

Lanxess AG

Germany | Chemicals | MCap EUR 5,245.5m

28 September 2021

INITIATION



Transformation ongoing. Time for a rerating?

What's it all about?

Lanxess is chemicals company which is in the middle of a transformation process. Over the past 5 years, multiple transactions - four alone in 2021 so far - have realigned the product and IP portfolio from commodities to niche specialties. This process has reduced the cyclical nature of the business and improved the margin and returns potential.

The latest step in this journey was the formation of the Flavors & Fragrances unit, a business that could catalyze a new perception of Lanxess in the market. Upside potential is based on margin expansion from economic tailwinds and the portfolio realignment. More importantly, there is ample space for multiple expansion once management builds more confidence that the transformation process is bearing fruit. Based on DCF and supported by FCF yield, we calculate a fair value of EUR 86.00 and recommend to BUY.

BUY (INITIATION)

| | |
|---------------|------------------|
| Target price | EUR 86.00 (none) |
| Current price | EUR 60.58 |
| Up/downside | 42.0% |



MAIN AUTHOR

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Lanxess AG

Germany | Chemicals | MCap EUR 5,245.5m | EV EUR 7,491.5m

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Transformation ongoing, time for a rerating?

Lanxess has come a long way. Since the spin-off from Bayer in 2004, Lanxess has made a steady and remarkable transformation. Born as a supplier of mainly rubber and at the time viewed by some as a bundle of underperforming assets dumped into the market by Bayer, a steady string of divestments and acquisitions has transformed the business towards higher value-add specialty chemicals.

Potentially less cyclical, higher-margin business. It is still easy to get lost in Lanxess' vast collection of thousands of products, suppliers and customers in diverse geographies, applications and end markets served from eleven business units. This highly diversified portfolio reduces any cluster risks, but also means that it is difficult to see the big picture and easy to just see Lanxess as a proxy for the economy. The portfolio adjustments over the last years should however have the potential to significantly reduce the cyclicity of Lanxess and improve the normalized margins and returns. That said, the current valuation indicates that investors prefer to see more proof of the transformation progressing as promised by management.

Growth is on offer. The global specialty chemicals industry is expected to grow at a CAGR of ca 5%-6% over the next five years. Add to this the post-pandemic recovery in automotive, agro-chemicals, construction, and industrial operations, and the short to medium term prospects look promising.

Rerating potential. As coming quarters provide more evidence of success of the strategic realignment, there is substantial rerating potential. For example, peers of the Flavors & Fragrances unit trade at multiples two to three times higher than Lanxess's. Another catalyst could be positive news from the B2B platform CheMondis or the participation in Standard Lithium. We recommend to BUY with a price target of EUR 86.00, based on DCF and supported by FCF yield.

| Lanxess AG | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|-----------------------|---------|---------|---------|---------|---------|---------|
| Sales | 6,824.0 | 6,802.0 | 6,104.0 | 6,836.5 | 7,403.9 | 7,774.1 |
| <i>Growth yoy</i> | 4.5% | -0.3% | -10.3% | 12.0% | 8.3% | 5.0% |
| EBITDA | 1,005.0 | 997.0 | 846.0 | 1,053.3 | 1,278.2 | 1,377.6 |
| EBIT | 491.0 | 407.0 | 253.0 | 492.2 | 636.7 | 738.5 |
| Net profit | 431.0 | 205.0 | 885.0 | 252.2 | 357.9 | 432.8 |
| Net debt (net cash) | 1,350.0 | 1,683.0 | 972.0 | 1,957.1 | 1,547.2 | 1,153.4 |
| Net debt/EBITDA | 1.3x | 1.7x | 1.1x | 1.9x | 1.2x | 0.8x |
| EPS recurring | 4.71 | 2.32 | 10.22 | 2.91 | 4.13 | 5.00 |
| DPS | 0.90 | 0.95 | 1.00 | 1.17 | 1.65 | 2.00 |
| <i>Dividend yield</i> | 1.5% | 1.6% | 1.7% | 1.9% | 2.7% | 3.3% |
| Gross profit margin | 25.5% | 25.9% | 25.5% | 26.8% | 27.2% | 27.3% |
| EBITDA margin | 14.7% | 14.7% | 13.9% | 15.4% | 17.3% | 17.7% |
| EBIT margin | 7.2% | 6.0% | 4.1% | 7.2% | 8.6% | 9.5% |
| ROCE | 6.8% | 5.6% | 3.3% | 5.7% | 7.3% | 8.4% |
| EV/EBITDA | 7.7x | 8.2x | 8.9x | 8.1x | 6.5x | 5.8x |
| EV/EBIT | 15.8x | 20.1x | 29.6x | 17.4x | 13.0x | 10.8x |
| PER | 12.9x | 26.1x | 5.9x | 20.8x | 14.7x | 12.1x |
| FCF yield | 10.6% | 12.0% | 11.2% | -0.0% | 11.0% | 11.8% |

Source: Company data, AlsterResearch



Source: Company data, AlsterResearch

High/low 52 weeks 67.38 / 42.34
Price/Book Ratio 1.7x

Ticker / Symbols

ISIN DE0005470405
WKN 547040
Bloomberg LXS:GR

Changes in estimates

| | | Sales | EBIT | EPS |
|------|-----|-------|------|------|
| 2021 | old | 00.0 | 00.0 | 00.0 |
| | Δ | - | - | - |
| 2022 | old | 00.0 | 00.0 | 00.0 |
| | Δ | - | - | - |
| 2023 | old | 00.0 | 00.0 | 00.0 |
| | Δ | - | - | - |

Key share data

Number of shares: (in m pcs) 86.59
Book value per share: (in EUR) 34.66
Ø trading volume: (12 months) 300,000

Major shareholders

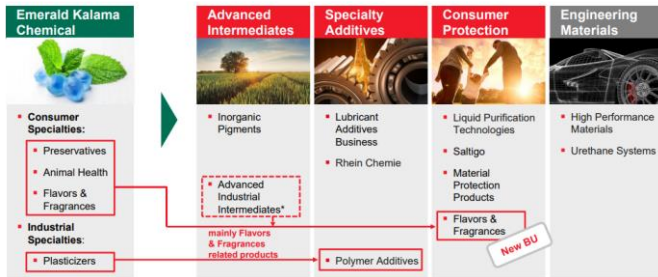
DWS Investment 9.8%
BlackRock 5.4%
Warren Buffett (General Re) 5.1%
Free Float 79.7%

Company description

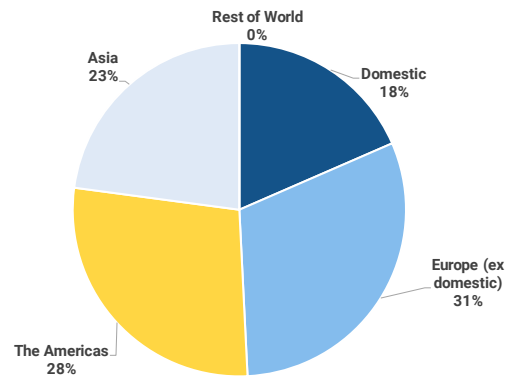
LANXESS AG specializes in the development, manufacturing and marketing of chemical intermediates, additives, specialty chemicals and plastics.

