

# Kone

## Company report

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This report is a summary translation of the report "KONE käy ja kukkuu" published on 4/27/2023 at 8:16 am

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# KONE is running steadily

Deviations in KONE's Q1 figures from estimates were small but mainly positive. The company especially emphasized the improved margins of the order backlog. KONE fine-tuned its 2023 guidance and still relies on a recovery on the Chinese market. However, the valuation of the company's share is high, which is difficult to justify. We therefore reiterate our Reduce recommendation, but as our estimates rose slightly again, we raise the target price to EUR 47.50 (previous EUR 46.00).

## A small positive surprise, as usual

KONE's Q1 order intake (-7% y-o-y) was between our (-4% y-o-y) and the consensus estimate (-10% y-o-y). Orders from China decreased by some -25 % y-o-y. KONE praised the good pricing and margins of received orders and said it had continued to increase prices in all businesses and geographical areas compared to Q4'22. The Group's sales growth (+5% y-o-y) exceeded expectations due to strong growth in modernization (+23% y-o-y), whereas the sales from new equipment sales decreased -4% y-o-y. Geographically, sales growth was fastest in the Americas (+21% y-o-y), while sales in Asia-Pacific decreased -7% y-o-y driven by China. China's share of KONE's sales slumped to its lowest level in a long time, i.e. to 23%. KONE's adjusted EBIT margin was slightly better than expected at 9.5%. Profitability improved thanks to strong maintenance growth, relatively lower fixed costs, lower material costs in China, and better pricing. The margin improvement indicated a change in the sales mix, as the share of lower-margin new equipment sales in sales fell to 43% (Q1'22: 47%).

## Estimates tuned up slightly

KONE now expects a slight increase in sales in 2023 compared to the previous zero growth expectation. The adjusted EBIT margin is still expected to start recovering in 2023 due to improved margins on orders received in 2022 and continued solid performance in the maintenance business. Our interpretation is still that KONE expects the adjusted EBIT margin for the whole year 2023 to improve from 9.9% in 2022. However, the Chinese market is expected to start recovering toward the end of H1'23 thanks to extensive stimulus measures. KONE said it was more optimistic about China than it was at the beginning of the year. The company believes that the completion of ongoing construction projects is one of the most visible measures. KONE's profitability is still burdened by 1) the decreasing share of China in sales; 2) continued increase in component prices outside China; and 3) wage inflation. On the other hand, profitability is, in addition to own price increases, also supported by reduced logistics costs and KONE expects that the net effect of positive and negative profitability drivers is "some tens of millions of euros" positive.

## Old familiar valuation story

KONE's expected total return is slightly positive with 2024 P/E and EV/EBIT ratios but some 7% below our return requirement. Based on this, the risk-adjusted expected return for the share is weak. As KONE has some EUR 0.7 billion in net assets, the EV/EBIT ratio is better suited for peer group pricing than the P/E ratio. The 2024 EV/EBIT ratio is +18% above the median of peers and +3...+18% above the closest competitors Otis and Schindler. Our DCF model indicates a EUR 48 value for KONE's share with a -8% downside. The model reinforces the image of the share's tight pricing.

## Recommendation

### Reduce

(previous Reduce)

### EUR 47.50

(previous EUR 46.00)

### Share price:

51.98



## Key figures

|                    | 2022   | 2023e  | 2024e  | 2025e  |
|--------------------|--------|--------|--------|--------|
| <b>Revenue</b>     | 10907  | 11110  | 11698  | 12118  |
| <b>growth-%</b>    | 4%     | 2%     | 5%     | 4%     |
| <b>EBIT adj.</b>   | 1076.6 | 1244.4 | 1488.0 | 1592.7 |
| <b>EBIT-% adj.</b> | 9.9 %  | 11.2 % | 12.7 % | 13.1 % |
| <b>Net Income</b>  | 774.5  | 874.4  | 1121.5 | 1224.5 |
| <b>EPS (adj.)</b>  | 1.59   | 1.89   | 2.21   | 2.37   |

|                         |       |       |       |       |
|-------------------------|-------|-------|-------|-------|
| <b>P/E (adj.)</b>       | 30.5  | 27.5  | 23.5  | 22.0  |
| <b>P/B</b>              | 8.8   | 9.6   | 8.9   | 8.1   |
| <b>Dividend yield-%</b> | 3.6 % | 3.4 % | 3.5 % | 3.6 % |
| <b>EV/EBIT (adj.)</b>   | 22.1  | 20.8  | 17.3  | 16.0  |
| <b>EV/EBITDA</b>        | 18.4  | 18.5  | 14.8  | 13.6  |
| <b>EV/S</b>             | 2.2   | 2.3   | 2.2   | 2.1   |

Source: Inderes

## Guidance

(Adjusted)

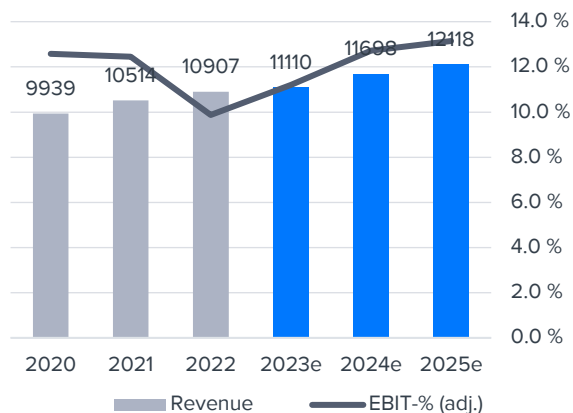
KONE expects its sales at comparable exchange rates for the year 2023 to be somewhat above the previous year. The adjusted EBIT margin is expected to start to recover due to improved margins on orders received in 2022 and continued solid performance in the service business.

