



# Atlas Copco: Breakdowns Research

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## Research Sources

[Annual report](#)

[Q4 2021 report](#)

[People Podcast](#)

## Summary

- Atlas Copco is a global industrial conglomerate that manufactures tools and other industrial equipment. The company was founded in 1873 and is headquartered in Nacka, Sweden but has grown to develop a global presence in more than 180 countries. It specializes in niche markets - notably, a majority of its revenue comes from the Asia/Oceania region.
- The Group operates four business areas which collectively generated revenues of over \$11B (111B SEK) in 2021. It had [42,862 employees](#) by the end of year 2021. The business used to be heavily exposed to business cycles and to mitigate this, it has tried to reshape its revenues in such a way that more of it comes from service rather than equipment. Service revenues are more resilient even in downturns.
- The Group operates through a decentralized organization structure which allows great autonomy to division heads. It has manufacturing plants close to its customers to enable it to offer better customer services and ease logistics challenges. The decentralized structure allows them to have a presence close to the customer and be more customer-centric. A large portion of the company's growth has also come through the use of strategic M&A in these key markets.

## Company History

- **1873:** The company, then called AB Atlas, was founded by **Eduard Fränckel**, the chief engineer for Swedish State Railways (SJ), and **D.O. Francke**, a Swedish industrialist, and financier. The company was meant to provide equipment for the country's newly built railway. The young company had **André Oscar Wallenberg**, founder of Sweden's first commercial bank, Stockholms Enskilda Bank (SEB) as a major shareholder.
- **1890:** The company was initially profitable but ran into problems in the 1890s, forcing it to be liquidated and Nya AB Atlas was formed under the leadership of Oscar Limm. The company shifted to new production lines: locomotives, commercial central heating systems, and machine tools.
  - *"Nya AB Atlas became the cornerstone for the [Wallenberg] family's industrial empire, which now embraces most of Sweden's multinational corporations"* - [Company History](#)

- **1901:** The company established pneumatic tools as a new business line growing it to 50% of the company's revenue by the start of WW1. By 1911, the company had discontinued all business lines except for pneumatic tools.
- **1917:** Nya AB Atlas merged with Diesels Motorer, a manufacturer of marine engines and stationary diesel engines to form Atlas Diesel. The companies had similar owners hence the need to merge. Nya Atlas President Gunnar Jacobsson went on to become the President of Atlas Diesel.
- **1940 - 1957:** The pneumatic tools division continued to grow strongly but the diesel operations declined significantly and had to be discontinued by 1948. The acquisition of Arpic in the **1950s** was the first major strategic international acquisition and marked the beginning of the company's drive to do M&A in new markets.
- **1957 - 1979:** With the diesel operations halted, the company changed its name from Atlas Diesel to Atlas Copco to reflect the current state of its business. The company continued to focus on compressed air products and growing its international operations.
  - *"Copco stood for Compagnie Pneumatique Commerciale, the name of a Belgian subsidiary that had been adopted in its abbreviated form by a number of Atlas affiliates in other countries"*- [Company Histories](#)
  - A major source of growth during this period was on the expansion of production plants to new markets. By the end of the 1970s, the company was in 34 countries and more than 80% of its sales were outside Scandinavia.
- **The 1980s:** The company ran into trouble in the early 80s as a worldwide recession hit, forcing it to undertake major cost-cutting programs to survive, including shutting down 25% of its 46 factories and laying off 20% of its workforce. This much-needed triage set it on a path to recovery by the end of the decade.
- **The 1990s:** The company had to restructure again in the early 90s, with then-CEO Michael Treschow being forced to lay off 30% of the workforce. It was during this period also that the company adopted the decentralized structure that has come to define it.
  - *"Treschow also gave each Atlas Copco division manager complete worldwide responsibility for his division, with profit and loss statements and balance sheets compiled for each so that each manager's performance could be measured"* - [Company History](#)
  - During this time the company also engaged in strong and aggressive M&A:
    - *"The Industrial division gained additional breadth through the acquisition of two makers of electric tools: AEG Elektrowerkzeuge of Germany and Milwaukee Electric Tool. The latter, a \$550 million deal, was the largest purchase in Atlas Copco's history and brought to the company a privately held group that claimed more than 20% of the U.S. electric tool market for industrial and professional use. Atlas Copco also created a number of joint ventures in the emerging nation of China from 1993 through 1997, encompassing construction machinery, compressors, and electric power tools"* - [Company Histories](#)
- **2018:** The company spun off a part of the business to form Epiroc AB which focuses on customers in the mining, infrastructure, and natural resources segments.

