CARGOTEC

COMPANY REPORT

INDUSTRIALS

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STUDENT: MATIAS PARIKKA

matias.parikka.2013@novasbe.pt

Improving results segment by segment

Expectations already reflected in current price

- **We initiate coverage on Cargotec with a Hold rating and a YE15 target price of EUR 26.1 per share.** The company currently trades at 23.6 P/E ratio and we estimate YE 15 P/E to be 15.2 which is 2.7% above Cargotec's peer group median of 14.8. We see this to be justified valuation if Cargotec can maintain recent improvements in Kalmar and Hiab segments and can turn its struggling MacGregor segment around with newly initiated efficiency program.
- **Key value drivers** for Cargotec's top line are development of global trade and GDP, both of which look encouraging. Segments are further driven by global ship building activity and offshore exploration activity, container throughput, terminal automation, truck registrations and construction activity. Most of these indicators are pointing to healthy growth.
- **Leverage:** Recent acquisitions in MacGregor segment have increased Cargotec's leverage to almost record highs. Cargotec's current D/E ratio is 54% while the company targets below 50%. We expect Cargotec to reduce D/E ratio below its target in the near future.
- **Valuation:** Our YE15 target of 26.1 EUR per share is based on discounted cash flow analysis. Our target implies 5.9% total shareholder return potential from the current levels of 25.1 EUR.

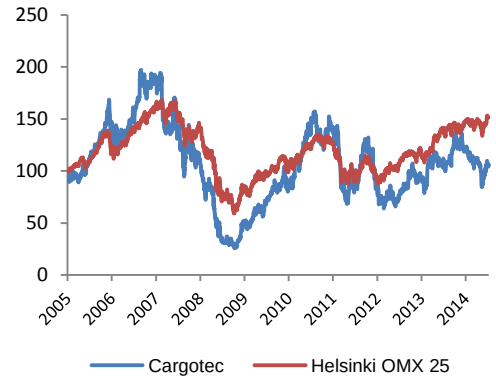
Company description

Cargotec is a global manufacturer of cargo handling machinery for ships, ports, terminals, and local distribution. Cargotec was formed in 2005 when Kone Corporation was split into two companies to be listed. Cargotec has approximately 11000 personnel in over 100 countries and is listed in OMX Helsinki stock exchange.

Recommendation:	**HOLD**
Vs Previous Recommendation	-
Price Target FY15:	**26.1 €**
Bloomberg ticker:	*CGCBV:FH*
Price (as of 6-Jan-15)	**25.1 €**
Expected total shareholder return %	*5.9%*

52-week range (EUR)	20.57-34.67
Market cap (EUR million)	1619
Outstanding shares (million)	64.4
Enterprise value (EUR million)	2305
Average volume last 3 months (EUR million)	6.62

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2013	2014E	2015E
Revenues	3181	3223	3395
EBITDA	169	206	270
Net Profit	55	62	110
EPS (EUR)	0.9	0.96	1.71
P/E (x)	26.8	23.6	15.2
EV/EBITDA (x)	12.2	11.6	8.9
Net debt	585	717	739
Dividend yield %	1.6%	2.7%	2.0%
Dividend per share (EUR)	0.72	0.5	0.9
ROIC %	3.5%	5.2%	7.8%

Source: Analyst projections, Bloomberg

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Investment case

Weakness in MacGregor only temporary

Weakness in MacGregor is mainly driven by the weak business cycle in merchant ship building market. This has caused lower than average profitability in certain deliveries.

Weakness in MacGregor's profitability in the third quarter of 2014 was caused by lower than average profitability in certain deliveries and additional 2.7 million EUR depreciation related to new acquisitions. As a result of the weakness, Cargotec initiated an efficiency programme that aims to improve profitability through cost savings in R&D and design. Due to long *order-to-delivery* lead times, MacGregor will still operate with unusually low margins in 2015 (7%) because cost savings can't be achieved with ongoing order deliveries. We expect the programme to improve EBIT margin in 2016 once the current orders will be delivered (see page 17).

Merchant ship building market is expected to recover in 2016, which will drive MacGregor's sales and improve profitability.

Why are we confident that weakness in MacGregor is only temporary? First, Cargotec has proofed that it has capability to turn segments around. Similar efficiency programmes in Kalmar and Hiab segments are proceeding as planned with 15 million EUR *Y-o-Y* EBIT improvement in Kalmar and 6.4 million EUR improvement in Hiab segment achieved through cost savings in sourcing, pricing, and spare parts. Second, weakness in MacGregor is driven by the weak business cycle in merchant ship market and supply-demand imbalances are expected to last until 2016. We expect MacGregor's EBIT margin to stay at 7% level in 2015, but to increase to 9% in 2016 and to 10% in 2017 through the aforementioned efforts as well as fewer project cost overruns which were due to the weak business cycle in merchant ship market.

Our target for MacGregor's EBIT % for 2015 is 7% and 9% for 2016. Improvement will be achieved from cost savings in R&D and supply chain as well as better profitability in deliveries.

Growth potential in services offering

Currently, only about one third of the services is outsourced to service providers such as Cargotec. We believe that share of outsourcing will grow and that will increase service sales.

There is growth potential in service offering development especially in Kalmar and MacGregor segments. Cargotec has already shifted its business mix towards services but currently the portion of sales that comes from services is rather low, 28% in Kalmar and 22% in MacGregor. Cargotec has made the growth in services as one of the "must win battles" and targets the share of services to grow in Kalmar and to be at least 30% of sales in MacGregor. As an example, Konecranes (Cargotec's competitor) has share of services roughly 40% of sales. Currently, only about one-third of service market is outsourced to service providers such as Cargotec. Outsourced maintenance is concentrated in developed markets but share is growing in emerging markets too. Strengthened by targeted acquisitions such as Mareiport, we expect share of services in MacGregor and Kalmar to rise to 30% of total sales by 2018.

Top line growth from terminal automation and subsea drilling

Terminal automation will support Kalmar's growth in the future. Finding growth drivers in Kalmar is of high importance since the segment brings currently roughly 45% of the company's sales.

We see potential in terminal automation (Kalmar segment) and subsea drilling sectors (MacGregor segment). While only recently starting to show revenue growth potential, terminal automation is likely to be one of the key themes in the terminal projects in the future with projected growth rates between 20-30% until 2018. High growth in terminal automation is driven by improved technologies, increasing labour costs, and intensifying pressure of efficiency and sustainability. Cargotec currently has capabilities to tap into this market with its offering in port process automation, equipment automation, equipment control systems and terminal operating systems. Acquisitions, such as terminal operating system provider Navis in 2011, have strengthened Kalmar's position in automated terminals. Kalmar, supported by Navis acquisition, currently has around 20% market share in terminal operating systems.[1]

30% of MacGregor's sales currently come from offshore market and new areas such as subsea drilling and exploration are expected to boost sales in the future.

Another interesting driver that likely supports the growth of Cargotec's MacGregor segment in the future is subsea drilling. Oil industry is starting to increasingly explore subsea drilling and this is projected to increase exploration expenditures from current 70 USD billion to more than 106 USD billion in 2020 – 8.7% estimated annual growth rate. This will drive MacGregor's sales as it boosts the demand for MacGregor's lifting and intervention equipment. One caveat is the oil price. Current mid-50's USD oil price is barely above the break-even point that deep water oil exploration and production needs.[2] U.S. energy information administration expects oil price (WTI crude) to average at 62.75 USD/bbl in 2015[3] which would be below upper end of break-even scale of ~75 USD/bbl but above average breakeven point of ~55 USD/bbl. This indicates that current oil price rout – if prolonged – could have adverse effect on MacGregor's offshore segment (see page 24 for oil price scenario analysis and its estimated effect on MacGregor).

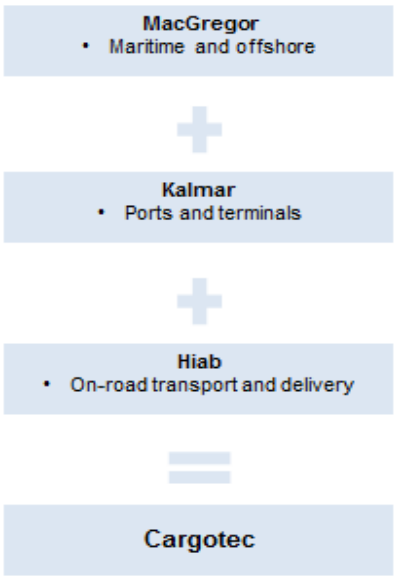
Share appreciation potential limited at current prices

Cargotec seems to currently trade close to its "fair value". Our DCF valuation gives Cargotec a YE 2015 target of 26.1 EUR and stock currently trades at 25.1 EUR. This means that based on our view, stock holds 5.9% total shareholder return potential (including expected dividend payment of 0.53 EUR) at these levels.

[1] Cargotec capital markets day 18th November 2014, Kalmar presentation
[2] Rystadenergy.com – global liquids cost curve
[3] U.S. energy information administration

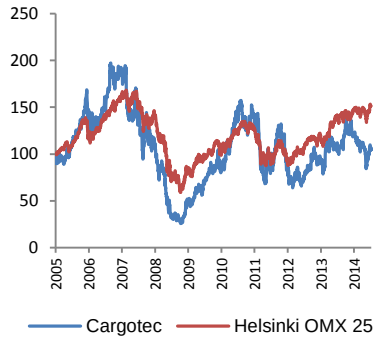
Company overview

Figure 1, Company structure



Source: Company data

Figure 2, Cargotec share price development since listing



1.6.2005 – 6.1.2015	
Share price appreciation	+0.5%
Total return (dividends re-invested)	+32.2%
Annualized total return	+3.0%

Source: Company data, Bloomberg

Cargotec is a Finnish manufacturer and provider of cargo handling solutions with operations in more than 100 countries worldwide. Cargotec employs approximately 11000 people and had revenue of 3181 million EUR in 2013.[4] Even though Cargotec has roots going back to 1970's, company was officially formed in its current form in 2005 when Kone Corporation was splitted into two companies to be listed in Helsinki Stock Exchange. Cargotec is part of the OMX Helsinki 25 index, which consists 25 of the most traded companies of Helsinki Stock Exchange and currently has a market value of 1619 million EUR, which is around 7% higher than the median (1513 million EUR) market capitalization of its industry peers (See appendix 5). After its listing in June 2005, Cargotec's share price nearly doubled before 2007 financial crisis and subsequently lost more than 80% of its value during 2007-2009. Share price has since recovered but due to the ups and downs it is currently trading at 25.1 EUR/share which is just 0.5% higher compared to its listing price of 25 EUR/share. Re-investing dividends, investors would have obtained 32.2% total return since listing. Compared to OMX Helsinki 25 which is up 47% since June 2005, Cargotec's share has drastically underperformed the index.

Company description

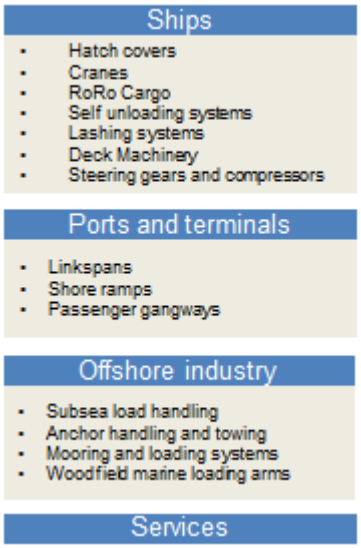
Cargotec's cargo handling products and services are used in ships, ports, terminals, distribution centres, heavy industry and in on-road handling. Manufacturing and sales of the equipment is only a part of Cargotec's business, Cargotec also provides its customers maintenance and services solutions.[5] Revenue from services has become an important part of Cargotec's business, bringing in 24% of total consolidated sales in 2013.[6] Cargotec in its current form is a result of multiple acquisitions and company has engaged in series of M&A deals since it went public in 2005[7]. Aggressive acquisitions can be explained by Cargotec's strategy to grow faster than the industry on average where acquisitions support rapid growth. Currently, Cargotec has three business segments which are designed to serve the needs of different sectors worldwide. Below is a brief introduction on each of the Cargotec's business segments.