## Share price



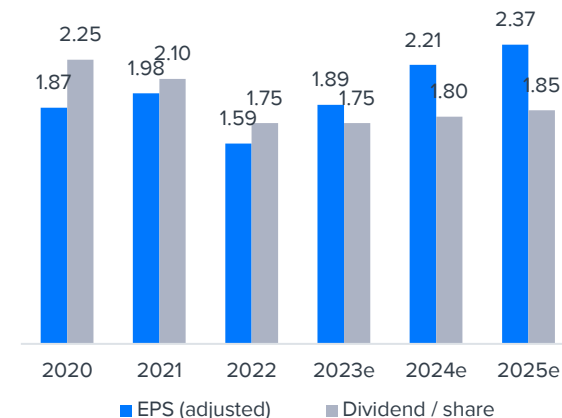
Source: Millstream Market Data AB

## Revenue and EBIT %



Source: Inderes

## EPS and dividend



Source: Inderes



## Value drivers

- Demand recovery in the new equipment market
- Growth in the maintenance markets in China and other Asian countries
- Renewed operating model will start supporting margins
- Rise of new digital services



## Risk factors

- Delay in the recovery of the Chinese construction market and continued tight price competition
- The Western market remains sticky
- Standing out with digital services proves difficult

| Valuation                  | 2023e   | 2024e  | 2025e  |
|----------------------------|---------|--------|--------|
| Share price                | 52.0    | 52.0   | 52.0   |
| Number of shares, millions | 517.1   | 517.1  | 517.1  |
| Market cap                 | 26878   | 26878  | 26878  |
| EV                         | 25917   | 25697  | 25440  |
| P/E (adj.)                 | 27.5    | 23.5   | 22.0   |
| P/E                        | 30.7    | 24.0   | 22.0   |
| P/FCF                      | 38.6    | 24.2   | 23.1   |
| P/B                        | 9.6     | 8.9    | 8.1    |
| P/S                        | 2.4     | 2.3    | 2.2    |
| EV/Sales                   | 2.3     | 2.2    | 2.1    |
| EV/EBITDA                  | 18.5    | 14.8   | 13.6   |
| EV/EBIT (adj.)             | 20.8    | 17.3   | 16.0   |
| Payout ratio (%)           | 103.4 % | 82.9 % | 78.0 % |
| Dividend yield-%           | 3.4 %   | 3.5 %  | 3.6 %  |

Source: Inderes

# A small positive surprise, as usual

## Slightly better Q1 figures than expected

Deviations in KONE's Q1 figures from estimates were small but mainly positive. The company especially emphasized the improved margins of the order backlog.

## Order backlog margins on the rise

KONE's Q1 order intake (2,263 MEUR; -7% y-o-y) was between our (-4% y-o-y) and the consensus estimate (-10% y-o-y). Orders from China decreased by some -25% y-o-y and elsewhere they increased by +6% y-o-y. KONE praised the good pricing and margins of received orders but did not reveal details of the magnitude of the changes. The company said it had further increased prices in all business activities and geographical areas compared to Q4'22. KONE also emphasized the decrease in component prices in China, which further improves the margins of received orders.

## Growth in services, downhill in China

The Group's sales growth (+5% y-o-y) exceeded expectations due to strong growth in modernization (+23% y-o-y), whereas the sales from new equipment sales decreased -4% y-o-y. Maintenance growth was also fast (+9% y-o-y) and the increase in the equipment base, price increases and successful sales of the 24/7 service acted as drivers. Geographically, sales growth was fastest in the Americas (+21% y-o-y), while sales in Asia-Pacific decreased -7% y-o-y. The reason here was also the -14% y-o-y drop in China's sales, and China's share of KONE's sales fell to the lowest level in a long time, i.e. to 23%.

## Many positive components in margins

KONE's adjusted EBIT margin was slightly better than expected at 9.5%. KONE has been talking about an increase in order backlog margins for a long time and

now the company said that: "Profitability improved thanks to strong growth in maintenance sales, improved fixed cost absorption, as well as better pricing on deliveries outside China and lower material costs in China." Noteworthy in the margin improvement is the significant change in the sales mix: the share of lower-margin new equipment sales in sales has fallen to 43% (Q1'22: 47%) and the combined share of higher-margin maintenance and modernization has risen to 57% (Q1'22: 53%). Net financial income and group tax rate were in line with expectations and adjusted EPS was EUR 0.01-0.02 above expectations.

| Estimates        | Q1'22      | Q1'23      | Q1'23e  | Q1'23e    | Consensus |        | Difference (%)   | 2023e   |
|------------------|------------|------------|---------|-----------|-----------|--------|------------------|---------|
| MEUR / EUR       | Comparison | Actualized | Inderes | Consensus | Low       | High   | Act. vs. inderes | Inderes |
| Revenue          | 2442       | 2557       | 2455    | 2455      | 2353      | 2475   | 4%               | 11110   |
| EBIT (adj.)      | 197        | 242        | 232     | 223       | 188       | 261    | 4%               | 1244    |
| EBIT             | 171        | 238        | 222     | 198       | 149       | 236    | 7%               | 1124    |
| PTP              | 171        | 241        | 224     | 211       | 153       | 237    | 8%               | 1134    |
| EPS (adj.)       | 0.30       | 0.36       | 0.35    | 0.34      | 0.27      | 0.39   | 4%               | 1.89    |
| EPS (reported)   | 0.25       | 0.35       | 0.33    | 0.30      | 0.21      | 0.36   | 7%               | 1.66    |
| Revenue growth-% | 5.0 %      | 4.7 %      | 0.5 %   | 0.5 %     | -3.6 %    | 1.4 %  | 4.2 pp           | 1.9 %   |
| EBIT-% (adj.)    | 8.0 %      | 9.5 %      | 9.4 %   | 9.1 %     | 8.0 %     | 10.6 % | 0 pp             | 11.2 %  |

Source: Inderes & Vara Research (consensus)

# Estimates tuned up slightly

## KONE still relies on China

KONE fine-tuned its 2023 guidance and still relies on a recovery on the Chinese market. Our estimate changes are slightly positive.

## Margin expectations were raised

KONE now expects 2023 sales to be “somewhat above” the 2022 level in 2023 at comparable exchange rates. The previous guidance referred to a similar sales level. The adjusted EBIT margin is still expected to start recovering in 2023 due to improved margins on orders received in 2022 and continued solid performance in the maintenance business. Our interpretation is still that KONE expects the adjusted EBIT margin for the whole year 2023 to improve from 9.9% in 2022.

## China's recovery expectations have strengthened

The 2023 market outlook comments changed slightly. China's new equipment market is estimated

to decline by “close to” 10% y-o-y (previous: “somewhat over” -10% y-o-y). The Chinese market is expected to start recovering toward the end of H1'23 thanks to extensive stimulus measures. KONE said it was more optimistic about China than it was at the beginning of the year. The company believes that the completion of ongoing construction projects is one of the most visible measures. KONE estimates that these projects equal a volume of one year of normal construction and elevators have not yet been ordered for half of the projects. Thus, this is a substantial opportunity, albeit also highly competed.

## Positives trump the negatives in margin drivers

KONE's profitability is still burdened by 1) the decreasing share of China in sales (China has been the company's highest margin area); 2) continued increase in component (such as semiconductors) prices outside China; and 3) wage inflation that will generate an additional cost of EUR 100 million in

2023. On the other hand, profitability is in addition to own price increases also supported by reduced logistics costs and KONE expects that the net effect of positive and negative profitability drivers is “some tens of millions of euros” positive.