Investment case in six charts

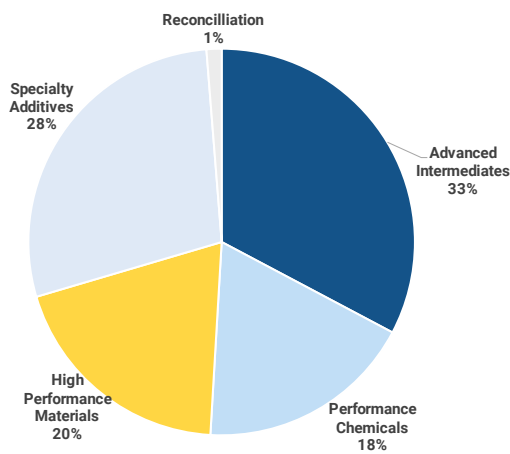
Products & Services



Regional sales split in %



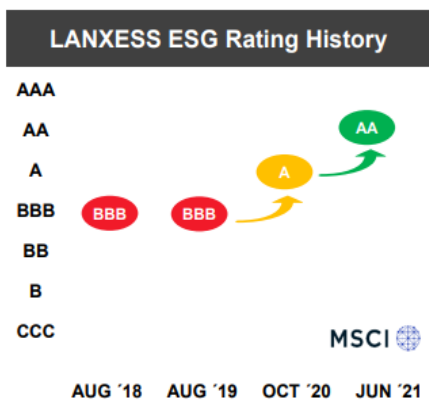
Segmental breakdown in %



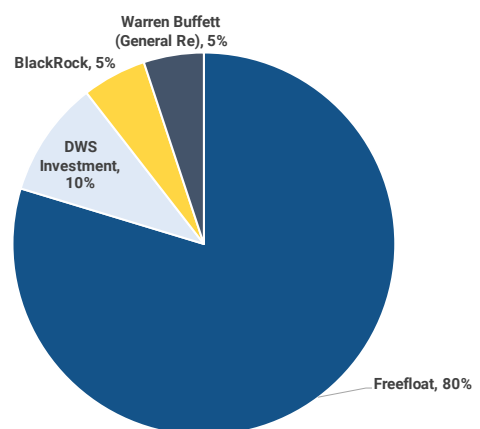
Emerald Kalama Chemicals acquisition



ESG rating history



Major Shareholders



Source: AlsterResearch, Lanxess

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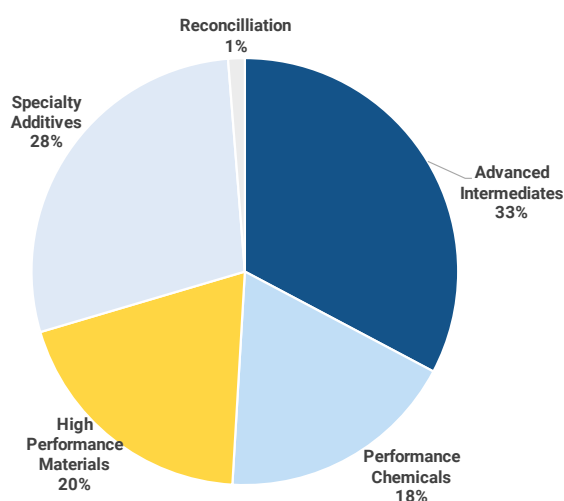
Company background

Products & services

Headquartered in Cologne, Germany, LANXESS AG (Lanxess) is a **leading specialty chemicals company** with expertise in producing, developing, and marketing intermediaries, additives, specialty chemicals, and plastics. The company offers over 2,000 products to its customers through various brands, such as Bayferrox, Durethan, Lewatit, Pocan, and Colortherm, among others.

The group's segments are broadly classified into four: (i) advanced intermediaries (33% of 2020 sales), (ii) specialty additives (28%), (iii) consumer protection (19%), and (iv) engineering materials (19%).

Segmental breakdown in %



Source: AlsterResearch, Lanxess

The **advanced intermediaries** segment produces high-quality intermediates, such as benzene- and toluene-derivatives, amines, polyols, inorganics and organometallics, and inorganic pigments (including iron oxide and chrome oxide pigments).






The **specialty additives segment** develops, produces, and markets additives and services for processors of polymers and specialty chemical products, including Rhein Chemie.

The **consumer protection segment** deals with specialty chemicals that protect people and their environment, including disinfectants, cold sterilization technologies, food/cosmetics/wood preservatives, liquid purification (leading manufacturer of Lewatit® ion exchange resins), and multiple fine chemical intermediates used in the agrochemicals, pharmaceuticals, and consumer sectors.

The **engineering materials segment** offers a wide range of engineering plastics and polyurethane systems.

In 2019, Lanxess also founded CheMondis, a new global online marketplace for chemical products.

Management

| | | | | |
|---|---|---|--|---|
|  |  |  |  |  |
| Matthias Zachert CEO since 2014 | Michael Pontzen CFO since 2015 | Dr. Anno Borkowsky Management Board Member | Dr. Hubert Finck Management Board Member | Dr. Stephanie Coßmann Management Board Member |

Source: Company data; AlsterResearch

Matthias Zachert serves as the Chief Executive Officer (CEO) of LANXESS. He was previously the group's Chief Financial Officer (CFO) between 2004 and 2011, where he had a key role in establishing the global finance organization, restructuring the portfolio, and realigning the company after it was spun off from Bayer. He was appointed the chairman of LANXESS's board of management in April 2014. He has held several senior executive roles in Aventis Pharma AG, Hoechst AG, Kamps AG, and Merck KGaA.

Michael Pontzen joined LANXESS AG in 2004 as the head of investor relations. He had headed various group functions before being appointed as the Chief Financial Officer of LANXESS AG in April 2015.

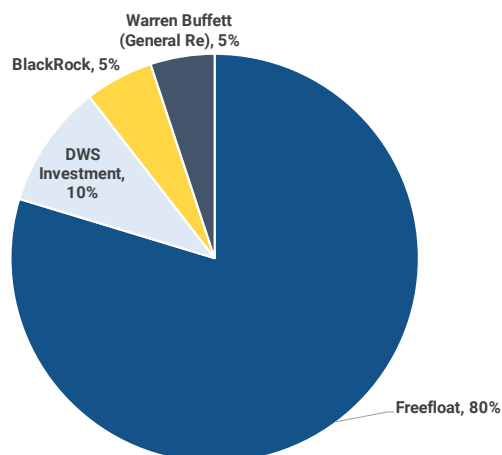
Dr. Anno Borkowsky was appointed to become Member of the Board of Management in June 2019. There he is responsible for the Specialty Additives segment and the coordination of the regional and country organizations.

Dr. Hubert Fink was appointed to become Member of the Board of Management effective October 2015. He is responsible for Global Procurement & Logistics, Production, Technology and Safety & Environment, as well as several business units.

