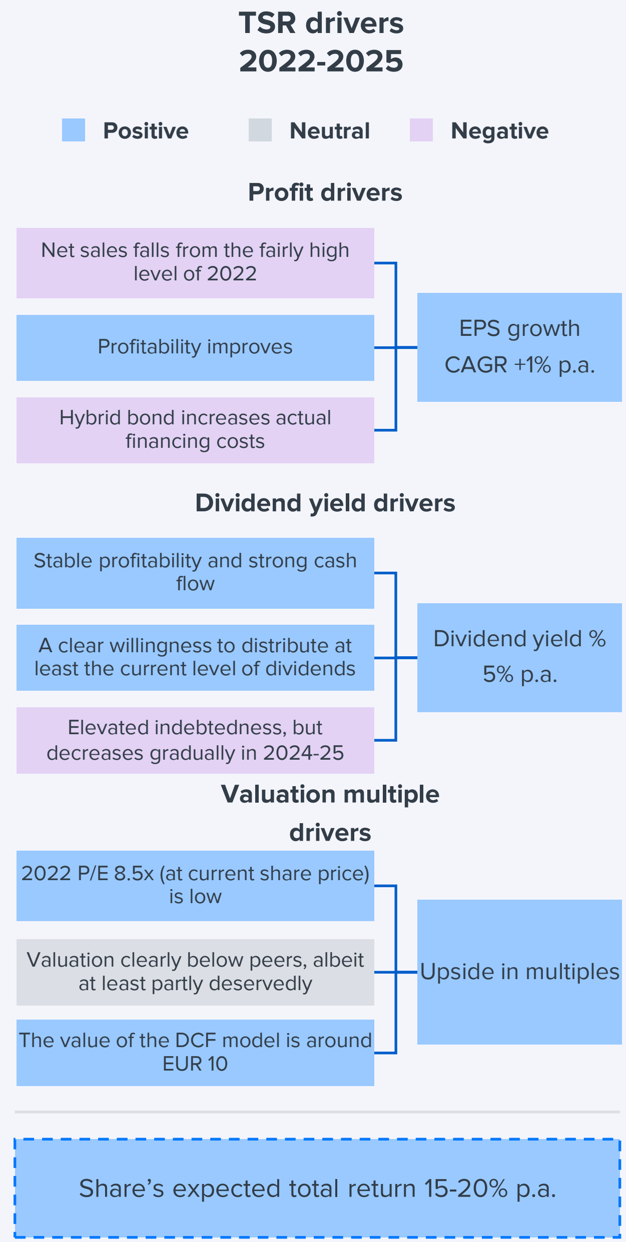
The company's valuation for this year is P/E around 10x and EV/EBIT around 9x, considering the hybrid bond and its interest rates in EPS. So, the valuation is at the lower end of the acceptable multiple range. Given that 2023 is the weakest year in our projections for the next few years, this seems favorable. Expected earnings growth pushes the multiples below the acceptable range in 2024. It is also worth noting that with our estimates the company can repay the hybrid bond in 2026, which reduces the company's interest expenses.

DCF valuation

The lack of historical financial information and changes in the focus of the business make it difficult to determine Purmo's DCF. However, due to the moderate growth profile and relatively stable profitability, the DCF model is, in our opinion, suitable for Purmo as such. Our estimates also for the longer term were already discussed in the estimates section above. The weight of the terminal period is around 50% in our model.

Our required return on capital (WACC) for Purmo is about 8.8% and the cost of equity is around 10%. The lowish WACC is supported by relatively stable business operations and the use of debt leverage, while a higher WACC is supported by, e.g., business cyclicality.

Our DCF model indicates that Purmo's debt-free value is about EUR 715 million and the value of the share capital is about EUR 420 million, or close on EUR 10 per share. The DCF model assumes that profitability improves from the current level and that good cash flow improves the debt situation in the coming years, which enables, e.g., repayment of the hybrid bond. We put more weight on the multiples of the next few years when defining the target price, but the DCF model shows the company's potential in the longer term.



Valuation 2/2

Balance sheet-based valuation looks cheap

With our estimates Purmo's return on capital will remain average even in the medium term, with the total return on capital below 10% and a return on equity on both sides of 10%. Therefore, a P/B ratio of 1.0x or even slightly below seems justified for the company. However, the hybrid bond must be adjusted from the figures, which has been recognized as equity, although we believe that it is in practice a debt. Considering this, the current P/B valuation is about 0.8x. Purmo's book value for this year (excluding the hybrid bond) is approximately EUR 9, which would mean a fair value of P/B 1.0x. The return on capital is depressed by the large amount of goodwill that the company has generated from acquisitions.

