NIBE Industrier B

Company report

20.09.2023 07:50

Lucas Mattsson
+46 731589485
lucas.mattsson@inderes.com

Staying cool and waiting for the heat

NIBE is well-positioned in its industry to benefit from the global shift towards sustainable energy systems. The track record of profitable growth is strong, and the company has been successful in generating value through acquisitions. Although we anticipate a substantial boost in 2023e sales due to a strong order backlog, the company may encounter hurdles in maintaining its growth momentum within the demanding global business environment. Given the share's elevated valuation level, we initiate our coverage of NIBE with a target price of SEK 74.1 and a Reduce recommendation.

Empowering growth through a decentralized approach

Throughout its history, NIBE has evolved from a small Swedish company into a global provider of eco-friendly indoor climate solutions, stoves and intelligent heating components for diverse sectors. Strategic acquisitions have strengthened its market position with heat pumps being the flagship product and key growth driver, in our view. NIBE has embraced a highly effective decentralized operating model that empowers subsidiaries to operate independently, preserving their passion and entrepreneurial spirit. This approach fosters economies of scale through coordinated purchasing, optimizing resource use and cost-efficiency.

Seizing opportunities in a booming Climate Solutions market

The overall addressable relevant market for NIBE is significant and is estimated at around SEK 1,200 billion, with Climate Solutions comprising 80% of it. Heat pumps lead the way in a rapidly growing global market (estimated at 10% annual growth), driven by energy efficiency demands and the worldwide shift toward sustainable energy solutions. Europe, especially Central Europe, displays the highest growth rate. While NIBE faces strong competition from European and Asian competitors, we anticipate that NIBE will continue to increase its market share due to its already strong market position, competitive solutions and through value-added strategic acquisitions.

Strong earnings growth, but improving profitability from the current level is challenging

NIBE has a strong track record of profitable growth, but surpassing the projected 2023 adjusted EBIT of 15.9% presents challenges due to uncertainties in heat pump subsidies, reduced consumer demand, a slower European construction market, and stabilized energy prices. Intensified market competition may also impact pricing power over time. We estimate that EPS growth in 2024-2026 will "only" be 11% (CAGR-% adjusted EPS). This is certainly not a bad level, but adjusted EPS grew about 20% annually in 2016-2022 (CAGR-%).

High valuation levels in uncertain times, but the long-term story is attractive

NIBE's valuation level has historically been high (last 10y median EV/EBIT of ~20x) due to its high quality, steady profit growth and low interest rate environment. In our view, the valuation multiples are high in absolute terms (2023e adj. EV/EBIT ~20x). NIBE's track record of profitable growth is convincing, but the earnings outlook is slower and in the current uncertain macroeconomic situation and interest rate environment, overstretching multiples seems unwarranted. Hence, we urge investors to wait for more attractive purchase opportunities in NIBE's long-term growth story.

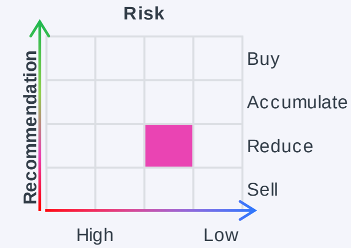
Recommendation

Reduce

74.1 SEK

Share price:

70.5



Key indicators

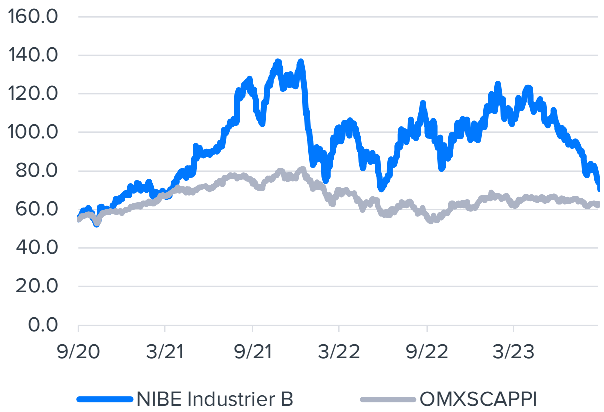
	2022	2023e	2024e	2025e
Revenue	40,071	49,682	56,130	61,209
growth-%	30%	24%	13%	9%
EBIT adj.	5,764	7,886	8,676	9,574
EBIT-% adj.	14.4 %	15.9 %	15.5 %	15.6 %
Net Income	4,351	5,765	6,239	7,139
EPS (adj.)	2.11	2.86	3.09	3.54
P/E (adj.)	46.0	24.6	22.8	19.9
P/B	7.0	4.4	3.9	3.4
Dividend yield-%	0.7 %	1.2 %	1.4 %	1.6 %
EV/EBIT (adj.)	35.1	19.6	17.6	15.6
EV/EBITDA	27.1	16.3	14.2	12.7
EV/S	5.0	3.1	2.7	2.4

Source: Inderes

Guidance

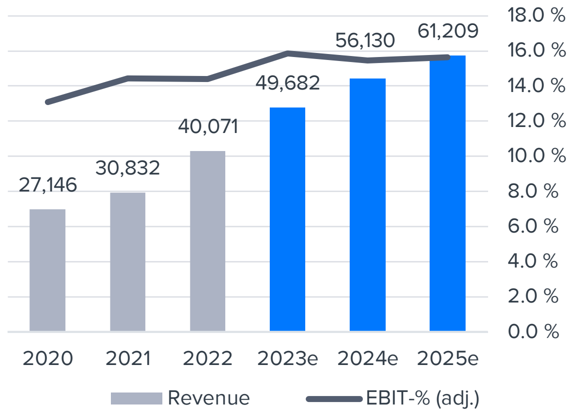
(NIBE provides no guidance)

Share price



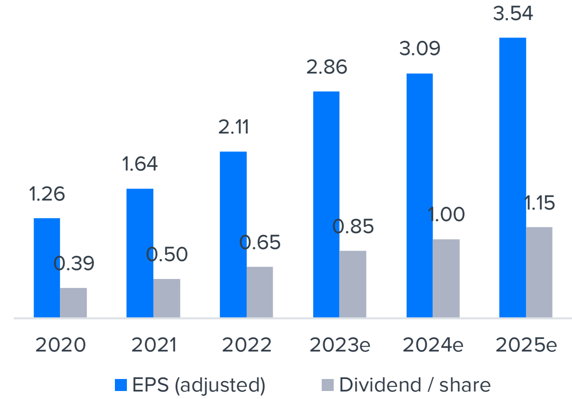
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Strong market position and globally well-known brands
- Good long-term prospects for renewable energy-based systems
- Energy efficiency investments support growth
- Vertical and horizontal synergies create efficiency and reduce costs

Risk factors

- Declining new construction market and uncertainty regarding future heat pump subsidies
- Somewhat cyclical demand in Element business area
- Stabilizing energy prices
- Risks generated by acquisitions and/or expansion investments

Valuation	2023e	2024e	2025e
Share price	70.5	70.5	70.5
Number of shares, millions	2,016	2,016	2,016
Market cap	142,133	142,133	142,133
EV	154,544	152,367	149,101
P/E (adj.)	24.6	22.8	19.9
P/E	24.7	22.8	19.9
P/B	4.4	3.9	3.4
P/S	2.9	2.5	2.3
EV/Sales	3.1	2.7	2.4
EV/EBITDA	16.3	14.2	12.7
EV/EBIT (adj.)	19.6	17.6	15.6
Payout ratio (%)	29.7 %	32.3 %	32.5 %
Dividend yield-%	1.2 %	1.4 %	1.6 %

Source: Inderes

Contents

NIBE in brief

NIBE is an internationally established company that offers a wide selection within heating solutions and energy control. The company's customers include, for example, private houseowners, owners of rented properties, equipment manufacturers and industrial customers. The customers are found mainly in the Nordic countries, Europe and North America.

1989
Year of establishment

1997
IPO

40,071 MSEK **(+30.0% of which 26.5% organic)**
Revenue 2022 (growth-%)

+16.1% **2017-2022**
Revenue growth (CAGR-%)

5,764 MSEK **(14.4% of net sales)**
Adj. EBIT 2022

SEK 1,210 billion **(~3% market share)**
Overall addressable market size

21,333
Average number of employees 2022

1989 - 2010

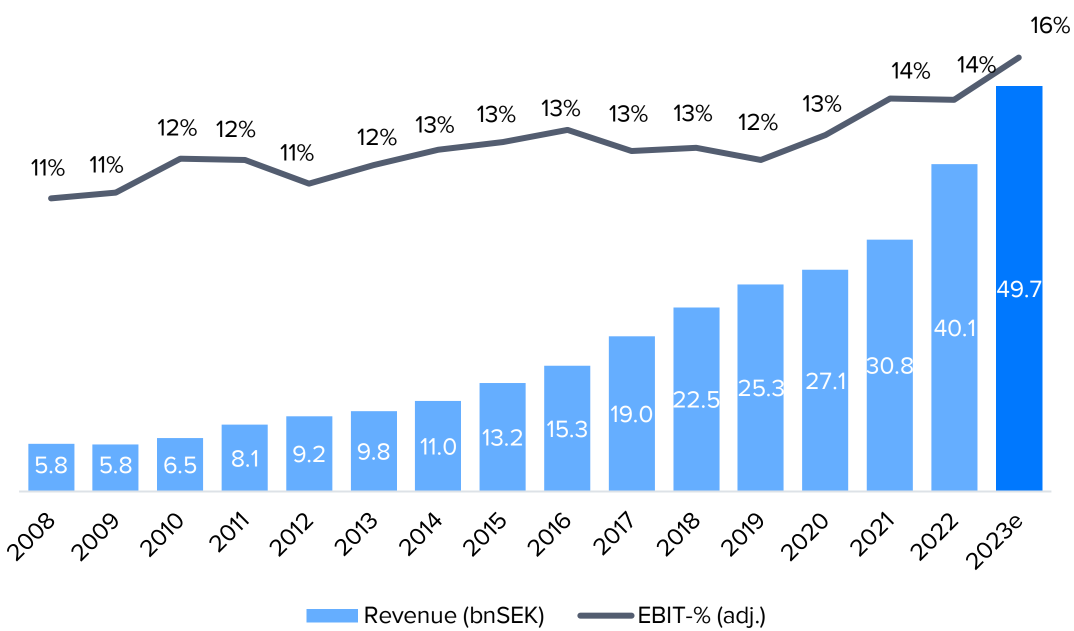
- NIBE Industrier AB is formed in 1989 and is listed on the stock exchange in 1997
- Around 30 acquisitions in all three business areas are completed in 1997-2010

2011 - 2016

- NIBE expands its operations in Europe and becomes a major European heat pump operator, as well as a leading player in Stoves in Europe.
- Eleven strategically important acquisitions are completed in North America in all three business areas in 2011-2016

2017-

- The era of acquisitions continues
- NIBEs industrial element range expands, and the company further strengthens its European presence in the industrial element sector
- Further steps towards being a leading turnkey supplier of sustainable climate control solutions for both single-family homes and commercial properties



Source: Inderes, NIBE

Company description and business model 1/3

Global provider of sustainable energy solutions

NIBE, headquartered in Markaryd, Sweden, has during its long history grown to be an international group within heating solutions and energy control. In our view, NIBE's long history and strong track record of long-term investments in sustainable product development has resulted in considerable know-how, which creates a competitive advantage.

Through the company's three business areas – **Climate Solutions, Stoves and Element** – NIBE provides a wide selection of environmentally friendly and energy-efficient solutions for indoor climate comfort in all types of properties. The company also offers components for intelligent heating and control in industry and infrastructure.

In terms of revenue, Climate Solutions is the largest business area, which constituted approximately 64% of the group's sales in 2022, followed by Element (27%) and Stoves (10%). In terms of geography, NIBE collects the largest share of its revenue from Europe, which accounts for approximately 68% of total sales, including the Nordic region. Through stable organic growth and an aggressive M&A-strategy, the company has become a major European heat pump operator and gained a strong market position within Stoves. In 2011-2016, NIBE completed eleven acquisitions in North America, making the company one of the market leaders in heat pumps, both for single-family homes and commercial properties, as well as creating a stable platform for Stoves in the region. Today, North America represents approximately 27% of group sales and other markets, such as Asia and Australia, constitute 6% of total sales.

Decentralized operating model

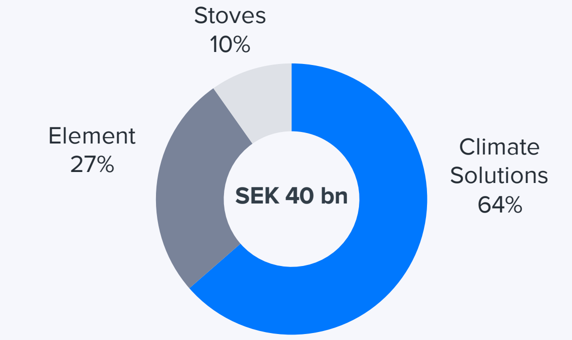
NIBE adopts a decentralized model, empowering its subsidiary companies to maintain their autonomy, passion, and entrepreneurial drive, which have been instrumental in the company's success. This decentralized approach not only preserves their spirit but also fosters economies of scale by facilitating coordinated purchasing, enhancing resource efficiency, and reducing costs. While this approach may limit some cost synergies between business units, we believe that the advantages it offers, such as faster decision-making, more than offset any potential drawbacks.

Proven acquisition strategy

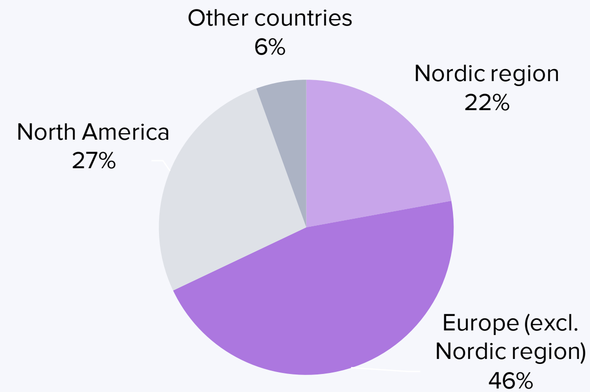
NIBE boasts a well-established acquisition process and a demonstrated ability to create value through these strategic moves. Consistently achieving a return on invested capital above its cost of capital underscores the overall positive impact of these acquisitions.

NIBE's acquisition criteria are clear: potential targets should bring new technology, open doors to new geographic markets, and/or increase the company's market share in existing regions. Additionally, NIBE's acquisition strategy promotes synergies, including improved production efficiency, an open environment for product development, quicker time-to-market, and opportunities for technology transfer. Given the fragmented nature of the international markets, we see ample opportunities for further consolidation, bolstering NIBE's market position.

Revenue by business area 2022



Revenue by market 2022



Source: Inderes, NIBE

NIBE's key acquisitions

	2014	2016	2016	2023
	WaterFurnace	**FPI Fireplace Products International**	**Climate Control Group**	**Climate for Life**
Revenue	~800 MSEK (2013)	~600 MSEK (2015)	2,312 MSEK (2015)	2,580 MSEK (2022)
Profitability	EBIT 135 MSEK, 17% margin (2013)	EBIT 78 MSEK, 13% margin (2015)	EBIT 168 MSEK, 7% margin (2015)	EBITDA 467 MSEK, 18% margin (2022)
Deal price	EV 2,365 MSEK (EV/EBIT 17.5x)	Not known	2,964 MSEK (EV/EBITDA 11.4x)	EV ~7,520 MSEK (EV/EBITDA 13.6x 2023e)
Share of ownership	100%	65% (remaining 35% was bought in 2020)	100%	100%
Number of personnel	Around 267	Around 380	Around 1,260	Around 450
Main markets	North America	North America, Australia	North America	Europe
Business area	Climate Solutions	Stoves	Climate Solutions	Climate Solutions
Product selection	Geothermal heat pump heating, cooling, hot water, and control systems for residential, commercial and institutional buildings	Complete range of products for gas, wood and pellets	Chemical products for the agricultural, mining, and industrial markets. Climate control products, such as water source and geothermal heat pumps, hydronic fan coils and modular chillers	Energy-efficient solutions in the field of heating and cooling, hot water, ventilation and control technology

Source: Inderes, NIBE

Company description and business model 2/3

Peak season in the fourth quarter

In general, seasonality in NIBE's business operations means that Q4 is the strongest quarter and H2 the better half of the year, where spring and summer are naturally low season. To attain the company's delivery reliability goals for Q3 and Q4, stocks of both raw materials and finished products are accumulated during the first half of the year across all three business sectors. Throughout NIBE's history, these cyclic fluctuations have remained a consistent feature, unaffected by the number of companies acquired. Strikingly, the fourth quarter consistently emerges as a period of particular strength. However, quarterly fluctuations were somewhat blurred during 2021 due to strong demand in the first half of the year and component shortages, which made it difficult for the company to build up inventory levels as planned in the spring and early summer. As a result, the delivery capacity was impacted during NIBE's peak season.