## Our estimates are higher than the consensus

Our estimate changes for 2023-2025 are minor and presented in the table below. Our earnings estimates have increased slightly due to improved margins in the order backlog and a slightly more favorable sales mix. Our EBIT estimates for 2023-2025 are now +3...+8% higher than in the consensus prior to the report.

| Estimate revisions | 2023e   | 2023       | Change | 2024e | 2024e | Change | 2025e | 2025e | Change |
|--------------------|---------|------------|--------|-------|-------|--------|-------|-------|--------|
| MEUR / EUR         | Inderes | Actualized | %      | Old   | New   | %      | Old   | New   | %      |
| Revenue            | 11110   | 11110      | 0%     | 11698 | 11698 | 0%     | 12118 | 12118 | 0%     |
| EBIT (exc. NRIs)   | 1234    | 1244       | 1%     | 1453  | 1488  | 2%     | 1557  | 1593  | 2%     |
| EBIT               | 1124    | 1141       | 1%     | 1433  | 1468  | 2%     | 1557  | 1593  | 2%     |
| PTP                | 1134    | 1152       | 2%     | 1440  | 1478  | 3%     | 1569  | 1608  | 3%     |
| EPS (excl. NRIs)   | 1.88    | 1.89       | 1%     | 2.15  | 2.21  | 3%     | 2.31  | 2.37  | 3%     |
| DPS                | 1.75    | 1.75       | 0%     | 1.80  | 1.80  | 0%     | 1.85  | 1.85  | 0%     |

Source: Inderes

# Old familiar valuation story

## Repetition is the mother of all learning: the share is expensive

The valuation of KONE's share is tight. We expect a relatively rapid EPS growth in 2023-2025 (+14% p.a.) but the share's valuation is still high as even with 2025 multiples the P/E is 22x. We believe that the recovery of the Chinese market will start this year, but there is a lot of uncertainty about the intensity of the rise. The weak housing construction market in Europe and America can also tighten price competition and lead to either new margin pressures or loss of market share for KONE. On the other hand, our confidence in KONE's positive view on the maintenance and modernization business is strong.

In our estimates, we take a rather cautious view on the earnings impact of the operating model renewal in KONE before we receive more information on the matter. This is a potential positive share price driver, as well as possible news from China on the elevator market recovering. However, the valuation of KONE's share is currently so high that generating a well-founded upside requires a significant increase in consensus estimates.

We reiterate our Reduce recommendation for KONE. As our estimates rose slightly again, we raise the target price to EUR 47.50 (previous EUR 46.00). With the target price, the valuation of the share is in line with the closest peers measured with 2024 P/E and EV/EBIT, while it now is at a premium.

## Risk-adjusted expected return not attractive

The total expected return on KONE's share (upside potential in the share price based on earnings growth and expected change in valuation multiple plus dividend yield) with 2024 P/E and EV/EBIT ratios is slightly positive but below our required return of around 7%. Based on this, the risk-adjusted expected return for the share is weak.

## Multiple-based valuation is also high

As KONE has about EUR 0.7 billion in net assets, the EV/EBIT ratio is better suited than the P/E to assess peer group pricing. He 2024 EV/EBIT ratio (17x) is +18% above the median of peers and +3...+18% above the closest competitors Otis and Schindler. KONE's greater dependence on the Chinese market than its competitors is, in our opinion, more of a disadvantage than an advantage for the company and does not support a premium valuation.

## No potential in DCF value either

Our DCF model indicates a EUR 48 value for KONE's share with an 8% downside. The parameters of the model are always subject to considerable uncertainty, but the indication of the tight pricing of KONE's share is consistent with the results of our other models.

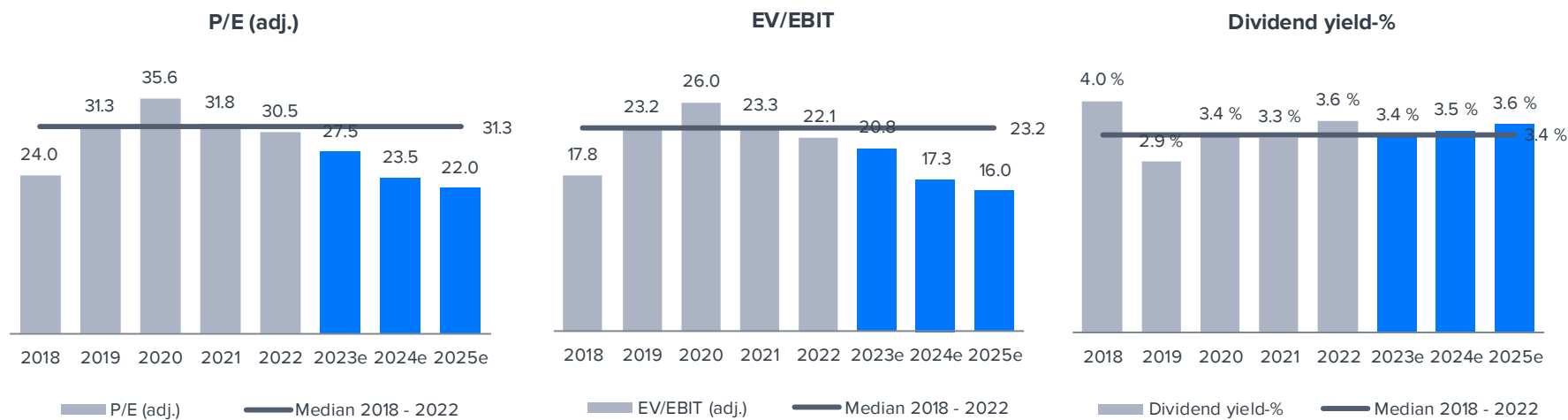
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| Number of shares, millions | 517.1   | 517.1  | 517.1  |
| Market cap                 | 26878   | 26878  | 26878  |
| EV                         | 25917   | 25697  | 25440  |
| P/E (adj.)                 | 27.5    | 23.5   | 22.0   |
| P/E                        | 30.7    | 24.0   | 22.0   |
| P/FCF                      | 38.6    | 24.2   | 23.1   |
| P/B                        | 9.6     | 8.9    | 8.1    |
| P/S                        | 2.4     | 2.3    | 2.2    |
| EV/Sales                   | 2.3     | 2.2    | 2.1    |
| EV/EBITDA                  | 18.5    | 14.8   | 13.6   |
| EV/EBIT (adj.)             | 20.8    | 17.3   | 16.0   |
| Payout ratio (%)           | 103.4 % | 82.9 % | 78.0 % |
| Dividend yield-%           | 3.4 %   | 3.5 %  | 3.6 %  |