[4] Cargotec 3rd quarter report October 23, 2014
[5] Cargotec company data, www.cargotec.com
[6] Cargotec annual report 2013
[7] Full summary of Cargotec's acquisitions since company went public can be found in Appendix 1

Business Segments

MacGregor – Maritime and offshore

Figure 3, MacGregor's offering



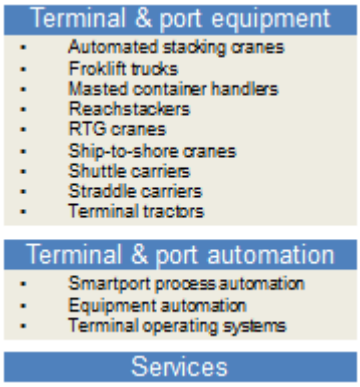
Source: Company data

Order to delivery lead times in MacGregor segment are long, between 12-24 months

MacGregor segment serves maritime transportation and offshore industries with diverse offering for ships, ports and terminals and offshore industry. Due to the heavy capital intensity and slow dynamism of the maritime and offshore industries, long lead times and dependency on world's energy and ship building markets characterises MacGregor's business environment. Order-to-delivery lead times in the MacGregor segment are very long, usually somewhere in between 12-24 months.[8] During the first 9 months of 2014, MacGregor has taken over Hiab as the second largest segment of Cargotec in terms of sales volume (733 million EUR vs. 629 million EUR). Currently, the offshore shipbuilding market is shifting towards Asia, while the USA and Norway remain the main locations of ship owners.[9] The shift in east is apparent when looking at the MacGregor's sales figures, around 65% of MacGregor's sales already came from APAC area in 2013.[10] To root its presence further in Asia, MacGregor has established several joint ventures and partnerships in Asia. As an example, JV with Chinese Jiangsu Rainbow heavy industries which was established in 2012 allows Cargotec to better tap into Asian offshore market with the help of local partner. Given the growth of APAC region and MacGregor's increased focus there, we expect region's share of MacGregor's sales to increase to 70% by 2017.

Kalmar – Ports and terminals

Figure 4, Kalmar's offering



Source: Company data

Kalmar is the largest segment of Cargotec generating 1034 million EUR of sales during the first 9 months of 2014. Segment's products and services consist of container and cargo handling equipment, terminal and port automation and related services. Main customer segments are ports and terminals, which Kalmar serves globally. Another important customer segment is logistics and industrial applications which are currently served only in selected geographical markets, mainly in the USA and Europe. Extremely important aspect in Kalmar's business is maintaining impeccable customer relationships. This is due to the fact that the top 22 companies handle around 75% of the world's container traffic and operate around 40% of all terminals. This sort of consolidation in the industry means that customer relationships are long term and losing a customer can mean losing a substantial chunk of the business. In terms of market drivers, the main driver of

[8] Cargotec's Q2 2014 investor presentation
[9] MacGregor, markets and market outlook, www.cargotec.com
[10] Cargotec's Q2 2014 investor presentation

Order to delivery lead times in Kalmar segment are between 6-9 months.

Kalmar's business is the development of the world trade as it is the main driver behind ports and terminals activity. Other main top line drivers are the world container traffic and terminal automation.[11] In terms of Kalmar's sales split by geography, EMEA is the main market for Kalmar bringing in 48% of the sales in 2013. Americas is the second largest market with 27% share. APAC region is responsible of 25% of the sales and remains a challenging area due to the competition especially in ship-to-shore cranes, RTG/RMG cranes and reachstackers. APAC region is responsible for most of the projected growth in container throughput going forward. Kalmar has strengthened its presence in the area by joint ventures and new product introductions. As an example, Kalmar introduced its new generation Gloria reachstacker in the region in August 2014.[12] We expect future growth in the APAC area for Kalmar but remain also positive about the growth in the U.S. due to the economic recovery in the area. Order-to-delivery lead times in Kalmar segment are substantially shorter than in MacGregor segment, somewhere between 6-9 months.[13]

Hiab – On-road load handling

Figure 5, Hiab's offering

Source: Company data

Order to delivery lead times in Hiab segment are short, between 2-4 months.

Hiab segment's products are used in on-road transport and delivery. Customers range from large national or regional companies to local and relatively small enterprises which include transportation companies, governments, fleet operators, single truck owners and truck manufacturers. Given that, Hiab's business is characterised by a high number of individual and small orders. This makes lead times from order-to-delivery relatively short compared to Cargotec's other business segments, only 2 to 4 months in general. Majority of customers are located in EMEA and 52% of sales in 2013 came from the region. Second largest market region is Americas with 36% of sales. Only 12% of the sales come from APAC region. To improve APAC's sales, Hiab established a joint venture with China's leading truck manufacturer, China National Heavy Duty Truck Group Co which was kicked off in May 2014. We expect this partnership to increase sales in China, which currently has only 2% share of Hiab's sales with 13.6 million EUR in sales in 2013. We expect sales in China to rise to 30 million EUR by 2017.

[11] Kalmar, markets and market outlook, www.cargotec.com
[12] Cargotec press release, 26 August 2014
[13] Cargotec's Q2 2014 investor presentation

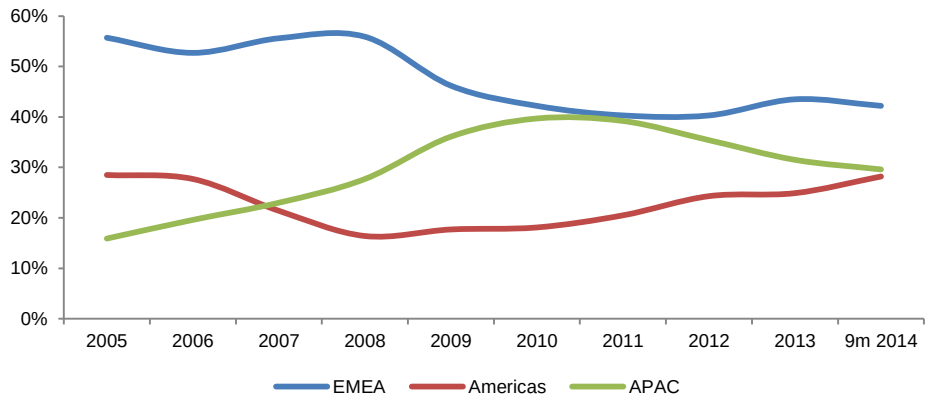
Sales split

On a consolidate level, most of the Cargotec's sales in 2013 (44% in 2013) came from Europe, Middle East, and Africa (EMEA). This is because Hiab and Kalmar segments are generating most of the sales and their main market is EMEA. Second largest market in 2013 was Asia Pacific that generated 31% of the sales. The rest, around 25% of the sales came from Americas. Sales split has developed in the recent years. The share of EMEA from the total sales has decreased from 56% in 2005 to current 42% in Q1-Q3 2014. At the same time, the share of APAC region has increased from 15% in 2005 to 30% in Q1-Q3 2014. Share of Americas is currently at the same level as it was in 2005, but has rebounded from its lowest point of 16.5% in 2008 to current 28% in Q1-Q3 2014 as U.S. has recovered from financials crisis of 2008-2009.

In terms of segment sales, Cargotec's most important segment is Kalmar which produced 49% of the sales in 2013 and is expected to generate around 45% in 2014. Hiab segment accounted for another 26% and MacGregor segment the remaining 25% in 2013. It should be noted that the importance of MacGregor segment is growing. With recent acquisitions of Hatlapa, and Aker solutions' mooring system unit (Pusnes) MacGregor will increase its share in the sales split.

In Q3 2014 alone, newly acquired businesses contributed sales increase of 61 million EUR into MacGregor segment (24% of the segment sales). Hence, MacGregor's share of business is becoming larger already in 2014. During the first 9 months of 2014, MacGregor surpassed Hiab as the second largest segment contributing 31% of total sales versus 26% that Hiab contributed.

Figure 9, Sales split development by region



Source: Company data

Figure 7, Sales by segment 2013

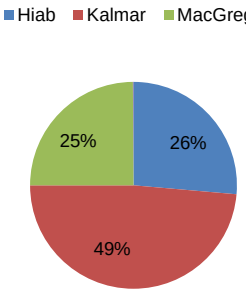


Figure 6, Sales by region 2013

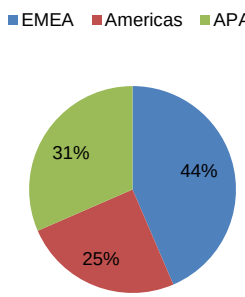


Figure 8, Sales by region 9m 2014

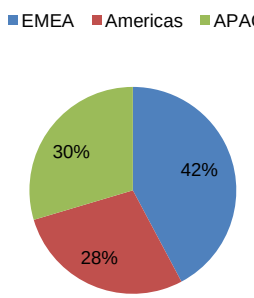
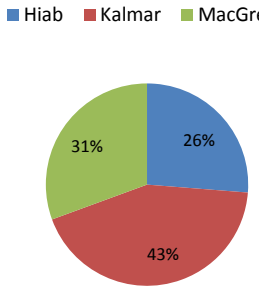


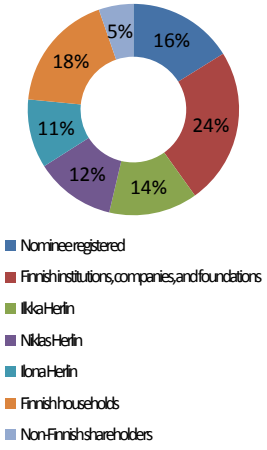
Figure 10, Sales by segment 9m 2014



Source for figures 6-10: Company data

Shareholder structure

Figure 11, Shareholder structure

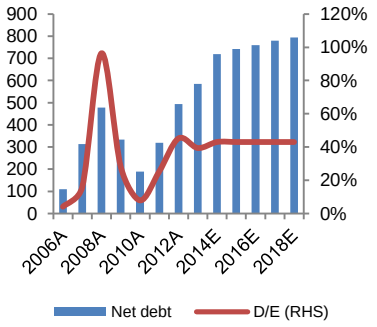


Source: Company data

As mentioned earlier, Cargotec was formed when Kone Corporation demerged into two companies to be listed. Having said that, Cargotec's stock is still widely held by the Kone's founding family members – Herlin. Herlin family collectively owns around 36% of the Cargotec, with Ilkka Herlin having the largest share of about 13.6%. Second largest owner group is Finnish institutions, companies and pensions funds which hold around 24% of the stock. In total, institutions and founding family hold around 60% of Cargotec's shares. 16% of the stock is owned by nominee registered, which means shares that are held electronically in the account of stock broker or other custodian. Finnish households own around 18% of Cargotec's stock and the rest 5% is owned by non-Finnish owners. As can be seen, the ownership structure is rather heavily tilted towards institutional and family ownership. [14]

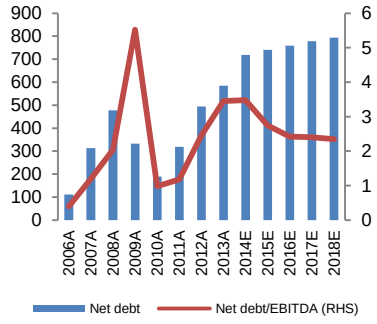
Leverage position

Figure 12, Net debt & D/E



Source: Analyst projections, Company data

Figure 13, Net debt & net debt/EBITDA



Source: Analyst projections, Company data

Cargotec has announced that its goal is to keep net debt/equity ratio below 50%.[15] In Q3 2014 company sporting a rather high ratio of 54%, which is mainly due to the acquisitions in the MacGregor segment. In Q2 2013 it acquired merchant ship and offshore deck equipment provider Hatlapa for 160 million EUR, in Q3 2013 it acquired mooring and loading system unit of Aker solutions for 180 million EUR, and in Q1 2014 Cargotec bought Deep Water Solutions AS. Mainly as a result of these acquisitions, Cargotec's net debt has increased from 494 million EUR in 2012 to 859 million EUR in Q3 2014. D/E levels have increased from 25% in 2011 to 54% in Q3 2014. Company is aiming to reduce debt levels and we are expecting net debt/equity ratio to decline to 43% level going forward.

Additional way to assess current leverage position is to take a look at the net debt/EBITDA ratio[16]. As can be seen from the figure 13, net debt/EBITDA ratio has been fluctuating a lot in recent years and was 3.5x in 2013. In 2014, ratio is expected to stay at 3.5x due to the acquisitions in MacGregor segment. In our view, currently high net debt/EBITDA ratio is likely to be temporary. We expect net debt/EBITDA ratios slowly decline to 2.3x by 2018. Still, compared to its peers' median Net debt/EBITDA ratio of 1.2, Cargotec's net debt/EBITDA ratio is substantially higher. Moreover, as can be seen from figure 15, Cargotec's

[14] Company data, www.cargotec.com
[15] Cargotec's long term financial targets, www.cargotec.com
[16] Net debt defined as interest bearing debt – excess cash and cash equivalents

Figure 14, Net debt/EBITDA ratios of industry peers

Company	Net debt/EBITDA 2014E
KONE	-1.1
Konecranes	1.3
Metso	1.7
Outotec	-1.3
Wärtsilä	0.3
Valmet	0.1
Kesla	3.1
Ponsse	1.2
Vacon	-0.1
Palfinger	3.4
Terex	2.4
Average	1.0
Median	1.2
Cargotec	3.5
Premium to avg.	249.8%
Premium to mdn.	194.1%

Source: Analyst projections,Marketnoze, Bloomberg

Figure 15, EBIT interest coverage of industriy peers

Company	EBIT interest coverage 2014E
KONE	28.4
Konecranes	7.8
Metso	13.1
Outotec	3.9
Wärtsilä	13.2
Valmet	4.0
Kesla	1.5
Ponsse	3.7
Vacon	7.9
Palfinger	6.2
Terex	5.1
Average	8.6
Median	6.2
Cargotec	2.3
Premium to avg.	-73.3%
Premium to mdn.	-62.9%

Source: Analyst projections, Marketnoze, Bloomberg

interest coverage ratio is substantially lower than the level of its peers', which further indicates that Cargotec currently does not have room to increase its debt level in order to keep its interest payment at the reasonable level compared to its profitability. We expect Cargotec's EBIT interest coverage level to improve reaching 4.2 in 2018.