#### Key People:

- **Mats Rahmström - President & CEO:** He is a Swedish citizen born and holds an MBA from Henley Management College in the United Kingdom. He was appointed as the company's 12th President & CEO in 2017 having joined the company in 1988 and serving in several roles over the years in sales, service, marketing, and general management in the Industrial Technique Business Division.
  - He became an Independent Director at Wärtsilä Oyj Abp in 2020 and a Member of the Royal Swedish Academy of Engineering Sciences. He has served on the Board at CL Intressenter AB and Permobil AB.
- **Hans Stråberg - Chairman of the Board:** Appointed as Chairman in 2014. He is the President and CEO of AB Electrolux, a leading global home appliance manufacturer. Has held various positions with Electrolux before rising to the COO and the CEO positions between 2002-2010.

- He is a director of various companies and has an M.Sc. in Engineering from Chalmers University of Technology, Gothenburg.

## Business Model

- Atlas Copco is an industrial company that develops smart, sustainable, and highly efficient productivity solutions used by all types of industries, to enable the customers to grow and move society forward. It offers a wide range of tools including such areas as assembly systems, power tools, generators, vacuum solutions, and compressors. It has a rich product portfolio spanning many sectors and brands:

### A portfolio of strong brands



### Atlas Copco Brands

- Generally, the company has two main ways of making money: sales of equipment and the servicing of that equipment:
  - **Sales of equipment** are conducted by engineers who have domain expertise and knowledge in order to offer the best to the customer.
  - **Service revenues** come from such areas as spare parts, maintenance, repairs, consumables, accessories, and specialty rental.
  - As of 2021, the latter constitutes 35% of the total revenue of the company while the former has 65%. Service revenues are more stable than equipment sales through business cycles and therefore provide a strong underlying foundation for the business.
- The company mostly relies on direct sales channels given its presence in 80 physical stores in more than 180 countries. They also offer 24-hour sales care to their clients.
  - The challenge here is that running these physical stores also means having inventory in them and tying up working capital in them. This means that the company is relatively asset-heavy.
    - *“The working capital requirements are affected by the relatively high share of sales through own customer centers, which affects the amount of inventory and receivables. In an improving business climate with higher volumes, more working capital will be tied up. If the business climate deteriorates, working capital will be released”* - Atlas Copco
- For ease of management, the company is divided into **4 business segments**:
  - **Compressor Technique:** Provides compressed air solutions such as air management systems, air and gas treatment systems, gas and process expanders, compressors, and industrial compressors.
  - **Vacuum Technique:** Deals with valves, exhaust management systems, vacuum products, and related equipment.
  - **Industrial Technique:** This segment offers quality assurance products, assembly solutions, industrial power systems and tools, software, and services.
  - **Power Technique:** This business segment supplies power, air, and flow solutions through various products that include generators, light towers, pumps, mobile compressors, and other complementary products.



(Source: Annual Report)

- The company is big on decentralization. The company headquarters remain lean with every business division making its own decisions. Every segment manager has their profit and loss accounts, measured against their decisions.
  - “The divisions are separate operational units, responsible for delivering results in line with the strategies and objectives set by the business area. Each division has global responsibility for a specific product or service offering. A division can include one or more product companies (units responsible for product development, manufacturing, and product marketing), distribution centers, and several customer centers (units responsible for customer contacts, sales, and service) dedicated or shared with other divisions” - Atlas Copco Annual Report