Moderate currency risks due to currency hedging

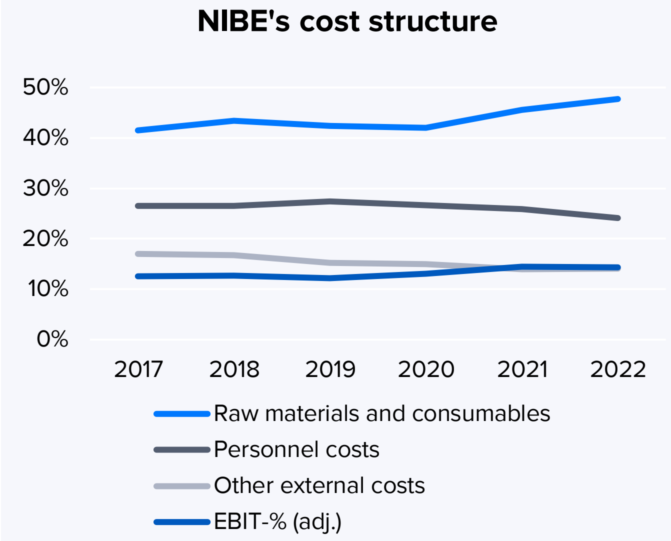
NIBE faces currency risks due to its global operations, including regular transactions in various currencies and exposure to different currency zones. These risks include transaction and translation risks.

Transaction risk refers to the potential for exchange losses resulting from regular business transactions in foreign currencies. Given NIBE's presence in 32 countries, we consider the company to have a notable exposure to transaction risk. However, the company's primary exposure appears to be linked to fluctuations in the EUR/SEK exchange rate. This is because a significant portion (68%) of NIBE's revenue is derived from Europe, and the biggest production plants are situated in Sweden. Moreover, it's worth noting that NIBE mitigates a substantial portion of this currency risk through its practice of hedging regular sales and purchases under a rolling 12-month plan, which helps maintain a relatively moderate level of currency risk.

To mitigate translation risk (exchange losses when converting foreign subsidiaries' financial statements into Swedish krona), assets are financed, where possible, in the same currency.

Cost structure entails limited scalability

Approximately 48% of NIBE's costs (relative to revenue) goes to material and consumables, i.e., mainly raw steel products, electronic components, and other direct materials. Personnel costs have historically been about 26-27% of revenue, slightly higher than last year, and other external costs have seen a gradual decline in recent years amounting to around 14% in 2022. In total, approximately 45% of the costs are fixed and 55% are variable. NIBE's degree of operating leverage (DOL) has historically been around 1.0, which implies that if revenue were to increase by 10%, operating income is anticipated to increase as much. Therefore, we believe that the cost structure is to large extent variable, limiting the scalability but simultaneously carrying a lower risk of potential losses if the company's operating performance underwhelms.



Source: Inderes, NIBE

Company description and business model 3/3

Strong operational cash flow but high investment needs

NIBE's operating cash flow after changes in working capital has typically been at good levels, averaging approximately 11% (relative to revenue) during the past five years. While NIBE generally is successful in converting profits to cash flow, 2021 and 2022 saw a large build-up of working capital primarily due to an increase in inventories. During the post-pandemic period, NIBE increased its inventories to get hold of components. Today, it is more a matter of building finished goods inventory, which has traditionally been done during Q1 and Q2 for the high season in H2.

NIBE's annual investment need is quite high, due to both expanded product capacity and acquisitions. The company's gross investments, excluding acquisitions, were SEK 2,241 million, corresponding to approximately 6% of 2022 revenue and around 86% of 2022 cash flow from operating activities.

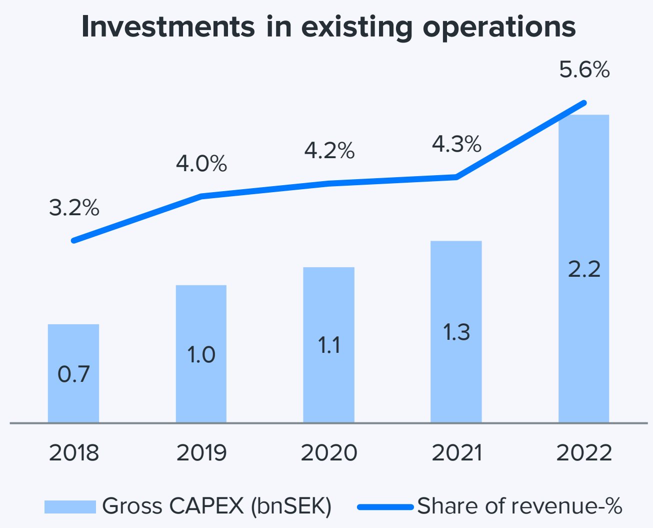
In view of the expected continued good development in all three business areas, where we believe that the company will continue to invest in capacity to meet a high demand, together with further automation and robotization, the rate of investment is expected to remain high.

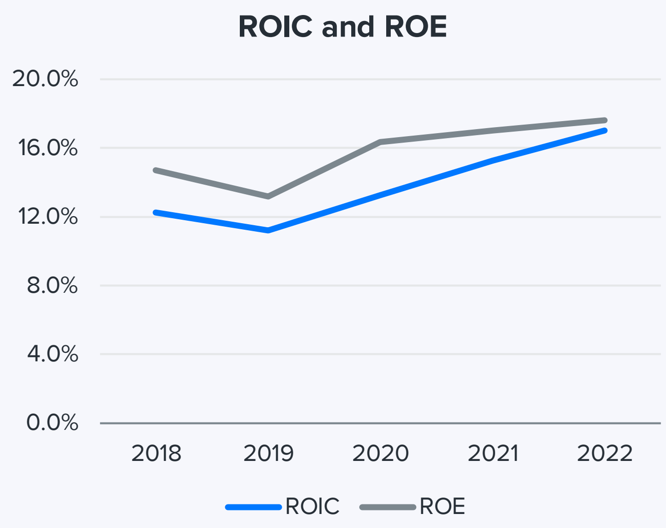
Continued high investment needs

Given the expected robust growth in all three business areas, which necessitates continued capacity expansion to meet high demand, coupled with ongoing efforts in automation and robotization, we anticipate that the investment rate will remain elevated. In the coming years, we foresee investments exceeding depreciation, as current capacity may prove insufficient to accommodate the anticipated volume growth.

This, combined with an aggressive acquisition strategy, may somewhat impede the conversion of operating cash flow into free cash flow. However, we view this as a prudent allocation of capital, as growth in the manufacturing sector is never without cost. Moreover, we believe NIBE must invest in its capacity to remain competitive, especially in a market where other manufacturers are investing significantly in expanding their heat pump production capabilities.

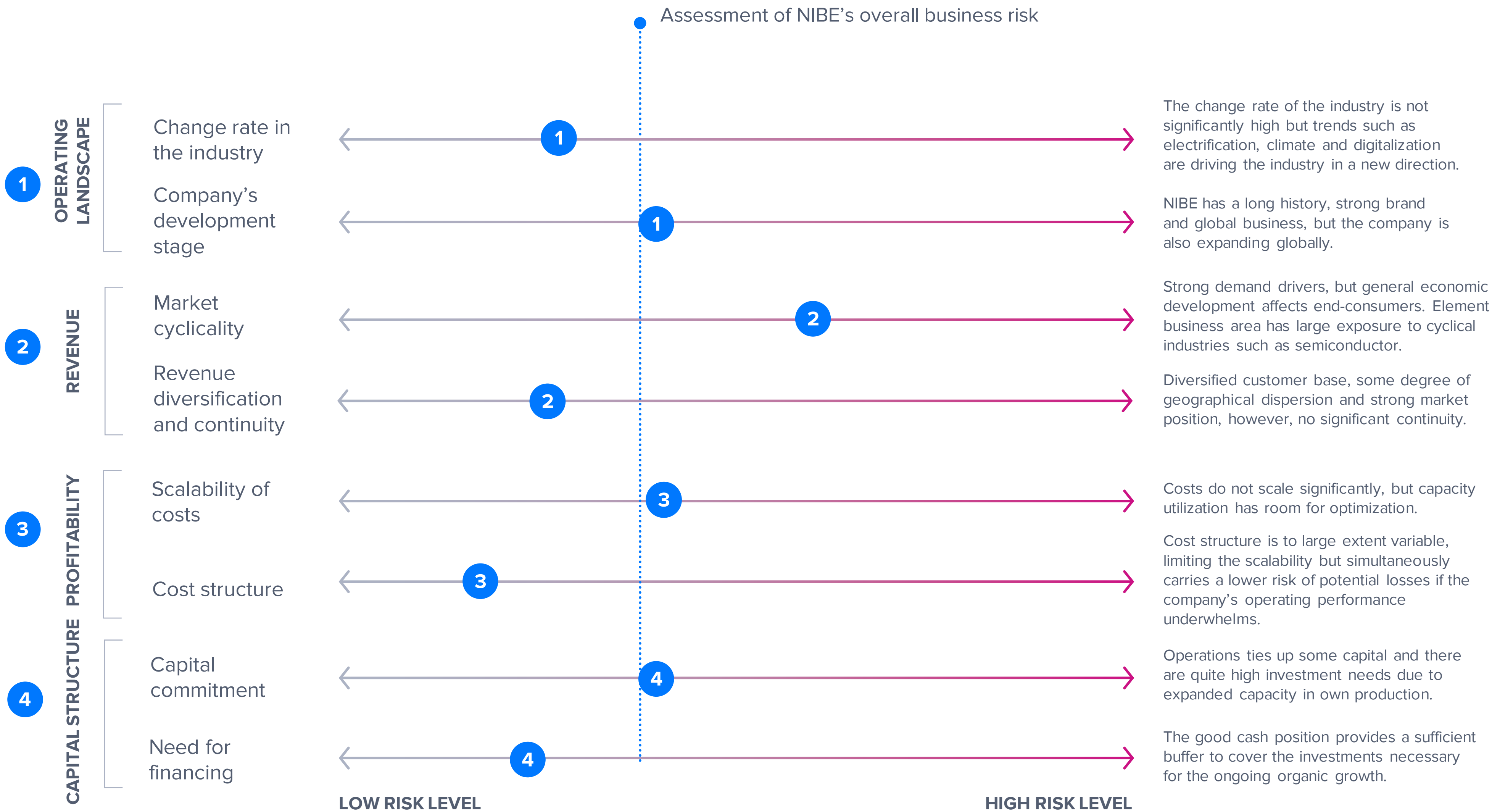
It's worth noting that NIBE's historical performance, reflected in its Return on Invested Capital (ROIC), demonstrates effective capital utilization, consistently exceeding its cost of capital. This indicates that the company has adeptly directed its invested capital toward profitable investments.





Source: Inderes, NIBE

Risk profile of the business model



Source: Inderes

Climate Solutions

Energy-efficient climate solutions for properties

In the Climate Solutions sector, NIBE offers indoor climate comfort solutions, including heating, air conditioning, ventilation, and heat recovery, catering to private homeowners, property renters, and commercial property owners. In our view, NIBE is strongly positioned for a transition to a fossil-free society, as most solutions rely on renewable energy sources like soil, rock, sun, water, and air. Heat pumps, including air/water, ground-source, and air-exhaust pumps, are the primary product category.

The products are manufactured in some twenty plants in Europe and North America, where the business area's biggest production units are found in Sweden, Germany and the US. Having production plants on different continents gives NIBE great flexibility, allowing the company to relocate production based on cost, tariff and currency situation. Moreover, since production takes place in-house, the company can better control the quality of the product and we believe that high quality is essential to competitiveness. Furthermore, in-house production enables NIBE to better plan for production spikes by having enough capacity, labor and equipment for meet demand. On the other hand, owing plants requires investments in PP&E and personnel, which ties up capital. Based on the good profitability track-record we believe that the in-house driven operating model seems justified.

NIBE distributes its products through wholesalers or directly to installers, with local installers typically being the end consumer's primary point of contact for sales and installation. Other influential decision-makers include house builders, design engineers, planners, architects, and consultants.

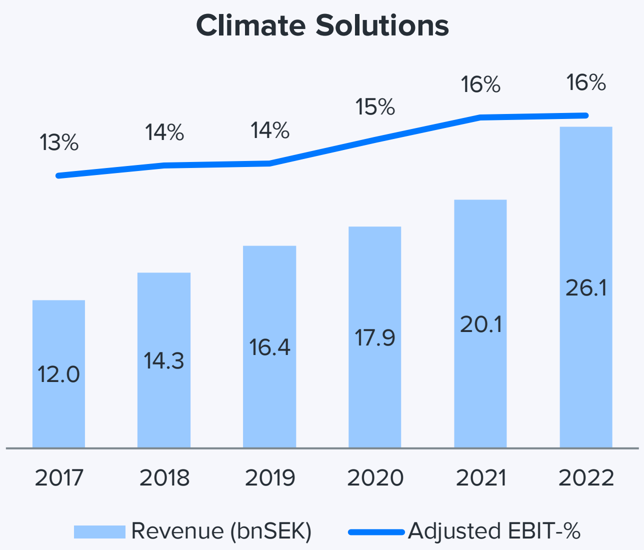
Moderate cyclicality in demand

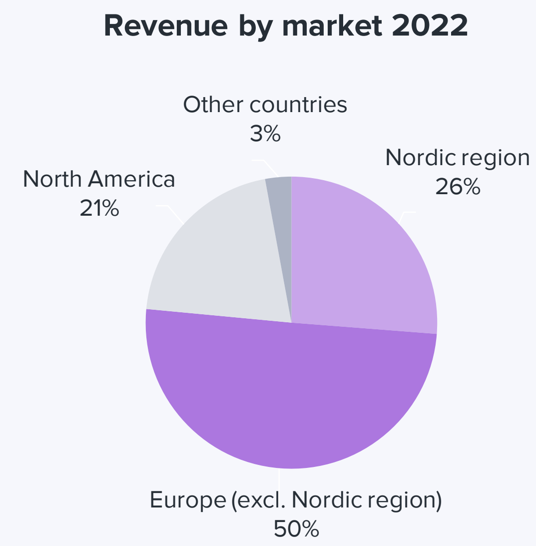
Buildings contribute to approximately 40% of the world's total energy consumption and are responsible for one-third of all greenhouse gas emissions. Consequently, we attribute the growing demand for energy savings and the global shift toward sustainable energy solutions as the primary drivers.

While demand may exhibit some cyclicality, given its ties to the new construction market, we anticipate that the bulk of the demand stems from the replacement market. This market segment is more responsive to energy price fluctuations than to global economic development. For instance, an unfavorable correlation between electricity and gas prices could reduce incentives for transitioning to heat pumps, as we see it.

Profitable growth

Over the past five years, NIBE Climate Solutions has more than doubled its sales from SEK 12,020 million in 2017 to SEK 26,076 million in 2022, corresponding to an average annual growth (CAGR) of 16.8%. While the growth has been somewhat boosted by acquisitions, the business area has experienced high organic growth during the past five years, averaging 12.5% since 2017. The adjusted EBIT margin has been somewhat restrained since the acquired companies generally have had lower margins (median around 10% between 2017-2022). However, we believe that NIBE has managed to increase the profitability in the subsidiaries through various cost synergies, hence the operating profit of the business area has experienced a strong growth of 22.2% (CAGR 2017-2022), where the operating margin exceeded 16% in 2022.





Source: Inderes, NIBE

Market review – Climate Solutions 1/3

The market for Climate Solutions

In total, NIBE estimates that the combined addressable market for the Climate Solutions business area amounts to SEK 1,000 billion. With segment sales of SEK 26 billion in 2022, this implies a market share of almost 3%. Heat pumps are NIBE's major product area within Climate Solutions as well as for the group. NIBE is a dominant player within heat pumps in the Swedish and Nordic markets as well as in North America, both for single-family homes and commercial properties. The US, Germany and Sweden are important markets for NIBE and are also the three largest markets in terms of group sales, where the US accounts for approximately 24% and Sweden and Germany constitutes 10% share of sales each.

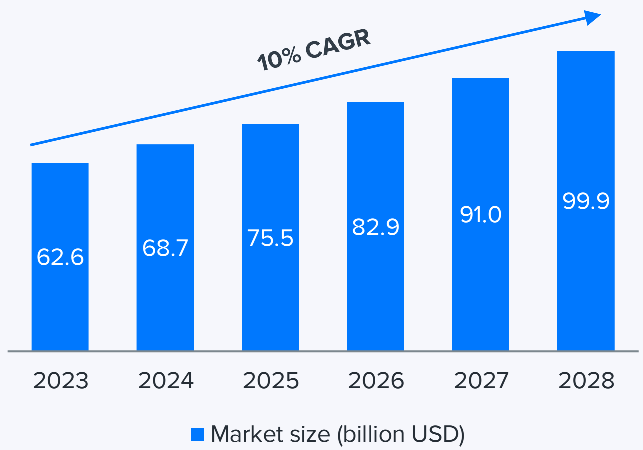
Heat pumps: unleashing a global market revolution

The global heat pump market is projected to reach nearly USD 100 billion by 2028, growing at a CAGR of around 10% from its 2023 value of USD 63 billion. Sales of heat pumps experienced a robust 11% growth in 2022, driven by increased policy support, incentives, and the need to address high natural gas prices and reduce greenhouse gas emissions. Heat pumps stand out as superior heating and cooling solutions, owing to their energy efficiency, environmental advantages, and long-term cost savings. However, they face competition from fossil fuel systems in resource-rich regions, electric resistance heating in areas with cheap electricity, solar/geothermal alternatives in specific cases, and hybrid systems that blend traditional and heat pump technology for efficiency.