Dr. Stephanie Coßmann has been member of the Board of Management and Labor Director of LANXESS AG since January 2020. In this role, she is responsible for the group functions Human Resources and Legal and Compliance.

Shareholders

Major Shareholders



Source: Company data; AlsterResearch

Quality

Customers

LANXESS sells its products to **several thousand customers in over 150 countries** spread across the world. It has a **longstanding customer base, with entrenched relationships with leaders in each end-user industry.**

It serves a **diversified pool of industries**, including

- chemical industry (20% of 2020 sales),
- mobility (20%; includes automotive, aviation and shipping industries, and electronic components),
- agriculture and animal health (15%),
- nutrition, health and consumer goods (15%),
- energy, natural resources and industrial applications (15%), and
- construction (15%).

Revenues are also well spread geographically, with 31% (2020 revenues) coming from Europe, the Middle East, and Africa (EMEA, excluding Germany), 18% from Germany, 23% each from Asia Pacific and North America, and 5% from Latin America.

| Regional sales split (EUR m) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Domestic | 1,386.0 | 1,251.0 | 1,128.0 | 1,263.4 | 1,368.2 | 1,436.6 |
| Europe (ex domestic) | 2,167.0 | 2,128.0 | 1,876.0 | 2,101.1 | 2,275.5 | 2,389.3 |
| The Americas | 1,840.0 | 1,885.0 | 1,703.0 | 1,907.4 | 2,065.7 | 2,169.0 |
| Asia | 1,431.0 | 1,538.0 | 1,397.0 | 1,564.6 | 1,694.5 | 1,779.2 |
| Rest of World | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sales | 6,824.0 | 6,802.0 | 6,104.0 | 6,836.5 | 7,403.9 | 7,774.1 |

Source: Company data; AlsterResearch

Moreover, **customer concentration risk is low**; in 2020, LANXESS's top 10 customers accounted for 20% of sales, while no individual customer accounted for more than 10% of sales.

The group maintains a flexible sales and marketing structure. It manages sales through its 48 own companies around the globe, and through local partnerships in countries where it does have local captive presence. Furthermore, it owns 56 production sites in 18 countries, thus ensuring orders are efficiently fulfilled from production sites within the region when feasible.

Competition

LANXESS is a **leading specialty chemicals company** and ranks **among the top three in most of its core offerings**. It is among the top three players in advanced intermediaries and specialty additives in Europe, among the top four globally in certain niches in the consumer protection segment (such as ion exchange resins and active ingredients for insect repellents), and a dominant manufacturer of engineering materials (strong foothold in hot-cast prepolymers, special aqueous urethane dispersions, and polyester polyols).

The group competes with multiple global chemical companies, as well as small- and mid-sized niche players in numerous product areas. Its major competitors are Arkema S.A., Clariant AG, Evonik Industries, Solvay S.A, BASF, and Akzo Nobel N.V.

Suppliers

LANXESS procures raw materials, other materials, equipment, and services from over **18,000 suppliers** globally. The group's procurement operations are centralized under its Global Procurement & Logistics Group function, which closely coordinates with business units to aggregate their raw materials, technical goods, packaging materials, services, and logistics requirements, thus bringing in purchasing synergies.

The group's **procurement policy is highly resilient**, entailing multiple sourcing contracts to avoid bottlenecks, rigorous inventory management, and long-term supply contracts (mainly for chemical raw materials). In addition, key materials, such as biomass and steam, are procured from locations close to production sites to ensure cost-efficient sourcing. Major chemical raw materials suppliers of the group include BASF, BP, Chevron, Covestro, ExxonMobil, INEOS, Olin, Sasol, and Shell Chemicals.

SWOT analysis

Strengths

- highly diversified portfolio of products, customers and end markets
- increasing exposure to niche high-margin products and reduced cyclicality through portfolio transactions
- balance sheet provides room for further selective acquisitions
- highly improved ESG rating

Weaknesses

- Equity story can be overwhelming: four segments, eleven business units, thousands of products, thousands of suppliers and thousands of customers in diverse geographies, applications and end markets
- Perception as a supplier of cyclical commodity products

Opportunities

- Continued realignment of portfolio towards higher margin specialties and ensuing rerating
- Surprise potential from B2B platform CheMondis and participation in Standard Lithium

Threats

- Acquisitions could prove dilutive if synergies do not materialize
- Cyclical downturn

Growth

Over the past five years, LANXESS has significantly **realigned its portfolio**, undertaking focused acquisitions in core areas and divesting business units with sub-par performance/low margins. It has now built a more **specialty-chemical skewed portfolio, focusing on niche high-margin products** where it has strong market positions.

At the same time, the group has also tried to bring in **more diversification in its end-markets**, thus **reducing exposure to highly cyclical industries**, such as automobiles and construction. Key acquisitions, including Chemours' clean and disinfect business in 2016, Chemtura in 2017, Emerald Kalama Chemical in 2021 (world's leading manufacturer of specialty chemicals, primarily for the consumer goods sector), and French Theseo Group in 2021, and the proposed purchase of the microbial control business from US-based International Flavors & Fragrances Inc. have strengthened LANXESS's market position in specialty chemicals.

Meanwhile, the group has disposed its lower-margin synthetic rubber business Arlanxeo in 2018, its stake in chemical park operator Currenta, its non-core organic leather chemical and chrome chemicals, and its reverse osmosis membrane and organometallics businesses to bring in **stability to its operating margins**.

Multiple market research agencies expect the **global specialty chemicals industry to grow at a CAGR of ca 5%-6% over the next five years**. The post-pandemic recovery in automotive, agro-chemicals, construction, and industrial operations is likely to fuel growth ahead.

Furthermore, increasing focus on environmental-friendly and sustainable specialty chemicals/green chemistry and mega industry trends, such as efficient mobility (mainly e-mobility), urbanization-led construction demand, and increasing focus on drinking water treatment, health, and disinfection are set to drive industry growth.

| Growth table (EURm) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|---------------------|---------|---------|---------|---------|---------|---------|
| Sales | 6,824.0 | 6,802.0 | 6,104.0 | 6,836.5 | 7,403.9 | 7,774.1 |
| Sales growth | 4.5% | -0.3% | -10.3% | 12.0% | 8.3% | 5.0% |
| EBIT | 491.0 | 407.0 | 253.0 | 492.2 | 636.7 | 738.5 |
| EBIT margin | 7.2% | 6.0% | 4.1% | 7.2% | 8.6% | 9.5% |
| Net profit | 431.0 | 205.0 | 885.0 | 252.2 | 357.9 | 432.8 |