In order to assess Cargotec's credit quality further, below table 1 shows four common debt servicing ratios that credit rating agencies follow when assessing the ability of the borrower to service debt. When compared to S&P's benchmarks for credit ratings, it can be seen that EBIT interest coverage and EBITDA interest coverage in 2015E indicate credit rating of BB, FCF to total debt indicates BB but is expected to rise substantially close to BBB criteria. Finally total debt to EBITDA also indicates rating of BB. Cargotec does not currently have official credit rating but it can be seen that Cargotec's credit rating would most likely be currently BB to BBB.

Table 1, Cargotec's debt servicing ratios and S&P criteria

Ratio	2014E	2015E	2016E	2017E	2018E
EBIT interest coverage	2.3	3.4	4.0	4.0	4.2
EBITDA interest coverage	3.7	4.7	5.3	5.3	5.4
FCF/total debt	3.3%	12.7%	14.2%	14.2%	15.3%
total debt/ebitda	4.6	3.6	3.2	3.2	3.2

Ratios and criteria	AAA	AA	A	BBB	BB	B	CCC
EBIT interest coverage	23.8	19.5	8	4.7	2.5	1.2	0.4
EBITDA interest coverage	25.5	24.6	10.2	6.5	3.5	1.9	0.9
FCF/total debt	127.6%	44.5%	25.0%	17.3%	8.3%	2.8%	-2.1%
Total debt/EBITDA	0.4	0.9	1.6	2.2	3.5	5.3	7.9

Source: Analyst projections, Bloomberg, S&P

Competitor overview

Carogtec's competitive landscape is diverse and segment specific. MacGregor's competitors are mainly industry behemoths such as Mitsubishi Heavy industry and Rolls-Royce and most of these giants are diversified into many different industries. Competitors such as TTS group and Rolls-Royce are experiencing the current challenging market environment. Due to the offshore market pressures, TTS has been performing poorly in recent quarters with barely positive EBITDA margin in Q3 2014 after four consecutive negative EBITDA quarters.[17] Rolls-Royce is guiding around 10% reduction in the revenue of its marine segment and 15-25% reduction in profit for 2014.[18] This is indicative of the current situation in the marine and offshore cargo handling equipment business environment.

[17] TTS Group Q3 2014 quarterly presentation
[18] Rolls-Royce guidance update and medium term oulook, 17 October 2014

Figure 16, Key competitors by segment

Competitors	value (m EUR)
MacGregor	
TTS Marine	378
SMS	Private
German lashing	Private
SEC	Private
Mitsubishi HI	15560
IHI	6570
Navalimpianti	Private
NOV	23450
Rolls-Royce	20817
Huisman	Private
Liebherr	Private
Kalmar	
ZPMC	3432
Konecranes	1510
Terex	2558
Sany	10099
Liebherr	Private
Hiab	
Palfinger	789
Fassi	Private
HMF	Private
Hyva	Private
Terberg Kinglifter	Private

Source: Company data, Bloomberg

Table 2, MacGregor: key competition by product area

Company	Hatch covers	Deck cranes	Lashing equipment	RoRo equipment	Self unloaders	Offshore ALH	Offshore winches	Services
MacGregor	x	x	x	x	x	x	x	x
TTS Marine	x	x		x		x	x	x
SMS	x			x				x
German lashing			x					x
SEC			x					x
Mitsubishi HI		x						
IHI		x						
Navalimpianti	x			x		x		
NOV						x	x	x
Rolls-Royce						x	x	x
Huisman								
Liebherr		x				x		x

Source: Analyst projections, company data

In contrast to MacGregor, Kalmar's key competitors are more focused. As can be seen from table 3, closest to Kalmar's product offering are ZPMC, Konecranes and Terex. Together with Cargotec, Konecranes and Terex are top three players in port cranes globally. Kalmar is market leader in spreaders, automation solutions and dry bulk handling systems. In addition to the key competitors, market has lots of competition from small and local suppliers so the industry is still very fragmented and poised for consolidation[19] which can also explain Cargotec's extensive acquisition history.

Table 3, Kalmar: key competition by product area

Company	Ship-to-shore cranes	ASC carriers	RTG/RMG cranes	Straddle/Shuttle carriers	Reach stackers	Fork lift trucks	Terminal tractors, AGV's	Spreaders	Mobile harbour cranes	Services
Kalmar	x	x	x	x	x	x	x	x		x
ZPMC	x	x	x	x				x		
Konecranes	x	x	x	x	x	x				x
Terex	x	x	x	x	x	x			x	x
Sany	x		x		x	x		x		
Liebherr	x		x	x	x				x	

Source: Analyst projections, company data

Smaller and private companies characterise Hiab's key competition. The main competitor is Austria's Palfinger that has offering similar to Hiab. Palfinger has a market value of 789 million EUR and revenue of 981 million EUR in 2013 so the company is roughly the size of Hiab in terms of sales. Hiab is strong especially in Knuckle-boom cranes with 50% market share, Palfinger being second with around 30% share. [20] Hiab's other key competitors are private and and they compete only in one or two product area with Hiab so Hiab's market is fragmented as well.

Table 4, Hiab: key competition by product area

Company	Knuckle-boom cranes	Stiff boom cranes	Demountables	Tail lifts	Truck mounted forklifts	Forestry cranes
Hiab	x	x	x	x	x	x
Palfinger	x	x	x	x	x	x
Fassi	x					x
HMF	x					
Hyva	x		x	x		
Terberg Kinglifter					x	

Source: Analyst projections, company data

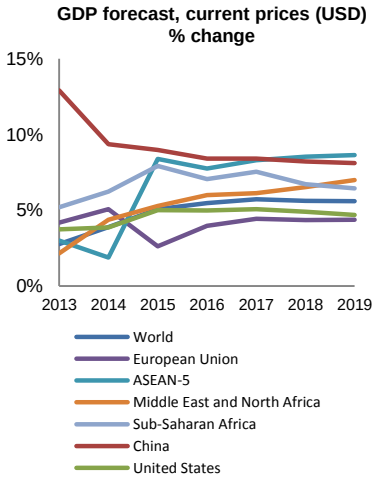
[19] Hoist magazine article "The biggest step of all", www.hoistmagazine.com
[20] Palfinger company data, www.palfinger.ag

Business drivers

Due to the Cargotec's offering that serves worldwide clientele and the nature of the cargo equipment industry, demand for Cargotec's products and services is dependent of the world trade and cargo handling needs in land and sea. Hence, the main general global macroeconomic drivers of Cargotec's business include the development of the world trade and growth of the global GDP both of which can point the direction of future top line development.[21]

Development of the world economy

Figure 17, GDP forecasts



Source: IMF

According to the IMF, the global economy is forecasted to grow in nominal terms around 3.9% in 2014, and 5.1% in 2015. Emerging economies are collectively expected to grow 4.7% in 2014 and 7.1% in 2015. The USA is expected to grow 3.9% in 2014 and 5.0% in 2015. Growth in European Union is expected to be more moderate, 5.1% in 2014 and 2.6% in 2015. China is expected to grow 9.4% in 2014 and slow down a bit to 9% in 2015. It should be noted that these figures are nominal, which means they don't take inflation into account[22]. GDP measurement used was in USD.

Given relatively strong development outlook of the world economy, this should be favourable to Cargotec and support the business environment going forward. However, investors should be cautious about rather slow growth in Europe, as EMEA currently represents 42% of Cargotec's sales.

Development of the world trade

Figure 18, growth of world trade

Source: IMF

The development of the world trade seems also to be favourable for Cargotec. According to the IMF, world trade is expected to grow 3% in 2014, 3.8% in 2015, and accelerate to 5.5% growth by 2019. This bodes well to Cargotec since cargo business and especially Kalmar segment, which is Cargotec's biggest segment, is driven by the development of the world trade.

Growth of the world's GDP and the development of the world trade are two "big picture" drivers driving Cargotec's business. In addition to this, it is possible to identify more specific growth drivers for each of the three segments. Making projections to segment specific drivers is crucial in order to make detailed forecasts for the sales growth and profitability.

[21] Cargotec's operating environment, www.cargotec.com
[22] According to IMF, world inflation is expected to be 3.8% in 2014, 3.9% in 2015, 3.8% in 2016, and 3.6% in 2017.

Drivers in MacGregor segment

Figure 19, Global fleet growth

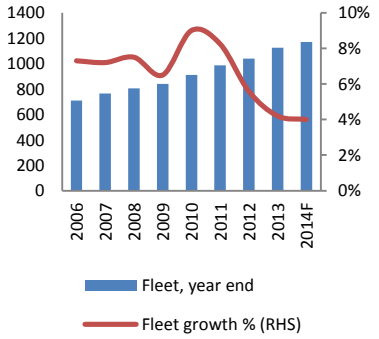


Figure 20, Global orderbook % of fleet

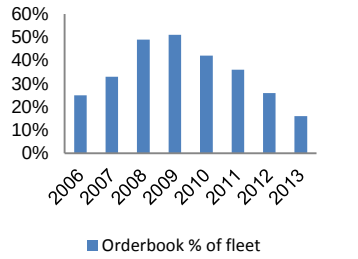


Figure 21, contracting no. of ships

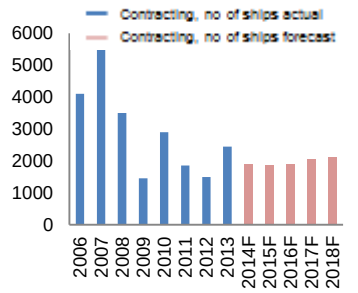
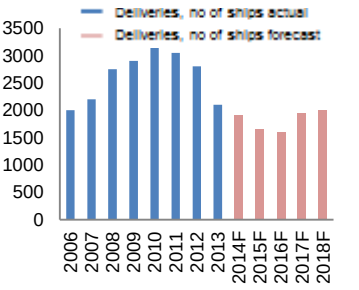


Figure 22, no. of deliveries of ships



Source for figures 19-22: Clarkson research, company data

Global ship building activity

As MacGregor offers cargo flow solutions to maritime transportation and offshore industries, segment is largely driven by global ship building with merchant shipping equipment contributing roughly 50% of the segment sales. According to Clarkson Research, the global ship fleet growth peaked at 7-9% between 2006 and 2010 and is now starting to slow down, being around 4% in 2014.[23] Order book of new fleets peaked at 2009 with 51% of the existing fleet. At the beginning of 2013 order book was only 16% of the existing fleet. As the ship building cycle from order to delivery lasts from 13 months up to 26 months[24], order book in 2013 can be used to get a glimpse of the fleet growth until 2015. As order book in 2013 declined from 25% in 2012 to 16% of the fleet in 2013, we expect global fleet growth to decline to 3% in 2015 from 4% in 2014. China is currently holding the largest order book with more than 30 million CGT (compensated gross tonnage). South-Korea and Japan come behind China with order books of 25 and 14 million CGT, respectively. [25]

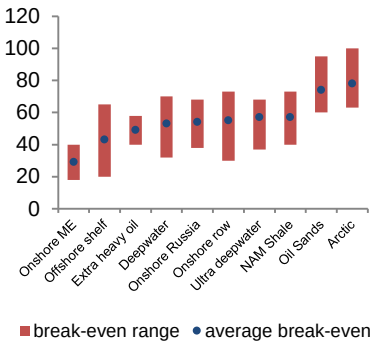
Furthermore, as can be seen from the figures 21 and 22 contracting of new ships peaked in 2007 and subsequently ship deliveries peaked in 2010. After 2010, number of ship deliveries has collapsed and the growth of deliveries is not expected to pick up until 2016. After this overcapacity phase, number of ship deliveries is expected to grow roughly 3-5% per annum. All of this means that based on the ship building forecasts, MacGregor's sales are set to grow only modestly until 2016 and getting support from the recovering market from 2017 onwards.