Source: Inderes

# Valuation table

| Valuation                  | 2018   | 2019   | 2020   | 2021   | 2022    | 2023e          | 2024e         | 2025e         | 2026e         |
|----------------------------|--------|--------|--------|--------|---------|----------------|---------------|---------------|---------------|
| Share price                | 41.6   | 58.3   | 66.5   | 63.0   | 48.3    | <b>52.0</b>    | <b>52.0</b>   | <b>52.0</b>   | <b>52.0</b>   |
| Number of shares, millions | 516.1  | 518.4  | 518.4  | 518.0  | 517.1   | <b>517.1</b>   | <b>517.1</b>  | <b>517.1</b>  | <b>517.1</b>  |
| Market cap                 | 21489  | 30212  | 34452  | 32652  | 24975   | <b>26878</b>   | <b>26878</b>  | <b>26878</b>  | <b>26878</b>  |
| EV                         | 19758  | 28677  | 32555  | 30555  | 23780   | <b>25917</b>   | <b>25697</b>  | <b>25440</b>  | <b>25079</b>  |
| P/E (adj.)                 | 24.0   | 31.3   | 35.6   | 31.8   | 30.5    | <b>27.5</b>    | <b>23.5</b>   | <b>22.0</b>   | <b>20.4</b>   |
| P/E                        | 25.6   | 32.4   | 36.7   | 32.2   | 32.2    | <b>30.7</b>    | <b>24.0</b>   | <b>22.0</b>   | <b>20.4</b>   |
| P/FCF                      | 28.7   | 43.8   | 25.5   | 26.9   | >100    | <b>38.6</b>    | <b>24.2</b>   | <b>23.1</b>   | <b>20.9</b>   |
| P/B                        | 7.0    | 9.5    | 10.9   | 10.3   | 8.8     | <b>9.6</b>     | <b>8.9</b>    | <b>8.1</b>    | <b>7.3</b>    |
| P/S                        | 2.4    | 3.0    | 3.5    | 3.1    | 2.3     | <b>2.4</b>     | <b>2.3</b>    | <b>2.2</b>    | <b>2.1</b>    |
| EV/Sales                   | 2.2    | 2.9    | 3.3    | 2.9    | 2.2     | <b>2.3</b>     | <b>2.2</b>    | <b>2.1</b>    | <b>2.0</b>    |
| EV/EBITDA                  | 17.0   | 20.0   | 22.4   | 19.8   | 18.4    | <b>18.5</b>    | <b>14.8</b>   | <b>13.6</b>   | <b>12.5</b>   |
| EV/EBIT (adj.)             | 17.8   | 23.2   | 26.0   | 23.3   | 22.1    | <b>20.8</b>    | <b>17.3</b>   | <b>16.0</b>   | <b>14.7</b>   |
| Payout ratio (%)           | 101.1% | 94.5 % | 124.1% | 107.1% | 116.7 % | <b>103.4 %</b> | <b>82.9 %</b> | <b>78.0 %</b> | <b>90.0 %</b> |
| Dividend yield-%           | 4.0 %  | 2.9 %  | 3.4 %  | 3.3 %  | 3.6 %   | <b>3.4 %</b>   | <b>3.5 %</b>  | <b>3.6 %</b>  | <b>4.4 %</b>  |

Source: Inderes



# Peer group valuation

| Peer group valuation                   | Market cap   | EV           | EV/EBIT     |             | EV/EBITDA   |             | EV/S       |            | P/E         |             | Dividend yield-% |            | P/B         |
|--|--------------|--------------|-------------|-------------|-------------|-------------|------------|------------|-------------|-------------|------------------|------------|-------------|
| Company                                | MEUR         | MEUR         | 2023e       | 2024e       | 2023e       | 2024e       | 2023e      | 2024e      | 2023e       | 2024e       | 2023e            | 2024e      | 2023e       |
| Schindler Holding AG                   | 21203        | 18864        | 16.9        | 14.7        | 12.9        | 11.5        | 1.6        | 1.6        | 25.9        | 22.7        | 2.2              | 2.3        | 4.8         |
| Assa Abloy AB                          | 23710        | 26378        | 14.8        | 13.7        | 12.5        | 11.6        | 2.3        | 2.2        | 19.1        | 17.5        | 2.2              | 2.3        | 2.9         |
| Koninklijke Philips NV                 | 17192        | 24273        | 20.0        | 14.8        | 10.3        | 8.3         | 1.3        | 1.3        | 17.6        | 14.2        | 4.3              | 4.7        | 1.4         |
| Otis Worldwide Corp                    | 31112        | 36383        | 18.0        | 16.7        | 16.6        | 15.6        | 2.8        | 2.7        | 24.0        | 21.7        | 1.6              | 1.7        |             |
| Ingersoll Rand Inc                     | 20082        | 21178        | 17.1        | 16.0        | 14.4        | 13.4        | 3.6        | 3.5        | 21.3        | 19.3        | 0.2              | 0.2        | 2.2         |
| Johnson Controls International PLC     | 36497        | 45159        | 14.8        | 13.4        | 11.9        | 11.0        | 1.8        | 1.8        | 16.6        | 14.5        | 2.4              | 2.6        | 2.3         |
| Gree Electric Appliances Inc of Zhuhai | 30290        | 26294        | 6.5         | 6.0         | 5.6         | 5.2         | 0.9        | 0.9        | 8.2         | 7.5         | 7.2              | 7.5        | 1.8         |
| Dover Corp                             | 18520        | 21532        | 15.0        | 13.9        | 12.6        | 11.8        | 2.7        | 2.6        | 16.3        | 14.9        | 1.5              | 1.5        | 4.2         |
| Honeywell International Inc            | 118783       | 127990       | 17.3        | 16.0        | 15.2        | 14.1        | 3.8        | 3.6        | 21.7        | 19.5        | 2.1              | 2.2        | 7.7         |
| Lennox International Inc               | 8374         | 9708         | 14.8        | 13.8        | 13.4        | 12.4        | 2.3        | 2.2        | 17.4        | 15.8        | 1.6              | 1.6        | 244.3       |
| Melco International Development Ltd    | 1586         | 9822         | 55.1        | 17.5        | 11.4        | 8.0         | 3.0        | 2.4        |             |             | 0.1              |            |             |
| <b>Kone (Inderes)</b>                  | <b>26878</b> | <b>25917</b> | <b>20.8</b> | <b>17.3</b> | <b>18.5</b> | <b>14.8</b> | <b>2.3</b> | <b>2.2</b> | <b>27.5</b> | <b>23.5</b> | <b>3.4</b>       | <b>3.5</b> | <b>9.6</b>  |
| <b>Average</b>                         |              |              | <b>19.1</b> | <b>14.2</b> | <b>12.4</b> | <b>11.2</b> | <b>2.4</b> | <b>2.2</b> | <b>18.8</b> | <b>16.8</b> | <b>2.3</b>       | <b>2.7</b> | <b>30.2</b> |
| <b>Median</b>                          |              |              | <b>16.9</b> | <b>14.7</b> | <b>12.6</b> | <b>11.6</b> | <b>2.3</b> | <b>2.2</b> | <b>18.4</b> | <b>16.7</b> | <b>2.1</b>       | <b>2.2</b> | <b>2.9</b>  |
| <b>Diff-% to median</b>                |              |              | <b>23%</b>  | <b>18%</b>  | <b>47%</b>  | <b>28%</b>  | <b>2%</b>  | <b>0%</b>  | <b>50%</b>  | <b>41%</b>  | <b>61%</b>       | <b>54%</b> | <b>231%</b> |