Sum-of-the-parts value higher than current share price

Purmo's reporting was still divided into Radiators and ICS divisions in 2022 figures. We believe that this clear division into different profile activities provides a good basis for a sum of the parts valuation. We believe that the main competitor for the Radiators segment, and thus the closest peer, is Stelrad, whose 2023 EV/EBITDA ratio (around 6x) we use directly to determine the value of the division. We use a broader peer group for the ICS division, i.e., in practice the entire peer group of the company from which we have removed Stelrad and Arbonia that operate more in radiators. These peers give ICS an EV/EBITDA ratio of around 11x. By using the 2021-23e EBITDA average for Purmo's (former) divisions, the fair value of Purmo's share is around EUR 11.5. We feel the multiple for ICS peers is quite high and that the ICS segment with a more moderate growth outlook than the peers does not deserve the same multiples. Even if we lowered ICS' valuation multiples to EV/EBITDA 8x, the sum of the parts would still indicate a fair value of nearly EUR 9 per share as we reach the current share price level with a ratio of under 7x for ICS.

Especially the high share of radiators and the lower growth profile resulting from this, therefore, depresses the valuation of the entire company. We do not believe that Purmo will start divesting parts of the company, so in that sense the sum of the parts value is unlikely to materialize. However, we feel it provides a useful angle for valuation

Share may double if the company meets its targets

The company has ambitious financial targets on a 3-5-year horizon. If we assume that Purmo were to reach its 15% adjusted EBITDA margin target in 2026 (using our current net sales estimate), the company would generate EBITDA of around EUR 130 million and EPS of around EUR 1.5. If the company would then be priced at 11x P/E, the calculated value of the share would be EUR 16.5 in 2026, which is over double the current price. However, as we have already mentioned, our estimates are clearly below the target level.

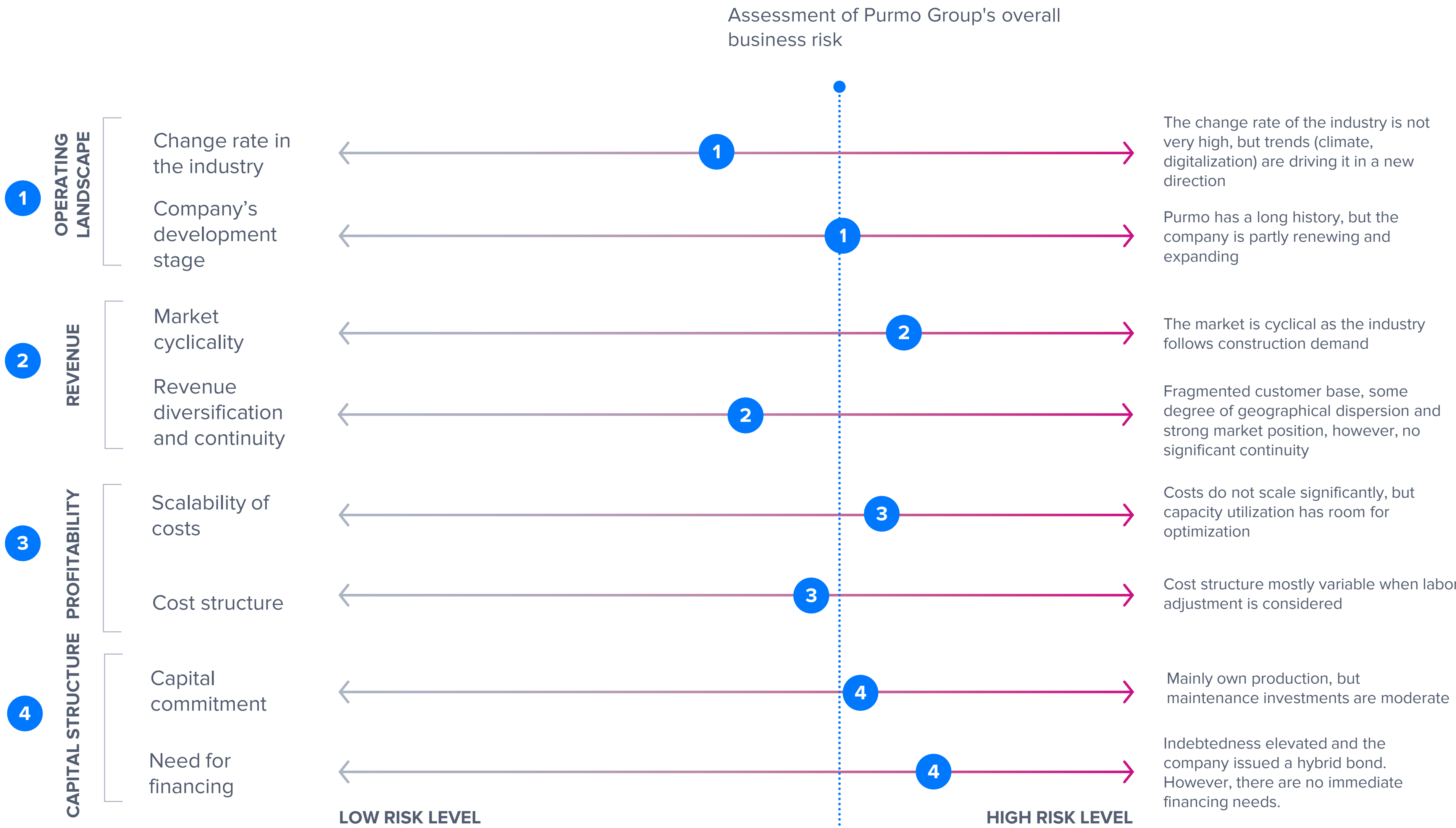
Valuation	2023e	2024e	2025e
Share price	7.16	7.16	7.16
Number of shares, millions	42.7	42.7	42.7
Market cap	305	305	305
EV	616	600	578
P/E (adj.)	10.0	8.7	8.1
P/B	0.7	0.7	0.6
P/S	0.4	0.4	0.4
EV/Sales	0.7	0.7	0.6
EV/EBITDA	6.0	5.4	5.0
EV/EBIT (adj.)	9.1	8.0	7.3
Payout ratio (%)	neg.	60%	44%
Dividend yield-%	4.9 %	4.9 %	5.4 %