Offshore exploration and production spending

In addition to the global ship building activity, global offshore exploration and production spending is a key driver for MacGregor segment with offshore contributing roughly 30% of the segment sales. According to research house Douglas-Westwood, Offshore drilling expenditures are projected to increase substantially until 2020. This increase is largely driven by subsea exploration. Offshore exploration expenditures are expected to reach 106 USD billion in 2020. Compared to current 70 USD billion this means 8.7% annual growth.[26] Global

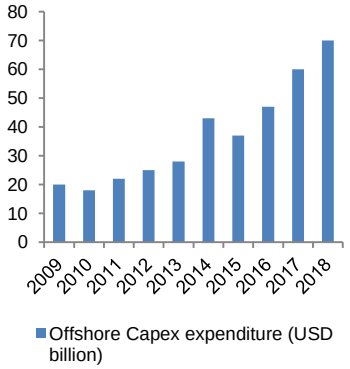
[23] Clarksons research, shipping market overview, October 2, 2013
[24] Carnegie capital goods seminar, Cargotec presentation, March 6, 2014
[25] Seasecurity.org
[26] Douglas-Westwood, global offshore prospects, September 26, 2013

Figure 24, break-even points for non-producing assets (USD/barrel)



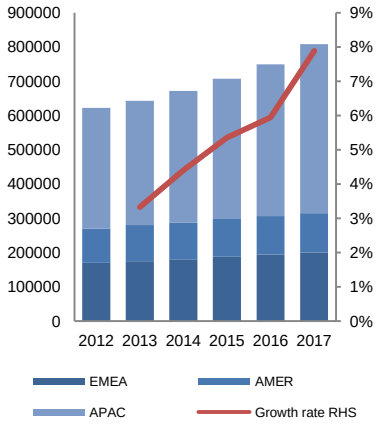
Source: Douglas Westwood, company data

Figure 23, Offshore capex expenditure



Source: Douglas Westwood

Figure 25, Global container throughput (TEU '000)



Source: Drewry shipping consultants, Company data

energy prices have a direct impact on E&P spending and capex expenditure in the industry. Hence, recent decline in oil price has without a doubt an impact but the average breakeven level for deep water projects is 54 USD/bbl. Current oil price of ~55 USD/bbl is roughly at the average breakeven rate and U.S. Energy Information Administration is expecting WTI crude to trade at 62.75 USD/bbl in 2015[27]. This means that investors need to be cautious. Upper range of breakeven in deep water projects is around 75 USD/bbl which means that some projects are not profitable with current and forecasted oil price. Consequently, we expect this to impact negatively on offshore E&P activities in the near future and provide only 1-2% boost to MacGregor sales until 2018. All in all, we expect global ship building to provide MacGregor 2-3% growth until 2018 while global offshore exploration and production spending is expected to support the growth in sales with additional 1-2% until 2018. We provide more detailed forecasts on sales and EBIT in the next section.

Drivers in Kalmar segment

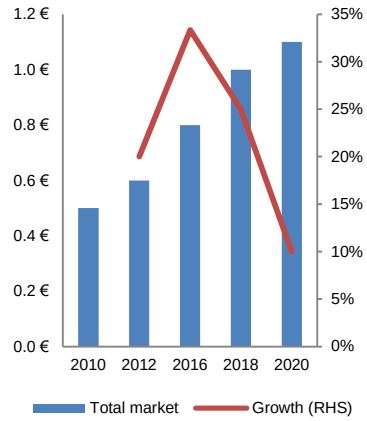
Cargotec's Kalmar segment offers cargo handling solutions and services to ports, terminals, distribution centres and heavy industry. This means that for Kalmar, in addition to growth of the global GDP which is a big driver behind activities in ports and terminals, the main drivers of revenues come from global container traffic as well as from the automation of terminals.

Global container throughput

Global container throughput is important driver for around 70% of Kalmar's business operations.[28] In ports and terminals, containers and goods are transported and moved by cranes, carriers, reachstackers and container handlers, and Kalmar has offering in these areas. As can be seen from the figure 25, global container throughput is expected to grow relatively rapidly until 2017. Growth between 2014 and 2017 is expected to vary from 4 to 7.9% and bulk of the global container throughput is in APAC region, leaving Americas and EMEA only a minority share of the throughput. Growth in the global container throughput means that tailwinds are likely blowing Cargotec's Kalmar segment in the future and we expect this to contribute to the sales growth 2% in 2015, 3% in 2016 and 4% in 2017.

[27] U.S. Energy information administration
[28] Cargotec's Q2 2014 investor presentation

Figure 26, Global automation market (equipment, systems, and processes) EUR bn



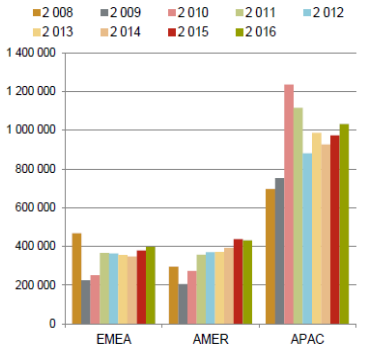
Source: Drewry shipping consultants

Terminal and port automation

Another important development that is driving Kalmar is the automation of ports and terminals. Due to the improved technologies, increasing labour costs, and intensifying pressures for efficiency and sustainability, automation in the ports is expected to be one of the main themes in the industry in the future. Currently, only about 40 ports out of thousand ports are automated to some degree which means that there is a lot of growth potential going forward. As can be seen from the figure 26, according to Drewry shipping consultants, global port automation market is expected to go through a substantial growth period at least until 2020. Kalmar has recently won important orders in terminal automation. In September 2014, Kalmar won equipment automation contract worth 40 million EUR in Melbourne.[29] Another important milestone was winning a contract to provide Kalmar SmartStack solutions at Durban container terminal in South Africa in November 2014.[30] Currently Navis (part of Kalmar) has a 20% market share in terminal operating systems which represents roughly 20% share of the whole automation market. Since the automation market is still relatively small with less than 1 billion EUR until 2018, we expect terminal and port automation to boost Kalmar's sales 2% annually (roughly 30-35 million EUR growth) during 2015-2017.

Drivers in Hiab segment

Figure 27, Truck sales GCW over 15 tons



Source: IHS global insights, company data

As Hiab segment is focused in on-road load handling solutions and its offering consists of equipment such as loader cranes, forklifts and tail lifts, the main drivers of the business is the amount of truck sales and registrations and construction industry activity. [31]

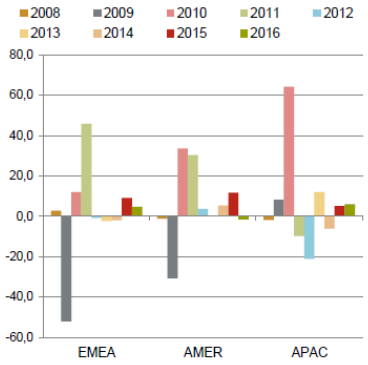
Over 15 ton gross vehicle weight truck sales

As can be seen from the figure 27, level of truck sales is set to increase until 2016 in every market area. Truck sales are highest in APAC region where sales of over 15 tons gross vehicle weight trucks is expected to reach 1 million by 2016. Sales in EMEA and Americas are expected to be around 400000 trucks until 2016. Figure 28 presents projected growth in truck sales. As can be seen, sales growth is not very stable, and can change quickly according to factors such as economic development. Truck sales are expected to grow in 2015 in each of

[29] Cargotec press release, 3 September, 2014
[30] Cargotec press release, 17 November, 2014
[31] Cargotec Q2 2014 investor presentation

the market areas. In 2016, sales are expected to grow in APAC and EMEA regions.

Figure 28, Truck sales growth GCW over 15 tons



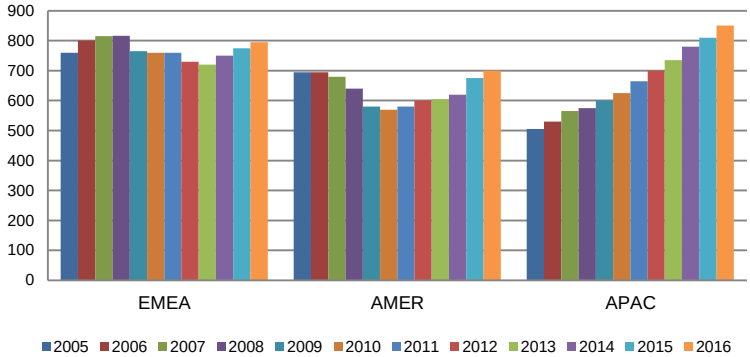
Source: IHS global insights, company data

Construction activity

Another important driver of Hiab's business is the development of construction activities since construction activities require smaller cranes and lifting equipment. As can be seen from the figure 29, total construction output has been declining rather substantially in EMEA from 2008 to 2013. 2014 is expected to be the first year when construction output is estimated to grow and growth is expected to continue until 2016. Total construction output in Americas has also declined but it bottomed earlier than in EMEA. Growth in Americas resumed in 2012 and is expected to continue until 2016. APAC area is again one of the strongest growers in total construction output. As can be seen, APAC has grown rapidly since 2005 and total output has already surpassed that of EMEA and Americas. All in all, the declines we have seen in EMEA and Americas should be over and total construction output is expected to grow in every market area. This should provide support to Hiab's business going forward. Especially encouraging is the resuming growth in EMEA which is the Hiab's largest market area.

Favourable macro drivers should support Hiab's sales growth in the future. We expect Hiab's sales to grow 2% in 2015 and 4% in 2016 due to the growing construction output and truck sales globally. Hiab has also started to show more effort to grow its presence in emerging markets and has launched for example new stiff-boom cranes developed exclusively for Chinese market which will support the Sinotruk-Hiab joint venture in China as it will be sold through both Hiab and JV's sales network. As mentioned earlier, currently only 12% of Hiab's sales come from APAC. We expect APAC's share to reach 20% by 2017 which would bring 5% growth rate in sales in 2017.

Figure 29, Total construction output (EUR bn)



Source: Oxford economics, company data

Segmental forecasts

MacGregor: Order book and acquisitions point to near term sales growth

MacGregor's sales in Q3 2014 were 255 million EUR which was 28% higher compared to Q3 2013. This was supported by Hatlapa and Pusnes acquisitions as the contribution of the acquired businesses to sales in Q3 was 61 million EUR, which represents roughly 24 % of MacGregor's total sales. Q1 – Q3 sales have so far been 27% higher than during the same period in 2013 and new orders have grown 39% indicating increasing sales in the segment for 2015 and early 2016.

Despite of growth in sales and orders, there are reasons to be worried and we would like to highlight the following passage from Q3 2014 report: *"Uncertainty increased in MacGregor's market during the autumn"*. This is mainly due to the imbalances of supply and demand in the ship market which is projected to take until 2016 to balance. Despite of this uncertainty, the market for offshore cargo handling equipment remained stable and deep sea production and its lifting equipment needs are expected to grow as mentioned in the previous chapter. As the order book has grown during 2014, long lead times (12-24 months) in MacGregor segment mean that 2015 and first half of 2016 are set to be strong in terms of sales. Consequently, due to near term supportive order book and boost from acquisitions we remain positive in the near term and expect sales in 2014 to grow 19% to 993 million EUR. As figure 32 points out, we expect sales to improve strongly in 2015 and grow 10% supported by current order book. In 2016, we expect sales growth to slow to 4% due to the slowdown of the ship building market and expect this cycle to hinder MacGregor's sales in 2017 and 2018 to 3% sales growth in both years.