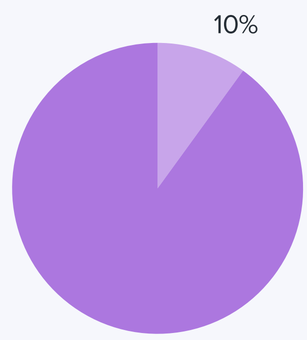
Despite their promise, heat pumps currently fulfill just around 10% of global building heating needs, falling short of the targets set by the Net Zero Emissions by 2050 Scenario. To meet this ambitious goal, it's estimated that the global heat pump stock must exceed 600 million units by 2030, covering at least 20% of the world's heating demands.

In terms of regional markets, the Nordic region is mature, while Europe shows the fastest growth. Although the Asia Pacific region is the largest market, it currently represents only 3% of Climate Solution's sales. NIBE aims to increase its market share in Asia Pacific through acquisitions. In the US, the heat pump market is relatively younger compared to the Nordic and some European markets. Natural gas remains the dominant heating source in many US areas, accounting for around 50% of household heating in 2020. Heat pumps were used for heating in approximately 13% of US households in 2020. The availability and affordability of gas have hindered heat pumps from gaining a larger market share in the US. However, higher energy prices could benefit NIBE by incentivizing the adoption of heat pumps. Conversely, rising electricity prices may encourage other energy companies to enter the energy efficiency sector, potentially increasing competition for NIBE.

Global heat pump market



Heat pumps fulfill only 10% of global heating needs in buildings



Source: Inderes, Mordor Intelligence, NIBE

Market review – Climate Solutions 2/3

Gas still dominating in Europe

The heat pump market in Europe, with millions of units installed each year, is still relatively young in many countries except for Sweden. Despite the dominance of gas in the heating market across Europe, heat pumps are steadily gaining a larger share of the total market. In 2022, the European heat pump market reached a new milestone, with approximately three million units sold, representing an impressive annual growth rate of nearly 40%.

The total number of connected heat pumps in Europe has now reached around 20 million, contributing to heating in approximately 16% of residential and commercial buildings across the continent. NIBE highlights that there is a significant replacement demand of around five million heating units annually in the European Union, including Switzerland, Norway, and the UK. In addition, during an average year at least one million new units are installed in new builds in the same countries. In other words, the total addressable European market comprises approximately six million heat pumps on an annual basis.

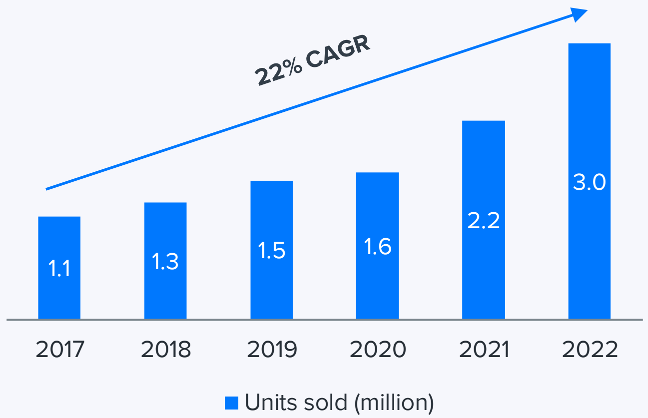
The largest markets for heat pumps in Europe are Germany, France, Sweden, Switzerland, and the UK. Sweden, being a mature market, is expected to see further growth supported by the replacement cycle. In less developed heat pump markets such as Germany and France, new construction projects will play a crucial role in driving adoption.

Moreover, several governments, including those in the UK, the Netherlands, Germany, and Norway, have expressed their ambitions to phase out heating products reliant on fossil fuels like oil and gas. These initiatives are expected to further drive the growth of heat pump installations.

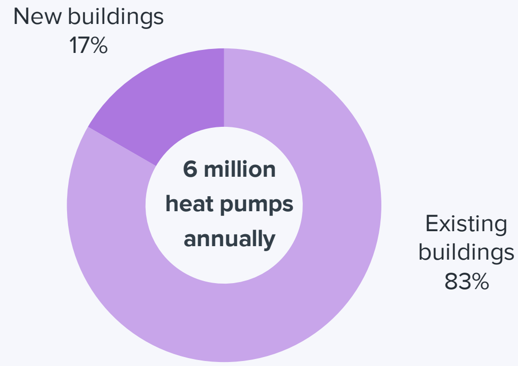
However, many nations, notably Germany, face the challenge of replacing fossil fuel-powered boilers in millions of homes and buildings with cleaner alternatives such as heat pumps. Reducing emissions in the building sector remains a pivotal yet unaddressed aspect of Germany's energy transition. Gas and oil heating systems still prevail, accounting for over 80% of Germany's heating demand. Germany's ambitious target of achieving climate neutrality by 2045 necessitates a rapid transition to environmentally friendly heating options for the vast majority of its 40 million homes within two decades.

To facilitate this transition, the government has passed a new heating law mandating heating systems that derive more than 65% of their energy from renewable sources, such as heat pumps, solar thermal systems, and hybrids. This effectively prohibits the installation of new gas or oil heating systems that cannot meet this renewable energy quota. The government plans to offer financial incentives to households undertaking these necessary investments, with the subsidy amount determined by income and timing, potentially covering up to 70% of the investment cost.

European heat pump market development



Addressable European market



Source: Inderes, NIBE, EHPA

Market review – Climate Solutions 3/3

Leading the heat pump market with strategic acquisitions

NIBE has long been a driving force in market consolidation; however, the landscape remains predominantly fragmented, populated by regional and local competitors. Additionally, NIBE faces growing competition from global HVAC companies that share a common emphasis on energy efficiency and sustainable offerings.

NIBE's market-leading position in heat pumps extends across the Nordic region, where it holds a dominant presence. The company has also established itself as a significant player in several European countries, encompassing Germany, Switzerland, Austria, Poland, and the Czech Republic. Additionally, NIBE has made significant strides in the UK and France, solidifying its presence. With the acquisition of Climate for Life, NIBE has become a market leader in sustainable indoor climate solutions within the Benelux market.

Expanding their reach further, NIBE's acquisitions of WaterFurnace in 2014 and Climate Control Group in 2016 have positioned the company as a major player in the residential geothermal heat pump market in the US. This, coupled with their already strong position in the residential sector, presents promising opportunities for future growth. Notably, recent acquisitions have also enhanced NIBE's competitiveness in the rapidly growing commercial sector.

Among NIBE's main competitors in the European Climate Solutions business are Valliant, Viessmann, Stiebel Eltron, Daikin, and Bosch Home Comfort Group. In the US market, NIBE faces competition from Carrier, Trane, Daikin, and Johnson Controls.

While it is challenging to obtain financial data on privately held companies, we believe that Daikin stands as NIBE's primary listed competitor. Daikin, a market leader, boasts around 1.2 million installed heat pumps across Europe, accounting for approximately 6% of all installed heat pumps. NIBE and Daikin both offer comprehensive heating and cooling solutions, including heat pumps, but their product lines, models, and features differ somewhat. NIBE emphasizes a broad product portfolio encompassing heat pumps, cooling systems, ventilation products, and other heating solutions. In contrast, Daikin, being a larger multinational corporation, provides a wider range of HVAC products, including air conditioners, heat pumps, chillers, and more.

When analyzing the profitability of NIBE and Daikin, it becomes evident that NIBE holds a higher EBIT margin of approximately 16% in the Climate Solutions business area. In comparison, Daikin's EBIT margin in the Air Conditioning business area, which can be loosely compared to NIBE Climate Solutions, stood at around 10% in 2022. This discrepancy highlights NIBE's stronger profitability, which we believe is due to 1) high quality, 2) a strong brand (pricing power) and 3) economies of scale from large volumes.

Main competitors

VIESSMANN | DAIKIN
Vaillant | BOSCH
STIEBEL ELTRON | Carrier – Turn to the experts
TRANE – It's Hard To Stop A Trane. | Johnson Controls

NIBE's competitive advantages

- High quality
- Strong brand(s)
- Economies of scale from large volumes
- Long history and considerable know how

Source: Inderes

Element

Intelligent solutions for heating and energy control

NIBE Element offers a wide range of components and solutions for heating and control with a focus on sustainability. Most product groups enhance energy efficiency, optimize energy consumption and help reduce customers' carbon footprints. The product offering includes, for example, foil elements, which can be used as defrosters in vehicle wing mirrors and camera systems. Element holds a very comprehensive product portfolio, and the company continuously expands the offering to include more technologies. This is done to serve a broad customer base, ranging from producers of highly specialized industrial systems to producers of consumer products.

NIBE's customer base can be categorized into two primary groups: OEM (Original Equipment Manufacturer) and Industry. Industry players incorporate NIBE's solutions into their own manufacturing processes. OEM customers, on the other hand, purchase NIBE's products and systems as components for their final products, such as tubular elements used in heating fans and ovens for air heating and radiant heat. We believe that serving OEM customers with diverse product portfolios presents cross-selling opportunities for NIBE, enabling sales growth as customers expand their production capabilities

Local product development and production

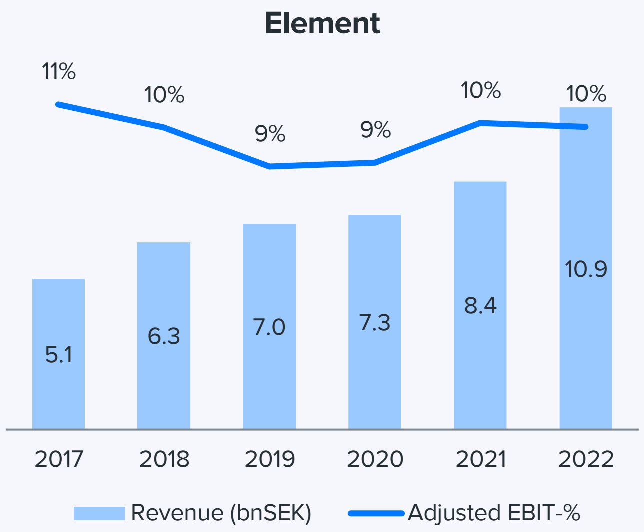
In the Element business area, product development is decentralized across various subsidiaries to foster specialization and proactive collaboration with customers. Simultaneously, NIBE promotes knowledge exchange among all subsidiaries, generating continuous synergies that significantly reduce time-to-market in multiple areas. Some products are tailored in consultation with customers, resulting in unique solutions that create customer lock-in and high switching costs.

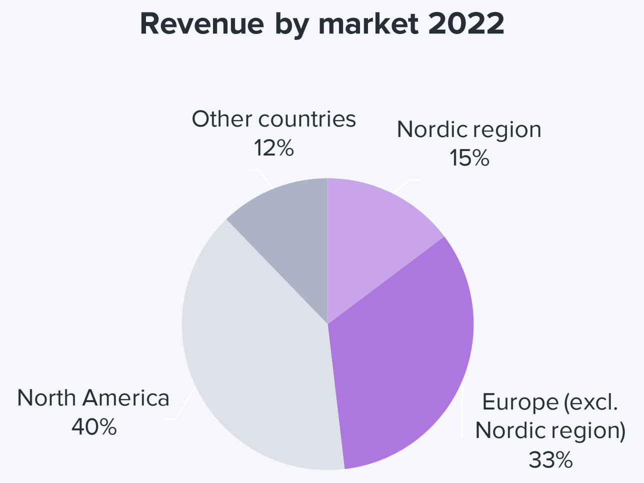
With 80 localized production plants in Europe, North America, and Asia, NIBE possesses the capability to deliver small and medium-sized series promptly. This localized production setup provides a competitive edge, particularly when compared to larger companies like Watlow and Chromalox, which rely more on centralized manufacturing facilities, in our view.

Strong historical growth

NIBE Element boasts a well-diversified geographic sales footprint. In terms of revenue, Element has grown from SEK 5,102 million in 2017 to SEK 10,925 million in 2022, corresponding to an average annual growth of 16.4%. This has been somewhat boosted by acquisitions. However, the business area has shown solid organic growth at an average of 11.7% since 2017. It is worth noting that NIBE Element's performance is closely tied to global economic fluctuations, given its exposure to the cyclical semiconductor and consumer goods sectors.

Operating profit has experienced a CAGR of 14.8% between 2017-2022, which is lower than the total sales growth. Hence the EBIT margin has fluctuated during the past five years, declining from 11.0% in 2017 to 10.4% in 2022. We believe that the lower profitability in Element is partly attributable to volatile exchange rates, which impacts pricing and competitiveness.





Source: Inderes, NIBE

Market review – Element

The Element market

The heating elements market encompasses a diverse range of end markets. NIBE estimates the total addressable market for heating elements to be approximately SEK 160 billion. With segment sales of SEK 26 billion in 2022, this implies a market share of almost 7%. NIBE Element predominantly serves various end markets, including white goods (both consumer and commercial), automotive, renewable energy, rail infrastructure, oil & gas industries, and companies within the general industrial sector. By catering to these diverse industries, NIBE Element demonstrates its versatility and adaptability to meet the heating element needs across multiple sectors.

Growth is expected to vary between the segments

In 2022, NIBE Element witnessed strong growth in sustainability-related products, including renewable energy and energy-efficient climate control solutions like heat pumps. We anticipate continued demand in these segments as the shift from fossil fuels to electricity gains momentum. Factors driving this transition include environmental awareness, cost savings, and government incentives and regulations. Additionally, the resistor market is benefiting from the growing adoption of renewable energy, particularly in wind turbines where resistors play a vital role. The global expansion of wind power is expected to be a robust and long-term trend, presenting opportunities for NIBE Element.

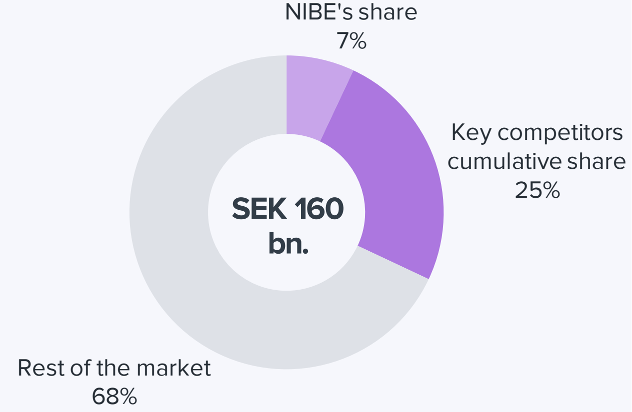
Investments in rail infrastructure are also expected to increase steadily, aligning with the growing focus on sustainability. Rail projects, commonly government-funded and economically stable, contribute to enhanced stability for NIBE Element. However, consumer-oriented product segments like domestic appliances and direct electric heating are experiencing a slowdown due to inflationary pressures, resulting in reduced consumer demand.

Furthermore, the semiconductor industry has faced challenges due to trade restrictions imposed by the US on exports of advanced technology to China in late 2022, as well as slowing economic growth and high inventories. Alongside declining demand in certain product segments, this has led to a temporary downturn. However, long-term prospects are positive, especially with future investments in expanding the semiconductor industry in North America and Europe, aiming to reduce reliance on Asia in this critical technology domain.

NIBE is one of the world-leading Element suppliers

The market is fragmented, primarily comprising local operators and some large regional and global ones. However, the North American market is more homogeneous and can be regarded as one market. NIBE enjoys a strong global presence and offers a diverse product portfolio. Key competitors in the Element market include, for example, Watlow, OEMGA, Zoppas Industries, and Thermon, with the top five companies collectively holding a market share of approximately 25%, according to our view. NIBE's competitive advantages lie in its local production capabilities, allowing for quick delivery of small and medium-sized series, an extensive product range, and deep expertise in the field.

Addressable market for heating elements



NIBE's competitive advantages

- Local production capabilities
- Extensive product range
- Synergies and technology transfer between subsidiaries
- Deep expertise in the field

Source: Inderes, NIBE

Stoves

Secondary source of heating

NIBE Stoves is the smallest business area, which accounted for approximately 10% of sales in 2022. The product range comprises energy-efficient stoves, chimney systems and various accessories for different kinds of houses and commercial properties. The products are distributed through a broad network of retailers, usually without any intermediary. Retailers offers a higher level of service compared to builders' merchants, which primally focus on low-cost products. Spare parts and accessories are increasingly sold online.

Consumers tend to invest in a stove as a secondary heating source for increased security and reduced heating costs. Especially in 2022 where high uncertainty regarding energy supply and pushed up energy prices characterized the market, due to the war in Ukraine. Germany, which is one of the business area's key markets in Europe, shows a high demand since the dependence on Russian gas needs to be reduced. The acquisitions of the Canadian companies', Fireplace Products International in 2017 and Miles Industries in 2023, has generated a strong network with retailers in both Canada and the USA. As a result, NIBE Stoves now has a well-established market position in North America, which constituted 24% of sales in 2022. Other markets, such as Australia, contributes with a minor part (3%) of the sales.