Source: Refinitiv / Inderes



# Income statement

| Income statement        | 2021         | 2022         | Q1'23        | Q2'23e       | Q3'23e       | Q4'23e       | 2023e        | 2024e        | 2025e        | 2026e        |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>          | <b>10514</b> | <b>10907</b> | <b>2557</b>  | <b>2887</b>  | <b>2818</b>  | <b>2848</b>  | <b>11110</b> | <b>11698</b> | <b>12118</b> | <b>12575</b> |
| Group                   | 10514        | 10907        | 2557         | 2887         | 2818         | 2848         | 11110        | 11698        | 12118        | 12575        |
| <b>EBITDA</b>           | <b>1539</b>  | <b>1291</b>  | <b>303</b>   | <b>371</b>   | <b>337</b>   | <b>388</b>   | <b>1399</b>  | <b>1735</b>  | <b>1871</b>  | <b>2003</b>  |
| Depreciation            | -244.0       | -259.3       | -64.6        | -64.6        | -64.6        | -64.6        | -258.4       | -267.5       | -278.3       | -297.6       |
| <b>EBIT (excl. NRI)</b> | <b>1310</b>  | <b>1077</b>  | <b>242</b>   | <b>337</b>   | <b>322</b>   | <b>344</b>   | <b>1244</b>  | <b>1488</b>  | <b>1593</b>  | <b>1706</b>  |
| <b>EBIT</b>             | <b>1295</b>  | <b>1031</b>  | <b>238</b>   | <b>307</b>   | <b>272</b>   | <b>324</b>   | <b>1141</b>  | <b>1468</b>  | <b>1593</b>  | <b>1706</b>  |
| Group                   | 1295         | 1031         | 238          | 307          | 272          | 324          | 1141         | 1468         | 1593         | 1706         |
| Net financial items     | 25.5         | -2.7         | 2.8          | 2.8          | 2.8          | 2.8          | 11.2         | 9.6          | 15.5         | 23.9         |
| <b>PTP</b>              | <b>1321</b>  | <b>1029</b>  | <b>241</b>   | <b>309</b>   | <b>275</b>   | <b>326</b>   | <b>1152</b>  | <b>1478</b>  | <b>1608</b>  | <b>1730</b>  |
| Taxes                   | -298.1       | -244.0       | -55.5        | -71.2        | -63.2        | -75.1        | -265.0       | -339.9       | -369.9       | -397.9       |
| Minority interest       | -8.5         | -10.0        | -2.0         | -2.0         | -4.5         | -4.1         | -12.6        | -16.1        | -13.7        | -13.5        |
| <b>Net earnings</b>     | <b>1014</b>  | <b>775</b>   | <b>184</b>   | <b>236</b>   | <b>207</b>   | <b>247</b>   | <b>874</b>   | <b>1122</b>  | <b>1225</b>  | <b>1318</b>  |
| <b>EPS (adj.)</b>       | <b>1.983</b> | <b>1.586</b> | <b>0.362</b> | <b>0.515</b> | <b>0.497</b> | <b>0.517</b> | <b>1.891</b> | <b>2.208</b> | <b>2.368</b> | <b>2.550</b> |
| <b>EPS (rep.)</b>       | <b>1.958</b> | <b>1.498</b> | <b>0.355</b> | <b>0.457</b> | <b>0.401</b> | <b>0.478</b> | <b>1.691</b> | <b>2.169</b> | <b>2.368</b> | <b>2.550</b> |

| Key figures                   | 2021   | 2022    | Q1'23  | Q2'23e | Q3'23e | Q4'23e | 2023e  | 2024e  | 2025e  | 2026e  |
|-------------------------------|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue growth-%</b>       | 5.8 %  | 3.7 %   | 4.7 %  | 13.0 % | -6.0 % | -2.2 % | 1.9 %  | 5.3 %  | 3.6 %  | 3.8 %  |
| <b>Adjusted EBIT growth-%</b> | 4.7 %  | -17.8 % | 23.1 % | 60.9 % | 5.4 %  | -5.8 % | 15.6 % | 19.6 % | 7.0 %  | 7.1 %  |
| <b>EBITDA-%</b>               | 14.6 % | 11.8 %  | 11.8 % | 12.9 % | 12.0 % | 13.6 % | 12.6 % | 14.8 % | 15.4 % | 15.9 % |
| <b>Adjusted EBIT-%</b>        | 12.5 % | 9.9 %   | 9.5 %  | 11.7 % | 11.4 % | 12.1 % | 11.2 % | 12.7 % | 13.1 % | 13.6 % |
| <b>Net earnings-%</b>         | 9.6 %  | 7.1 %   | 7.2 %  | 8.2 %  | 7.4 %  | 8.7 %  | 7.9 %  | 9.6 %  | 10.1 % | 10.5 % |