What is also alarming in the segment is the decline of the EBIT margin. As can be seen from the figure 30, MacGregor's EBIT margin has declined from 16% in 2011 to current 2.9% in Q3 2014. This decrease in EBIT is partly due to the recent acquisitions which have increased depreciation, weighing down the EBIT margin. Without the acquisitions, EBIT margin would have been 3.9% in Q3 2014. In any case, EBIT margin has mainly declined as a result of lower than average profitability in certain orders of the segment. Cargotec initiated a reorganization

Figure 30, Quarterly sales MEUR and EBIT margin %, MacGregor

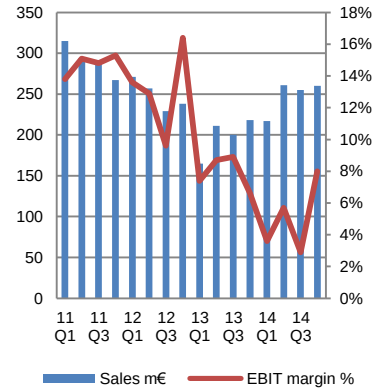


Figure 32, Annual sales MEUR and EBIT margin %, MacGregor

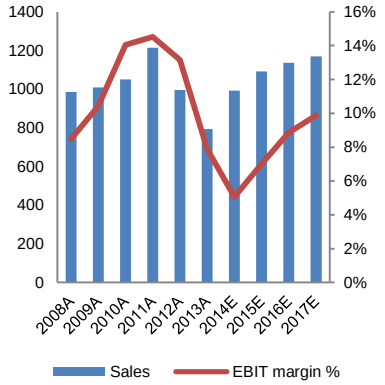
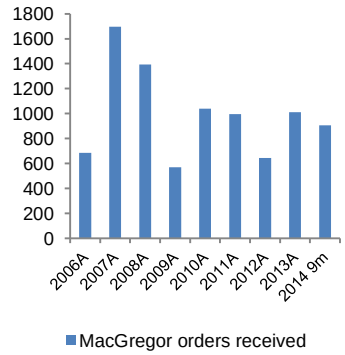
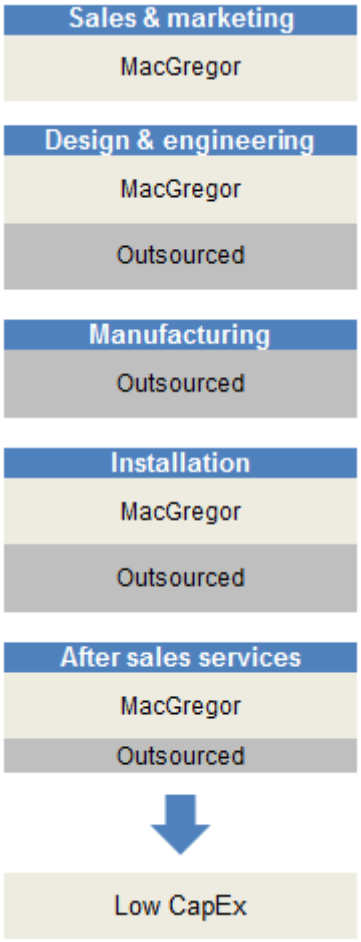


Figure 31, MacGregor orders history, MEUR



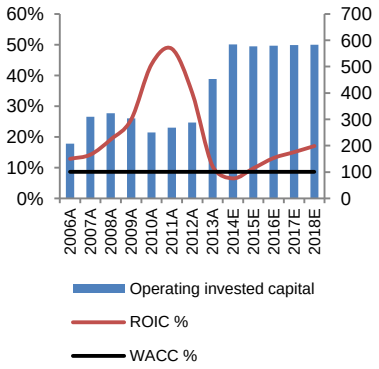
Source for figures 30-32: Analyst projections, company data

Figure 33, MacGregor's organization structure driving low capex



Source: Cargotec London road show Q2 2014 presentation

Figure 34, MacGregor's operating invested capital (MEUR) and ROIC %



Source: Analyst projections, company data

programme that aims to improve sales, services and procurements and increase the emphasis on customer orientation.[32] As a result of weak profitability during the first 9m of 2014, we expect EBIT margin to be 5% in 2014 and improve slightly to 7% in 2015. As mentioned earlier, EBIT % in 2015 will still be weak because cost savings can't be achieved with current orders. After that, we expect MacGregor to have potential to improve its EBIT margin substantially through cost savings in R&D and supply chain as well as fewer project cost overruns which were due to the weak business cycle with EBIT % expectation of 9% in 2016, 10% in 2017 and 11% in 2018.

Table 5 provides a summary of our projections of MacGregor's free cash flow in the coming years. As can be seen, after highly negative free cash flows in 2013 and 2014, which were mainly caused by the higher capital expenditures associated to segment's acquisitions our expectation is that free cash flow will resume being positive in 2015 onwards with 63 million EUR in 2015. MacGregor has a lean organization structure where design & engineering is partly outsourced, manufacturing of the equipment is entirely outsourced and installation and after sales services are partly outsourced. Only function that MacGregor takes care entirely is marketing and sales which do not require heavy fixed costs. Lean organization structure means that capital expenditures in the segment are low which translates into higher levels of free cash flows.

Table 5, MacGregor free cash flow & income statement forecast

MacGregor, free cash flow map, MEUR	2013A	2014E	2015E	2016E	2017E	2018E
NOPLAT	47	38	56	76	87	99
Depreciation, amortization and impairment (+)	6	9	13	13	13	13
Gross free cash flow	**53**	**47**	**69**	**89**	**100**	**112**
Capex (-)	96	168	15	15	15	15
Change in NWC (-)	75	-28	-9	0	0	0
Free cash flow	***-118***	***-93***	***63***	***74***	***85***	***97***

MacGregor, Income statement MEUR	2013A	2014E	2015E	2016E	2017E	2018E
Total sales	794	993	1092	1136	1170	1205
Operating expenses	-725	-934	-1005	-1022	-1041	-1061
EBITDA	**69**	**60**	**87**	**114**	**129**	**145**
Depreciation, amortization and impairment	-7	-9	-13	-13	-13	-13
EBIT excluding restructuring costs	**63**	**50**	**74**	**101**	**116**	**132**

Source: Analyst projections, company data

[32] Cargotec Q3 quarterly report, 23 October 2014

Kalmar: Growth from container throughput and automation

Figure 35, Quarterly sales and EBIT margin %, Kalmar

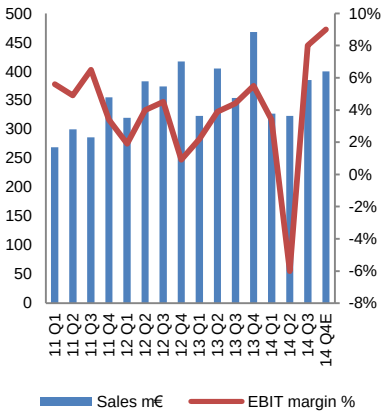


Figure 36, Annual sales and EBIT margin %, Kalmar

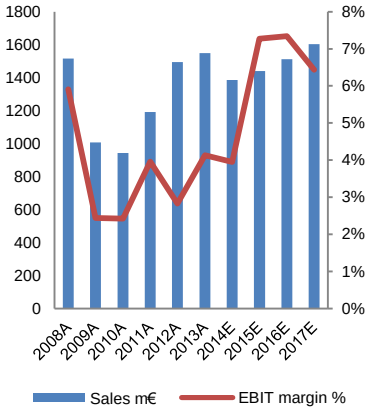
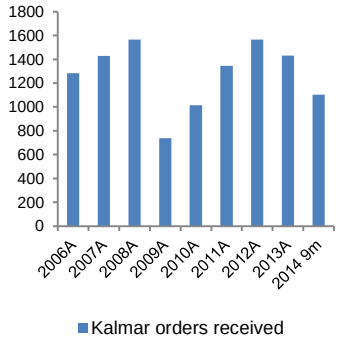


Figure 37, Kalmar order history



Source: Analyst projections, company data

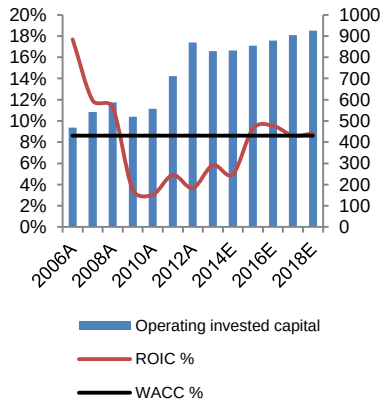
Kalmar's Q3 2014 sales were also relatively strong with 9% *Y-o-Y* increase from 354 million EUR to 385 million EUR. However, if looking at the first 9 months of 2014, sales in Kalmar are still behind 2013 level. Sales in Q1 – Q3 in 2014 were 1034 million EUR whereas at the same time year earlier they were 1082 million EUR - 4 percentage decline. Decline is due to a weak first half of 2014, especially second quarter sales were extremely weak with -20% decline YoY which was simply due to lower project deliveries than during comparison period[33]. Due to the weak first half of the 2014, Kalmar's 2014 sales (1385 million EUR) are set to be weaker than in 2013 (1550 million EUR).

Order intake has been rather brisk and Kalmar's orders received grew 4% YoY in Q3 2014 to 380 million EUR. Order intake for the first 9 months in 2014 has been higher than last year, with orders received growing 3% to 1104 million EUR. According to 3rd quarterly report in 2014, demand has been brisk especially for the terminal tractors and forklift trucks. Due to the Kalmar's relatively fast order-to-sales lead times (6 to 9 months), this will support our expectation of sales growth and these increased orders will be turned into sales already in 2015. Consequently, we expect Kalmar's sales to grow 4% in 2015. As the growth in container throughput is expected to accelerate in 2016 and 2017 with growth rates of 6% and 8%, this will be supportive to Kalmar's sales. In addition, growth in terminal automation is expected to be at its peak in 2016 and 2017. Consequently, we expect sales to grow 5% in 2016 and 6% in 2017.

Kalmar's EBIT margin has started improving in Q3 2014 after a disastrous Q2 2014. EBIT margin in Q3 was 8% whereas in Q2 it was -6% which was largely caused by the cost overruns of 39 million EUR in the old projects. Kalmar still suffered from these overruns in Q3 2014 but only worth 3 million EUR and according to Cargotec these projects were finalized in Q3. As the cost overruns were "only" 3 million EUR, profit improvement program that Cargotec initiated earlier in its Kalmar and Hiab segments started to pay off in visible way in Q3 through cost savings in supply chain, sourcing, sales and service network, pricing and spare parts. As for the expectations, EBIT margin in 2014 will be 4% (weighed down by the earlier cost overruns) and climb higher to 7% in 2015 and 2016 as the results of the efficiency program will be seen without further cost overruns.

[33] Cargotec Q2 2014 quarterly report, 18 July 2014

Figure 38, Kalmar's operating invested capital and ROIC %



Source: Analyst projections, company data

Table 6 provides an overview of our projections to Kalmar's free cash flow until 2018. Kalmar's free cash flow was 90 million EUR in 2013, and is expected to be positive until 2018. Out of the Cargotec's three segments, Kalmar has clearly highest capital expenditures. This is due to the fact that Kalmar is running its own production facilities and has not outsourced its functions as much as MacGregor for example. As an example, Kalmar produces its reachstackers and empty container handlers in its factory in Poland (factory shared with Hiab segment), and forklift trucks in Sweden.[34] Running own production sites means higher capital expenditures than outsourcing manufacturing. Kalmar's capex is hence projected to be at 55 million EUR level per annum due to the required investments in property, plants and equipment. Moreover, as can be seen in figure 38, Kalmar has operated with lower returns on invested capital (ROIC %) than WACC for the whole 2010s up until now. Essentially this means that instead of creating value, Kalmar has destroyed value and is not expected to start to "create" value until 2015. Kalmar's low returns on invested capital are due to the large amounts of assets such as fixed assets that are invested into its business.

Table 6, Kalmar free cash flow & income statement forecasts

KALMAR, free cash flow map, MEUR	2013A	2014E	2015E	2016E	2017E	2018E
NOPLAT	48	41	79	84	78	82
Depreciation, amortization and impairment (+)	42	45	39	40	41	42
Gross free cash flow	**91**	**86**	**118**	**124**	**119**	**124**
Capex (-)	37	55	55	55	55	55
Change in NWC (-)	-36	-7	7	9	12	8
Free cash flow	***90***	***39***	***56***	***60***	***52***	***60***

Kalmar, Income statement MEUR	2013A	2014E	2015E	2016E	2017E	2018E
Total sales	1550	1385	1440	1512	1603	1667
Operating expenses	-1442	-1285	-1296	-1361	-1459	-1517
EBITDA	**106**	**100**	**144**	**151**	**144**	**150**
Depreciation, amortization and impairment	-42	-45	-39	-40	-41	-42
EBIT excluding restructuring costs	**64**	**55**	**105**	**111**	**103**	**108**

Source: Analyst projections, company data

[34] Cargotec press release, 15 October, 2014

Hiab: Profit improvement programme proceeds as planned

Figure 40, Quarterly sales and EBIT margin %, Hiab

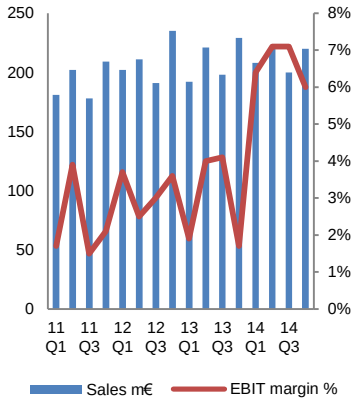


Figure 39, Annual sales and EBIT margin %, Hiab

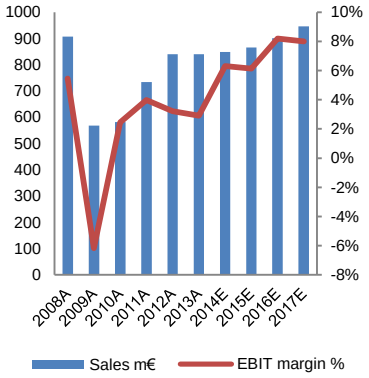
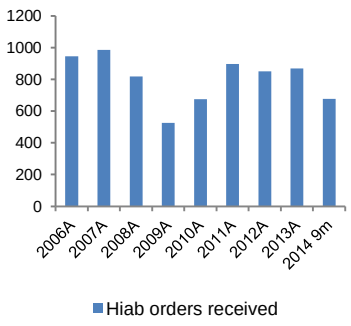


Figure 41, Hiab order history



Source for figures 39-41: Analyst projections, company data

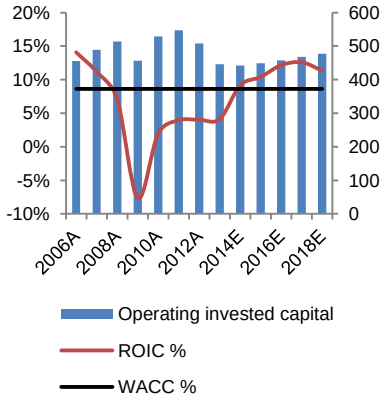
If Kalmar and MacGregor posted promising growth figures in Q3 2014, Hiab did not impress in a similar way. Sales nearly stagnated with only 1% growth *Y-o-Y* and 3% *Y-o-Y* growth during the first 9 months of the year. We expect sales to reach 220 m EUR in Q4 and expect sales to grow roughly 1% to 849 million EUR in 2014. Orders received fell 3% in Q3 *Y-o-Y* but orders received during the first 9 months in 2014 increased 8% *Y-o-Y*. Increase in orders received should be seen in sales figures already in Q4 and further in the first half of 2015 as the orders to sales lead time in the segment is typically less than 6 months. Consequently, this gives support to our expectations of the quarter-on-quarter sales increase already in Q4 (220 m EUR vs. 200 m EUR). Going forward, we expect sales growth to be 2% in 2015 due to the uncertainty in European economy, which is the main market for Hiab (52% of sales in 2013 came from EMEA). We expect sales to pick up in 2016 and 2017 with 4% and 5% respective growth supported by the expected growth in construction output and truck sales as well as increased growth in APAC region.