Source: Company data; AlsterResearch

| P&L data | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 |
|--------------------|-------------|--------------|-------------|-------------|-------------|--------------|-------------|-------------|
| Sales | 1,781.0 | 1,636.0 | 1,704.0 | 1,436.0 | 1,461.0 | 1,503.0 | 1,693.0 | 1,831.0 |
| yoy growth in % | -0.3% | -7.4% | -6.5% | -20.7% | -18.0% | -8.1% | -0.6% | 27.5% |
| Gross profit | 452.0 | 325.0 | 435.0 | 394.0 | 350.0 | 377.0 | 427.0 | 475.0 |
| Gross margin in % | 25.4% | 19.9% | 25.5% | 27.4% | 24.0% | 25.1% | 25.2% | 25.9% |
| EBITDA | 215.0 | 76.0 | 193.0 | 172.0 | 147.0 | 140.0 | 188.0 | 217.0 |
| EBITDA margin in % | 12.1% | 4.6% | 11.3% | 12.0% | 10.1% | 9.3% | 11.1% | 11.9% |
| EBIT | 94.0 | -71.0 | 78.0 | 35.0 | 30.0 | 5.0 | 71.0 | 95.0 |
| EBIT margin in % | 5.3% | -4.3% | 4.6% | 2.4% | 2.1% | 0.3% | 4.2% | 5.2% |
| EBT | 103.0 | -8.0 | 88.0 | 928.0 | 34.0 | 24.0 | 85.0 | 108.0 |
| taxes paid | 24.0 | -1.0 | 25.0 | 125.0 | 9.0 | 6.0 | 22.0 | 31.0 |
| tax rate in % | 23.3% | 12.5% | 28.4% | 13.5% | 26.5% | 25.0% | 25.9% | 28.7% |
| net profit | 69.0 | -48.0 | 64.0 | 798.0 | 26.0 | -3.0 | 64.0 | 100.0 |
| yoy growth in % | -37.3% | na% | -23.8% | 698.0% | -62.3% | na% | 0.0% | -87.5% |
| EPS | 0.79 | -0.55 | 0.73 | 9.24 | 0.30 | -0.03 | 0.74 | 1.16 |

Source: Company data; AlsterResearch

Valuation

DCF Model

The DCF model results in a **fair value of EUR 85.91 per share**:

Top-line growth: We expect Lanxess AG to continue benefitting from structural growth. Hence our growth estimates for 2021-28E is in the range of 4.3% p.a. The long-term growth rate is set at 1.0%.

WACC. The averaged 1-, 3- and 5-year historical equity beta is calculated as 1.22. Unlevering and correcting for mean reversion yields an asset beta of 0.81. Combined with a risk-free rate of 2.0% and an equity risk premium of 6.0% this yields cost of equity of 10.9%. With pre-tax cost of borrowing at 5.0%, a tax rate of 25.0% and target debt/equity of 1.1 this results in a long-term WACC of 7.1%.

| DCF (EUR m) (except per share data and beta) | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | Terminal value |
|---|--------|--------|--------|--------|--------|--------|--------|--------|----------------|
| NOPAT | 336.8 | 434.6 | 503.6 | 528.4 | 544.1 | 560.1 | 558.5 | 568.8 | |
| Depreciation & amortization | 561.0 | 641.5 | 639.1 | 640.9 | 646.5 | 653.4 | 661.5 | 670.8 | |
| Change in working capital | -460.0 | -103.3 | -68.8 | -73.4 | -46.2 | -47.6 | -49.1 | -50.5 | |
| Chg. in long-term provisions | 120.2 | 158.9 | 103.7 | 108.8 | 68.6 | 70.6 | 72.7 | 74.9 | |
| Capex | -512.7 | -555.3 | -583.1 | -612.2 | -630.6 | -649.5 | -669.0 | -689.0 | |
| Cash flow | 45.2 | 576.4 | 594.4 | 592.5 | 582.3 | 587.0 | 574.7 | 574.9 | 9,455.4 |
| Present value | 44.4 | 530.2 | 511.5 | 477.1 | 438.7 | 413.8 | 379.0 | 354.8 | 5,731.5 |
| WACC | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 7.1% |

| DCF per share derived from | |
|---|------------------------------|
| Total present value | 8,881.0 |
| Mid-year adj. total present value | 9,182.6 |
| Net debt / cash at start of year | 972.0 |
| Financial assets | 502.0 |
| Provisions and off b/s debt | 1,274.0 |
| Equity value | 7,438.6 |
| No. of shares outstanding | 86.6 |
| Discounted cash flow / share upside/(downside) | 85.91 41.8% |

| DCF avg. growth and earnings assumptions | |
|--|------|
| Planning horizon avg. revenue growth (2021E - 2028E) | 4.3% |
| Terminal value growth (2028E - infinity) | 1.0% |
| Terminal year ROCE | 9.2% |
| Terminal year WACC | 7.1% |

| Terminal WACC derived from | |
|--------------------------------------|-------|
| Cost of borrowing (before taxes) | 5.0% |
| Long-term tax rate | 25.0% |
| Equity beta | 1.22 |
| Unlevered beta (industry or company) | 0.81 |
| Target debt / equity | 1.1 |
| Relevered beta | 1.48 |
| Risk-free rate | 2.0% |
| Equity risk premium | 6.0% |
| Cost of equity | 10.9% |

| | |
|--------------------|--------------|
| Share price | 60.58 |
|--------------------|--------------|

| Sensitivity analysis DCF | | | | | | | | |
|------------------------------|--|------------------|-------|-------------|-------|-------|------------------------|---------------|
| Change in WACC (%-points) | | Long term growth | | | | | Share of present value | |
| | | 1.0% | 0.5% | 1.0% | 1.5% | 2.0% | 2021E - 2024E | 2025E - 2028E |
| 2.0% | | 55.4 | 57.9 | 60.7 | 64.0 | 67.6 | 17.6% | 17.9% |
| 1.0% | | 64.3 | 67.7 | 71.6 | 76.0 | 81.2 | | |
| 0.0% | | 75.7 | 80.4 | 85.9 | 92.3 | 100.0 | | |
| -1.0% | | 90.9 | 97.7 | 105.8 | 115.7 | 127.9 | | |
| -2.0% | | 111.9 | 122.4 | 135.3 | 151.8 | 173.5 | | 64.5% |

Source: AlsterResearch

FCF Yield Model

Due to the fact that companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and in order to adjust for the pitfalls of weak long-term visibility, an Adjusted Free Cash Flow analysis (Adjusted FCF) has been conducted.

The adjusted Free Cash Flow Yield results in a fair value between EUR 59.17 per share based on 2021E and 126.35 EUR per share on 2025E estimates. **Valuation on 2022E already results in a price target of almost EUR 100**, thus easily surpassing the DCF based fair value calculations.