Source: Inderes

Sum of the parts	Value, MEUR	Valuation method
Radiators	348	Stelrad EV/EBITDA 2023
ICS	492	Peer group EV/EBITDA 2023
Other	-102	EV/EBITDA 10x
Total EV	737	
Net debt at the end of 2023	251	Includes the hybrid bond
Share capital	486	
per share	11,4	

Source: Inderes

Risk profile of the business model



Source: Inderes

Investment profile

1. **Strong market position and well-known brands, especially in radiators**

2. **Energy efficiency investments support market growth**

3. **Business supports sustainability**

4. **Largest product category radiators does not support growth**

5. **Weakish balance sheet limits acquisition possibilities**

Potential

- A wide product range and well-known, strong brands
- Megatrends of sustainable development and digitalization play a large part in the business
- Potential to shape more into a growth company through acquisitions

Risks

- The industry is cyclical and depends on construction growth
- Risks generated by acquisitions or expansion investments
- Structural lack of growth in the radiator market and tightish competition

Source: Inderes

Strategy 1/2

Purmo's strategic objectives

Solution selling

- Providing end-to-end solutions to unlock growth potential

Growth markets

- Exploiting the best opportunities outside the current market

Smart products

- Delivering smarter, more sustainable and more aesthetically pleasing products

Inderes' comments on Purmo's strategic objectives

Solution selling

- Purmo's largest division by far is Climate Products & Systems, whose distribution channel is mainly construction/HVAC industry wholesalers.
- We, therefore, believe that solution selling mainly concerns the smaller Climate Solutions division. Growing sales in this division is, therefore, Purmo's main growth project.
- There is definitely demand for solutions related to lowering energy consumption but, on the other hand, there is also a lot of supply.
- We believe that Purmo can grow in this area, but we are not convinced that it has competitive advantages that will enable it to gain market shares.
- The key to the success of the strategy is that HVAC designers adopt Purmo's solutions, as they usually make decisions on behalf of end-users or make recommendations on solutions. Thus, growth in solution selling requires development of the currently small sales channel for Purmo.