COMPRESSOR TECHNIQUE	VACUUM TECHNIQUE	INDUSTRIAL TECHNIQUE	POWER TECHNIQUE
<b>Divisions</b>	<b>Divisions</b>	<b>Divisions</b>	<b>Divisions</b>
Compressor Technique Service	Vacuum Technique Service	Industrial Technique Service	Power Technique Service
Industrial Air	Semiconductor Service	Motor Vehicle Industry Tools and Assembly Systems	Specialty Rental
Oil-free Air	Semiconductor	General Industry Tools and Assembly Systems	Portable Air
Professional Air	Semiconductor Chamber Solutions	Chicago Pneumatic Tools	Power and Flow
Gas and Process	Scientific Vacuum	Industrial Assembly Solutions	
Medical Gas Solutions	Industrial Vacuum	Machine Vision Solutions	
Airtec			

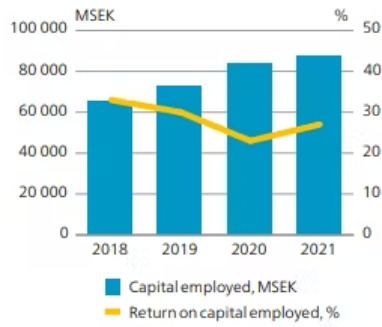
Divisions generally conduct business through product companies, distribution centers and customer centers.

(Source: Annual Report)

## Economics

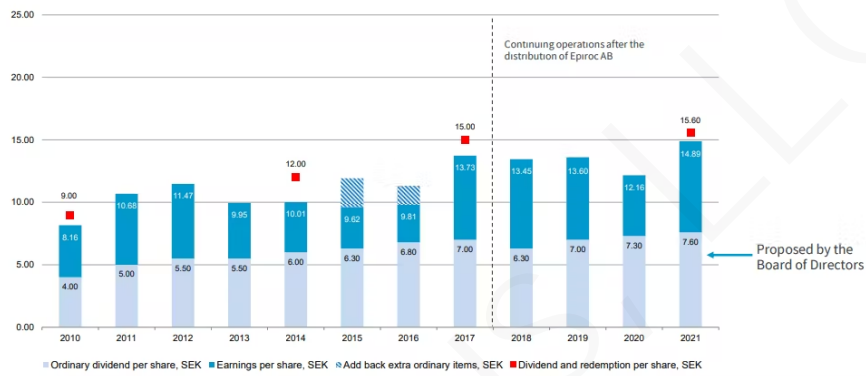
### 2021 Key Metrics:

- The company has some ambitious targets to hit by 2030 and these include an annual revenue growth rate of ~8% over the business cycle, a sustained high return on capital employed and a dividend payout ratio of around 50%.
  - Revenues:** The average revenue growth rate in the past 10 years has been around 8% though this has slowed down in the past 3 years.
  - Return on Capital Employed:** Here is how ROCE has been trending lately:



(Source: Atlas Copco)

- **DPR:** Before 2003, it paid 30–40%. Between 2003 and 2011, that increased to 40–50% of earnings and since then, it has averaged about 50%.

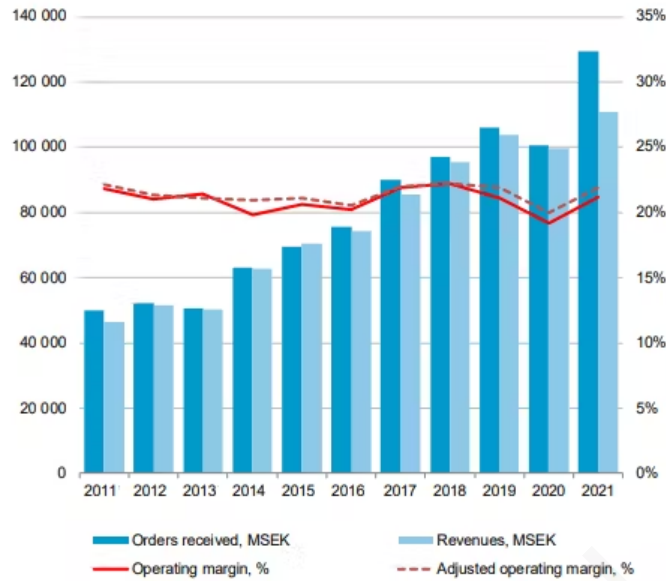


(Source: Atlas Copco)

- The company has a host of other non-financial metrics around diversity and sustainability.

## Revenue Composition

- **Total revenues:** The company's revenues have risen ~2.5X since 2011.