The main driver of this model is the level of return available to a controlling investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company. Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capex).

| FCF yield in EURm | 2021E | 2022E | 2023E | 2024E | 2025E |
|------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| EBITDA | 1,053.3 | 1,278.2 | 1,377.6 | 1,416.4 | 1,445.2 |
| - Maintenance capex | 481.3 | 487.0 | 499.3 | 514.4 | 532.0 |
| - Minorities | 7.8 | 11.1 | 13.4 | 14.4 | 15.1 |
| - tax expenses | 111.4 | 158.1 | 191.2 | 205.6 | 215.1 |
| = Adjusted FCF | 452.7 | 622.0 | 673.8 | 682.0 | 683.0 |
| Actual Market Cap | 5,245.5 | 5,245.5 | 5,245.5 | 5,245.5 | 5,245.5 |
| + Net debt (cash) | 1,957.1 | 1,547.2 | 1,153.4 | 782.6 | 428.5 |
| + Pension provisions | 1,367.3 | 1,480.8 | 1,554.8 | 1,632.6 | 1,681.5 |
| + Off b/s financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Financial assets | 502.0 | 502.0 | 502.0 | 502.0 | 502.0 |
| - Acc. dividend payments | 86.6 | 187.5 | 330.6 | 503.7 | 689.9 |
| <i>EV Reconciliations</i> | 2,735.8 | 2,338.5 | 1,875.6 | 1,409.4 | 918.2 |
| = Actual EV' | 7,981.3 | 7,584.0 | 7,121.1 | 6,654.9 | 6,163.6 |
| Adjusted FCF yield | 5.7% | 8.2% | 9.5% | 10.2% | 11.1% |
| base hurdle rate | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| ESG adjustment | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| adjusted hurdle rate | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% |
| Fair EV | 7,859.4 | 10,799.0 | 11,697.5 | 11,839.8 | 11,858.5 |
| - <i>EV Reconciliations</i> | 2,735.8 | 2,338.5 | 1,875.6 | 1,409.4 | 918.2 |
| Fair Market Cap | 5,123.6 | 8,460.5 | 9,821.9 | 10,430.4 | 10,940.3 |
| No. of shares (million) | 86.6 | 86.6 | 86.6 | 86.6 | 86.6 |
| Fair value per share in EUR | 59.17 | 97.71 | 113.43 | 120.46 | 126.35 |
| Premium (-) / discount (+) | -2.3% | 61.3% | 87.2% | 98.8% | 108.6% |

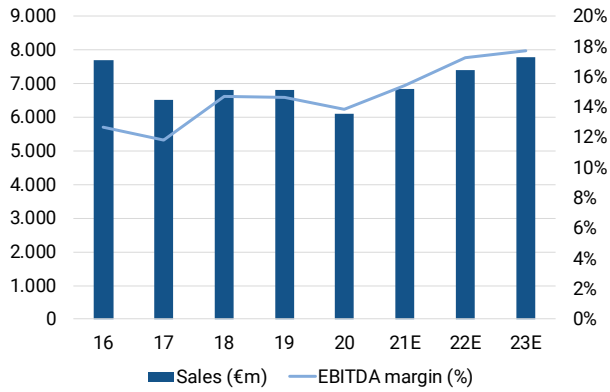
| Sensitivity analysis fair value | | | | | | |
|---------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Adjusted hurdle rate | 3.8% | 107.5 | 164.0 | 185.3 | 193.2 | 199.2 |
| | 4.8% | 78.2 | 123.9 | 141.8 | 149.2 | 155.1 |
| | 5.8% | 59.2 | 97.7 | 113.4 | 120.5 | 126.3 |
| | 6.8% | 45.7 | 79.3 | 93.4 | 100.2 | 106.1 |
| | 7.8% | 35.8 | 65.6 | 78.6 | 85.2 | 91.1 |

Source: Company data; AlsterResearch

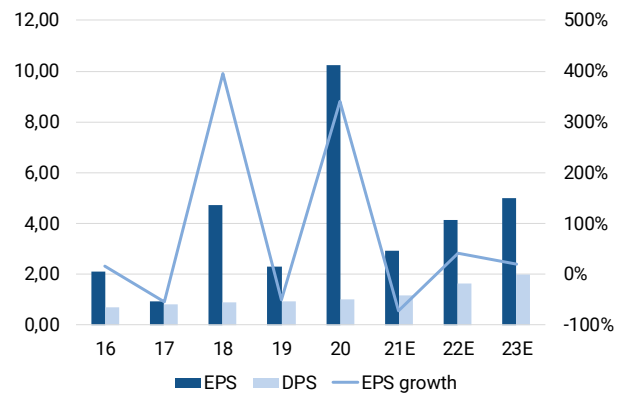
Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after-tax return equals the model's hurdle rate of 6.0%. Anything less suggests the stock is expensive; anything more suggests the stock is cheap. **We have adjusted the hurdle rate to factor in the above average Leeway ESG Score.**

Financials in six charts

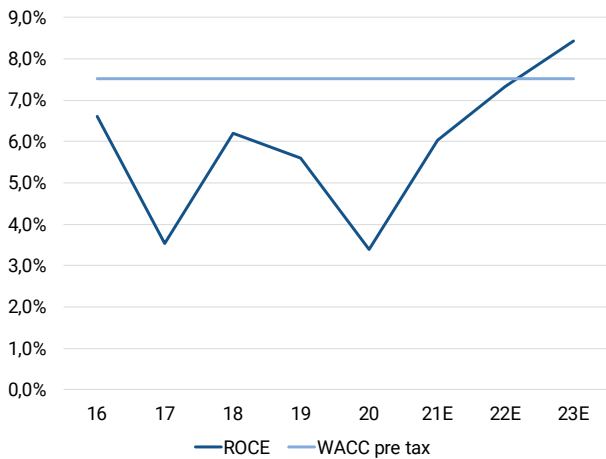
Sales vs. EBITDA margin development



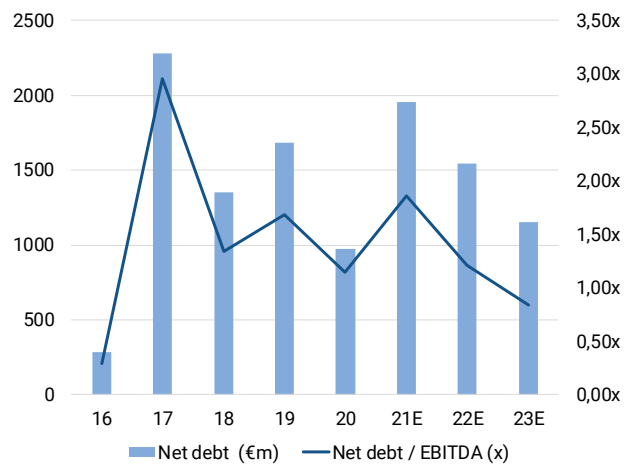
EPS, DPS in EUR & yoy EPS growth



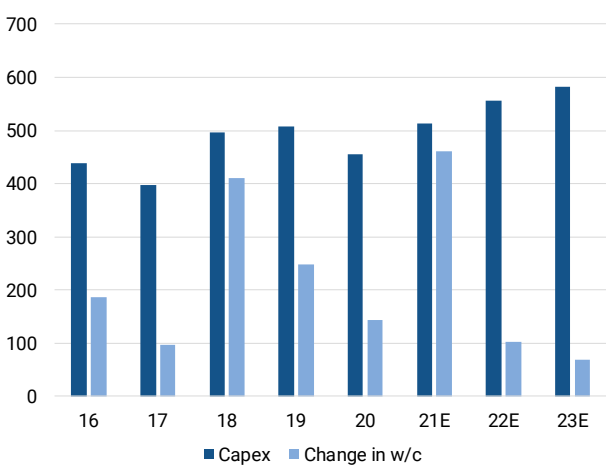
ROCE vs. WACC (pre tax)