Source: Inderes

# Balance sheet

| Assets                     | 2021        | 2022        | 2023e       | 2024e       | 2025e       |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Non-current assets</b>  | <b>2915</b> | <b>2899</b> | <b>2948</b> | <b>2986</b> | <b>3052</b> |
| Goodwill                   | 1405        | 1415        | 1415        | 1415        | 1415        |
| Intangible assets          | 217         | 208         | 205         | 205         | 247         |
| Tangible assets            | 737         | 717         | 769         | 806         | 832         |
| Associated companies       | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other investments          | 147         | 124         | 124         | 124         | 124         |
| Other non-current assets   | 22.9        | 10.0        | 10.0        | 10.0        | 10.0        |
| Deferred tax assets        | 386         | 425         | 425         | 425         | 425         |
| <b>Current assets</b>      | <b>6805</b> | <b>6191</b> | <b>6006</b> | <b>6324</b> | <b>6552</b> |
| Inventories                | 718         | 844         | 778         | 819         | 848         |
| Other current assets       | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Receivables                | 3202        | 3377        | 3222        | 3392        | 3514        |
| Cash and equivalents       | 2885        | 1970        | 2007        | 2113        | 2189        |
| <b>Balance sheet total</b> | <b>9720</b> | <b>9090</b> | <b>8954</b> | <b>9310</b> | <b>9604</b> |

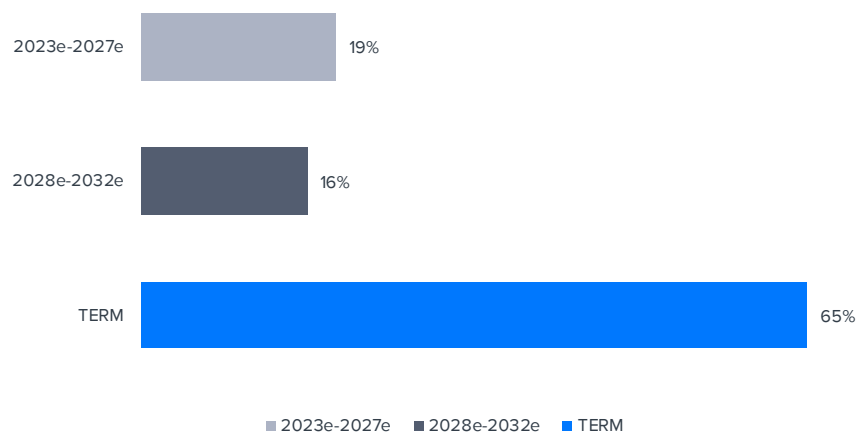
Source: Inderes

| Liabilities & equity           | 2021        | 2022        | 2023e       | 2024e       | 2025e       |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Equity</b>                  | <b>3199</b> | <b>2867</b> | <b>2837</b> | <b>3055</b> | <b>3350</b> |
| Share capital                  | 66.2        | 66.2        | 66.2        | 66.2        | 66.2        |
| Retained earnings              | 2549        | 2184        | 2155        | 2373        | 2667        |
| Hybrid bonds                   | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Revaluation reserve            | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other equity                   | 559         | 586         | 586         | 586         | 586         |
| Minorities                     | 25.0        | 29.9        | 29.9        | 29.9        | 29.9        |
| <b>Non-current liabilities</b> | <b>1000</b> | <b>949</b>  | <b>1143</b> | <b>1070</b> | <b>946</b>  |
| Deferred tax liabilities       | 218         | 214         | 214         | 214         | 214         |
| Provisions                     | 152         | 177         | 177         | 177         | 177         |
| Long term debt                 | 435         | 418         | 611         | 539         | 415         |
| Convertibles                   | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other long term liabilities    | 194         | 140         | 140         | 140         | 140         |
| <b>Current liabilities</b>     | <b>5521</b> | <b>5275</b> | <b>4975</b> | <b>5185</b> | <b>5308</b> |
| Short term debt                | 117         | 116         | 170         | 149         | 115         |
| Payables                       | 5405        | 5159        | 4805        | 5036        | 5193        |
| Other current liabilities      | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Balance sheet total</b>     | <b>9720</b> | <b>9090</b> | <b>8954</b> | <b>9310</b> | <b>9604</b> |

# DCF calculation

| DCF model                               | 2022        | 2023e        | 2024e       | 2025e       | 2026e       | 2027e       | 2028e       | 2029e       | 2030e       | 2031e       | 2032e       | TERM         |
|---|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Revenue growth-%                        | 3.7 %       | 1.9 %        | 5.3 %       | 3.6 %       | 3.8 %       | 3.8 %       | 3.7 %       | 3.7 %       | 3.7 %       | 3.7 %       | 2.5 %       | 2.5 %        |
| EBIT-%                                  | 9.5 %       | 10.3 %       | 12.5 %      | 13.1%       | 13.6 %      | 13.2 %      | 12.9 %      | 12.6 %      | 11.5 %      | 11.5 %      | 11.5 %      | 11.5 %       |
| <b>EBIT (operating profit)</b>          | <b>1031</b> | <b>1141</b>  | <b>1468</b> | <b>1593</b> | <b>1706</b> | <b>1727</b> | <b>1747</b> | <b>1766</b> | <b>1675</b> | <b>1737</b> | <b>1780</b> |              |
| + Depreciation                          | 259         | 258          | 267         | 278         | 298         | 306         | 316         | 326         | 336         | 346         | 357         |              |
| - Paid taxes                            | -286.7      | -265.0       | -339.9      | -369.9      | -397.9      | -404.3      | -409.6      | -414.5      | -393.7      | -408.3      | -419.1      |              |
| - Tax, financial expenses               | -13.6       | -7.9         | -8.7        | -7.8        | -6.3        | -5.2        | -5.1        | -5.0        | -5.2        | -5.4        | -5.0        |              |
| + Tax, financial income                 | 12.9        | 10.5         | 10.9        | 11.4        | 11.8        | 12.2        | 12.7        | 13.2        | 13.6        | 14.1        | 14.6        |              |
| - Change in working capital             | -546.8      | -132.3       | 19.2        | 5.4         | 6.2         | 5.4         | 4.5         | 3.5         | 2.4         | 1.3         | 21.3        |              |
| <b>Operating cash flow</b>              | <b>456</b>  | <b>1004</b>  | <b>1417</b> | <b>1510</b> | <b>1617</b> | <b>1642</b> | <b>1666</b> | <b>1689</b> | <b>1628</b> | <b>1685</b> | <b>1749</b> |              |
| + Change in other long-term liabilities | -29.2       | 0.0          | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |              |
| - Gross CAPEX                           | -204.3      | -307.4       | -305.0      | -345.0      | -329.6      | -340.4      | -351.4      | -362.6      | -374.2      | -385.9      | -392.3      |              |
| <b>Free operating cash flow</b>         | <b>223</b>  | <b>697</b>   | <b>1112</b> | <b>1165</b> | <b>1288</b> | <b>1301</b> | <b>1314</b> | <b>1327</b> | <b>1254</b> | <b>1299</b> | <b>1357</b> |              |
| +/- Other                               | 0.0         | 0.0          | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |              |
| FCFF                                    | 223         | 697          | 1112        | 1165        | 1288        | 1301        | 1314        | 1327        | 1254        | 1299        | 1357        | 30299        |
| <b>Discounted FCFF</b>                  |             | <b>665</b>   | <b>991</b>  | <b>969</b>  | <b>1001</b> | <b>944</b>  | <b>891</b>  | <b>839</b>  | <b>741</b>  | <b>717</b>  | <b>699</b>  | <b>15611</b> |
| Sum of FCFF present value               |             | 24068        | 23403       | 22412       | 21442       | 20441       | 19497       | 18607       | 17767       | 17026       | 16310       | 15611        |
| <b>Enterprise value DCF</b>             |             | <b>24068</b> |             |             |             |             |             |             |             |             |             |              |
| - Interesting bearing debt              |             | -175.9       |             |             |             |             |             |             |             |             |             |              |
| + Cash and cash equivalents             |             | 1970         |             |             |             |             |             |             |             |             |             |              |
| -Minorities                             |             | -286.3       |             |             |             |             |             |             |             |             |             |              |
| -Dividend/capital return                |             | -903.8       |             |             |             |             |             |             |             |             |             |              |
| <b>Equity value DCF</b>                 |             | <b>24694</b> |             |             |             |             |             |             |             |             |             |              |
| <b>Equity value DCF per share</b>       |             | <b>47.8</b>  |             |             |             |             |             |             |             |             |             |              |