(Source: Atlas Copco)

- Geographical Spread:** The company's products are sold in Europe, Asia, Australia, North America, South America, Africa, and the Middle East. Asia/Oceania remains the company's largest market by sales. Asia remains its largest market with 40% of orders received, followed by Europe at 28%, North America at 24%, and Africa and South America both come in last at 4% as of the end of 2021

Geography						
Revenues	2017	2018	2019	2020	2021	4 Year CAGR
North America	20,465	22,554	25,868	23,648	25,995	6.16%
		10.2%	14.7%	-8.6%	9.9%	
South America	3,419	3,709	4,101	3,564	4,242	5.54%
		8.5%	10.6%	-13.1%	19.0%	
Europe	26,714	29,883	31,781	30,321	31,821	4.47%
		11.9%	6.4%	-4.6%	4.9%	
Asia/Oceania	29,849	33,521	36,378	37,097	43,966	10.17%
		12.3%	8.5%	2.0%	18.5%	
Africa/Middle East	5,206	5,696	5,628	5,157	4,888	-1.56%
		9.4%	-1.2%	-8.4%	-5.2%	

- Business segments:** The compressor technique is the company's largest business segment at 45% of total revenues.

## 2021 Revenues By Business Segments

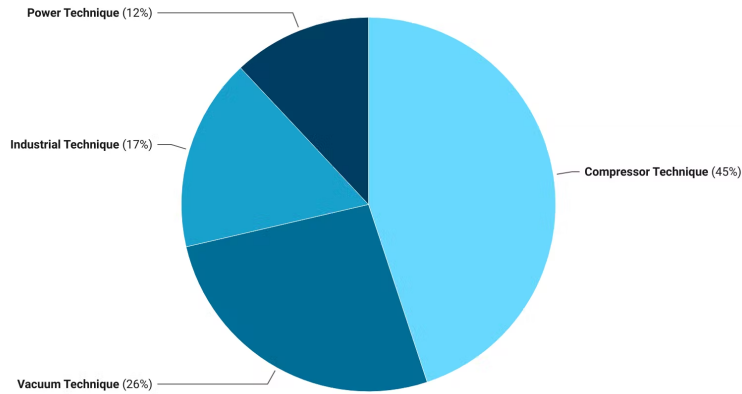


Chart: @ekmokaya · Source: Company Annual Report · Created with Datawrapper

## Cost structure

- In 2021, the cost of sales was around 58% of the revenues of the company. This leaves a gross margin of 42%. Marketing and admin expenses take up a significant chunk of the gross margins.

For the year ended December 31 Amounts in MSEK	Note	2021	2020
Revenues	4	110 912	99 787
Cost of sales		-64 383	-58 607
<b>Gross profit</b>		<b>46 529</b>	<b>41 180</b>
Marketing expenses		-12 178	-11 334
Administrative expenses		-7 283	-6 493
Research and development expenses		-4 125	-3 762
Other operating income	7	781	270
Other operating expenses	7	-201	-748
Share of profit in associated companies and joint ventures	14	36	33
<b>Operating profit</b>	4, 5, 6, 16	<b>23 559</b>	<b>19 146</b>

## Profitability:

- Overall:** The company has a strong and established track record of above-average margins, ROIC, free cash flow growth, and dividend payment.

	2017	2018	2019	2020	2021	Average
EBITDA margins	26.1%	25.7%	25.6%	24.4%	26.2%	25.60%
Operating margins	21.9%	22.2%	21.1%	19.2%	21.2%	21.13%
Net margins	14.8%	17.1%	15.9%	14.8%	16.3%	15.80%
DPR	51.0%	46.8%	51.5%	60.0%	51.0%	52.08%
Year-end Share Price	260.6	313.7	414.2	510.9	727.0	
P/E	19.0	23.3	30.5	42.0	48.8	
ROE	30.1%	33.7%	35.0%	27.0%	30.0%	

- EBITDA:** The firm routinely achieves high profitability and is resilient even in downturns. EBITDA margins in the last five years have averaged 25.51% range, which is higher than normal when compared to that of its competitors in the larger capital goods sector.