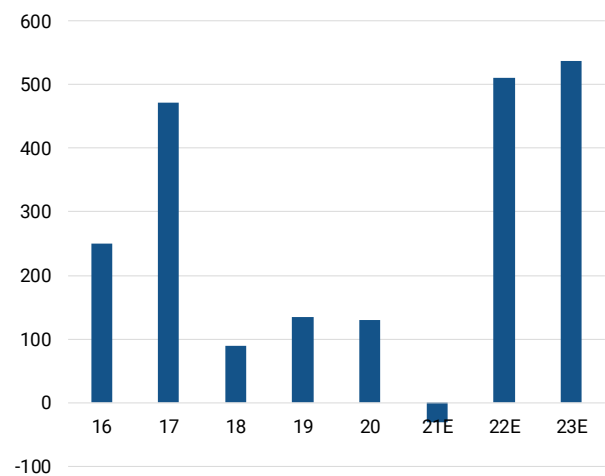
Net debt and net debt/EBITDA



Capex & chgn in w/c requirements in EURm



Free Cash Flow in EURm



Source: AlsterResearch

Financials

| Profit and loss (EUR m) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Sales | 6,824.0 | 6,802.0 | 6,104.0 | 6,836.5 | 7,403.9 | 7,774.1 |
| Sales growth | 4.5% | -0.3% | -10.3% | 12.0% | 8.3% | 5.0% |
| Cost of sales | 5,086.0 | 5,043.0 | 4,548.0 | 5,004.3 | 5,390.0 | 5,651.8 |
| Gross profit | 1,738.0 | 1,759.0 | 1,556.0 | 1,832.2 | 2,013.9 | 2,122.3 |
| SG&A expenses | 1,057.0 | 1,090.0 | 1,041.0 | 1,093.8 | 1,162.4 | 1,181.7 |
| Research and development | 109.0 | 114.0 | 108.0 | 109.4 | 103.7 | 108.8 |
| Other operating expenses (income) | 81.0 | 148.0 | 154.0 | 136.7 | 111.1 | 93.3 |
| EBITDA | 1,005.0 | 997.0 | 846.0 | 1,053.3 | 1,278.2 | 1,377.6 |
| Depreciation | 431.0 | 503.0 | 504.0 | 481.3 | 487.0 | 499.3 |
| EBITA | 574.0 | 494.0 | 342.0 | 571.9 | 791.2 | 878.4 |
| Amortisation of goodwill and intangible assets | 83.0 | 87.0 | 89.0 | 79.7 | 154.5 | 139.8 |
| EBIT | 491.0 | 407.0 | 253.0 | 492.2 | 636.7 | 738.5 |
| Financial result | -110.0 | -61.0 | 821.0 | -120.8 | -109.6 | -101.2 |
| Recurring pretax income from continuing operations | 381.0 | 346.0 | 1,074.0 | 371.4 | 527.1 | 637.3 |
| Extraordinary income/loss | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Earnings before taxes | 381.0 | 346.0 | 1,074.0 | 371.4 | 527.1 | 637.3 |
| Taxes | 99.0 | 105.0 | 165.0 | 111.4 | 158.1 | 191.2 |
| Net income from continuing operations | 282.0 | 241.0 | 909.0 | 260.0 | 369.0 | 446.1 |
| Result from discontinued operations (net of tax) | 241.0 | -50.0 | -7.0 | 0.0 | 0.0 | 0.0 |
| Net income | 523.0 | 191.0 | 902.0 | 260.0 | 369.0 | 446.1 |
| Minority interest | -92.0 | 14.0 | -17.0 | -7.8 | -11.1 | -13.4 |
| Net profit (reported) | 431.0 | 205.0 | 885.0 | 252.2 | 357.9 | 432.8 |
| Average number of shares | 91.52 | 88.33 | 86.59 | 86.59 | 86.59 | 86.59 |
| EPS reported | 4.71 | 2.32 | 10.22 | 2.91 | 4.13 | 5.00 |

| Profit and loss (common size) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales | 100% | 100% | 100% | 100% | 100% | 100% |
| Cost of sales | 75% | 74% | 75% | 73% | 73% | 73% |
| Gross profit | 25% | 26% | 25% | 27% | 27% | 27% |
| SG&A expenses | 15% | 16% | 17% | 16% | 16% | 15% |
| Research and development | 2% | 2% | 2% | 2% | 1% | 1% |
| Other operating expenses (income) | 1% | 2% | 3% | 2% | 2% | 1% |
| EBITDA | 15% | 15% | 14% | 15% | 17% | 18% |
| Depreciation | 6% | 7% | 8% | 7% | 7% | 6% |
| EBITA | 8% | 7% | 6% | 8% | 11% | 11% |
| Amortisation of goodwill and intangible assets | 1% | 1% | 1% | 1% | 2% | 2% |
| EBIT | 7% | 6% | 4% | 7% | 9% | 10% |
| Financial result | -2% | -1% | 13% | -2% | -1% | -1% |
| Recurring pretax income from continuing operations | 6% | 5% | 18% | 5% | 7% | 8% |
| Extraordinary income/loss | 0% | 0% | 0% | 0% | 0% | 0% |
| Earnings before taxes | 6% | 5% | 18% | 5% | 7% | 8% |
| Taxes | 1% | 2% | 3% | 2% | 2% | 2% |
| Net income from continuing operations | 4% | 4% | 15% | 4% | 5% | 6% |
| Result from discontinued operations (net of tax) | 4% | -1% | -0% | 0% | 0% | 0% |
| Net income | 8% | 3% | 15% | 4% | 5% | 6% |
| Minority interest | -1% | 0% | -0% | -0% | -0% | -0% |
| Net profit (reported) | 6% | 3% | 14% | 4% | 5% | 6% |