Cash flow distribution



## WACC

|  |              |
|--|--------------|
| Tax-% (WACC)                                   | 23.5 %       |
| Target debt ratio (D/(D+E))                    | 3.0 %        |
| Cost of debt                                   | 2.5 %        |
| Equity Beta                                    | 1.00         |
| Market risk premium                            | 4.75%        |
| Liquidity premium                              | 0.00%        |
| Risk free interest rate                        | 2.5 %        |
| <b>Cost of equity</b>                          | <b>7.3 %</b> |
| <b>Weighted average cost of capital (WACC)</b> | <b>7.1 %</b> |

Source: Inderes

# Summary

| Income statement          | 2020    | 2021    | 2022    | 2023e          | 2024e          | Per share data           | 2020    | 2021    | 2022    | 2023e          | 2024e          |
|---------------------------|---------|---------|---------|----------------|----------------|--------------------------|---------|---------|---------|----------------|----------------|
| Revenue                   | 9938.5  | 10514.1 | 10906.7 | <b>11109.6</b> | <b>11697.5</b> | EPS (reported)           | 1.81    | 1.96    | 1.50    | <b>1.69</b>    | <b>2.17</b>    |
| EBITDA                    | 1451.9  | 1539.3  | 1290.5  | <b>1399.2</b>  | <b>1735.5</b>  | EPS (adj.)               | 1.87    | 1.98    | 1.59    | <b>1.89</b>    | <b>2.21</b>    |
| EBIT                      | 1212.9  | 1295.3  | 1031.2  | <b>1140.8</b>  | <b>1468.0</b>  | OCF / share              | 2.80    | 3.01    | 0.88    | <b>1.94</b>    | <b>2.74</b>    |
| PTP                       | 1224.3  | 1320.8  | 1028.5  | <b>1152.0</b>  | <b>1477.5</b>  | FCF / share              | 2.61    | 2.34    | 0.43    | <b>1.35</b>    | <b>2.15</b>    |
| Net Income                | 939.3   | 1014.2  | 774.5   | <b>874.4</b>   | <b>1121.5</b>  | Book value / share       | 6.12    | 6.13    | 5.49    | <b>5.43</b>    | <b>5.85</b>    |
| Extraordinary items       | -37.6   | -14.5   | -45.4   | <b>-103.6</b>  | <b>-20.0</b>   | Dividend / share         | 2.25    | 2.10    | 1.75    | <b>1.75</b>    | <b>1.80</b>    |
| Balance sheet             | 2020    | 2021    | 2022    | 2023e          | 2024e          | Growth and profitability | 2020    | 2021    | 2022    | 2023e          | 2024e          |
| Balance sheet total       | 8792.0  | 9720.4  | 9090.4  | <b>8954.5</b>  | <b>9309.9</b>  | Revenue growth-%         | 0%      | 6%      | 4%      | <b>2%</b>      | <b>5%</b>      |
| Equity capital            | 3197.2  | 3199.2  | 2866.5  | <b>2837.1</b>  | <b>3054.8</b>  | EBITDA growth-%          | 1%      | 6%      | -16%    | <b>8%</b>      | <b>24%</b>     |
| Goodwill                  | 1327.0  | 1405.2  | 1414.7  | <b>1414.7</b>  | <b>1414.7</b>  | EBIT (adj.) growth-%     | 1%      | 5%      | -18%    | <b>16%</b>     | <b>20%</b>     |
| Net debt                  | -2120.8 | -2332.9 | -1436.5 | <b>-1225.8</b> | <b>-1425.2</b> | EPS (adj.) growth-%      | 0%      | 6%      | -20%    | <b>19%</b>     | <b>17%</b>     |
| Cash flow                 | 2020    | 2021    | 2022    | 2023e          | 2024e          | EBITDA-%                 | 14.6 %  | 14.6 %  | 11.8 %  | <b>12.6 %</b>  | <b>14.8 %</b>  |
| EBITDA                    | 1451.9  | 1539.3  | 1290.5  | <b>1399.2</b>  | <b>1735.5</b>  | EBIT (adj.)-%            | 12.6 %  | 12.5 %  | 9.9 %   | <b>11.2 %</b>  | <b>12.7 %</b>  |
| Change in working capital | 314.2   | 358.7   | -546.8  | <b>-132.3</b>  | <b>19.2</b>    | EBIT-%                   | 12.2 %  | 12.3 %  | 9.5 %   | <b>10.3 %</b>  | <b>12.5 %</b>  |
| Operating cash flow       | 1453.9  | 1557.7  | 456.4   | <b>1004.5</b>  | <b>1417.0</b>  | ROE-%                    | 29.6 %  | 31.9 %  | 25.8 %  | <b>31.0 %</b>  | <b>38.5 %</b>  |
| CAPEX                     | -144.0  | -349.3  | -204.3  | <b>-307.4</b>  | <b>-305.0</b>  | ROI-%                    | 33.7 %  | 36.1 %  | 30.4 %  | <b>33.8 %</b>  | <b>41.2 %</b>  |
| Free cash flow            | 1351.8  | 1213.1  | 222.9   | <b>697.1</b>   | <b>1112.0</b>  | Equity ratio             | 45.5 %  | 41.2 %  | 40.7 %  | <b>41.7 %</b>  | <b>43.5 %</b>  |
| Valuation multiples       | 2020    | 2021    | 2022    | 2023e          | 2024e          | Gearing                  | -66.3 % | -72.9 % | -50.1 % | <b>-43.2 %</b> | <b>-46.7 %</b> |
| EV/S                      | 3.3     | 2.9     | 2.2     | <b>2.3</b>     | <b>2.2</b>     |                          |         |         |         |                |                |
| EV/EBITDA (adj.)          | 22.4    | 19.8    | 18.4    | <b>18.5</b>    | <b>14.8</b>    |                          |         |         |         |                |                |
| EV/EBIT (adj.)            | 26.0    | 23.3    | 22.1    | <b>20.8</b>    | <b>17.3</b>    |                          |         |         |         |                |                |
| P/E (adj.)                | 35.6    | 31.8    | 30.5    | <b>27.5</b>    | <b>23.5</b>    |                          |         |         |         |                |                |
| P/B                       | 10.9    | 10.3    | 8.8     | <b>9.6</b>     | <b>8.9</b>     |                          |         |         |         |                |                |
| Dividend-%                | 3.4 %   | 3.3 %   | 3.6 %   | <b>3.4 %</b>   | <b>3.5 %</b>   |                          |         |         |         |                |                |