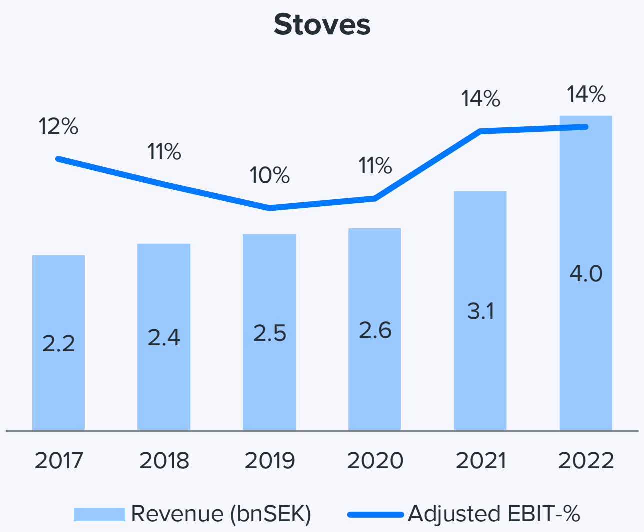
Production units in each market

NIBE Stoves operates production plants in Sweden, the UK, Poland, and Canada. Steel plate products sold in Europe are primarily manufactured in Sweden, where a highly automated and streamlined production facility is in place. Corresponding facilities for production in North America are available for the Regency and Pacific Energy brands. In the UK, Gazco produces gas-fired products in its own plant, Stovax wood-burning products are manufactured by selected subcontractors, and Evonic Fires has its own production plant for electric stoves. The Polish facility supplies surrounds, fireplace materials, and heat-retaining products to NIBE's brands and external manufacturers in the industry.

Coordinated purchasing of large shared volumes of inputs, including steel plate, castings, and ceramic glass, enables cost reduction and efficient resource utilization. Additionally, production planning takes seasonal variations into account, leading to inventory management that ensures delivery capacity during the high-demand fall season.

Improved profitability during the latest years

NIBE Stoves has historically exhibited the slowest growth among the different business areas, achieving a CAGR of 12.4% between 2017 and 2022. Notably, during the Covid-19 pandemic, this business segment experienced a surge in demand attributed to the renovation trend. Moreover, the conflict in Ukraine and subsequent escalation in electricity prices transformed Stoves from a decorative item to a security product, resulting in a notable boost in demand. In our assessment, the substantial order intake over recent years has facilitated economies of scale for NIBE Stoves. This strategic advantage has enabled the business to elevate its operating profit at a pace surpassing the rate of sales growth, consequently yielding improved profit margins. Therefore, there is a risk that the current demand and profit level is not sustainable.



Source: Inderes, NIBE

Market review – Stoves

The Stoves market

The estimated addressable market for NIBE Stoves in North America and Europe stands at approximately SEK 50 billion. With segment sales reaching SEK 4 billion in 2022, NIBE holds a market share of nearly 8%.

NIBE Stoves holds a strong market position in Europe, representing approximately 73% of the business area's sales in 2022. While traditional wood burning dominates the European market, there is a notable preference for gas-fired stove products in the UK, Ireland, and the Netherlands, owing to the extensive gas supply networks in these regions.

In 2022, Europe experienced a surge in demand for wood-fired stoves due to concerns over the situation following Russia's invasion of Ukraine. This led to increased energy prices and uncertainty, prompting individuals to invest in stoves for security and cost savings. The demand for wood-fired stove products in Europe, especially in Germany, is expected to continue due to the need to reduce gas dependence. Demand is also driven by government requirements under which use of older fireplaces that do not meet applicable Ecodesign requirements will not be permissible in future. However, declining single-family house production may offset some of the market growth.

Stable platform for growth in North America

Through strategic acquisitions like FPI, Pacific Energy, and Miles Industries, NIBE Stoves has established a strong market presence, particularly in the northern regions of the US and Canada, where extremely cold winters are prevalent. However, the demand for stoves may face challenges due to rising mortgage rates, declining housing affordability, and broader macroeconomic uncertainties. Despite these short-term concerns, long-term trends such as energy efficiency and cost savings continue to drive consumer interest in efficient heating solutions that help reduce utility expenses. Furthermore, the growing focus on renewable energy sources and environmental consciousness has further fueled the demand for stoves, particularly those that utilize renewable and carbon-neutral fuels, such as wood-burning options.

Fragmented market

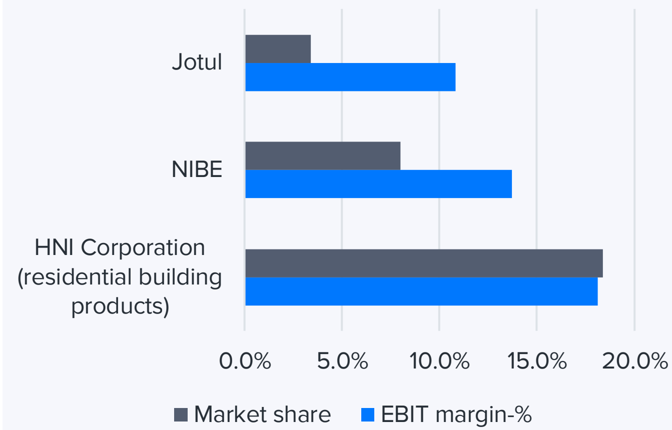
The stove market is characterized by fragmentation, with numerous smaller players competing primarily on a local or regional scale. Many of these companies are family-owned. This landscape presents an opportunity for NIBE to pursue its growth strategy through acquisitions in the Stoves business area. In Europe, NIBE Stoves faces competition from companies like Jøtul, Aduro, Dovre, and Rais. Meanwhile, major players in North America include HNI Corporation, Napoleon, Innovative Hearth Products, and Travis Industries.

One important factor contributing to higher profit margins in this sector is economies of scale. By spreading fixed costs over a larger revenue base, companies can achieve greater efficiency and profitability. For instance, based on our estimates, Jøtul holds a market share of approximately 3%, with an operating margin of 10.8%, which is lower than that of NIBE Stoves (13.7%). When comparing NIBE Stoves to companies with larger operations, such as HNI Corporation (with an estimated 18% market share), NIBE exhibits a lower operating margin.

Key competitors

JØTUL
Aduro
RAIS
DOVRE
HNI
IHP Innovative Hearth Products
NAPOLEON
TRAVIS INDUSTRIES THE HOUSE OF FIRE

Stoves market key players market share and margins, 2022



Source: Inderes, NIBE

Investment profile

1. **Strong market position and globally well-known brands**
2. **Energy efficiency investments support market growth**
3. **Expansion to new markets and/or new product categories an opportunity for value creation**
4. **Vertical and horizontal synergies creates efficiency and reduce costs**
5. **Deteriorating new construction market and stabilizing energy prices dampen growth prospects**

Potential

- NIBE is strongly positioned to leverage the transition from fossil fuel-dependent systems, like oil and gas, towards renewable energy-based systems
- The markets' fragmentation offers substantial consolidation prospects
- NIBE's size brings economies of scale to Group companies across various domains: shared procurement, production efficiency know-how, and an innovative product development ecosystem. This speeds up time-to-market and unlocks margin growth possibilities

Risks

- Weaker consumer demand impacts Element's growth outlook.
- A declining new construction market in Europe, along with uncertainty regarding future subsidies, dampens growth prospects for heat pumps
- Persistent delivery delays and ongoing disruptions within the supply chain, both internally and from external suppliers
- Risks generated by acquisitions or expansion investments

Source: Inderes

Strategy

NIBE's strategic objectives

Aggressive product development

- Continue to invest considerable resources in product development in order to further strengthen its market position and thereby generate profitable growth
- Increased quality is the most important and fundamental factor behind sustained growth

Market-oriented expansion

- Increasing the market share in all markets both through organic growth and acquisitions
- Utilizing procurement synergies of acquisitions

Improving productivity

- NIBE aims to double its production capacity in many areas. Increased delivery capacity enhances productivity
- Improving capacity utilization and increasing automation

Inderes' comments on NIBE's strategic objectives

- NIBE has expanded its product range through in-house development and acquisitions, boosting its market position and gaining a competitive edge over rivals
- We believe that NIBE's diverse product range unlocks new market opportunities, enabling the company to expand its reach and attract previously untapped customers
- NIBE's extensive experience and expertise, gained over its long history, keeps the company ahead in a changing world. This adaptability allows NIBE to respond effectively to market trends, regulations, and customer expectations. By staying attuned to these factors, NIBE innovates and delivers products that meet evolving customer needs

- Historically, NIBE has been successful in increasing its market share both organically and through acquisitions. However, acquisition activity slowed down during the pandemic, which limited the growth somewhat
- The markets in which NIBE operates are highly fragmented, presenting significant opportunities for continued consolidation
- Intense competition from established players with strong brand recognition poses challenges for NIBE's market share expansion in Asian markets

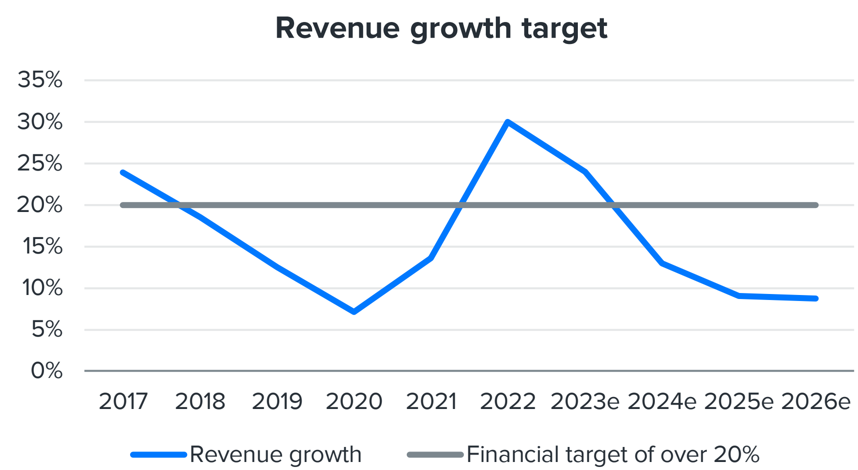
- Production and deliveries have been hindered because suppliers have been unable to meet the changing demand
- Coordinated purchasing within and between business areas supports improved productivity through efficient resource utilization and cost reduction
- NIBE's investments in increased automation and robotization also provide opportunities for further productivity improvements in existing operations
- We believe that NIBE's historically good and steady profitability indicates that its production is on average quite efficient. This is supported by high volumes and a compensation model based on methods time measurements (MTM)

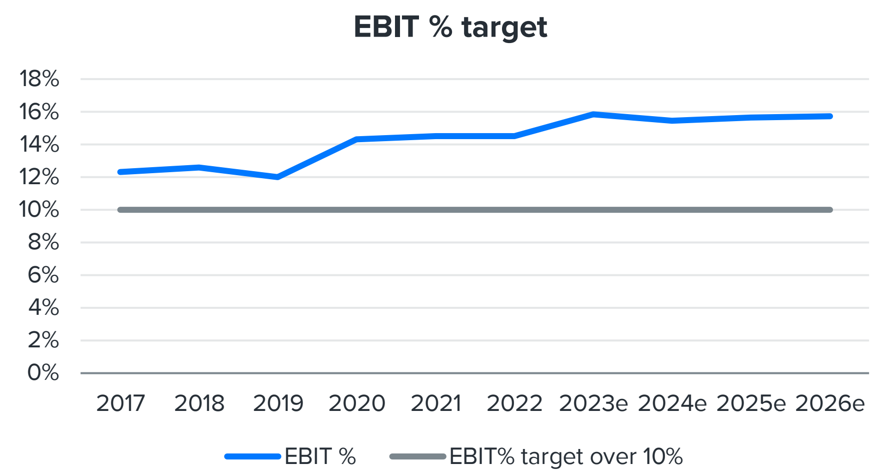
Source: Inderes, NIBE

Financial objectives

Financial objectives

Annual average revenue growth of 20% on average, 50/50 organic and acquired	EBIT-% for each business area and for the Group at least 10%	Return on equity over a business cycle must be at least 20%	The equity/assets ratio must not fall below 30%
• NIBE has grown at a tremendous pace in 2022, which we expect to stabilize in coming years • The target demands faster growth than NIBE's diverse markets. We consider the organic growth target realistic as an average level • If NIBE continues to achieve successful acquisitions as before, there is an opportunity to reach the overall target. However, our estimates only consider organic growth	• NIBE has maintained an EBIT margin above 10% annually for the past five years, except for the Element business area • We expect the company to continue achieving a group EBIT margin well above 10% • However, we anticipate a slightly weaker EBIT margin in the Element business area in the coming years due to macroeconomic factors	• Over the past five years, the average return on equity (ROE) excluding acquisition-related revaluations stood at 15.7%, falling below the target but on a good level • Nonetheless, NIBE has managed to enhance its profit margins, resulting in improved ROE over time • Despite having a favorable ROE compared to industry peers, we view the ROE target for the coming years as rather ambitious	• Over the past five years, the average equity/assets ratio has consistently exceeded 30% for NIBE • The company generates robust operational cash flow and has predominantly financed acquisitions using internally generated funds. • Considering the company's strong cash flow generation and reinvestment of profits, we view the equity/assets ratio target as realistic





Source: Inderes, NIBE

Historical development

Robust organic expansion

Over the past five years, NIBE has demonstrated robust average annual growth of approximately 16%. During this period, despite benefiting from 36 acquisitions that have contributed to this growth, NIBE has maintained a substantial average organic growth of nearly 12%.

In both 2018 and 2019, the company exhibited solid organic growth rates of 12.5% and 7.9%, respectively. These were driven by heightened demand for sustainable solutions, a favorable economic landscape characterized by low interest rates, and a weakened Swedish currency that amplified sales growth to some extent.

The year 2020, dominated by the pandemic's impact, experienced negative organic growth; however, this was succeeded by a vigorous rebound in 2021 with organic growth reaching 11.8%. We attribute this surge in demand to the pandemic-induced restriction on traditional mobility, leading to heightened interest in home refurbishment projects. This trend was particularly pronounced in the Stoves business area, where organic growth surpassed 17%. The momentum for energy-efficient heating solutions continued to surge in 2022, fueled by inflation-driven price hikes, a shared commitment from both policymakers and end-consumers to reduce reliance on fossil fuels, and elevated electricity prices due to the conflict in Ukraine.

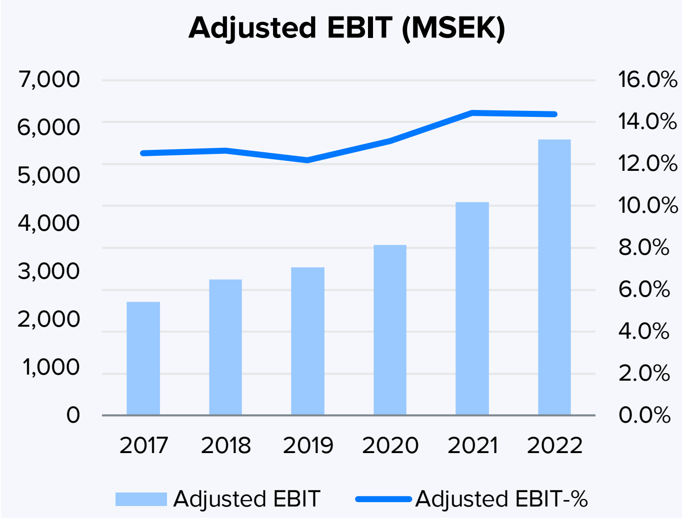
Profitable growth trajectory

NIBE has achieved a good average annual growth rate of over 19% measured by adjusted operating profit, surpassing the pace of sales growth and resulting in a consistent margin expansion. In our view, the Climate Solutions business area demonstrates among the highest profitability in the industry, while the Element business area's lower profitability can be attributed to ambitious investments and an unfavorable product mix in recent years. On a group level, robust earnings progress is underpinned by economies of scale derived from increased sales volumes, enhanced productivity, and effective cost management. It is worth observing, however, that the operating profit has been somewhat moderated by the acquired companies, which generally exhibit lower margins.

Investments increased in 2022

Traditionally, investment rates in ongoing operations have been relatively moderate, averaging 3.7% of revenue or 30% of operating cash flow during 2017-2021. However, in 2022, investment in ongoing operations saw a substantial rise due to extensive initiatives in production capacity expansion.

Aside from these ongoing operational investments, NIBE has strategically utilized its robust operating cash flow for acquisitions in recent years, occasionally impacting free cash flow. Nevertheless, owing to the company's robust cash flow and strong earnings progression, the balance sheet remains resilient. Notably, the debt-to-EBITDA ratio stands around ~1x, underscoring the company's financial strength.



Source: Inderes, NIBE

Financial position

Robust balance sheet maintained despite acquisitions

Throughout its history, NIBE has consistently maintained a robust balance sheet. Despite executing 36 acquisitions and business combinations in the past five years, the company has consistently upheld a commendable average equity/assets ratio of nearly 50%. While NIBE's leverage objective is to uphold an equity/assets ratio exceeding 30%, the company has not only met this benchmark but has also exhibited a steady increase in the ratio over the past three years, driven by resilient performance and strong cash flow.

The company's good profitability and operational cash flow empowers it with the ability to swiftly reduce its debt, if required. This capacity is particularly advantageous in scenarios such as an acquisition-induced increase in debt, allowing NIBE to effectively mitigate its financial obligations.