Source: Company data; AlsterResearch

| Balance sheet (EUR m) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|----------------|----------------|----------------|----------------|-----------------|-----------------|
| Intangible assets (excl. Goodwill) | 914.0 | 900.0 | 839.0 | 1,626.3 | 1,471.8 | 1,332.0 |
| Goodwill | 850.0 | 865.0 | 808.0 | 808.0 | 808.0 | 808.0 |
| Property, plant and equipment | 2,577.0 | 2,724.0 | 2,674.0 | 2,705.4 | 2,773.7 | 2,857.5 |
| Financial assets | 445.0 | 576.0 | 502.0 | 502.0 | 502.0 | 502.0 |
| FIXED ASSETS | 4,786.0 | 5,065.0 | 4,823.0 | 5,641.7 | 5,555.5 | 5,499.5 |
| Inventories | 1,347.0 | 1,195.0 | 1,070.0 | 1,371.0 | 1,476.7 | 1,548.4 |
| Accounts receivable | 903.0 | 769.0 | 745.0 | 842.9 | 912.8 | 958.5 |
| Other current assets | 55.0 | 315.0 | 219.0 | 219.0 | 219.0 | 219.0 |
| Liquid assets | 1,395.0 | 1,160.0 | 1,859.0 | 1,642.9 | 1,652.8 | 1,746.6 |
| Deferred taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred charges and prepaid expenses | 201.0 | 191.0 | 164.0 | 191.4 | 207.3 | 217.7 |
| CURRENT ASSETS | 3,901.0 | 3,630.0 | 4,057.0 | 4,267.2 | 4,468.6 | 4,690.1 |
| TOTAL ASSETS | 8,687.0 | 8,695.0 | 8,880.0 | 9,908.9 | 10,024.1 | 10,189.6 |
| SHAREHOLDERS EQUITY | 2,780.0 | 2,669.0 | 3,001.0 | 3,174.4 | 3,442.5 | 3,745.5 |
| MINORITY INTEREST | -7.0 | -22.0 | -2.0 | -2.0 | -2.0 | -2.0 |
| Long-term debt | 2,686.0 | 2,777.0 | 2,265.0 | 2,800.0 | 2,500.0 | 2,500.0 |
| Provisions for pensions and similar obligations | 1,146.0 | 1,242.0 | 1,274.0 | 1,367.3 | 1,480.8 | 1,554.8 |
| Other provisions | 563.0 | 547.0 | 520.0 | 546.9 | 592.3 | 621.9 |
| Non-current liabilities | 4,395.0 | 4,566.0 | 4,059.0 | 4,714.2 | 4,573.1 | 4,676.7 |
| short-term liabilities to banks | 59.0 | 66.0 | 566.0 | 800.0 | 700.0 | 400.0 |
| Accounts payable | 795.0 | 656.0 | 681.0 | 644.4 | 694.1 | 727.8 |
| Advance payments received on orders | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities (incl. from lease and rental contracts) | 362.0 | 471.0 | 326.0 | 328.2 | 355.4 | 373.2 |
| Deferred taxes | 89.0 | 109.0 | 113.0 | 113.0 | 113.0 | 113.0 |
| Deferred income | 214.0 | 180.0 | 136.0 | 136.7 | 148.1 | 155.5 |
| Current liabilities | 1,519.0 | 1,482.0 | 1,822.0 | 2,022.3 | 2,010.5 | 1,769.4 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 8,687.0 | 8,695.0 | 8,880.0 | 9,908.9 | 10,024.1 | 10,189.6 |

| Balance sheet (common size) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Intangible assets (excl. Goodwill) | 11% | 10% | 9% | 16% | 15% | 13% |
| Goodwill | 10% | 10% | 9% | 8% | 8% | 8% |
| Property, plant and equipment | 30% | 31% | 30% | 27% | 28% | 28% |
| Financial assets | 5% | 7% | 6% | 5% | 5% | 5% |
| FIXED ASSETS | 55% | 58% | 54% | 57% | 55% | 54% |
| Inventories | 16% | 14% | 12% | 14% | 15% | 15% |
| Accounts receivable | 10% | 9% | 8% | 9% | 9% | 9% |
| Other current assets | 1% | 4% | 2% | 2% | 2% | 2% |
| Liquid assets | 16% | 13% | 21% | 17% | 16% | 17% |
| Deferred taxes | 0% | 0% | 0% | 0% | 0% | 0% |
| Deferred charges and prepaid expenses | 2% | 2% | 2% | 2% | 2% | 2% |
| CURRENT ASSETS | 45% | 42% | 46% | 43% | 45% | 46% |
| TOTAL ASSETS | 100% | 100% | 100% | 100% | 100% | 100% |
| SHAREHOLDERS EQUITY | 32% | 31% | 34% | 32% | 34% | 37% |
| MINORITY INTEREST | -0% | -0% | -0% | -0% | -0% | -0% |
| Long-term debt | 31% | 32% | 26% | 28% | 25% | 25% |
| Provisions for pensions and similar obligations | 13% | 14% | 14% | 14% | 15% | 15% |
| Other provisions | 6% | 6% | 6% | 6% | 6% | 6% |
| Non-current liabilities | 51% | 53% | 46% | 48% | 46% | 46% |
| short-term liabilities to banks | 1% | 1% | 6% | 8% | 7% | 4% |
| Accounts payable | 9% | 8% | 8% | 7% | 7% | 7% |
| Advance payments received on orders | 0% | 0% | 0% | 0% | 0% | 0% |
| Other liabilities (incl. from lease and rental contracts) | 4% | 5% | 4% | 3% | 4% | 4% |
| Deferred taxes | 1% | 1% | 1% | 1% | 1% | 1% |
| Deferred income | 2% | 2% | 2% | 1% | 1% | 2% |
| Current liabilities | 17% | 17% | 21% | 20% | 20% | 17% |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Company data; AlsterResearch

| Cash flow statement (EUR m) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|-----------------|---------------|-----------------|-----------------|----------------|----------------|
| Net profit/loss | 390.0 | 346.0 | 1,074.0 | 260.0 | 369.0 | 446.1 |
| Depreciation of fixed assets (incl. leases) | 431.0 | 503.0 | 504.0 | 481.3 | 487.0 | 499.3 |
| Amortisation of goodwill | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortisation of intangible assets | 0.0 | 0.0 | 0.0 | 79.7 | 154.5 | 139.8 |
| Others | 176.0 | 42.0 | -850.0 | 120.2 | 158.9 | 103.7 |
| Cash flow from operations before changes in w/c | 997.0 | 891.0 | 728.0 | 941.2 | 1,169.3 | 1,188.9 |
| Increase/decrease in inventory | -143.0 | 85.0 | 73.0 | -301.0 | -105.7 | -71.7 |
| Increase/decrease in accounts receivable | -74.0 | 94.0 | -8.0 | -97.9 | -70.0 | -45.6 |
| Increase/decrease in accounts payable | 52.0 | -111.0 | 41.0 | -36.6 | 49.7 | 33.7 |
| Increase/decrease in other w/c positions | -246.0 | -316.0 | -249.0 | -24.5 | 22.7 | 14.8 |
| Increase/decrease in working capital | -411.0 | -248.0 | -143.0 | -460.0 | -103.3 | -68.8 |
| Cash flow from operating activities | 586.0 | 643.0 | 585.0 | 481.2 | 1,066.1 | 1,120.0 |
| CAPEX | -497.0 | -508.0 | -456.0 | -512.7 | -555.3 | -583.1 |
| Payments for acquisitions | -66.0 | 0.0 | -25.0 | -867.0 | 0.0 | 0.0 |
| Financial investments | -848.0 | -230.0 | -697.0 | 0.0 | 0.0 | 0.0 |
| Income from asset disposals | 3.0 | 6.0 | 4.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from investing activities | -1,408.0 | -732.0 | -1,174.0 | -1,379.7 | -555.3 | -583.1 |
| Cash flow before financing | -822.0 | -89.0 | -589.0 | -898.5 | 510.8 | 537.0 |
| Increase/decrease in debt position | -9.0 | -86.0 | -48.0 | 769.0 | -400.0 | -300.0 |
| Purchase of own shares | 0.0 | -200.0 | -37.0 | 0.0 | 0.0 | 0.0 |
| Capital measures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | -74.0 | -79.0 | -82.0 | -86.6 | -100.9 | -143.2 |
| Others | -134.0 | -68.0 | -80.0 | 0.0 | 0.0 | 0.0 |
| Effects of exchange rate changes on cash | -6.0 | 1.0 | -10.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from financing activities | -223.0 | -432.0 | -257.0 | 682.4 | -500.9 | -443.2 |
| Increase/decrease in liquid assets | -1,045.0 | -521.0 | -846.0 | -216.1 | 9.9 | 93.8 |
| Liquid assets at end of period | 797.0 | 296.0 | 271.0 | 54.9 | 64.8 | 158.6 |