Growth markets

- Purmo's original growth strategy (published at the end of 2021) highlighted the Chinese and Russian markets in particular. Now Russia is, naturally, out of the picture.
- Purmo is still small in China, and we do not see Purmo having a competitive advantage that would enable it to become a serious player in China. With the support of an own local factory, some growth can be achieved that supports the growth of the company as a whole. However, China only represents about 1% of the company's net sales.
- The aim is also to increase radiator sales outside the current markets. We find this challenging, because already in its current market, Purmo faces fierce price competition from radiators from cheaper production countries and we believe that it is challenging to win over new areas
- Purmo is also pursuing acquisitions, which we believe are necessary to change the company's structure more towards growth areas and to reduce the weight of radiators.

Smart products

- New products are a natural part of any product company.
- We also believe that Purmo's competitors are developing similar products, and we do not believe that Purmo has a major advantage in this respect.
- Purmo's Italian Emmeti brand/company focuses on integrated system solutions, where smart products also play a role.

Source: Inderes

Strategy 2/2

Vision of an indoor climate system supplier

The company announces that its vision is that perfect indoor climate should not cost the planet's climate. Purmo's mission is to be the global leader in sustainable indoor climate comfort solutions.

The strategy is built on three pillars

- Solution selling
- Smart products
- Growth markets

We already discussed these on the previous page, and we believe that the most important of these is growing solution sales, which in practice will determine the growth profile of the entire company in coming years.

In addition, the company says that its strategy is supported by:

- Operational excellence
- People and culture

Improving business efficiency is a natural part of any company. With this Purmo refers in particular to improving the efficiency in operational, commercial and business support. The efficiency program launched last year, which we described earlier, aims specifically at this.

People and culture are also a natural part of any company, and in fact a prerequisite for the existence of a company. So, we do not believe that these activities that support the strategy in themselves constitute a particular competitive advantage for the company, but rather how they are implemented in practice. Under the current management, the company successfully completed a previous efficiency improvement program in 2020-21, so the company has expertise in this area. On the other hand, when a relatively short time has passed since the previous efficiency program, implementing new savings that are double the size is a bit more challenging in our view.

Business acquisitions as a growth enabler

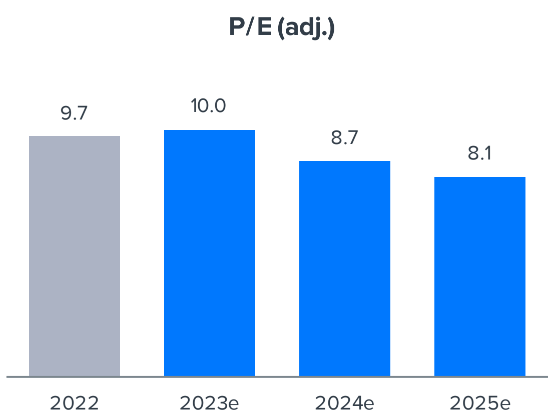
In addition to the previous strategic points, Purmo sees acquisitions as an enabler of growth and aims to be active in acquisitions. However, the current balance sheet situation does not allow the company to carry out significant acquisitions with debt, and we do not believe that the company at the current share price level is particularly willing to use its own shares to finance the transaction either. Thus, we believe that in 2023-24 Purmo will focus more on improving own operations and efficiency, e.g., by implementing the efficiency improvement program. The company's management has also commented that they are currently disciplined and cautious about acquisitions.

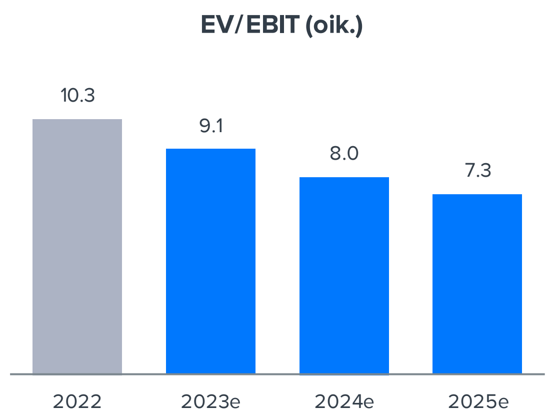
The company has also been active in acquisitions in the past and acted as a consolidator in the radiator market in past years. It is impossible to assess the quality of these transactions comprehensively afterwards, but in light of the drop in the demand of radiators, market consolidation has not generated value in the long run. On page 14, we have mentioned some more recent acquisitions. Here too, the lack of information makes it challenging to assess success, but generally we believe that the Emmeti and Thermotech acquisitions were sensible, as they have moved the company to more growth areas. However, we estimate that Emmeti's net sales in 2021 were about EUR 100 million, which was slightly lower than at the time of the acquisition in 2015. In 2022, Emmeti grew strongly supported by Italy's generous energy renovation subsidies, but a clear growth trend in previous years is not visible in Emmeti (however, we do not know the figures for 2016-2020 or their background). Hewing is more component production and Sigarth is a rather small company in the complementary product category, so we do not see them as strategically important, and we do not have sufficient information to evaluate their economic success.