### Atlas Copco EBITDA Margins (%)

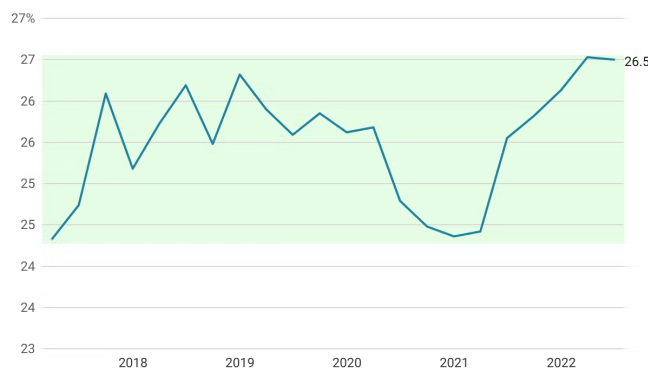


Chart: Mwango Capital • Source: Company Financial Statements • Created with Datawrapper

### EBITDA Margins of Select Top Companies Vs Atlas Copco

\*Data for the year ended Dec 2021

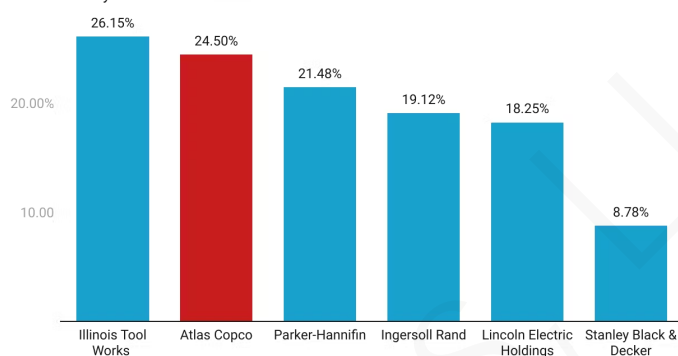


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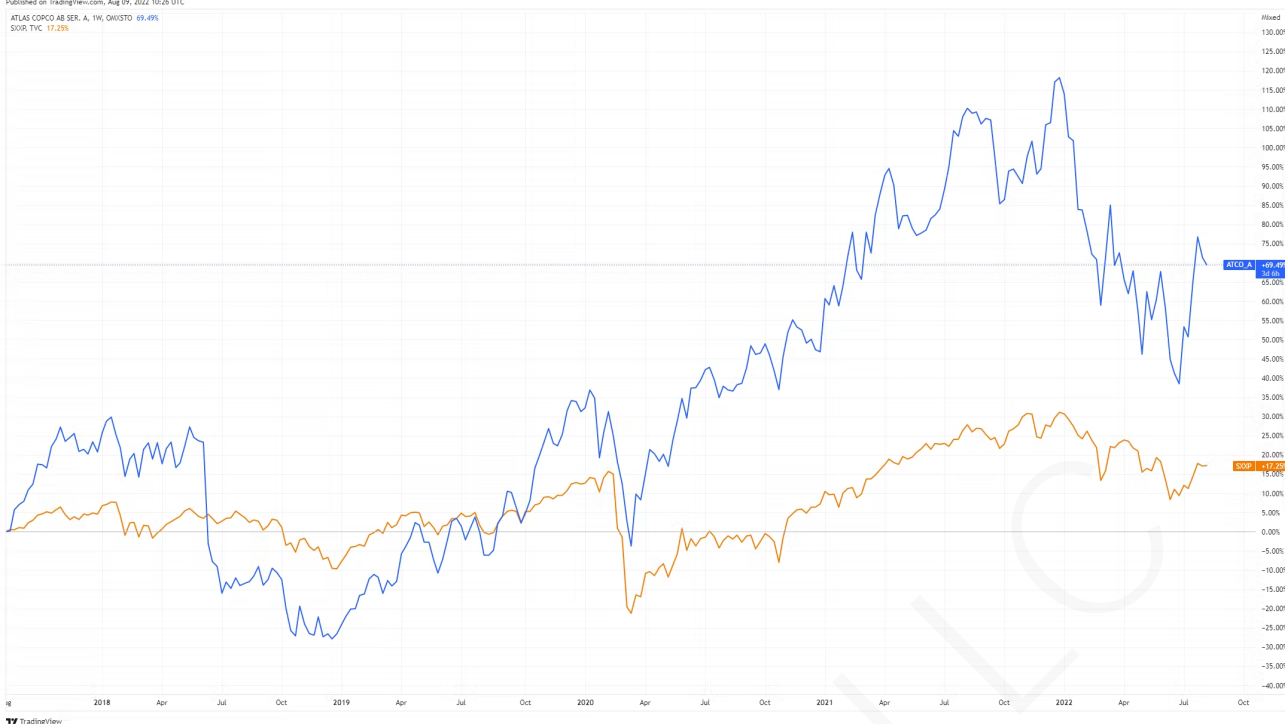
- **Operating Profit Margins:** The company's operating margins average around 25% in the last 5 years.
  - The compressor and vacuum technique business segments have grown operating profits over this period while the Industrial and Power technique business segments have marginally shrunk in profitability over the same period.