Source: Company data; AlsterResearch

| Regional sales split (EURm) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Domestic | 1,386.0 | 1,251.0 | 1,128.0 | 1,263.4 | 1,368.2 | 1,436.6 |
| Europe (ex domestic) | 2,167.0 | 2,128.0 | 1,876.0 | 2,101.1 | 2,275.5 | 2,389.3 |
| The Americas | 1,840.0 | 1,885.0 | 1,703.0 | 1,907.4 | 2,065.7 | 2,169.0 |
| Asia | 1,431.0 | 1,538.0 | 1,397.0 | 1,564.6 | 1,694.5 | 1,779.2 |
| Rest of World | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total sales | 6,824.0 | 6,802.0 | 6,104.0 | 6,836.5 | 7,403.9 | 7,774.1 |

| Regional sales split (common size) | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Domestic | 20.3% | 18.4% | 18.5% | 18.5% | 18.5% | 18.5% |
| Europe (ex domestic) | 31.8% | 31.3% | 30.7% | 30.7% | 30.7% | 30.7% |
| The Americas | 27.0% | 27.7% | 27.9% | 27.9% | 27.9% | 27.9% |
| Asia | 21.0% | 22.6% | 22.9% | 22.9% | 22.9% | 22.9% |
| Rest of World | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Total sales | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Company data; AlsterResearch

| Ratios | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|-----------------------------------|---------|---------|---------|------------|---------|---------|
| Per share data | | | | | | |
| Earnings per share reported | 4.71 | 2.32 | 10.22 | 2.91 | 4.13 | 5.00 |
| Cash flow per share | 6.40 | 7.28 | 6.76 | -0.00 | 6.69 | 7.17 |
| Book value per share | 30.37 | 30.21 | 34.66 | 36.66 | 39.76 | 43.26 |
| Dividend per share | 0.90 | 0.95 | 1.00 | 1.17 | 1.65 | 2.00 |
| Valuation | | | | | | |
| P/E | 12.9x | 26.1x | 5.9x | 20.8x | 14.7x | 12.1x |
| P/CF | 9.5x | 8.3x | 9.0x | -40,733.7x | 9.1x | 8.4x |
| P/BV | 2.0x | 2.0x | 1.7x | 1.7x | 1.5x | 1.4x |
| Dividend yield (%) | 1.5% | 1.6% | 1.7% | 1.9% | 2.7% | 3.3% |
| FCF yield (%) | 10.6% | 12.0% | 11.2% | -0.0% | 11.0% | 11.8% |
| EV/Sales | 1.1x | 1.2x | 1.2x | 1.3x | 1.1x | 1.0x |
| EV/EBITDA | 7.7x | 8.2x | 8.9x | 8.1x | 6.5x | 5.8x |
| EV/EBIT | 15.8x | 20.1x | 29.6x | 17.4x | 13.0x | 10.8x |
| Income statement (EURm) | | | | | | |
| Sales | 6,824.0 | 6,802.0 | 6,104.0 | 6,836.5 | 7,403.9 | 7,774.1 |
| yoy chg in % | 4.5% | -0.3% | -10.3% | 12.0% | 8.3% | 5.0% |
| Gross profit | 1,738.0 | 1,759.0 | 1,556.0 | 1,832.2 | 2,013.9 | 2,122.3 |
| Gross margin in % | 25.5% | 25.9% | 25.5% | 26.8% | 27.2% | 27.3% |
| EBITDA | 1,005.0 | 997.0 | 846.0 | 1,053.3 | 1,278.2 | 1,377.6 |
| EBITDA margin in % | 14.7% | 14.7% | 13.9% | 15.4% | 17.3% | 17.7% |
| EBIT | 491.0 | 407.0 | 253.0 | 492.2 | 636.7 | 738.5 |
| EBIT margin in % | 7.2% | 6.0% | 4.1% | 7.2% | 8.6% | 9.5% |
| Net profit | 431.0 | 205.0 | 885.0 | 252.2 | 357.9 | 432.8 |
| Cash flow statement (EURm) | | | | | | |
| CF from operations | 586.0 | 643.0 | 585.0 | 481.2 | 1,066.1 | 1,120.0 |
| Capex | -497.0 | -508.0 | -456.0 | -512.7 | -555.3 | -583.1 |
| Maintenance Capex | 0.0 | 0.0 | 0.0 | 481.3 | 487.0 | 499.3 |
| Free cash flow | 89.0 | 135.0 | 129.0 | -31.5 | 510.8 | 537.0 |
| Balance sheet (EURm) | | | | | | |
| Intangible assets | 1,764.0 | 1,765.0 | 1,647.0 | 2,434.3 | 2,279.8 | 2,140.0 |
| Tangible assets | 2,577.0 | 2,724.0 | 2,674.0 | 2,705.4 | 2,773.7 | 2,857.5 |
| Shareholders' equity | 2,780.0 | 2,669.0 | 3,001.0 | 3,174.4 | 3,442.5 | 3,745.5 |
| Pension provisions | 1,146.0 | 1,242.0 | 1,274.0 | 1,367.3 | 1,480.8 | 1,554.8 |
| Liabilities and provisions | 4,454.0 | 4,632.0 | 4,625.0 | 5,514.2 | 5,273.1 | 5,076.7 |
| Net financial debt | 1,350.0 | 1,683.0 | 972.0 | 1,957.1 | 1,547.2 | 1,153.4 |
| w/c requirements | 1,455.0 | 1,308.0 | 1,134.0 | 1,569.5 | 1,695.5 | 1,779.1 |
| Ratios | | | | | | |
| ROE | 18.8% | 7.2% | 30.1% | 8.2% | 10.7% | 11.9% |
| ROCE | 6.8% | 5.6% | 3.3% | 5.7% | 7.3% | 8.4% |
| Net gearing | 48.6% | 63.1% | 32.4% | 61.7% | 44.9% | 30.8% |
| Net debt / EBITDA | 1.3x | 1.7x | 1.1x | 1.9x | 1.2x | 0.8x |

Source: Company data; AlsterResearch

Conflicts of interest

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