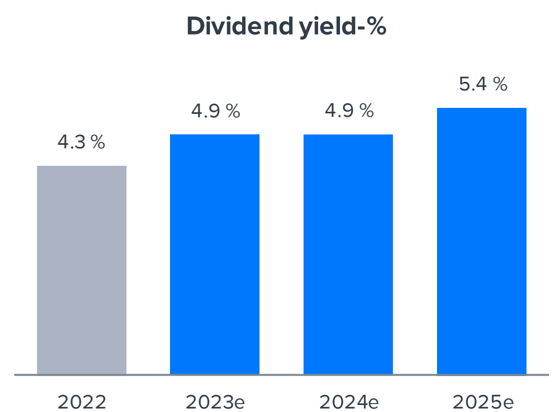
Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price					8.22	7.16	7.16	7.16	7.16
Number of shares, millions					41.2	42.7	42.7	42.7	42.6
Market cap					351	305	305	305	305
EV					627	616	600	578	489
P/E (adj.)					9.7	10.0	8.7	8.1	6.6
P/B					0.9	0.7	0.7	0.6	0.7
P/S					0.4	0.4	0.4	0.4	0.4
EV/Sales					0.7	0.7	0.7	0.6	0.6
EV/EBITDA					6.8	6.0	5.4	5.0	4.5
EV/EBIT (adj.)					10.3	9.1	8.0	7.3	6.5
Payout ratio (%)					112.9 %	neg.	59.5 %	43.9 %	40.0 %
Dividend yield-%					4.3 %	4.9 %	4.9 %	5.4 %	6.1 %

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/Liikevaihto		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**
Nibe Industrier AB	16591	17262	26.0	23.1	21.2	18.8	4.1	3.6	33.9	29.8	0.9	0.9	6.0
Lindab International AB	984	1270	12.8	11.3	8.8	8.0	1.2	1.1	13.8	11.8	3.1	3.4	1.5
Systemair AB	1366	1462	15.0	14.0	10.6	10.3	1.4	1.4	21.0	18.8	1.6	1.8	3.3
Uponor Oyj	2114	2222	16.3	14.4	11.6	10.6	1.7	1.6	24.6	21.4	2.5	2.6	4.3
Arbonia AG	731	922	16.7	13.6	7.0	6.3	0.7	0.7	20.4	15.8	3.3	3.7	0.7
Volution Group PLC	831	934	12.7	12.1	10.4	10.0	2.5	2.4	14.8	14.2	2.1	2.2	
Zehnder Group AG	1389	1360	18.0	16.1	13.6	12.3	1.6	1.6	14.0	12.4	2.7	3.0	2.3
Stelrad Group PLC	188	283	8.5	7.4	6.1	5.4	0.7	0.7	9.5	7.6	4.8	5.5	
Ecoclime Group AB	16	14		8.8		5.8	0.5	0.4		9.8			0.8
Purmo Group (Inderes)	**305**	**556**	**9.1**	**8.0**	**6.0**	**5.4**	**0.7**	**0.7**	**10.0**	**8.7**	**4.9**	**4.9**	**0.7**
Average			**15.8**	**13.4**	**11.1**	**9.7**	**1.6**	**1.5**	**19.0**	**15.7**	**2.6**	**2.9**	**2.7**
Median			**15.7**	**13.6**	**10.5**	**10.0**	**1.4**	**1.4**	**17.6**	**14.2**	**2.6**	**2.8**	**2.3**
Diff-% to median			***-42%***	***-41%***	***-43%***	***-46%***	***-48%***	***-50%***	***-43%***	***-39%***	***88%***	***73%***	***-70%***