Considerable goodwill in the balance sheet

NIBE's balance sheet total at the end of Q2'23 was good SEK 60,058 million. Due to NIBE's active engagement in acquisitions over time, a significant portion of its balance sheet, which we estimate to approximately SEK 19,000 million or 32% of the total, is accounted for by goodwill. It's worth highlighting that if the company's profitability were to decline, this could potentially expose it to the risk of write-downs. We do, however, see this risk as unlikely due to the company's good track record of profitability and generating returns above its cost of capital.

In other respects, NIBE's asset composition aligns with the characteristic profile of a company with internal production capabilities. This includes a combination of tangible assets and a substantial proportion of the balance sheet dedicated to receivables and inventories. Notably, the company expanded its inventories in the post-pandemic period, driven by the need to secure essential components.

The balance sheet will enlarge with the inclusion of Climate For Life acquisition

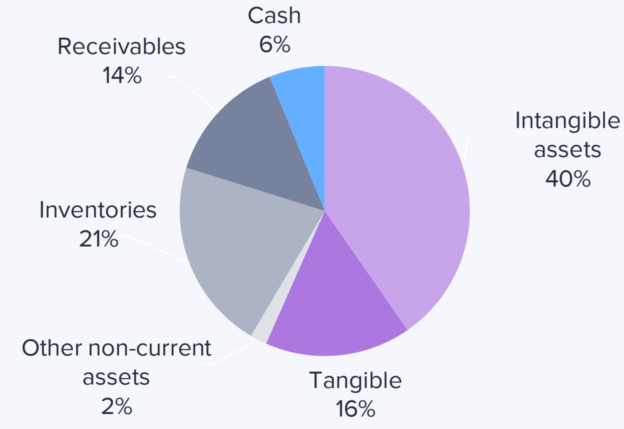
As of the end of Q2'23, NIBE held around SEK 3,700 million in cash, while its interest-bearing debt stood at SEK 13,278 million and interest rate of debt of around 3-4%, resulting in a net debt of SEK 9,556 million. However, due to improved profitability, the net debt/EBITDA ratio remained strong at approximately 1.1x. Despite our estimates of ongoing profitability growth, we anticipate a slight increase in the ratio for the full year 2023, attributed to the Climate For Life acquisition.

Balance sheet position enables continued acquisitions

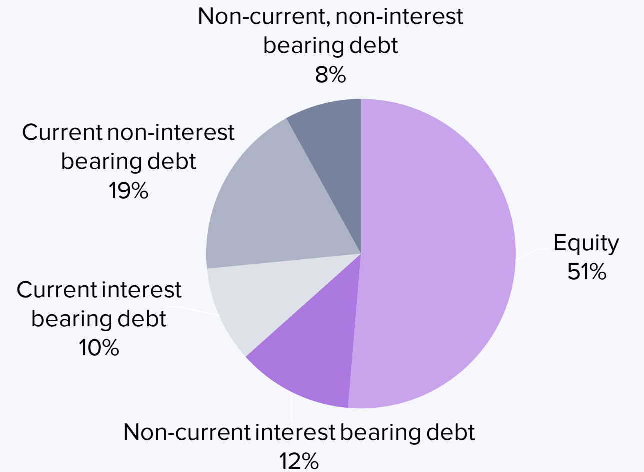
Given NIBE's promising earnings trajectory, robust operating cash flow, and a proven track record of successful acquisitions, we anticipate that the company will continue with its strategic approach. Although NIBE recently completed a significant acquisition, the likelihood of a major acquisition in the near future appears to be low. Instead, the company is expected to shift its focus towards smaller acquisitions, aimed at strengthening its presence in local markets and reinforcing its overall market position.

We believe NIBE can comfortably increase its debt by SEK 15-16 billion, keeping its Net Debt/EBITDA under 3.0x and maintaining an equity/assets ratio above the target of 30%.

Balance sheet assets Q2'23



Balance sheet equity & liabilities Q2'23



Source: Inderes, NIBE

Estimates 1/6

Estimates starts with the business areas

We model NIBE through its three business areas: Climate Solutions, Element and Stoves. We estimate organic growth and through that revenue growth and adjusted EBIT. Naturally, we also consider acquired growth and non-recurring items if they are known in advance. In addition, we estimate the gross margin and fixed costs at Group level.

We expect strong organic growth within Climate Solutions

Despite the challenges posed by delayed deliveries and ongoing disruptions both internally and from external suppliers, NIBE has achieved good revenue growth in the Climate Solutions business area during the first half of 2023. This growth stood at 28%, with a notable 22% being attributed to organic expansion. The surge in demand for heat pumps has translated into a robust order backlog, underscoring heightened consumer interest.

Our forecast indicates an upcoming improvement in the company's delivery capacity, expected to begin from Q3'23 onwards. This expansion, combined with a substantial order backlog, is positioned to act as the driving force behind revenue growth throughout H2'23. However, we foresee certain challenges ahead that could influence short-term order intake.

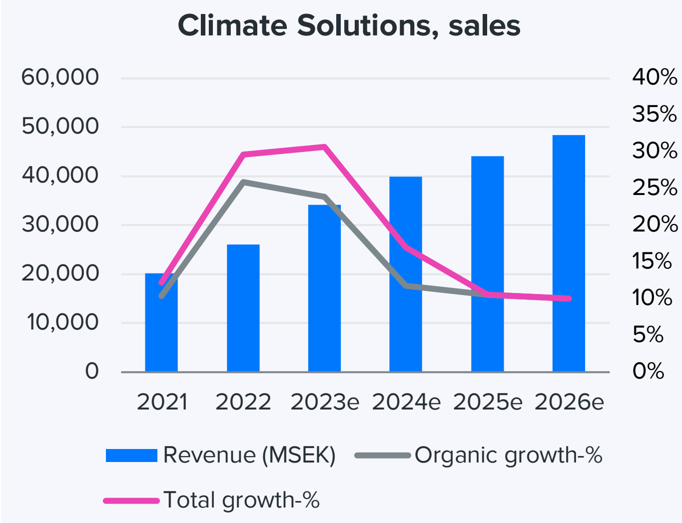
This includes a decrease in demand in certain European countries. For instance, in Germany, applications for heat pump subsidies have decreased by about 50% in the first half of 2023. It's worth noting, though, that this follows a period of high demand in 2022. Additionally, we anticipate a slowdown in the new construction market across Europe, which we expect will impact the trajectory of growth for heat pump orders in the near term.

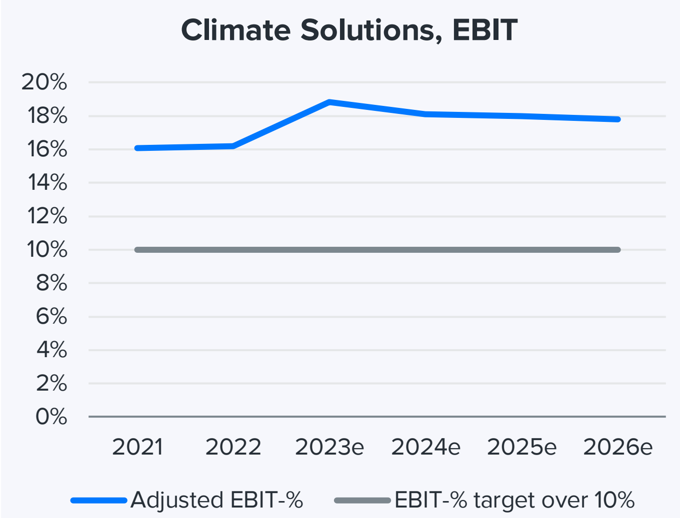
Worth noting however, while we anticipate a decline in demand from the exceptionally high levels observed in 2022 and 2023, we still estimate a strong organic growth of approximately 10-11% in 2024-2026.

We expect continued improved profitability

In H1'23, NIBE has achieved enhanced profitability within its Climate Solutions business segment, primarily attributable to increased sales volumes and a more favorable pricing structure. Nonetheless, this upward trajectory in profitability has been hindered by costly disruptions in the supply chain, leading to lower capacity utilization.

We anticipate that as the supply chain gradually recovers, alongside investments in production capacity and automation, NIBE will continue to experience high profitability during 2023-2026. It is worth noting, however, that we expect the EBIT margin to reach a stable level of approximately 18% starting in 2025 and onward. This projection takes into account the potential impact of intensified market competition, which could exert pressure on pricing power over time.





Source: Inderes

Estimates 2/6

Weaker short-term development in the Element area

In H1'23, demand was strong in most business area segments, but ongoing supply chain disruptions affected deliveries. Despite good organic growth expected to support full-year sales, we anticipate a weaker outlook in H2'23 and 2024. This relates to consumer goods demand weakening due to rising interest rates, reducing consumption, and a continued semiconductor industry decline from US trade restrictions in late 2022.

Looking ahead to 2025-2026, we estimate a modest uptick in the organic growth rate. This resurgence is primarily propelled by a recovery in the crucial semiconductor sector and the consumer goods sector. Additionally, growing demand for sustainability-linked products, renewable energy solutions, and energy-efficient climate control options like heat pumps is set to bolster organic growth. This applies to both the private and commercial sectors.

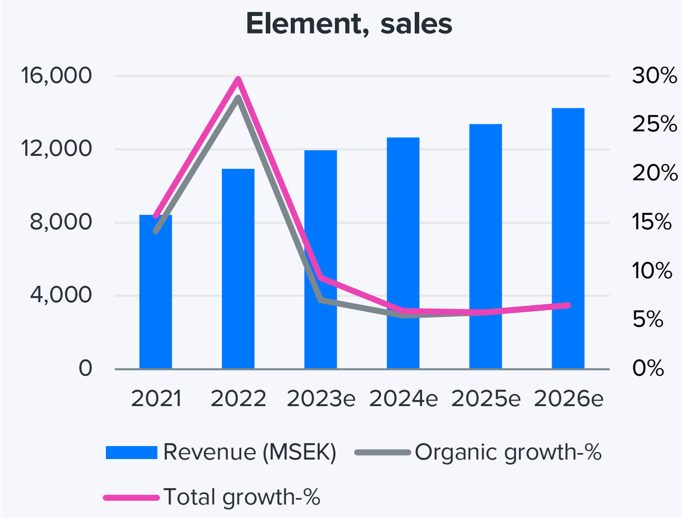
NIBE also envisions significant business opportunities through vehicle electrification, encompassing passenger cars and commercial vehicles. The company is actively engaged in development projects with major international clients, with products slated for series production next year.

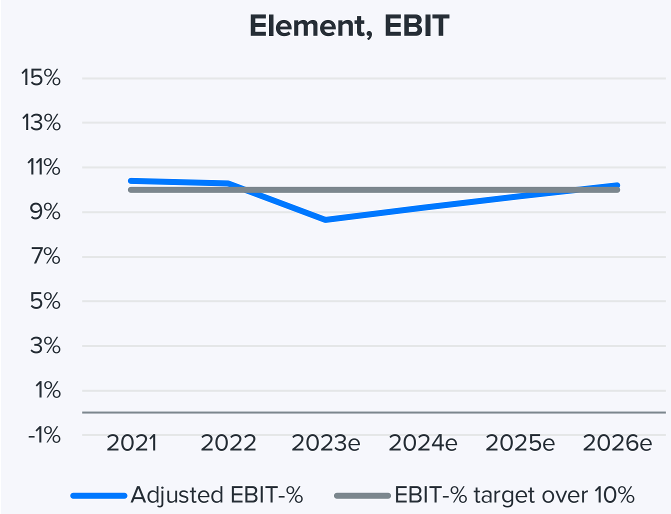
Profitability affected by drop in demand

In H1'23, the operating profit within the Element business segment has faced challenges stemming from a decline in demand, particularly in critical sectors such as consumer goods and the semiconductor industry. Simultaneously, NIBE is actively engaged in a strategy to rightsize production capacity, reducing it in areas with falling demand while expanding it in sectors exhibiting growth potential. We anticipate that this strategic approach will help sustain profitability to a considerable extent.

While we estimate a temporary dip in the operating margin for 2023, we estimate a steady upswing in profitability from 2024 to 2026. This increase is rooted in the anticipation of increased sales volumes, bolstered by significant investments in robotics and automation.

It's important to acknowledge that NIBE Element is a business area highly dependent on global economic fluctuations, as evidenced by the challenges faced during the global political uncertainty of 2019 and the pandemic in 2020. Consequently, we remain cautious about the company's ability to achieve an EBIT margin surpassing its target of 10% in the next few years, given the prevailing global economic downturn.





Source: Inderes

Estimates 3/6

High order intake within Stoves supports revenue growth

An exceptional surge in orders for wood-fired products over the past years has led to an unusually substantial backlog across the industry. This, combined with heightened production volumes, is anticipated to underpin revenue growth in H2'23, as we envision it.

Our perspective is that the robust organic expansion witnessed in recent years has been propelled by the renovation trend during the Covid-19 pandemic, coupled with elevated electricity prices. These factors have served as strong catalysts, driving the inclination to invest in auxiliary heat sources. However, demand for gas-fired and electric stoves has exhibited relative weakness during H1'23, and the overall market has reverted to more normal levels seen before the pandemic.

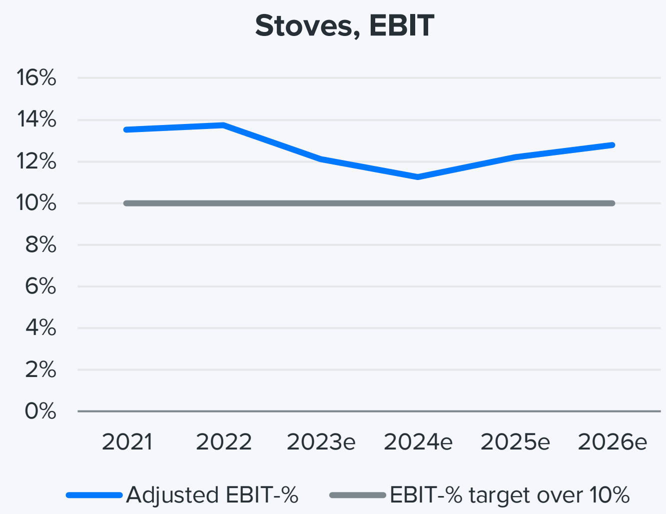
Notably, the demand for wood-fired stoves has continued throughout the first half of 2023. Nevertheless, our projection anticipates a return to more conventional levels of demand for wood-fired stoves in H2'23 and 2024. This shift is attributed to a combination of factors, including softened consumer demand, stabilized energy prices, and a decline in new single-family house construction. As a result, while we anticipate negative organic growth in 2024 when compared to the robust figures of 2023, overall growth remains positive, due to the impact of acquisitions.

For 2025-2026, we foresee a flattening organic growth rate of about 3-4%. Increased interest rates and economic uncertainty impact residential and new construction markets, influencing the stove sector long term. However, we believe that the sustained trend toward energy efficiency and cost savings will drive consumer interest in effective heating solutions. Additionally, the launch of the Contura Zero concept, designed to significantly reduce particle emissions without compromising design or flame visibility, is expected to contribute as a key growth driver in the coming years.

Operating margin is estimated to stabilize

For the full year 2023 and 2024, we expect that the operating margin will decrease somewhat, as a result of the overall market being reverted to more normal levels. Furthermore, we believe that NIBE will continue to invest proactively in product development for the long term, which, coupled with a certain level of price competition will affect operating profit development negatively.

Looking at 2025-2026, our cautious view on organic growth causes us to forecast only a small improvement in the operating margin. Furthermore, as the current level for Stoves is above the operating margin target of 10%, we do not believe that improving Stoves margin will be a key factor addressed by management in the coming years, especially in a situation where we believe that the operating margin in the Element business area will fall below 10%.



Source: Inderes

Estimates 4/6

We estimate continued growth at group level

Our revenue estimate for the full year 2023 is SEK 49,682 million, marking a significant 24% increase compared to the previous year. Within this growth, 17.4% is attributed to pure organic expansion, primarily influenced by robust order volumes, enhanced production capabilities, and improvements in supply chain disruptions. The remaining 6-7% comes from acquisitions, predominantly the addition of Dutch Climate For Life, contributing an estimated SEK 1,300 million throughout 2023.

Additionally, we anticipate that the combination of a weaker Swedish krona and price adjustments will positively impact the overall sales growth for 2023.

Revenue growth estimates 2024-2026

As mentioned earlier, we anticipate certain challenges in the short term that could impact demand. These challenges encompass uncertainties surrounding heat pump subsidies in European markets, a decline in consumer demand, a slower construction market in Europe, and stable energy prices. Despite these near-term concerns, we maintain confidence in sustained strong demand in the foreseeable future, not only in Europe but also in the rapidly expanding US market.

In aggregate, we project an approximate annual growth rate of about 9% for the upcoming years, with a slightly higher outlook for 2024 primarily due to the integration of Climate For Life following its acquisition.