Similarly as in Kalmar segment, Cargotec also initiated profitability improvement programme in Hiab segment. As can be seen from the figure 40, this started to pay off already in Q1 2014 with EBIT margins substantially higher than earlier. Hiab has managed to improve its EBIT margin from less than 2% in Q4 2013 to 7% in Q3 2014 through improved design-to-cost[35], consolidation of supplier base, and pricing. We expect this to continue in Q4 with 6% EBIT margin and forecast EBIT margin to reach 6% in 2014, and improve further through Hiab's additional actions to improve supply chain, distribution network and ramp up Hiab's new multi-assembly unit in Poland which will reduce the production costs e.g. through energy and material savings. Consequently, we expect EBIT margin to increase to 7% in 2015, and to 8% in 2016 and 2017.

Table 7 shows our expectations on the free cash flows of Hiab segment. We expect free cash flow to be positive at around 45 million EUR level until 2018. Capital expenditures in the segment are relatively low due to the consolidation of distribution to Metz (France) and production to Stargard (Poland), both of which Hiab shares with Kalmar segment. In addition, as a part of consolidation campaign to reduce costs further Hiab is ramping down its production in Sweden

[35] process to design a product with optimal cost-to-value ratio

Figure 42, Hiab's operating invested capital and ROIC %



Source: Analyst projections, company data

(operations will end in Q1 2015) and has outsourced dealerships and service networks. Also Hiab has "destroyed value" with its ROIC % being lower than WACC % which has been due to a low profitability in the segment. ROIC % is expected to surpass WACC % from 2014 onwards.

Table 7, Hiab free cash flow & income statement forecasts

Hiab, free cash flow map, MEUR	2013A	2014E	2015E	2016E	2017E	2018E
NOPLAT	18	40	47	56	59	54
Depreciation, amortization and impairment (+)	21	20	16	16	16	17
Gross free cash flow	**39**	**60**	**63**	**72**	**75**	**71**
Capex (-)	8	20	20	20	20	20
Change in NWC (-)	-48	-5	3	5	7	6
Free cash flow	**80**	**45**	**40**	**47**	**48**	**45**

Hiab, Income statement, MEUR	2013A	2014E	2015E	2016E	2017E	2018E
Total sales	841	849	866	901	946	983
Operating expenses	-795	-776	-788	-810	-851	-895
EBITDA	**45**	**73**	**78**	**90**	**95**	**89**
Depreciation, amortization and impairment	-21	-20	-16	-16	-16	-17
EBIT excluding restructuring costs	**24**	**54**	**62**	**74**	**78**	**72**

Source: Analyst projections, company data

Valuation

Our expected 26.1 EUR per share YE 2015 share price target is obtained applying a discounted cash flow method. In addition to our base case scenario we have also considered additional scenarios to take uncertainties on oil prices and its impact on Cargotec's MacGregor segment into account.

Cargotec vs. industry peer group

Figure 43, Industry peers vs. Cargotec P/E ratio forecasts

	P/E	
Company	2014E	2015E
KONE	24.9	22.8
Konecranes	18.4	14.8
Metso	14.1	14.2
Outotec	26.3	17.2
Wärtsilä	16.8	15.5
Valmet	34.4	17.2
Kesla	12.2	6.4
Ponsse	12.1	12.5
Vacon	30.4	26.3
Palfinger	20.5	13.7
Terex	12.3	10.4
Average	20.2	15.5
Median	18.4	14.8
Cargotec	23.6	15.2
Premium to mdn.	*28.3%*	*2.9%*
Premium to avg.	*16.7%*	*-2.1%*

Source: Analyst projections, Bloomberg, Marketnoze

At the moment, Cargotec trades at a 28.3% premium to its industry peers in terms of P/E with a P/E of 23.6 vs. median 18.4 of peers. We believe that the reason to this premium is two folded. Firstly, despite of the worries over the global economic growth especially in the Euro area and in the emerging markets, Cargotec has not lowered its guidance but delivered a relatively strong Q3 2014 report. During autumn 2014, Cargotec's peers such as Palfinger and Terex lowered their guidance for 2014 due to the slow growth in the economy and this has lowered their valuations. In addition to this, Cargotec has proofed during 2014 and especially in Q3 2014 that it has managed to turn Hiab and Kalmar segments around and has improved their profitability dramatically. We believe

Figure 44, Industry peers vs. Cargotec EV/EBITDA ratio forecasts

	EV/EBITDA	
Company	2014E	2015E
KONE	14	12.4
Konecranes	10.5	9.7
Metso	9.1	9.4
Outotec	8	5.7
Wärtsilä	10.9	9.9
Valmet	11.2	7.6
Kesla	5.5	4.1
Ponsse	8.7	7.7
Vacon	16.7	13.5
Palfinger	11.0	9.2
Terex	6.7	6.0
Average	10.2	8.7
Median	10.5	9.2
Cargotec	11.6	8.9
Premium to mdn.	*10.3%*	*-2.9%*
Premium to avg.	*13.4%*	*3.2%*

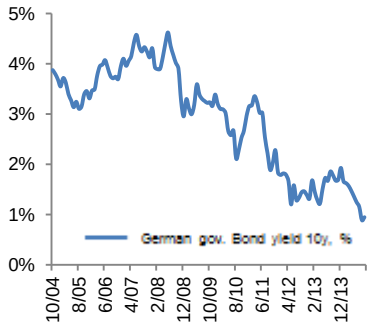
Source: Analyst projections, Bloomberg, Marketnoze

Figure 45, WACC components

WACC	
Risk free rate	2.9%
Market risk premium	5.5%
Beta	1.4
Cost of equity	10.4%
Marginal tax rate	24.5%
After tax cost of debt	4.5%
Cost of debt	5.9%
Target D/V	30%
Target E/V	70%
WACC	**8.6%**

Source: Analyst projections

Figure 46, German 10 year bund yield %



Source: Bloomberg

that this has given investors confidence that recently weak MacGregor can be turned around as well. We currently hold a P/E target of 15.2 for Cargotec in YE2015 which is roughly in line with the projected median of its peers. Our target of 8.9x for EV/EBITDA for YE2015 is -2.9% below peer group median of 9.2x. See full peer comparison table in appendix 5.

Weighted average cost of capital

Cost of equity

Cargotec's cost of equity is estimated by using capital asset pricing model (CAPM)[36]. For the market risk premium, there are multiple ways - such as historical and regression based estimations - to calculate it. We have used 5.5% which is seen as a reasonable estimate according to Koller, Goedhart and Wessels[37]. Our estimate for risk-free rate is 2.9% and is based on an average rate of German 10 year government bond for the past 10 years. We believe that the current risk-free rate of less than 1% is abnormally low and does not reflect risk-free rate going forward. Cargotec's beta is derived from the unlevered betas of Cargotec's comparable companies and re-levered back according to Cargotec's target D/E level which is 50%. This results an equity beta of 1.4[38]. Combining all these pieces gives us a cost of equity of 10.4%.

Cost of debt

Regarding the cost of debt, it would be too simplistic to use Cargotec's current interest rates that it pays for its debt. For valuation purposes, cost of debt needs to reflect future borrowing costs and thus needs to be estimated from the data that is available. This can be done by using a credit rating and credit spread over risk free rate and derive the cost of debt from there. Cargotec does not have a credit rating but we have estimated credit rating according to the information we presented earlier in the chapter where we analysed Cargotec's leverage. As we concluded, Cargotec would most likely be rated somewhere between BBB and BB. To compromise, we use BB+ industrial corporate bonds' spread as a proxy for Cargotec's credit spread. According to the figure 47, spread for 10 year BB+ bond is 2.48%.[39] Hence, adding 2.9% + 2.48% would imply a cost of debt of 5.38%. Incorporating possibility of default into cost of debt calculations, we need to take into account Cargotec's default probability and possible recovery rate. As

[36] CAPM formula: return on equity = risk free + beta of equity*(market return – risk free)
[37] Tim Koller, Marc Goedhart, David Wessels, Valuation – measuring and managing the value of companies, 4th edition
[38] See appendix 2 for beta computations
[39] bondsonline.com – corporate bond spreads

Figure 47, Industrial corporate credit spreads (bps)

Rating	10 yr spread
AAA	42
AA+	54
AA	65
AA-	69
A+	72
A	77
A-	89
BBB+	115
BBB	132
BBB-	165
BB+	248
BB	330
BB-	413
B+	495
B	578
B-	660
CCC+	743

Source: Bondsonline.com

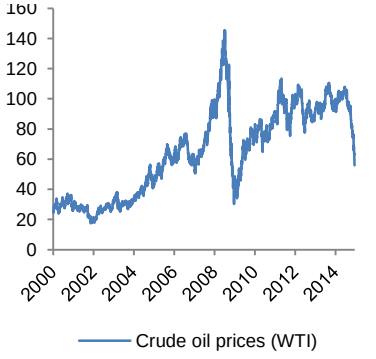
a proxy for default rate, we use 47% which has been the average recovery rate for US senior unsecured corporate bonds.[40] From this we can calculate the implied default probability[41] which gives us implied probability of default of 1.2%. Finally, to get the cost of debt, we use following formula: $\text{prob. of default} * \text{Recovery rate} + \text{prob. of no default} * \text{yield \%}$, which gives us a cost of debt of 5.9%. After having cost of equity and cost of debt, we can calculate WACC[42] by using Cargotec's target E/V of 70% and target D/V of 30% gives us a WACC of 8.6%.

Consolidated discounted cash flow valuation

We have forecasted free cash flows on a segment level until 2023 and summed them together to come up to consolidated free cash flows from 2014 to 2023 (see appendix 3). After the forecasted period, terminal growth rate of our forecasts is estimated to be 2.3% which is based on the Dupont analysis.[43] Based on the base case discounted cash flow valuation, YE2015 enterprise value is 2464 million EUR and deducting our projection for Cargotec's net debt of 739 million EUR gives equity value of 1719 million EUR. Dividing this with the number of outstanding shares (64.4m) gives share value of 26.7 EUR per share for YE2015.

Scenario analysis: MacGregor and oil price development

Figure 48, Oil price development 2000-2015



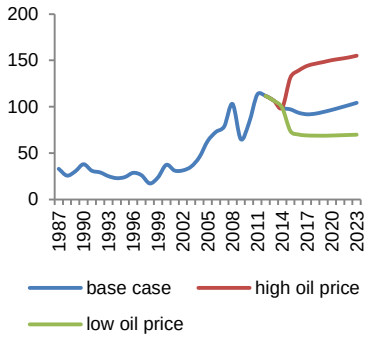
Source: St. Louis Fed

As mentioned earlier, Cargotec's MacGregor segment has been performing poorly during recent quarters. What used to be the best performing segment is now one reason to worry for investors. Importance of MacGregor is further demonstrated by the fact that it contributes most to the overall valuation of Cargotec and hence our assumptions that MacGregor will start performing better in the future is crucial for our price target for Cargotec.