Source: Refinitiv / Inderes

Income statement

Income statement	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	**236**	**245**	**216**	**207**	**904**	**212**	**180**	**182**	**195**	**769**	**803**	**839**	**862**
Climate Products & Systems	195	192	171	163	721	169	145	145	155	614	639	664	677
Climate Solutions	42	53	45	44	184	43	36	37	40	155	165	174	185
EBITDA	**29.3**	**24.3**	**18.5**	**6.3**	**78.4**	**23.1**	**16.9**	**6.5**	**14.0**	**60.5**	**89.6**	**103.3**	**107.8**
EBITDA (adj.)	**29.2**	**27.8**	**19.6**	**16.3**	**92.9**	**26.4**	**21.2**	**21.5**	**24.0**	**93.1**	**99.6**	**103.3**	**107.8**
Depreciation	-15.2	-8.4	-8.0	-7.9	-39.4	-8.0	-8.0	-8.0	-8.0	-32.0	-32.2	-32.3	-32.4
EBIT (excl. NRI)	**21.6**	**19.5**	**11.5**	**8.1**	**60.7**	**18.5**	**13.1**	**13.5**	**16.0**	**61.1**	**67.4**	**71.0**	**75.4**
EBIT	**14.1**	**15.9**	**10.5**	**-1.5**	**39.0**	**15.1**	**8.9**	**-1.5**	**6.0**	**28.5**	**57.4**	**71.0**	**75.4**
Climate Products & Systems (adj. EBITDA)	22.9	21.2	15.3	12.3	71.7	22.7	17.3	18.0	20.0	78.0	83.0	86.0	89.0
Climate Solutions (adj. EBITDA)	8.5	8.7	6.4	6.3	29.9	6.2	6.6	6.0	6.5	25.3	27.0	27.9	29.6
Muut	-2.1	-2.1	-2.1	-2.4	-8.7	-2.5	-2.7	-2.5	-2.5	-10.2	-10.4	-10.6	-10.8
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-2.8	-3.0	-4.3	-7.3	-17.4	-5.6	-5.0	-5.0	-5.0	-20.6	-18.0	-16.0	-13.8
PTP	**11.3**	**12.9**	**6.2**	**-8.8**	**21.6**	**9.5**	**3.9**	**-6.5**	**1.0**	**7.9**	**39.4**	**55.0**	**61.6**
Taxes	-4.8	-4.5	-0.9	1.8	-8.4	-2.7	-0.5	-0.5	-1.0	-4.7	-8.7	-11.6	-14.2
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**6.5**	**8.4**	**5.3**	**-7.0**	**13.2**	**6.4**	**2.0**	**-8.4**	**-1.4**	**-1.5**	**25.1**	**37.8**	**46.5**
EPS (adj.)	**0.34**	**0.29**	**0.15**	**0.06**	**0.85**	**0.23**	**0.14**	**0.15**	**0.20**	**0.73**	**0.82**	**0.89**	**1.09**
EPS (rep.)	**0.16**	**0.20**	**0.13**	**-0.17**	**0.32**	**0.15**	**0.05**	**-0.20**	**-0.03**	**-0.03**	**0.59**	**0.89**	**1.09**

Key figures	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	24.0 %	15.5 %	-1.0 %	-7.1 %	7.2 %	-10.4 %	-26.3 %	-15.9 %	-5.7 %	-14.9 %	4.4 %	4.4 %	2.8 %
Adj. EBITDA growth-%	0.3 %	3.8 %	-22.8 %	-27.9 %	-10.6 %	-9.6 %	-23.8 %	9.7 %	47.2 %	0.2 %	7.0 %	3.7 %	4.3 %
EBITDA-%	12.4 %	9.9 %	8.6 %	3.1 %	8.7 %	10.9 %	9.4 %	3.6 %	7.2 %	7.9 %	11.2 %	12.3 %	12.5 %
Adjusted EBITDA-%	12.4 %	11.4 %	9.1 %	3.9 %	10.3 %	12.5 %	11.8 %	11.8 %	12.3 %	12.1 %	12.4 %	12.3 %	12.5 %
Net earnings-%	2.8 %	3.4 %	2.5 %	-3.4 %	1.5 %	3.2 %	1.9 %	-3.8 %	0.0 %	0.4 %	3.8 %	5.2 %	5.5 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**602**	**619**	**615**	**615**	**614**
Goodwill	369	371	371	371	371
Intangible assets	36.3	47.0	45.0	43.2	41.5
Tangible assets	163	167	169	170	172
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	7.2	5.6	5.6	5.6	5.6
Deferred tax assets	26.5	29.2	25.0	25.0	25.0
Current assets	**444**	**365**	**365**	**363**	**393**
Inventories	157	174	138	137	143
Other current assets	31.7	45.4	30.0	30.0	30.0
Receivables	77.1	89.1	76.9	80.3	83.9
Cash and equivalents	178	56.3	119	116	137
Balance sheet total	**1046**	**984**	**980**	**977**	**1008**