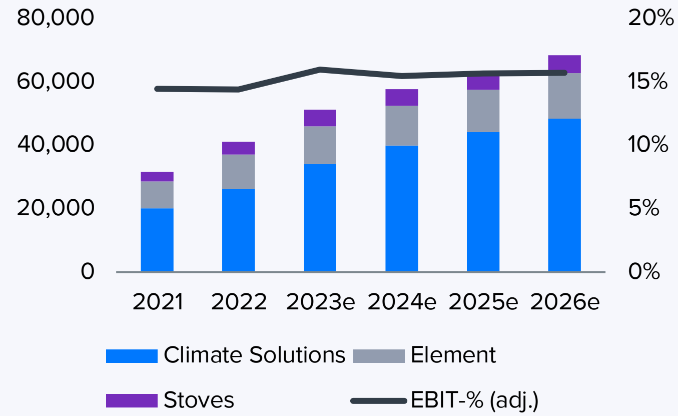
We expect continued improved profitability

NIBE's gross margin maintained a range of 33-34% between 2017-2021, supported by favorable pricing due to strong demand and optimized production. However, in 2022, despite robust demand, the company struggled to match the sharp upswing due to supply chain disruptions and frequent price hikes. This led to a lower gross margin, slightly below 32%. The gross margin began improving in Q4'22, and we expect this trend to persist as supply chain issues ease, production capacity rises, and prices increase.

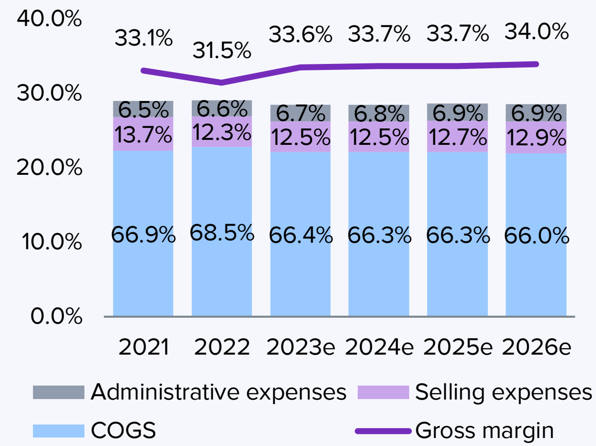
In the upcoming years, we anticipate the gross margin to stabilize at 33-34%, akin to the 2017-2021 period. While fixed costs will moderately rise with expanding production capacity across all business areas, variable costs are expected to decrease relative to revenue. This is attributed to higher sales volumes, economies of scale, enhanced capacity utilization, and increased automation.

At group level, we anticipate the adjusted EBIT margin to remain steady following a remarkable year in 2023. Consequently, we do not foresee significant margin expansion in the coming years. This projection aligns with our view that heightened market competition poses challenges for NIBE in further enhancing its already good profitability.

Group sales by division (MSEK) and adj. EBIT



Operating costs % of revenue and gross margin-%



Source: Inderes

Estimates 5/6

EPS and dividend

NIBE maintains a moderate gearing level, resulting in relatively modest financial expenses. We anticipate net financing costs of approximately SEK 400 million or 1% of revenue for 2023. This represents a slight increase from historical data, primarily due to the Climate For Life acquisition, which is expected to raise the company's debt, compounded by rising interest rates.

The strengthened operating performance, along with steady financial expenses and taxes, is expected to drive a notable surge in adjusted EPS this year, estimated at SEK 2.86 (compared to 2.11 in 2022). Looking ahead, we estimate good EPS growth of around 8% in 2024, supported by increased EBIT and declining financing costs due to healthy cash flow and reduced debt. This momentum is expected to continue, with approximately 14% growth in 2025 and around 10% in 2026.

Historically, NIBE has consistently distributed a stable portion of its profits as dividends, aligned with its dividend policy of 25-30% of group profits after tax. Given the estimated increase in profitability and strong cash flow, we anticipate a continued rise in dividends, leaning towards the higher end of the interval at around 30% payout ratio. Additionally, given the strong balance sheet position, there is potential for an even larger payout ratio in the future.

Cash flow and Investments

In both 2021 and 2022, there was a notable increase in working capital, mainly due to a rise in the company's inventories. Following the pandemic, NIBE expanded its inventory to secure necessary components. This year, the focus is on building up finished goods inventory, which traditionally occurs in Q1 and Q2 to prepare for the peak season in H2. Additionally, high inventory levels stem from the company's inability to fully utilize its delivery capacity due to supply chain disruptions.

Our estimates show an imminent enhancement in the company's delivery capacity, set to commence from Q3'23 onwards. Consequently, we anticipate a reduction in working capital relative to revenue in the coming years.

As previously mentioned, NIBE's ongoing investment needs for maintenance are relatively modest, estimated at approximately 1-2% of revenue. However, the company is presently engaged in an ambitious investment program aimed at securing future capacity and efficient, highly automated production. Thus, we expect investments to exceed depreciation in the coming years, which will impact free cash flow negatively. However, owing to the company's robust operating cash flow, we estimate NIBE's sustainable free cash flow margin to be healthy, around 12%.

The balance sheet strengthens in our estimates

As mentioned earlier, we expect a slight uptick in the net debt/EBITDA ratio for the full year 2023. This is primarily attributable to the Climate For Life acquisition, which is projected to reduce cash reserves, raise debt levels, and consequently increase net debt. However, it's important to note that this acquisition is also anticipated to bolster EBITDA, resulting in only a modest increase in the ratio.

Nonetheless, due to robust earnings expansion, we estimate that the net debt/EBITDA ratio will continue to remain within the favorable range of 0.8x-1.4x. It's important to note that our estimates do not encompass future acquisitions. However, we assess that NIBE is well-positioned to pursue acquisitions. In cases where no suitable targets are identified, or if the acquisitions are relatively small, we believe that NIBE can optimize its balance sheet structure through an extra dividend distribution.

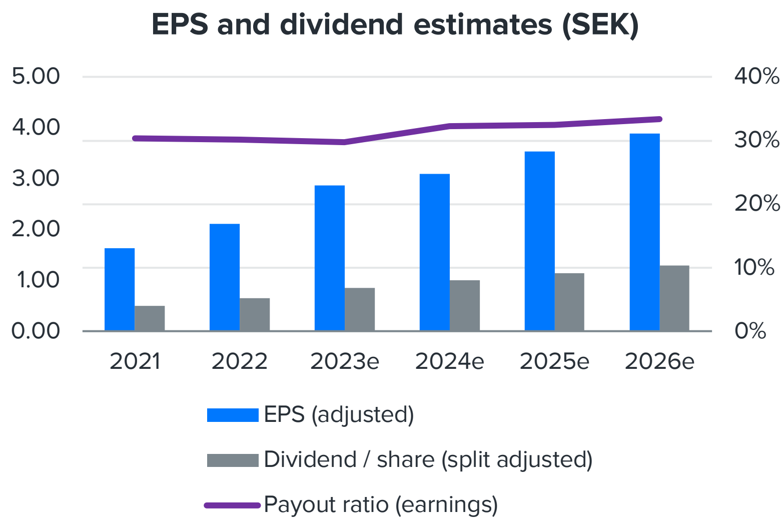
Average return on capital

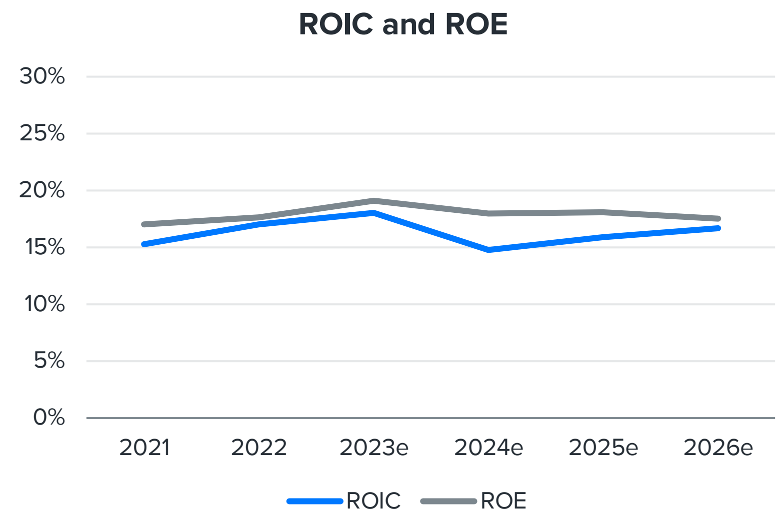
Historically, return on capital has been depressed by the company's history of growing through acquisitions, which has brought significant goodwill to the balance sheet. In our estimates, NIBE's ROIC fluctuates around 15-17% in the next few years, meanwhile ROE is slightly stronger, ranging around 17-18%, partly due to the impact of debt leverage. However, these are well above NIBE's cost of capital.

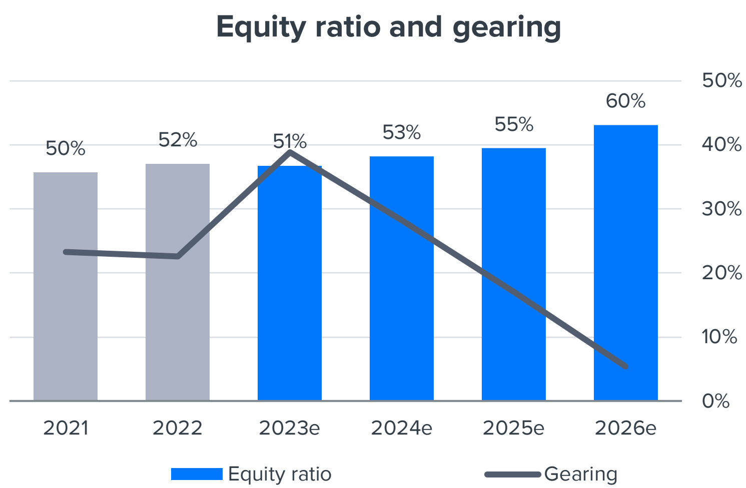
Long-term estimates

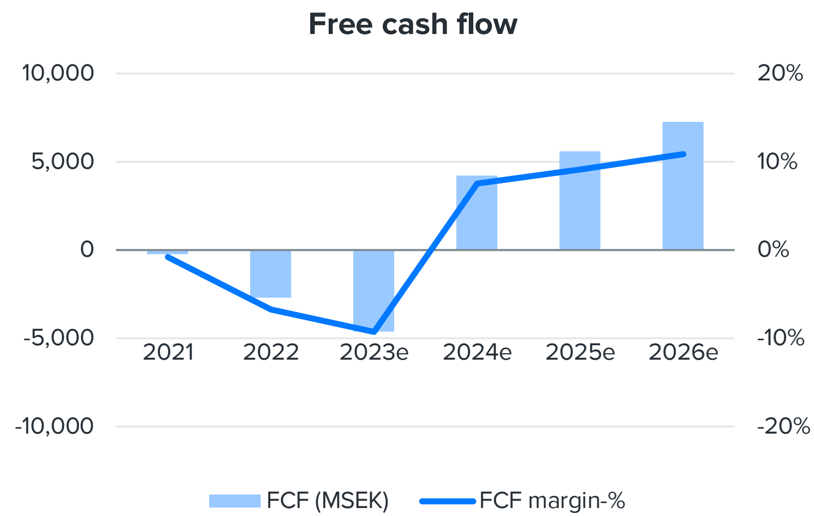
From 2027 onwards, NIBE's growth is anticipated to maintain an average yearly rate of approximately 6-7%, and a terminal growth of 2.5% This growth is chiefly attributed to positive market trends resulting from the shift towards sustainability. Concurrently, heightened competition in the market could impact pricing power over time. As a result, we project the EBIT margin to reach a stable level of around 15.7% in the long term.

Estimates 6/6









Source: Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	**30,832**	**8,749**	**9,656**	**9,999**	**11,667**	**40,071**	**11,646**	**11,833**	**12,464**	**13,739**	**49,682**	**56,130**	**61,209**	**66,558**
Climate Solutions	20,127	5,583	6,367	6,344	7,782	26,076	7,736	8,122	8,595	9,615	34,068	39,838	44,021	48,423
Element	8,422	2,474	2,672	2,842	2,937	10,925	3,013	2,957	2,962	3,013	11,945	12,655	13,389	14,259
Stoves	3,051	900	830	1,042	1,239	4,011	1,250	1,086	1,256	1,495	5,087	5,209	5,391	5,607
Eliminations	-768	-208	-213	-229	-291	-941	-353	-332	-349	-385	-1,419	-1,572	-1,591	-1,731
EBITDA	**5,765**	**1,340**	**1,968**	**1,865**	**2,287**	**7,460**	**2,153**	**2,243**	**2,387**	**2,707**	**9,490**	**10,741**	**11,785**	**12,740**
Depreciation	-1,297	-399	-399	-400	-399	-1,597	-398	-396	-410	-410	-1,614	-2,065	-2,211	-2,281
EBIT (excl. NRI)	**4,451**	**1,058**	**1,341**	**1,469**	**1,896**	**5,764**	**1,785**	**1,827**	**1,977**	**2,297**	**7,886**	**8,676**	**9,574**	**10,459**
EBIT	**4,468**	**941**	**1,569**	**1,465**	**1,888**	**5,863**	**1,755**	**1,847**	**1,977**	**2,297**	**7,876**	**8,676**	**9,574**	**10,459**
Climate Solutions	3,238	612	1,204	1,022	1,500	4,338	1,353	1,538	1,624	1,894	6,410	7,207	7,924	8,619
Element	876	250	299	325	249	1,123	280	243	246	265	1,034	1,164	1,299	1,454
Stoves	413	103	95	137	216	551	165	101	144	206	617	586	658	718
Eliminations	-59	-24	-29	-19	-77	-149	-43	-35	-37	-69	-184	-281	-306	-333
Share of profits in assoc. compan.	-8	0	0	0	21	21	0	0	0	20	20	20	21	21
Net financial items	-142	-35	-22	-14	-138	-209	-101	-146	-100	-100	-447	-440	-400	-375
PTP	**4,318**	**906**	**1,547**	**1,451**	**1,771**	**5,675**	**1,654**	**1,701**	**1,877**	**2,217**	**7,449**	**8,257**	**9,195**	**10,105**
Taxes	-940	-226	-310	-343	-401	-1,280	-380	-378	-440	-470	-1,668	-1,980	-2,018	-2,218
Minority interest	-58	-18	-21	-4	-1	-44	-4	-4	-4	-4	-16	-19	-38	-38
Net earnings	**3,320**	**662**	**1,216**	**1,104**	**1,369**	**4,351**	**1,270**	**1,319**	**1,433**	**1,743**	**5,765**	**6,258**	**7,139**	**7,848**
EPS (adj.)	**1.64**	**0.39**	**0.49**	**0.55**	**0.68**	**2.11**	**0.64**	**0.64**	**0.71**	**0.86**	**2.86**	**3.10**	**3.54**	**3.89**
EPS (rep.)	**1.65**	**0.33**	**0.60**	**0.55**	**0.68**	**2.16**	**0.63**	**0.65**	**0.71**	**0.86**	**2.86**	**3.10**	**3.54**	**3.89**

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	13.6 %	28.1 %	24.0 %	27.8 %	39.1 %	30.0 %	33.1 %	22.5 %	24.7 %	17.8 %	24.0 %	13.0 %	9.0 %	8.7 %
Adjusted EBIT growth-%	25.1 %	27.2 %	9.6 %	21.7 %	59.6 %	29.5 %	68.7 %	36.2 %	34.6 %	21.1 %	36.8 %	10.0 %	10.3 %	9.2 %
EBITDA-%	18.7 %	15.3 %	20.4 %	18.7 %	19.6 %	18.6 %	18.5 %	19.0 %	19.2 %	19.7 %	19.1 %	19.1 %	19.3 %	19.1 %
Adjusted EBIT-%	14.4 %	12.1 %	13.9 %	14.7 %	16.3 %	14.4 %	15.3 %	15.4 %	15.9 %	16.7 %	15.9 %	15.5 %	15.6 %	15.7 %
Net earnings-%	10.8 %	7.6 %	12.6 %	11.0 %	11.7 %	10.9 %	10.9 %	11.1 %	11.5 %	12.7 %	11.6 %	11.1 %	11.7 %	11.8 %

Source: Inderes

Valuation and recommendation 1/5

Basis for valuation

When valuing NIBE, we primally utilize earnings-based valuation multiples, which we also compare with a relevant peer group. We particularly favor EV/EBIT and P/E multiples in the valuation. Given NIBE's need for regular capital expenditures to maintain its earnings, a factor reflected in its Depreciation & Amortization (D&A), we find that volume-based metrics like EV/Sales or EV/EBITDA, which excludes D&A, are not the most suitable indicators.

Acceptable valuation

NIBE's valuation history during the past five years has been marked by elevated levels, with an average next 12-month EV/EBIT of ~30x. The low interest rate environment during the past years has resulted in a situation where NIBE has been priced with a very low required return due to its high quality and steady profit growth. This year, however, has witnessed a retreat to historical long-term (10-year) median around 20x due to rising interest rates.