Currently around 30% of MacGregor's sales come from offshore industry. Main drivers of the offshore industry are the development of global energy demand and oil price. Oil price has recently declined substantially from 100 USD per barrel in July 2014 to current mid-50's USD per barrel. This raises questions on how it will have an impact on MacGregor segment. To explore this, we have considered three different oil price scenarios from U.S. Energy information administration

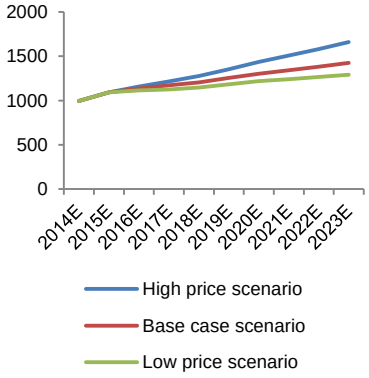
[40] Credit risk teaching notes, Joao Pedro Pereira, March 24, 2014
[41] Formula used: $\frac{\text{Spread}}{(1+\text{risk}-\text{free}+\text{spread})*(1-\text{Recovery rate})}$
[42] Formula used: $r_e * \frac{E}{V} + r_d * \frac{D}{V}$
[43] Formula used: ((net income-dividends)/net income)*(net income/sales)*(sales/total assets)*(total assets/equity)

Figure 50, Oil price scenarios



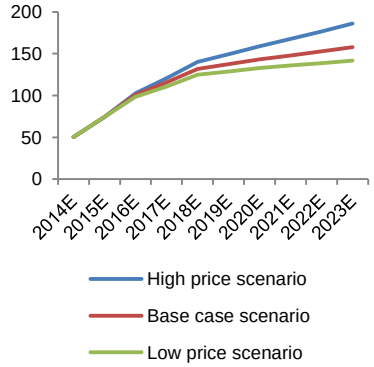
Source: U.S. Energy information administration

Figure 49, Oil price impact on MacGregor's sales



Source: Analyst projections

Figure 51, Oil price impact on MacGregor's EBIT



Source: Analyst projections

annual energy outlook 2014[44] and the impact on those scenarios on MacGregor's sales and subsequently on EBIT development and valuation. First scenario is a base case scenario where average annual oil prices hover around $80-$90 per barrel until 2017 and then start to rise modestly until 2023. As this is the base case scenario, this has no impact on our expectations on sales, we expect offshore to contribute 1-2% sales growth from 2015-2023. We give 50% probability that base case scenario will play out. High oil price scenario would imply that oil price rises substantially from 2015 onwards to $130 per barrel and then further to around $150 per barrel by 2023. With high oil price scenario, our expectation would be that MacGregor sales would get a 2% boost from 2016 onwards (long lead times in the segment would not change 2015 expectations) from the increased offshore exploration spending which could reach 150 billion USD instead of projected 106 billion USD by 2020. With current oil price decline, we give 5% chance of this scenario playing out. Low oil price scenario suggests that oil price stays at around $70's per barrel until 2023. We expect that this would impact negatively on sales and have initially a -2% impact on sales in 2016 and 2017, and then have a -1% annual impact from 2018 to 2023 due to the declining demand from offshore exploration spending which we would expect to decrease to 65 billion USD by 2020 bringing a -1.5% annual decline to current 70 billion USD. We expect that this scenario has 45% probability.

Table 8, oil price impact projections

Oil price	Annual impact on base sales 2016-2018	Annual impact on base sales 2019-2023	Offshore exploration spending estimate 2020	Offshore exploration spending growth p.a. until 2020
High price (5% probability)	2%	2%	150 billion USD	16.5%
Base case (50% probability)	0%	0%	106 billion USD	8.7%
Low pice (45% probability)	-2%	-1%	65 billion USD	-1.5%

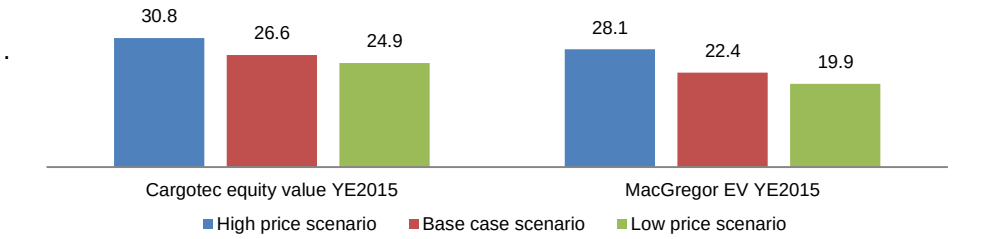
Source: Analyst projections

As can be seen from the figure 52, oil price scenarios have a material impact on Cargotec's overall valuation. Under the high price scenario, share target for 2015 would increase to 30.8 EUR per share and MacGregor's enterprise value would increase to 28.1 EUR per share. Under the low oil price scenario, share target for 2015 would decline to 24.9 EUR per share and MacGregor's enterprise value would decline to 19.9 EUR per share. **Multiplying each scenario share price**

[44] U.S. Energy information administration

with its corresponding probability and summing up results together gives expected share price of 26.1 for Cargotec.

Figure 52, Oil price impact on valuation

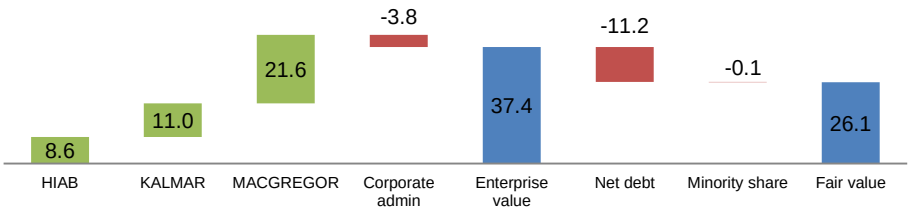


Source: Analyst projections

Sum-of-the-parts valuation

In order to get a better picture in what role segments play in the overall valuation of Cargotec, it is important to take a look at the sum of the parts valuation. This shows that Hiab segment's enterprise value is 8.6 EUR per share. Hiab is consequently the least contributing segment to the overall value of Cargotec which is due to a relatively low profitability and lowest sales levels out of three segments. Kalmar's valuation shows that it is valued at 11.0 EUR per share. High level of Capex is eating Kalmar's valuation - segment has clearly the highest capital expenditure level out of the three segments for the reasons described earlier. Finally, MacGregor sports the highest valuation with 21.6 EUR per share. MacGregor's valuation is boosted by low capex and good management of net working capital. Costs that could not be allocated reliably into segments were allocated to corporate administration "segment", which decreases the overall valuation by 3.8 EUR per share. Total enterprise value of combined segments is thus 37.4 EUR per share. Deducting net debt and minority share gives a fair value of 26.1 EUR per share.

Figure 53, sum-of-the-parts valuation



Source: company data, analyst projections

Sensitivity analysis on WACC and horizon growth rate

As the perpetuity makes roughly 50% of Cargotec's valuation, our target share price is highly sensitive to the 2.3% value we implied for the horizon growth rate

from the Dupont analysis. Another input that has a big impact on the valuation is WACC %. We checked how sensitive Cargotec's valuation is to these two components, WACC % and horizon growth rate % "g". In the figure 54 below, horizon growth rate ranges from 1.5% to 3.5% and WACC % ranges from 7.5% to 10%. As can be seen, share price ranges from 21.0 EUR per share to 37.3 EUR per share which demonstrates the sensitivity of Cargotec's value to these assumptions.

Figure 54, WACC % and horizon growth rate % sensitivity analysis

Horizon growth rate % \ WACC %	7.50%	8%	8.60%	9%	9.50%	10%
1.50%	28.6	26.7	24.6	23.5	22.2	21.0
2%	30.2	28.0	25.7	24.4	22.9	21.7
2.30%	31.3	28.8	26.1	25.0	23.4	22.1
2.50%	32.1	29.5	26.8	25.5	23.8	22.4
3%	34.4	31.3	28.3	26.6	24.8	23.3
3.50%	37.3	33.5	29.9	28.0	26.0	24.2

Source: Analyst projections

To sum up, based on our analysis, it is clear that in addition to our WACC % and horizon growth rate % assumptions, Cargotec's price target is dependent on the success of the ongoing efficiency programmes and operating environment, especially in MacGregor segment which contributes almost 58% of Cargotec's enterprise value. As can be seen from the table 9, MacGregor EV/EBITDA and EV/EBIT ratios for YE2015 are substantially higher than those of Kalmar and Hiab, indicating high expectations of the improvement in the EBITDA and EBIT after 2015. Indeed, our expectations for the profitability improvement in MacGregor are highest during 2016-2018 whereas in Kalmar and Hiab we expect a clear improvement in profitability already in 2015 due to the earlier launch of efficieny programs in those segments. Cargotec currently trades at 25.1 EUR per share which less than 4% lower than our YE2015 price target of 26.1 EUR per share. This means that based on our view, current price reflects market's expectations on Cargotec's ability to improve the performance of its segments and is hence vulnerable to any operational underperformance going forward.

Table 9, Valuation summary

Valuation summary YE2015						
Segment	**Value (EUR m)**	**% of total EV**	**EUR/share**	**2015E EV/EBITDA (x)**	**2015E EV/EBIT (x)**	**2015E P/E (x)**
MacGregor	1390	57.7%	21.6	15.9	18.7	
Kalmar	706	29.3%	11.0	4.9	6.7	
Hiab	556	23.1%	8.6	7.1	9.0	
Corporate administration	-244	-10.1%	-3.8			
Total enterprise value	**2408**	**100.0%**	**37.4**	**8.9**	**12.2**	
Net debt	-723		-11.2			
Minorities	-6.3		-0.1			
Total equity value	**1679**		**26.1**			**15.2**
Total number of shares outstanding (million)	64.4					

Source: company data, analyst projections

Appendices

Appendix 1: Acquisition history since Cargotec went public[45]

2005	
All Set Marine Lashing	08-Jul-05
Consolis	21-Sep-05
2006	
AMA	26-Jan-06
East Coast Cranes and Electrical Contracting Inc.	16-Mar-06
BMH Marine AB	12-Jun-06
Grampian Hydraulics	11-Aug-06
African National Engineering	01-Sep-06
Catracom	14-Sep-06
Kalmar España S.A.	18-Dec-06
2007	
Tagros d.o.o.	15-Jan-07
Berger	17-Jan-07
Truck och Maskin i Örnsköldsvik AB	29-Jan-07
BG Crane Pty. Ltd.	30-Jan-07
Port Equipment Service, Inc.	02-Feb-07
Indital Construction Machinery Ltd. (Indital)	14-Feb-07
Vietnam Shipbuilding Industry Group (Vinashin)	06-Mar-07
Hydramarine AS	15-Mar-07
Plimsoll Corporation Pte Ltd	29-Mar-07
Vestnorsk Hydraulikkservice AS (VNH)	14-May-07
Balti ES	30-May-07
Bay Equipment Repairs Inc.	13-Jul-07
Advanced Cargo Transhipment B.V. (ACT)	28-Aug-07
2008	
O'Leary's Material Handling Services	20-Feb-08
DEL Equipment (UK) Limited and Ultron Lift Corp.	27-Feb-08
South African Bowman Cranes (Pty) Ltd	01-Apr-08
Platform Crane Services International Inc (PCS)	10-Apr-08
Zepro Tailgate (1987) Ltd	17-Jun-08
Equipos y Servicios para Terminales y Puertos SRL (ESTP)	11-Aug-08
80% of CVS Technoports S.r.l. and CVS Service S.r.l.	03-Nov-08
2009	
Danish sales and services company	19-Aug-09
Sales and service business in Morocco	11-Dec-09
2010	
Waltco Hydraulics	07-Jan-10
Hallberg-Ivarsson Hydraulik & Påbyggnad AB	15-Nov-10
Kalmar (Malaysia) Sdn.Bhd.	15-Dec-10
2011	
Navis	31-Jan-11
2012	
Automation technology and expertise from Asciano	29-Jun-12
2013	
Spanish Mareiport	07-May-13
Hatlapa Group	16-Jul-13
Aker Solutions' mooring and loading systems unit	30-Oct-13
2014	
Deep Water Solutions AS	27-Feb-14

[45] Company data, www.cargotec.com

Appendix 2: Beta calculations

Cargotec beta calculations						
Company	**Beta levered**	**Debt to Equity**	**Tax rate**	**Beta unlevered**	**Cargotec**	
Palfinger	1.24	0.44	0.25	0.93	Target D/E	50%
Terex	2.25	0.55	0.35	1.65	Tax rate	24.50%
Konecranes	1.28	0.22	0.25	1.09	**Relevered beta**	**1.4**
Rolls-royce	0.75	0.33	0.21	0.60		
Mitsubishi heavy industries	1.05	0.60	0.36	0.76		
Sany heavy industries	1.80	1.12	0.25	0.91		
Average	***1.38***	***0.54***	***0.28***	***0.99***		