Source: Inderes

Vuosi 2021 Pro forma

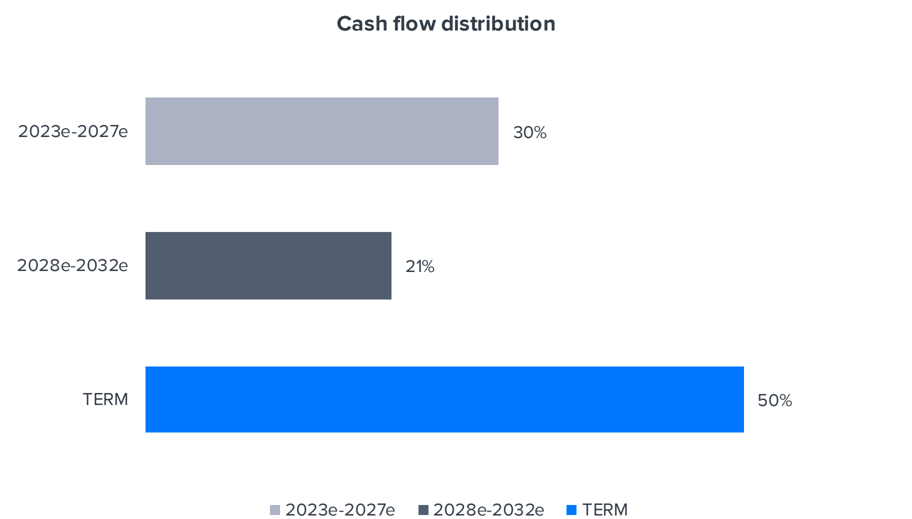
Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**391**	**403**	**446**	**456**	**479**
Share capital	3.1	3.1	3.1	3.1	3.1
Retained earnings	6.6	24.4	7.4	17.6	40.4
Hybrid bonds	0.0	0.0	60.0	60.0	60.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	381	376	376	376	376
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**351**	**346**	**313**	**293**	**283**
Deferred tax liabilities	2.6	5.4	5.4	5.4	5.4
Provisions	7.6	7.8	7.8	7.8	7.8
Long term debt	316	312	280	260	250
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	24.7	20.1	20.1	20.1	20.1
Current liabilities	**304**	**235**	**220**	**227**	**245**
Short term debt	101	20.7	30.0	30.0	40.0
Payables	192	193	169	177	184
Other current liabilities	11.7	20.7	20.7	20.7	20.7
Balance sheet total	**1046**	**984**	**980**	**977**	**1008**

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	7.2 %	-14.9 %	4.4 %	4.4 %	2.8 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	4.3 %	3.7 %	7.2 %	8.5 %	8.7 %	7.5 %	7.5 %	7.5 %	7.0 %	7.0 %	7.0 %	7.0 %
EBIT (operating profit)	**39.0**	**28.5**	**57.4**	**71.0**	**75.4**	**66.3**	**68.0**	**69.6**	**66.6**	**68.3**	**69.7**	
+ Depreciation	39.4	32.0	32.2	32.3	32.4	32.4	32.5	32.5	32.5	32.5	29.9	
- Paid taxes	-8.3	-1.3	-8.7	-11.6	-14.2	-12.3	-12.6	-13.0	-12.3	-12.7	-13.0	
- Tax, financial expenses	-5.0	-4.7	-4.0	-3.4	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-32.0	39.1	6.0	-1.8	-1.2	-1.1	-1.1	-1.1	-1.2	-1.2	-1.0	
Operating cash flow	**33.1**	**93.6**	**82.9**	**86.6**	**89.2**	**82.4**	**83.7**	**85.0**	**82.7**	**83.9**	**82.6**	
+ Change in other long-term liabilities	-4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-53.3	-32.0	-32.0	-32.0	-32.0	-32.0	-32.0	-32.0	-32.0	-16.7	-29.4	
Free operating cash flow	**-24.6**	**61.6**	**50.9**	**54.6**	**57.2**	**50.4**	**51.7**	**53.0**	**50.7**	**67.2**	**53.2**	
+/- Other	0.0	-4.7	-5.7	-5.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-24.6	56.9	45.2	48.9	56.2	50.4	51.7	53.0	50.7	67.2	53.2	795
Discounted FCFF		**54.8**	**40.0**	**39.8**	**42.0**	**34.6**	**32.6**	**30.7**	**27.0**	**32.9**	**23.9**	**357**
Sum of FCFF present value		716	661	621	581	539	504	472	441	414	381	357
Enterprise value DCF		**716**										
- Interest bearing debt		-333										
+ Cash and cash equivalents		56										
-Minorities		0.0										
-Dividend/capital return		-14.9										
Equity value DCF		**424**										
Equity value DCF per share		**9.9**										