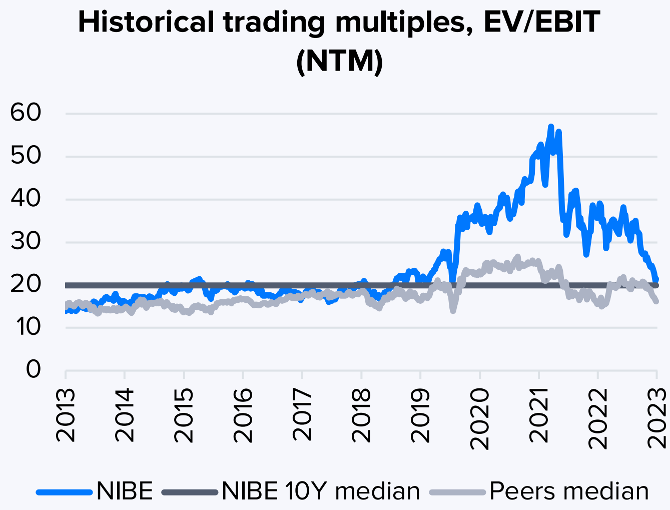
Moreover, the recent dip in valuation multiples can be attributed to uncertainties in heat pump order intake across European countries, stemming from uncertain future subsidies and a slowdown in new construction markets.

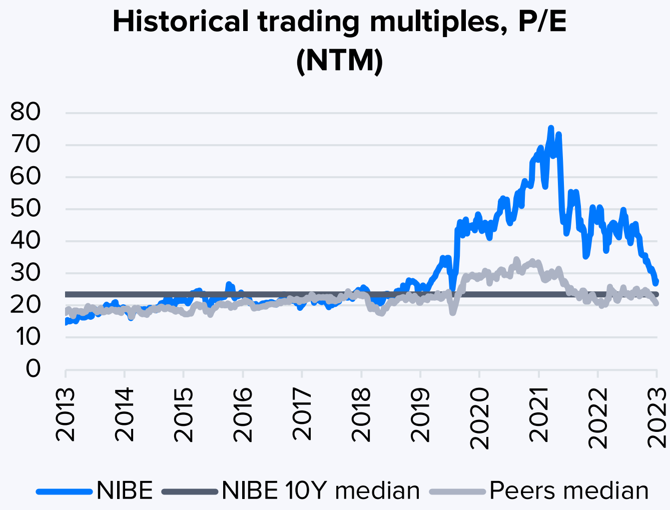
We believe that the best benchmark and valuation level can be found in the company's Nordic industrial peers. These peers exhibit promising earnings growth, double-digit operating margins, and moderate cyclicality.

During the past five years, the forward-looking average EV/EBIT ratio has been 22-23x and P/E 28-29x for the peers. Clearly higher multiples (EV/EBIT: ~30x, P/E: ~40x) have been accepted for NIBE in the past five years, which indicates good operational performance. In addition, the changes in the expected results caused by the Covid crisis temporarily raised valuations, but they have adjusted downwards since then.

NIBE's impressive historical performance has laid a strong foundation for its valuation outlook. With a proven track record of acquisitions that demonstrates effective integration strategies and notable improvements in the profitability of acquired entities, NIBE stands out as a leader in its sector. This successful track record, coupled with better growth prospects, positions the company for a valuation premium when compared to its industry peers.

However, despite recent moderation in NIBE's valuation, its multiples already maintain a premium compared to peers (8% difference to median 2023e). Thus, in the current uncertain macroeconomic environment, overstretching multiples seems unwarranted. Instead, we rely on the long-term (10-year) median. Consequently, our acceptable valuation range for NIBE ranges from EV/EBIT 18x-22x and P/E 24x-30x. Considering the current market dynamics and interest rate environment, alongside the challenges NIBE faces in sustaining historical earnings growth rates due to its increased size, we find that a valuation at the lower end of this range appears to be justified.





Source: Inderes, Bloomberg

Valuation and recommendation 2/5

Overview of the peer group

Considering NIBE's strong presence in Europe, we believe that comparing it with similar companies in this geographic area is most relevant. Within the Nordic context, NIBE stands as a mid-size company, with Assa Abloy, Hexagon, and Kone surpassing it in terms of market value. Despite differences in their business operations, we believe that these peers share a similar investor profile and comparable performance trends.

Among the smaller Nordic companies that share a similar market exposure to NIBE, Swedish Beijer Ref emerges as a fitting peer. Over the past five years, both companies have experienced an average growth rate of nearly 20%, signaling a parallel trajectory. Furthermore, Beijer Ref and NIBE predominantly operate within the European market, have an established acquisition process and exhibit similar capital structures. However, it's worth noting that NIBE is a larger company with higher profit margins. Consequently, all factors considered, NIBE's greater size and profitability could potentially justify a higher valuation compared to Beijer Ref, all else equal.

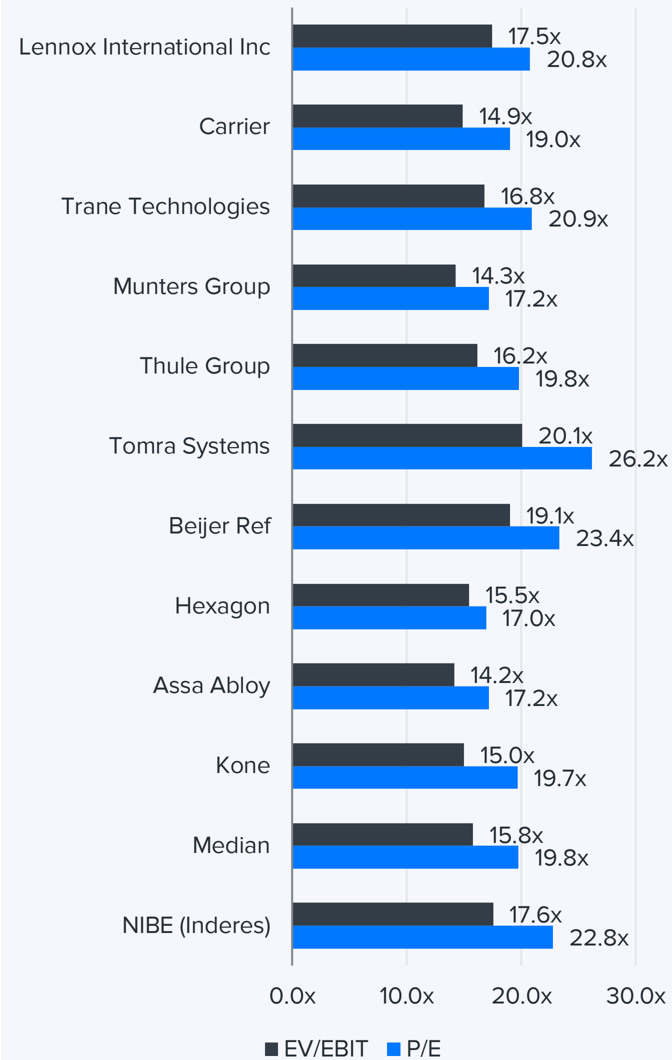
In addition to regional peers, we've also included international counterparts such as Trane, Carrier, and Lennox. Although these companies operate within the heat pump sector like NIBE, their primary market exposure lies in the United States.

Peer group valuation

The comparison of various valuation metrics across different companies sheds light on NIBE's positioning within its peer group. When considering the median EV/EBIT ratios for 2023 and 2024, they hover around 18x and 16x respectively for the peer group. Correspondingly, the P/E ratios for the same years are approximately 23x and 20x. In contrast, NIBE's EV/EBIT and P/E multiples for 2023 are, on average, 8% higher than those of its peers. It's important to note that this premium is notably lower compared to the past five years. This shift could be attributed to the historically elevated trading premiums that green stocks, particularly those centered around renewable energy like NIBE, have enjoyed in recent times.

Taking into account NIBE’s high profitability and strong earnings growth, we find merit in pricing it above its peer group. In recent years, NIBE has outperformed peers in terms of these key indicators, and the company is presently in a growth phase. However, it's important to recognize that the current growth outlook for NIBE has moderated compared to the prior years. Moreover, the company's reliance on the Climate Solutions business area introduces an additional layer of consideration. Given these factors, we find the current valuation premium in relation to the peers justifiable.

Peer group valuation (2024e)



Source: Inderes, Eikon

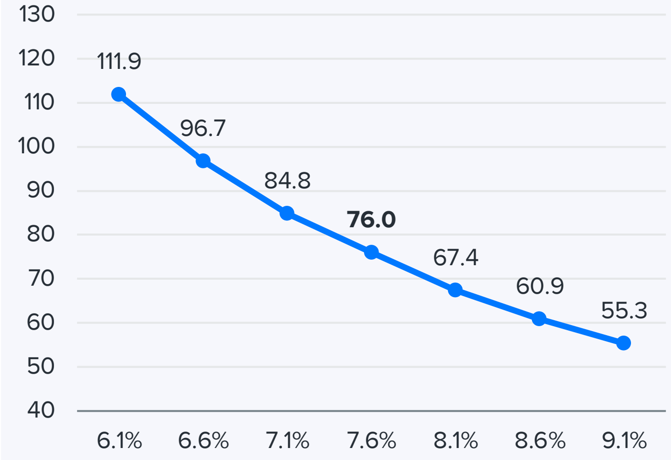
Valuation and recommendation 3/5

DCF valuation

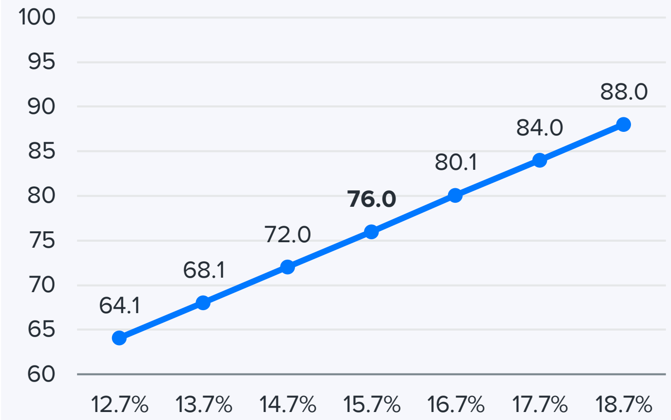
We also use the DCF model in the valuation. Due to sufficient historical financial information, the stable industry, steady growth and relatively easily predictable business, the DCF model is, in our opinion, a relevant method for NIBE. The suitability of the model is, however, lowered somewhat due to the company's acquisition-driven growth. Our organic growth-based estimates do not necessarily give the best picture of the company's valuation. Furthermore, a large share of the cash flow (72%) is attributed to the terminal period signifying that most of the value will be generated later.

Our DCF model indicates a share value of SEK 76, which is quite close to the current share price. The average cost of capital (WACC) used is 7.6% and the cost of equity is 8.2%. The assumptions used in the model is described in the estimates section. In a big picture view, we can summarize that the model expects NIBE to grow with high single digits in the medium term and mid single digits in the long-term. In turn, we assume that profitability will increase slightly over time. For the model's terminal assumptions, we have set growth at 2.5% and the EBIT margin at 15.7%.

DCF value sensitivity (WACC)



DCF value sensitivity (terminal EBIT-%)



Source: Inderes

Valuation and recommendation 4/5

Acquisition scenario

While our official estimates do not encompass undisclosed acquisitions, we anticipate NIBE's ongoing pursuit of companies and sustained structural growth in the foreseeable future. To illustrate the latent possibilities through acquisitions, we have undertaken a simplified scenario analysis for upcoming years.

Our acquisition scenario is predicated on NIBE's ability to maintain its acquisition activity, albeit at a slightly accelerated pace compared to the last five years. The pandemic's impact slowed acquisition momentum, leading to a tempered growth trajectory. However, as the company recently made a big acquisition (Climate For Life) we believe that it is reasonable to take a prudent approach to future acquisition possibilities. Consequently, we foresee acquired growth of approximately 6% over the next five years. While this outpaces the average acquired growth of the previous five years (4-5%), it remains below the company's targeted 10% growth. This projection envisions NIBE reaching its SEK 80 billion sales target by 2027e.

Commonly, NIBE's acquired companies exhibit lower operating margins than the group average. Hence, our modeling assumes a slightly reduced operating margin compared to our organic growth estimates. However, from the fifth year onward, we anticipate acquired companies will converge to the underlying group margin.

Compared to our organic revenue growth estimates, revenue would amount to SEK 9,695 million more at the end of 2026, and the acquired companies are estimated to add some SEK 1,522 million in EBIT.

NIBE typically keeps historical acquisition prices confidential, but there have been exceptions. For instance, when NIBE acquired Climate Control Group in 2016, it represented an EV/EBIT multiple of approximately 17x. Similarly, the acquisition of Climate For Life in 2023 equates to roughly 13.6x of the estimated 2023 EBITDA. Given the significance of this acquisition, we find it reasonable to estimate an average acquisition multiple of 14x EBIT.

Potential annual return

In our scenario, the company would generate some SEK 76,000 million in sales and SEK ~12,000 EBIT in 2026e. We have used an acceptable EV/EBIT multiple of 16x, considering that as a company gains more market share and matures, valuation metrics tend to even out. Considering the anticipated net debt in 2026, the equity value would be roughly SEK 164,000 million, equivalent to SEK 82 per share. At the current share price, the share's annual return based on the share price increase would be about 6-7% until 2026, assuming that the scenario would materialize as expected and including dividends. This return is lower than our required return (8%). Furthermore, we think that in an acquisition scenario, the expected return should be notably attractive considering the uncertainties and risks involved. Therefore, we find this level of return to be insufficient, further reinforcing our valuation assessment.

Acquisition scenario

Earnings level (MSEK)	
Net sales 2026e	**76,253**
EBIT	**11,981**
Accepted valuation level	
EV/EBIT	**16.0x**
Value of stock (MSEK)	
EV 2026e	**191,692**
Net debt 2026e	**27,332**
Market cap 2026e	**164,360**
Share value 2026e (SEK)	**81.5**
Annual return of share at current share price	**6-7%**

Source: Inderes

Valuation and recommendation 5/5

The long-term story is attractive

We consider NIBE a good investment opportunity for the long term, owing to our conviction that the company stands out as a clear pioneer in its industry. Furthermore, NIBE is strongly positioned to capitalize on the global shift from conventional fossil fuel-reliant systems, such as oil and gas, towards more sustainable renewable energy-based frameworks.

In addition, the company boasts a highly effective decentralized strategy, empowering its subsidiaries to operate independently while preserving their passion, commitment, and entrepreneurial spirit that have been the driving forces behind the company's expansion. Through this strategic approach, NIBE creates economies of scale among its subsidiaries via coordinated purchasing, leading to optimized resource utilization and cost efficiency. Additionally, the company has a proven track record of enhancing shareholder value and executing successful acquisitions. Hence, we perceive NIBE as a consistently high-quality, well-managed enterprise that is likely to persistently generate shareholder value in the forthcoming times.

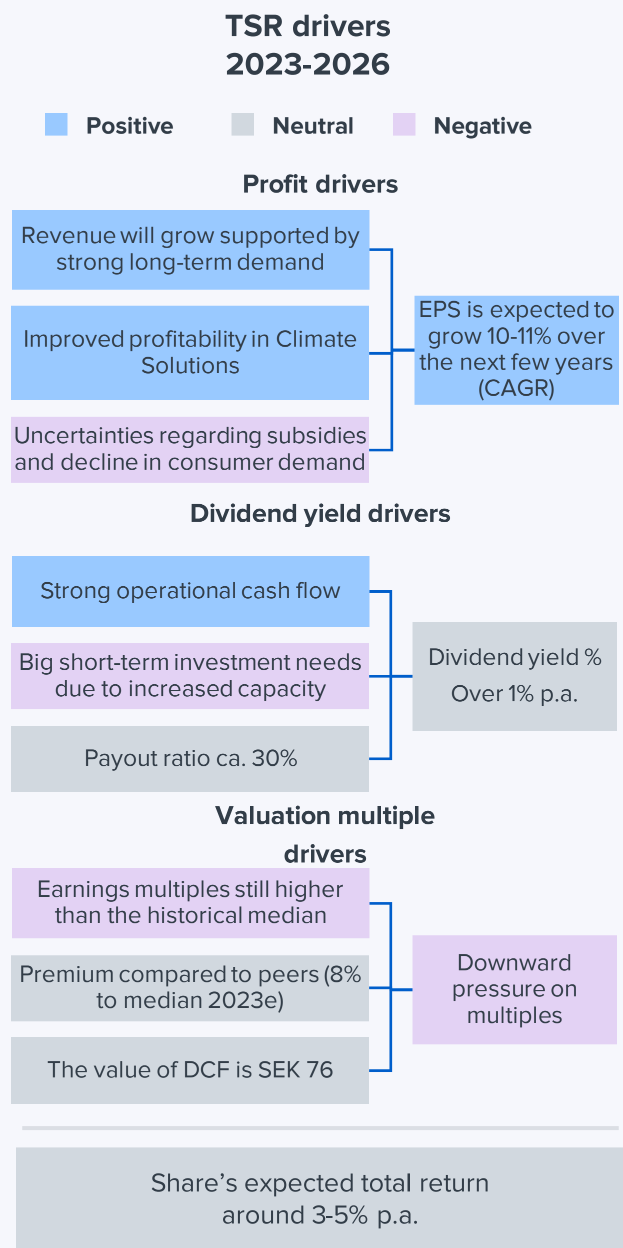
Target price and recommendation

While acknowledging the company's capacity for good value generation, the current valuation raises concerns about thin return expectations for investors and an unsatisfactory risk/return ratio. Consequently, we initiate our coverage of NIBE with a Reduce recommendation and a target price of SEK 74.1. This target aligns with a 2024e EV/EBIT multiple of 18.4x and P/E of 24.0x, positioned within our deemed acceptable valuation range.