Source: Inderes

# ESG

## Taxonomy eligibility

KONE's taxonomy eligibility percentages are low. Most of the company's business (manufacture, maintenance and modernization of elevators and escalators) is not included in taxonomy, as the elevator and escalator industry is not among high emission industries. Of net sales, the manufacture, installation, maintenance and repair of sliding doors, turning doors, revolving doors, turnstiles, rolling doors, express roll-up doors, and tilt-up doors, as well as the manufacture, installation, maintenance and repair of elevators with regenerative machinery are taxonomy eligible. Overall, KONE emphasizes its support for transition to more sustainable urban environments and buildings by offering energy-efficient and innovative solutions and using healthy and sustainable materials. The company has also set ambitious targets for 2030 to reduce greenhouse gas emissions.

We do not yet see, nor do we expect, that taxonomy will have significant economic impact, such as, e.g., significantly lower financing costs.

## Climate targets

KONE's climate targets set in 2020 are in line with the 1.5 °C warming scenario. At the time of writing this report, KONE's 2022 environmental liability report had not yet been published, but in 2021, 84% of the company's Scope 1 and Scope 2 emissions comprised emissions from the company's maintenance vehicle fleet and the remaining 16% site emissions. KONE's target by 2030 is a 50% reduction in Scope 1 and Scope 2 emissions compared to the reference year 2018. In addition, the company aims at a 40% reduction in the emissions of materials and energy consumption throughout the life cycle of ordered products in 2030 compared to 2018. We

consider the company's Scope 1 and Scope 2 targets realistic, considering, e.g., the expected electrification of the maintenance vehicle fleet in the current decade. By contrast, we consider the reduction objective for Scope 3 emissions to be challenging, as it requires a lot of new innovations and investments, as well as energy consumption of elevators remaining at a high level in customer preferences. In 2021, KONE's Scope 3 emissions were 15% higher than in 2019.

| Taxonomy eligibility | 2021* | 2022 |
|----------------------|-------|------|
| Revenue              | -     | 1 %  |
| OPEX                 | -     | 0 %  |
| CAPEX                | -     | 27 % |

| Taxonomy alignment | 2021* | 2022 |
|--------------------|-------|------|
| Revenue            | -     | 14 % |
| OPEX               | -     | 0 %  |
| CAPEX              | -     | 0 %  |

## Climate

|   |     |     |
|---|-----|-----|
| Climate goal  | Yes | Yes |
| Target according to Paris agreement (1.5 °C warming scenario) | Yes | Yes |

\*figures are not comparable due to taxonomy development

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Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

|            |  |
|------------|--|
| Buy        | The 12-month risk-adjusted expected shareholder return of the share is very attractive |
| Accumulate | The 12-month risk-adjusted expected shareholder return of the share is attractive      |
| Reduce     | The 12-month risk-adjusted expected shareholder return of the share is weak            |
| Sell       | The 12-month risk-adjusted expected shareholder return of the share is very weak       |

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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## Recommendation history (>12 mo)

| Date     | Recommendation | Target  | Share price |
|----------|----------------|---------|-------------|
| 20-07-18 | Reduce         | 43.00 € | 47.30 €     |
| 26-10-18 | Reduce         | 42.00 € | 40.60 €     |
| 25-01-19 | Reduce         | 40.00 € | 42.73 €     |
| 29-04-19 | Sell           | 41.00 € | 48.90 €     |
| 19-07-19 | Sell           | 41.00 € | 51.12 €     |
| 24-10-19 | Sell           | 42.00 € | 54.18 €     |
| 29-01-20 | Sell           | 45.00 € | 61.02 €     |
| 24-03-20 | Sell           | 42.00 € | 46.90 €     |
| 23-04-20 | Sell           | 46.00 € | 55.00 €     |
| 20-07-20 | Sell           | 48.00 € | 64.28 €     |
| 23-09-20 | Sell           | 61.00 € | 73.38 €     |
| 23-10-20 | Sell           | 61.00 € | 71.26 €     |
| 29-01-21 | Sell           | 61.00 € | 67.08 €     |
| 30-04-21 | Sell           | 61.00 € | 66.12 €     |
| 21-07-21 | Sell           | 61.00 € | 70.82 €     |
| 01-11-21 | Reduce         | 59.00 € | 58.72 €     |
| 03-02-22 | Reduce         | 57.00 € | 56.80 €     |
| 02-05-22 | Accumulate     | 51.00 € | 46.09 €     |
| 15-07-22 | Accumulate     | 51.00 € | 45.85 €     |
| 22-07-22 | Accumulate     | 51.00 € | 44.38 €     |
| 31-08-22 | Reduce         | 44.00 € | 40.89 €     |
| 17-10-22 | Reduce         | 41.50 € | 39.09 €     |
| 27-01-23 | Reduce         | 46.00 € | 52.48 €     |
| 28-04-23 | Reduce         | 47.50 € | 51.98 €     |



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Antti Viljakainen  
2014, 2015, 2016, 2018, 2019, 2020



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