WACC	
Tax-% (WACC)	23.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	5.0 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	1.40%
Risk free interest rate	2.5 %
Cost of equity	**10.1 %**
Weighted average cost of capital (WACC)	**8.8 %**

Source: Inderes



Summary

Income statement	2022	2023e	2024e
Revenue	904.1	769.1	803.2
EBITDA	78.4	60.5	89.6
EBIT	39.0	28.5	57.4
PTP	21.6	8.1	39.4
Net Income	13.2	-2.1	25.1
Extraordinary items	-21.7	-32.6	-10.0

Balance sheet	2022	2023e	2024e
Balance sheet total	983.9	979.5	977.2
Equity capital	403.3	446.3	456.5
Goodwill	370.6	370.6	370.6
Net debt	276.8	190.6	174.3

Cash flow	2022	2023e	2024e
EBITDA	78.4	60.5	89.6
Change in working capital	-32.0	39.1	6.0
Operating cash flow	33.1	93.6	82.9
CAPEX	-53.3	-32.0	-32.0
Free cash flow	-24.6	56.9	45.2

Valuation multiples	2022	2023e	2024e
EV/S	0.7	0.7	0.7
EV/EBITDA (adj.)	6.8	6.0	5.4
EV/EBIT (adj.)	10.3	9.1	8.0
P/E (adj.)	9.7	10.0	8.7
P/B	0.9	0.7	0.7
Dividend-%	4.3 %	4.9 %	4.9 %

Source: Inderes

Per share data	2022	2023e	2024e
EPS (reported)	0.32	-0.05	0.59
EPS (adj.)	0.85	0.72	0.82
OCF / share	0.80	2.19	1.94
FCF / share	-0.60	1.33	1.06
Book value / share	9.79	10.46	10.70
Dividend / share	0.36	0.36	0.36

Growth and profitability	2022	2023e	2024e
Revenue growth-%	7%	-15%	4%
EBITDA growth-%	133%	-23%	48%
EBIT (adj.) growth-%	-18%	1%	10%
EPS (adj.) growth-%	-53%	-16%	15%
EBITDA-%	8.7 %	7.9 %	11.2 %
EBIT (adj.)-%	6.7 %	7.9 %	8.4 %
EBIT-%	4.3 %	3.7 %	7.2 %
ROE-%	3.3 %	-0.5 %	5.6 %
ROI-%	5.1 %	3.8 %	7.6 %
Equity ratio	41.0 %	45.6 %	46.7 %
Gearing	68.6 %	42.7 %	38.2 %

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Date	Recommendation	Target	Share price
1/5/2022	Accumulate	16.00 €	14.80 €
3/4/2022	Accumulate	12.50 €	10.90 €
4/13/2022	Accumulate	13.00 €	12.00 €
5/13/2022	Buy	13.00 €	10.35 €
8/12/2022	Buy	13.00 €	11.00 €
11/9/2022	Buy	12.00 €	10.00 €
11/11/2022	Buy	12.00 €	9.00 €
12/9/2022	Accumulate	10.00 €	9.20 €
2/10/2023	Accumulate	9.50 €	8.38 €
4/5/2023	Accumulate	9.50 €	8.32 €
4/27/2023	Accumulate	9.50 €	8.68 €
7/20/2023	Accumulate	8.50 €	7.20 €

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