Presently, NIBE appears fairly priced in light of its current performance and potential earnings growth. Despite the decline in the valuation to more attractive levels in recent months, it still resides within our acceptable valuation range and bears a premium compared to its peers. In our opinion, the anticipated returns from the acquisition scenario, given the attendant uncertainties and risks, fall short of offering an adequate yield.

Should the company surpass our estimates and market conditions stabilize, a clear upside in valuation within our defined range could materialize. However, this requires a really strong performance in a market situation that has turned difficult. Conversely, if profitability or performance disappoints, a modest dip in valuation is possible. Significantly plunging multiples seems unlikely, given the company's historical performance and growth-oriented strategy.

Throughout its extensive history, NIBE has consistently proved to be successful in value creation across various market scenarios. Nonetheless, we advocate for potential investors to exercise patience for more enticing buying opportunities within NIBE's enduring growth narrative. Hence, we urge investors to wait for more attractive purchase opportunities in NIBE's long-term growth story.

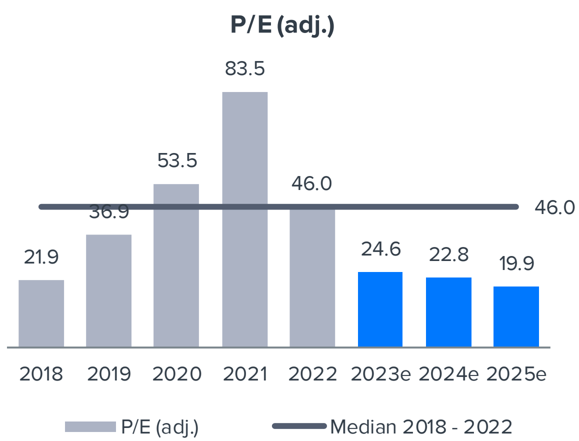


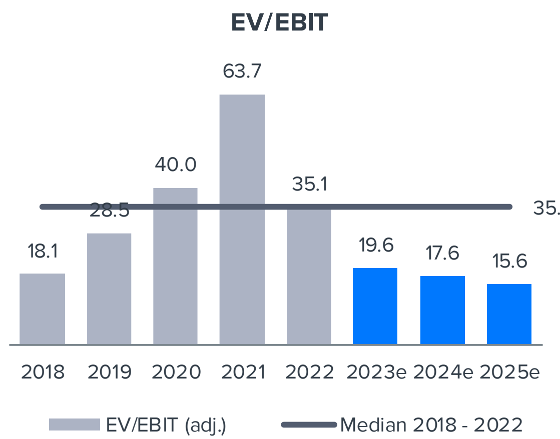
Source: Inderes

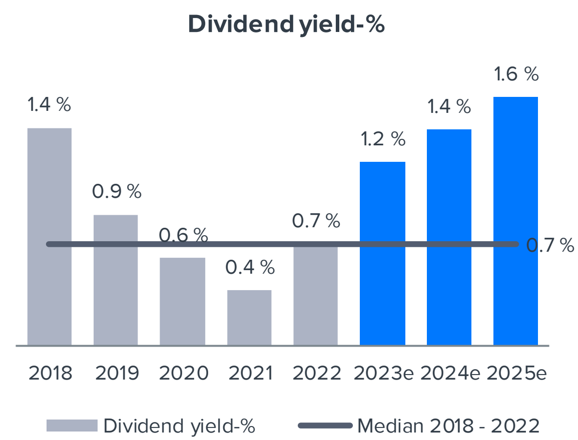
Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	22.7	40.6	67.4	136.8	97.1	**70.5**	**70.5**	**70.5**	**70.5**
Number of shares, millions	2,016	2,016	2,016	2,016	2,016	**2,016**	**2,016**	**2,016**	**2,016**
Market cap	45,825	81,852	135,933	275,697	195,760	**142,133**	**142,133**	**142,133**	**142,133**
EV	51,504	88,114	142,293	283,549	202,352	**154,544**	**152,367**	**149,101**	**144,475**
P/E (adj.)	21.9	36.9	53.5	83.5	46.0	**24.6**	**22.8**	**19.9**	**18.1**
P/E	22.1	37.7	47.4	83.0	45.0	**24.7**	**22.8**	**19.9**	**18.1**
P/B	3.0	4.7	7.7	12.9	7.0	**4.4**	**3.9**	**3.4**	**3.0**
P/S	2.0	3.2	5.0	8.9	4.9	**2.9**	**2.5**	**2.3**	**2.1**
EV/Sales	2.3	3.5	5.2	9.2	5.0	**3.1**	**2.7**	**2.4**	**2.2**
EV/EBITDA	14.6	21.6	27.8	49.2	27.1	**16.3**	**14.2**	**12.7**	**11.3**
EV/EBIT (adj.)	18.1	28.5	40.0	63.7	35.1	**19.6**	**17.6**	**15.6**	**13.8**
Payout ratio (%)	31.6 %	32.5 %	27.3 %	30.4 %	30.1 %	**29.7 %**	**32.3 %**	**32.5 %**	**33.4 %**
Dividend yield-%	1.4 %	0.9 %	0.6 %	0.4 %	0.7 %	**1.2 %**	**1.4 %**	**1.6 %**	**1.8 %**

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**
Kone	21,631	20,872	17.0	15.0	13.9	12.6	1.9	1.9	22.0	19.7	4.5	4.7	7.4
Assa Abloy	22,309	28,075	15.2	14.2	12.8	11.9	2.4	2.2	19.1	17.2	2.2	2.3	2.8
Hexagon	21,732	25,529	17.3	15.5	13.1	11.9	4.7	4.5	18.9	17.0	1.5	1.7	2.1
Beijer Ref	5,175	5,929	21.0	19.1	16.8	15.2	2.2	2.0	26.1	23.4	1.2	1.6	2.8
Tomra Systems	3,420	3,766	24.8	20.1	15.7	13.5	3.0	2.8	34.6	26.2	1.5	1.9	5.4
Thule Group	2,556	2,778	19.9	16.2	17.4	14.4	3.5	3.1	24.8	19.8	2.9	3.6	4.2
Munters Group	2,099	2,484	18.1	14.3	14.4	11.6	2.2	1.9	22.8	17.2	1.1	1.4	4.2
Trane Technologies	43,586	47,598	18.1	16.8	16.2	15.2	2.9	2.7	23.0	20.9	1.4	1.5	7.2
Carrier	42,674	48,192	16.1	14.9	13.9	12.9	2.3	2.2	20.7	19.0	1.4	1.4	5.2
Lennox International Inc	12,562	13,986	19.0	17.5	16.9	15.7	3.1	3.0	22.7	20.8	1.1	1.1	74.4
NIBE Industrier B (Inderes)	**11,924**	**12,965**	**19.6**	**17.6**	**16.3**	**14.2**	**3.1**	**2.7**	**24.6**	**22.8**	**1.2**	**1.4**	**4.4**
Average			**18.6**	**16.4**	**15.1**	**13.5**	**2.8**	**2.6**	**23.5**	**20.1**	**1.9**	**2.1**	**11.6**
Median			**18.1**	**15.8**	**15.1**	**13.2**	**2.6**	**2.5**	**22.8**	**19.8**	**1.4**	**1.7**	**4.7**
Diff-% to median			***8%***	***11%***	***8%***	***7%***	***18%***	***9%***	***8%***	***15%***	***-15%***	***-14%***	***-6%***

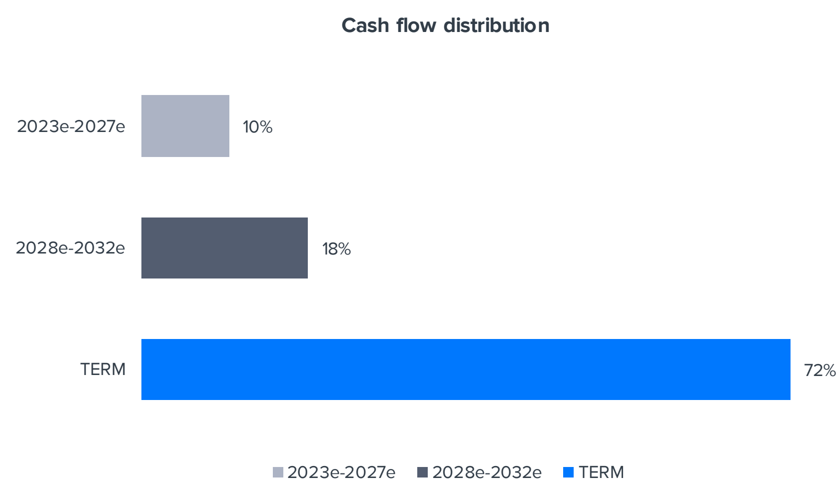
Source: Refinitiv / Inderes

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	30.0 %	24.0 %	13.0 %	9.0 %	8.7 %	8.2 %	7.8 %	7.2 %	6.5 %	4.8 %	2.5 %	2.5 %
EBIT-%	14.6 %	15.9 %	15.5 %	15.6 %	15.7 %	15.7 %	15.7 %	15.7 %	15.7 %	15.7 %	15.7 %	15.7 %
EBIT (operating profit)	**5,863**	**7,876**	**8,676**	**9,574**	**10,459**	**11,306**	**12,188**	**13,066**	**13,915**	**14,583**	**14,948**	
+ Depreciation	1,597	1,614	2,065	2,211	2,281	2,114	2,114	2,110	2,126	2,117	2,061	
- Paid taxes	-1,239	-1,668	-1,980	-2,018	-2,218	-2,427	-2,654	-2,861	-3,048	-3,195	-3,275	
- Tax, financial expenses	-47	-100	-106	-88	-83	-61	-28	-13	-13	-13	-13	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	-3,180	-1,396	-1,009	-684	-351	-622	-595	-534	-449	-681	-372	
Operating cash flow	**2,994**	**6,326**	**7,647**	**8,994**	**10,088**	**10,310**	**11,026**	**11,767**	**12,530**	**12,811**	**13,349**	
+ Change in other long-term liabilities	293	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-5,983	-10,950	-3,425	-3,400	-2,850	-2,300	-2,250	-2,200	-2,200	-2,200	-2,150	
Free operating cash flow	**-2,696**	**-4,624**	**4,222**	**5,594**	**7,238**	**8,010**	**8,776**	**9,567**	**10,330**	**10,611**	**11,199**	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-2,696	-4,624	4,222	5,594	7,238	8,010	8,776	9,567	10,330	10,611	11,199	227,085
Discounted FCFF		**-4,530**	**3,845**	**4,737**	**5,698**	**5,863**	**5,972**	**6,054**	**6,077**	**5,804**	**5,695**	**115,484**
Sum of FCFF present value		160,700	165,230	161,385	156,648	150,950	145,087	139,114	133,061	126,983	121,180	115,484
Enterprise value DCF		**160,700**										
- Interest bearing debt		-11,143										
+ Cash and cash equivalents		4,817										
-Minorities		-167										
-Dividend/capital return		-1,310										
Equity value DCF		**153,256**										
Equity value DCF per share		**76.0**										

WACC	
Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	5.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**8.2 %**
Weighted average cost of capital (WACC)	**7.6 %**

Source: Inderes



Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**27,123**	**31,842**	**41,178**	**42,538**	**43,727**
Goodwill	15,453	17,630	23,630	23,630	23,630
Intangible assets	4,910	4,938	4,953	4,938	4,943
Tangible assets	6,131	8,273	11,594	12,969	14,153
Associated companies	56	430	430	430	430
Other investments	45	31	31	31	31
Other non-current assets	139	192	192	192	192
Deferred tax assets	389	348	348	348	348
Current assets	**16,271**	**22,152**	**21,860**	**26,662**	**32,441**
Inventories	6,584	10,191	10,930	12,068	12,854
Other current assets	0	0	0	0	0
Receivables	4,941	7,144	8,446	9,542	10,406
Cash and equivalents	4,746	4,817	2,484	5,052	9,181
Balance sheet total	**43,394**	**53,994**	**63,038**	**69,200**	**76,168**

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**21,657**	**27,973**	**32,428**	**36,953**	**42,075**
Share capital	79	79	79	79	79
Retained earnings	15,587	19,286	23,741	28,266	33,388
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	5,772	8,570	8,570	8,570	8,570
Minorities	219	38	38	38	38
Non-current liabilities	**12,757**	**12,268**	**16,810**	**17,056**	**17,353**
Deferred tax liabilities	0	0	0	0	0
Provisions	3,012	2,787	2,787	2,787	2,787
Long term debt	6,967	6,185	10,727	10,973	11,270
Convertibles	0	0	0	0	0
Other long term liabilities	2,778	3,296	3,296	3,296	3,296
Current liabilities	**8,980**	**13,753**	**13,801**	**15,190**	**16,740**
Short term debt	2,815	4,958	4,361	4,526	5,110
Payables	6,165	8,795	9,440	10,665	11,630
Other current liabilities	0	0	0	0	0
Balance sheet total	**43,394**	**53,994**	**63,038**	**69,200**	**76,168**

Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	27,146	30,832	40,071	**49,682**	**56,130**
EBITDA	5,117	5,765	7,460	**9,490**	**10,741**
EBIT	3,880	4,468	5,863	**7,876**	**8,676**
PTP	3,658	4,318	5,675	**7,449**	**8,257**
Net Income	2,866	3,320	4,351	**5,765**	**6,239**
Extraordinary items	323	17	99	**-10**	**0**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	38,337	43,394	53,994	**63,038**	**69,200**
Equity capital	17,737	21,657	27,973	**32,428**	**36,953**
Goodwill	14,218	15,453	17,630	**23,630**	**23,630**
Net debt	5,208	5,036	6,326	**12,603**	**10,447**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	5,117	5,765	7,460	**9,490**	**10,741**
Change in working capital	1,093	-1,862	-3,180	**-1,396**	**-1,009**
Operating cash flow	5,337	2,984	2,994	**6,326**	**7,647**
CAPEX	-1,826	-3,515	-5,983	**-10,950**	**-3,425**
Free cash flow	3,603	-257	-2,696	**-4,624**	**4,222**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	5.2	9.2	5.0	**3.1**	**2.7**
EV/EBITDA (adj.)	27.8	49.2	27.1	**16.3**	**14.2**
EV/EBIT (adj.)	40.0	63.7	35.1	**19.6**	**17.6**
P/E (adj.)	53.5	83.5	46.0	**24.6**	**22.8**
P/B	7.7	12.9	7.0	**4.4**	**3.9**
Dividend-%	0.6 %	0.4 %	0.7 %	**1.2 %**	**1.4 %**

Source: Inderes

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	1.42	1.65	2.16	**2.86**	**3.09**
EPS (adj.)	1.26	1.64	2.11	**2.86**	**3.09**
OCF / share	2.65	1.48	1.48	**3.14**	**3.79**
FCF / share	1.79	-0.13	-1.34	**-2.29**	**2.09**
Book value / share	8.72	10.63	13.86	**16.07**	**18.31**
Dividend / share	1.55	0.50	0.65	**0.85**	**1.00**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	7%	14%	30%	**24%**	**13%**
EBITDA growth-%	26%	13%	29%	**27%**	**13%**
EBIT (adj.) growth-%	15%	25%	29%	**37%**	**10%**
EPS (adj.) growth-%	14%	30%	29%	**36%**	**8%**
EBITDA-%	18.8 %	18.7 %	18.6 %	**19.1 %**	**19.1 %**
EBIT (adj.)-%	13.1 %	14.4 %	14.4 %	**15.9 %**	**15.5 %**
EBIT-%	14.3 %	14.5 %	14.6 %	**15.9 %**	**15.5 %**
ROE-%	16.3 %	17.0 %	17.6 %	**19.1 %**	**18.0 %**
ROI-%	14.1 %	15.1 %	16.7 %	**18.2 %**	**17.4 %**
Equity ratio	46.3 %	49.9 %	51.8 %	**51.4 %**	**53.4 %**
Gearing	29.4 %	23.3 %	22.6 %	**38.9 %**	**28.3 %**

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

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.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2023-09-20	Reduce	74.1 kr	70.5 kr

inde
res.

Inderes' mission is to connect listed companies and investors. We produce high-quality research and content for the needs of our extensive investor community.

At Inderes we believe that open data is every investor's fundamental right. We guarantee investors' access to award-winning research, insightful video content and an active investor community.

For listed companies we ensure that there is always high-quality information available on the company for investors and shareholders for decision making, and that data collected from investors can be utilized by the companies.

Over 100 Finnish listed companies want to serve their shareholders and investors through us by utilizing our company research services, data driven IR services, content creation and consulting.

Inderes Oy

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at inderes.fi

STARMINE ANALYST AWARDS FROM REFINITIV

THOMSON REUTERS ANALYST AWARDS

Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020

Mikael Rautanen
2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

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

Petri Kajaani
2017, 2019, 2020

Joni Grönqvist
2019, 2020

Erkki Vesola
2018, 2020

Petri Gostowski
2020

Atte Riikola
2020

Olli Koponen
2020

Research belongs
to everyone.