Operating Profits	2017	2018	2019	2020	2021	4 Year CAGR
Compressor Technique	8,960	10,263	11,198	10,658	11,874	7.29%
		14.5%	9.1%	-4.8%	11.4%	
Vacuum Technique	4,956	5,522	5,792	5,519	7,066	9.27%
		11.4%	4.9%	-4.7%	28.0%	
Industrial Technique	4,175	4,188	4,069	2,422	3,976	-1.21%
		0.3%	-2.8%	-40.5%	64.2%	
Power Technique	2,137	2,006	2,308	1,594	2,121	-0.19%
		-6.1%	15.1%	-30.9%	33.1%	

### Stock Performance vs. Benchmark (past 5 years)

Atlas Copco vs. STOXX Europe 600





(Source: [TradingView](#))

## Competitive Position

### Industry and Competition:

- **The industry:**

- The global *industrial air compressor* market reached **\$32.42B in 2021** and is expected to grow at a 3.9% CAGR to reach \$43.75B by 2030. A limited number of dominant companies with well-known brands routinely acquire smaller businesses and form strategic partnerships that define the global air compression industry.
- With rising oil & gas exploration, increased usage in the healthcare sector, and significant development in the semiconductor and electronics space the demand for *vacuum pumps* has increased significantly. The industry crossed the **\$5.05B** mark in 2020 and is expected to grow by more than 5.8% CAGR between 2021 and 2027.
- The global *light towers* market is expected to grow at a **CAGR of 5.7%** from \$4.3B in 2020 to reach \$5.7B in 2025. This growth will be mainly fueled by increased investment in light tower operations such as mining, oil&gas, construction, events, and sports with the rental market segment being the biggest contributor.
- The global sales market for *generators* stood at \$26.06B and is expected to grow at a **CAGR of 5.9%** to reach \$38.95B in 2028 driven by rapid industrialization, increasing construction expenditure, and rising exploration and production of oil & gas.

- **The competition:** The different business areas face competition from different firms which vary from product to product. The firm is a market leader globally in most of its segments.

- The *Compressor Technique* business area competes with Ingersoll Rand, Kaeser, Hitachi, and Parker Hannifin in the market for industrial compressors and air treatment equipment while in the gas and process compressors market the competitors are Siemens and MAN Turbo.
- *Vacuum Technique:* In the semiconductor industry, the firm competes with DAS Environmental Expert, Ebara, Kashiya, Pfeiffer Vacuum, and Shimadzu Corporation while in the Industrial & Scientific space the competitors include Ingersoll Rand, Pfeiffer Vacuum, and Busch.
- The *Industrial Technique*

- Industrial tools business: Main competitors include Apex Tool Group, Ingersoll Rand, Stanley Black & Decker, Uryu, and Bosch.
- In the Adhesive and sealant equipment segment, there is Nordson, Graco, Viscotec, BD Tronic, and Dürr.
- Self-pierce riveting: Stanley Black & Decker, and Böllhof
- Machine vision: Zeiss, ISV, Coherix, Ametek, and Dr. Schenk.
- *Power Technique*: Competes with Doosan, Generac, Kaeser, and Sullair.
- Most of Atlas' competitors across its various segments are specialized niche players who do not possess the same reputation, global presence or advantages of scale.