Source: Analyst projections, Bloomberg, Company data, KPMG

Formulas:

$\text{Beta}_{\text{unlevered}} = \text{Beta}_{\text{levered}} / (1 + (1 - \text{tax rate}) * \text{target D/E})$

$\text{Beta}_{\text{levered}} = \text{Beta}_{\text{unlevered}} + (1 - \text{tax rate}) * \text{target D/E} * \text{Beta}_{\text{unlevered}}$

Appendix 3: Consolidated Free cash flow projections (base case)

Consolidated free cash flow map, MEUR	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	Horizon
Year	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	
Net sales	3223	3395	3545	3715	3852	4006	4139	4263	4391	4523	
EBIT	130	197	240	249	262	264	257	255	245	254	
Notional income tax	-32	-48	-59	-61	-64	-65	-63	-62	-60	-62	
Tax adjustment	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	
NOPLAT	**96**	**147**	**179**	**186**	**196**	**197**	**192**	**190**	**183**	**189**	
Depreciation, amortization and impairment	76	73	74	75	76	77	78	79	80	81	
Gross free cash flow	**173**	**220**	**253**	**261**	**272**	**275**	**270**	**270**	**263**	**270**	
Change in NWC (-)	-70	1	15	19	15	15	12	12	13	13	
Capex (-)	211	95	95	95	95	95	95	95	95	95	
Free cash flow	**32**	**124**	**143**	**148**	**163**	**165**	**163**	**162**	**155**	**162**	**166**
Discounted Free cash flow	32	114	121	115	117	109	99	91	80	77	1240
Horizon growth rate	2.3%										
Target D/V	30.0%										
Target E/V	70.0%										
WACC	8.6%										
Number of shares (million)	64.4										

Appendix 4: Share price targets (base case)

Share targets	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Value of operations	2164	2226	2275	2324	2361	2400	2444	2493	2553	2611
Non-operating assets	525	554	578	606	628	653	675	695	716	737
Non-operating liabilities	-300	-315	-327	-339	-350	-361	-372	-382	-392	-402
Net non-operating assets (+)	226	238	251	266	279	292	303	313	324	336
Enterprise value	2389	2464	2526	2590	2640	2692	2747	2806	2877	2947
Net Debt @ market	717	739	758	777	792	808	824	842	863	884
Excess cash	229	242	252	264	274	285	295	303	313	322
Interest bearing debt @ market	946	981	1010	1041	1066	1093	1119	1145	1176	1206
Minority share	6	6	6	6	6	6	6	6	6	6
Equity @ market	1666	1719	1762	1807	1842	1878	1917	1958	2008	2056
Target price per share	**25.9**	**26.7**	**27.3**	**28.0**	**28.6**	**29.2**	**29.8**	**30.4**	**31.2**	**31.9**
E/V	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
D/V	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
D/E	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%
P/E	26.9	15.6	12.4	12.2	11.8	12.0	12.7	13.2	14.4	14.2
P/B	1.46	1.51	1.52	1.53	1.53	1.54	1.55	1.57	1.60	1.63
EV/EBITDA	11.6	9.1	8.1	8.0	7.8	7.9	8.2	8.4	8.9	8.8
EV/EBIT	18.4	12.5	10.5	10.4	10.1	10.2	10.7	11.0	11.8	11.6
EV/Sales	0.74	0.73	0.71	0.70	0.69	0.67	0.66	0.66	0.66	0.65
Dividend payout ratio	*55%*	*55%*	*55%*	*60%*	*60%*	*65%*	*65%*	*70%*	*75%*	*80%*
Dividend (m€)	*34.0*	*60.7*	*77.9*	*88.5*	*93.9*	*102.1*	*97.8*	*103.7*	*104.5*	*115.9*
Dividend per share	*0.5*	*0.9*	*1.2*	*1.4*	*1.5*	*1.6*	*1.5*	*1.6*	*1.6*	*1.8*
Dividend yield %	*2.7%*	*2.0%*	*3.4%*	*4.3%*	*4.8%*	*5.0%*	*5.3%*	*5.0%*	*5.2%*	*5.1%*

Appendix 5: Benchmarking versus industry peers

	P/E		EV/EBIT		EV/EBITDA		EV/Sales		EBITDA margin %		EBIT margin %		Dividend yield %	Net debt/EBITDA	EBIT interest coverage	Market cap
Company	**2014E**	**2015E**	**2014E**	**2015E**	**2014E**	**2015E**	**2014E**	**2015E**	**2014E**	**2015E**	**2014E**	**2015E**	**2014E**	**2014E**	**2014E**	**2014E**
KONE	24.9	22.8	16.2	14.1	14	12.4	2.1	1.9	15.2%	15.4%	14.1%	14.4%	2.9%	-1.1	28.4	16929
Konecranes	18.4	14.8	13.5	11.7	10.5	9.7	0.8	0.8	8.1%	8.4%	5.7%	6.7%	4.4%	1.3	7.8	1513
Metso	14.1	14.2	9.8	9.5	9.1	9.4	1.3	1.3	12.9%	13.6%	11.9%	12.0%	4.0%	1.7	13.1	3710
Outotec	26.3	17.2	22.8	14.5	8	5.7	0.5	0.4	6.3%	7.8%	3.4%	5.6%	4.6%	-1.3	3.9	831
Wärtsilä	16.8	15.5	13.3	11.9	10.9	9.9	1.6	1.5	14.4%	15.0%	11.7%	12.5%	3.0%	0.3	13.2	7343
Valmet	34.4	17.2	16	9.3	11.2	7.6	0.6	0.6	5.4%	7.6%	2.7%	4.9%	2.0%	0.1	4.0	1564
Kesla	12.2	6.4	15.7	13.6	5.5	4.1	0.4	0.4	7.1%	9.6%	3.0%	5.0%	2.8%	3.1	1.5	12
Ponsse	12.1	12.5	13.2	11.5	8.7	7.7	1	1	11.7%	12.4%	9.6%	10.0%	3.0%	1.2	3.7	335
Vacon	30.4	26.3	10.7	9.5	16.7	13.5	2.4	2.2	14.7%	16.6%	11.2%	12.7%	3.8%	-0.1	7.9	1040
Palfinger	20.5	13.7	17.4	13.3	11.0	9.2	1.1	1.0	9.7%	10.8%	6.4%	7.5%	1.8%	3.4	6.2	785
Terex	12.3	10.4	8.94	7.5	6.7	6.0	0.6	0.58	9.0%	9.5%	6.8%	7.5%	0.4%	2.4	5.1	2493
Average	20.2	15.5	14.3	11.5	10.2	8.7	1.1	1.1	10.4%	11.5%	7.9%	9.0%	3.0%	1.0	8.6	3323
Median	18.4	14.8	13.5	11.7	10.5	9.2	1.0	1.0	9.7%	10.8%	6.8%	7.5%	3.0%	1.2	6.2	1513
Cargotec	23.6	15.2	18.4	12.2	11.6	8.9	0.7	0.7	6.4%	7.9%	4.0%	5.8%	2.7%	3.5	2.3	1678
Premium to mdn.	*28.3%*	*2.9%*	*36.4%*	*4.3%*	*10.5%*	*-2.9%*	*-25.9%*	*-26.7%*	*-34.1%*	*-26.4%*	*-41.0%*	*-22.8%*	*-11.4%*	*192.5%*	*-62.5%*	*10.9%*
Premium to avg.	*16.7%*	*-2.1%*	*28.5%*	*6.2%*	*13.4%*	*3.2%*	*-34.1%*	*-31.6%*	*-38.5%*	*-31.1%*	*-48.9%*	*-35.5%*	*-10.3%*	*247.9%*	*-73.1%*	*-49.5%*

Source: Bloomberg, Market noze consensus estimates, Analyst estimates

Financials

Consolidated statement of income (base scenario), MEUR	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Sales	3181	3223	3395	3545	3715	3852	4006	4139	4263	4391	4523
Operating expenses	-3012	-3016	-3126	-3232	-3391	-3514	-3664	-3804	-3929	-4066	-4188
EBITDA	**169**	**206**	**270**	**314**	**324**	**338**	**342**	**335**	**334**	**325**	**335**
Depreciation, Amortization and impairment	-77	-76	-73	-74	-75	-76	-77	-78	-79	-80	-81
EBIT (excluding restructuring costs)	**93**	**130**	**197**	**240**	**249**	**262**	**264**	**257**	**255**	**245**	**254**
Financing expenses	-23	-56	-58	-60	-62	-63	-65	-66	-68	-69	-71
Financing income	9	8	7	7	8	8	8	9	9	9	10
Profit before taxes	79	82	146	187	195	207	208	199	196	185	192
Taxes	-23	-20	-36	-46	-48	-51	-51	-49	-48	-45	-47
Net profit	**55**	**62**	**110**	**142**	**148**	**156**	**157**	**151**	**148**	**139**	**145**
EPS	*0.90*	*0.96*	*1.71*	*2.20*	*2.29*	*2.43*	*2.44*	*2.34*	*2.30*	*2.16*	*2.25*

Consolidated balance sheet (base scenario), MEUR	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Assets											
Fixed assets	1395	1529	1551	1571	1591	1609	1627	1643	1659	1673	1687
Other non-current assets	107	77	81	85	89	92	96	99	102	105	108
Inventory	631	693	732	765	801	830	863	892	919	947	975
Accounts receivable and other non-interest bearing assets	691	648	683	713	747	774	805	832	857	883	909
Deferred tax assets	139	141	148	155	162	168	175	181	186	192	197
Cash and cash equivalents	306	234	247	258	270	280	291	301	310	319	329
Other non-operating current assets	68	78	83	86	90	94	98	101	104	107	110
Total assets	**3,336**	**3,400**	**3,524**	**3,632**	**3,750**	**3,847**	**3,954**	**4,048**	**4,136**	**4,225**	**4,315**
Equity & Liabilities											
Total equity	1240	1141	1142	1161	1184	1204	1223	1237	1249	1257	1265
Of which non-controlling interest	6	6	6	6	6	6	6	6	6	6	6
Deferred tax liabilities	56	50	53	55	58	60	62	65	66	68	71
Interest bearing debt	885	946	981	1010	1041	1066	1093	1119	1145	1176	1206
Advances received	197	294	312	325	340	352	366	379	390	402	414
Accounts payable and other non-interest-bearing liabilities	728	719	775	809	845	876	911	942	970	999	1029
Other interest free debt	231	250	262	272	281	289	299	308	315	323	331
Total liabilities	**2,096**	**2,259**	**2,383**	**2,471**	**2,566**	**2,643**	**2,731**	**2,811**	**2,887**	**2,968**	**3,051**
Total equity and liabilities	**3,336**	**3,400**	**3,524**	**3,632**	**3,750**	**3,847**	**3,954**	**4,048**	**4,136**	**4,225**	**4,315**

CONSOLIDATED, free cash flow map (base scenario), MEUR	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	3181	3223	3395	3545	3715	3852	4006	4139	4263	4391	4523
EBIT	93	130	197	240	249	262	264	257	255	245	254
Notional income tax	-23	-32	-48	-59	-61	-64	-65	-63	-62	-60	-62
Tax adjustment	-6	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
NOPLAT	***64***	***96***	***147***	***179***	***186***	***196***	***197***	***192***	***190***	***183***	***189***
Depreciation, amortization and impairment (+)	77	76	73	74	75	76	77	78	79	80	81
Gross free cash flow	***140***	***173***	***220***	***253***	***261***	***272***	***275***	***270***	***270***	***263***	***270***
Change in NWC (-)	-15	-70	1	15	19	15	15	12	12	13	13
Capex (-)	146	211	95	95	95	95	95	95	95	95	95
Free cash flow	***9***	***32***	***124***	***143***	***148***	***163***	***165***	***163***	***162***	***155***	***162***
Change in other non-operating assets (-)	219	-102	13	13	15	12	13	11	11	11	11
Financing income (+)	9	8	7	7	8	8	8	9	9	9	10
Total free cash flow available to investors	***-201***	***141***	***119***	***138***	***140***	***159***	***160***	***161***	***161***	***153***	***160***

Cash flow from funding	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Financing expenses	-23	-56	-58	-60	-62	-63	-65	-66	-68	-69	-71
Tax shield	6	14	14	15	15	15	16	16	17	17	17
Change in net financial debt (+)	91	132	23	19	19	15	16	16	18	21	21
Change in equity (+)	128	-231	-98	-111	-113	-126	-127	-128	-127	-122	-128
Total cash flow from funding	***201***	***-141***	***-119***	***-138***	***-140***	***-159***	***-160***	***-161***	***-161***	***-153***	***-160***

Disclosures and Disclaimer

Research Recommendations

Buy	Expected total return (including dividends) of more than 15% over a 12-month period.
Hold	Expected total return (including dividends) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including dividends) over a 12-month period.

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