### Competitive advantage

- **A very strong M&A record:** The group has a [long history of strategic acquisitions](#). In 2021, 17 acquisitions were completed across its markets while in 2022, the Group has so far acquired **19 companies**.
  - *"Acquisitions are primarily made in, or very close to, existing core businesses. All divisions are required to map and evaluate businesses that are adjacent and that may offer tangible synergies to existing businesses"* - [Atlas Copco Annual Report](#)
  - Acquisitions are a great avenue to enter new markets. An example of strategic M&A is how Copco entered and grew the North American market:
    - *Through the acquisitions of Chicago Pneumatic, Milwaukee Electric Tool, Prime Service, and other U.S. companies, Atlas Copco had significantly expanded its North American activities. In the early 1990s, only about 15% of company revenues had been generated in North America, but that figure had increased to 37% by 1998, nearly equaling that of Europe (which stood at 40 percent)"* - [Company History](#)
  - The company also does spin-off companies. Its most famous spin-off was Epiroc.
- **Decentralized organization structure:** The company runs through a very decentralized structure with the division heads having their own balance sheets and P&L. This means decisions are made by people who are closest to the customers and enables them to support a diverse customer base.
  - *"If you took a centralized organization and say we are going to be decentralized, everybody would be a bit lost. We decide more for speed and trust than financial synergies. it's easy to say, it's not so easy to deliver on"* - [CEO Mats Rahmstrom](#)



(Source: [Annual Report](#))

- **Investment in R&D and in sales teams:** The Group invests heavily in R&D to ensure that its products are of the highest quality and continually evolving to meet ever-changing customer needs. R&D is also a critical part of their expansion strategy and entry into new market segments. Curiosity and creativity are highly encouraged among employees, and learning weeks are organized to equip employees with skills and encourage learning.

### Atlas Copco R&D Expenses as a % of Revenue

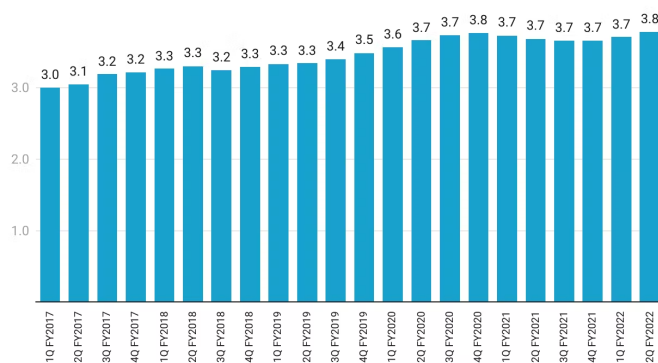


Chart: Mwango Capital • Source: Financial Statements • Created with Datawrapper

- **Services as a strong base:** The company relies significantly on its more stable and reliable [aftermarket sales](#) which account for around 35% of revenues.
- **Market characteristics:** The company operates in markets with relatively high entry barriers, where a small number of well-established businesses dominate. It is hence able to establish a high degree of control over its pricing.
- **High-quality leadership teams:** Given the high view most Swedes have of the company, the top minds in the country all want to work for Atlas Copco. It is therefore guaranteed the best workers from the top universities in the country. The FT compares the stature of Copco to that of GE at its prime:
  - *“Inside Sweden, the company is known as the leading finishing school for executives, akin to the role General Electric once played in the US. The future chief executive of ABB, the chairman of Electrolux, chief and chair of the door-and-lock maker Assa Abloy, and the chief executive of Sandvik all hail from Atlas Copco” - FT*
- **Standardized processes:** The company has adopted lean manufacturing and made its production process [a standardized one](#). This means that customers can be assured of high-quality products wherever they are.

### Risk to competitive position

- **Cyclicality of the business:** Most of the business comes from expensive capital equipment that has high exposure and correlation to the business cycle and prevailing market conditions.
- **Financial:** Currency exchange rates impact the business’ earnings when the various currency sales are denominated in fluctuate especially given a significant chunk of its sales are from outside Europe and in currencies other than its home currency the SEK.
- **Supply chain shocks:** The Group’s manufacturing activities rely heavily on the availability of components from various suppliers and therefore a breakdown in the supply chain would cause significant disruptions to the business.
- **Legal and regulatory:** The business operates in several geographical regions which exposes it to laws and regulations from various countries and states.