Ponsse

Extensive report

01/23/2023

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Inderes corporate customer

This report is a summary translation of the report “Maasto edelleen hankalaa” published on 09/11/2022 at 09:25 pm.

Terrain remains difficult

We reiterate our Reduce recommendation on Ponsse with a new target price of EUR 27.50 (was EUR 29.00). The loss of the Russian market made a deep dent in the company's net sales and relative profitability, which is difficult to compensate for even partially in other markets. Although we have cut our estimates, they are still challenging, and the risk level is quite high. Given this and the current neutral valuation of the stock, we don't see any positive price drivers at the moment.

The closure of the Russian market was a tough blow

The war in Ukraine led to the closure of the Russian forest machinery market to Western players. In 2021, Russia accounted for around 15% of the world market for rubber-tired forest machines, and Ponsse's market share there was around 40%. In addition to the loss of sales of new machines, Ponsse is concerned about the fate of the 3,000 in-service machines it has delivered to Russia. This represents around 22% of all Ponsse machines in operation. Overall, filling the gap created by Russia is uncertain and time-consuming. Ponsse's Russian business has also been more profitable than the group average, which increases the significance of the loss.

Moderate net sales growth ahead, supported by price increases

The main demand drivers for Ponsse's products are growing global logging volumes, progressing automation in logging and increase in the market share of the cut-to-length method. Among the drivers of logging volumes, growth forecasts for both the construction and pulp markets in the coming years are mainly sluggish (around 1-2% y-o-y). However, given the other growth drivers mentioned above, we expect volume growth in the non-Russian forest machinery market to be in the moderate 5% p.a. range between 2022 and 2025. We expect Ponsse's market share to return to 2021 levels in 2025 after the Russia dip. Price increases are a significant growth driver and are equivalent to 4 percentage points of the 11 % p.a. net sales growth (pro forma) we expect for new machine sales. In 2022-2025, used machine and maintenance service net sales will grow at a much slower pace than that of new machines, but the group's growth rate will still be a rapid 9% p.a. over the estimate period (pro forma).

Margins improve from a low starting level

We expect a significant margin improvement in 2023 as Ponsse fully passes the increase in material costs to its own prices and this is reflected in the income statement. Other operating expenses, which were high after the exit of the Russian business, should also be brought under control in 2023. We forecast the EBIT to increase from 7.2% in 2022 to 10.5% in 2025 as volumes grow and the market situation improves slightly. The expected average earnings growth for 2022-2025 is therefore a very strong 19% p.a., after a modest starting level in 2021. Improving profitability and strong balance sheet and cash flow create good preconditions for growing dividend for Ponsse.

Valuation doesn't currently show significant upside

The loss of the Russian market has caused a justified correction in Ponsse's share price. The EV/EBIT-based valuation is currently neutral relative to peers. However, the expected total return doesn't reach the level of the required return. The upside to the DCF is reasonable, but not significant given the risks of the model. In assessing the valuation, it should also be noted that our estimates are set quite high and thus demanding.

Recommendation

Reduce
(previous Reduce)

EUR 27.50
(previous EUR 29.00)

Share price:
26.25

Key figures, pro forma

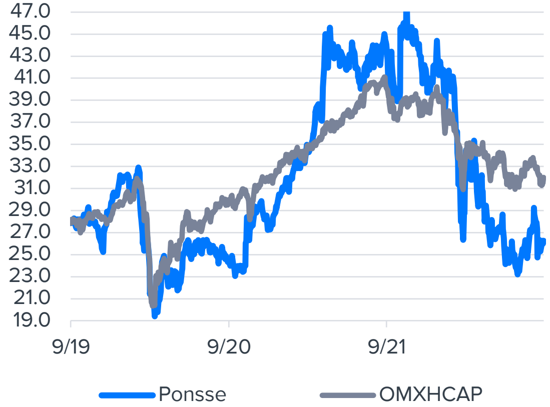
	2021	2022e	2023e	2024e
Revenue	608	736	762	823
growth-%	-4%	21%	4%	8%
EBIT adj.	50.0	53.3	69.3	83.0
EBIT-% adj.	8.2 %	7.2 %	9.1 %	10.1 %
Net Income	35.2	38.4	54.9	66.1
EPS (adj.)	1.28	1.47	1.96	2.36
P/E (adj.)	28.3	17.9	13.4	11.1
P/B	3.4	2.3	2.1	1.9
Dividend yield-%	2.3 %	3.0 %	4.0 %	4.6 %
EV/EBIT (adj.)	19.0	12.3	9.1	7.2
EV/EBITDA	13.5	8.2	6.6	5.4
EV/S	1.6	0.9	0.8	0.7

Source: Inderes

Guidance (Unchanged)

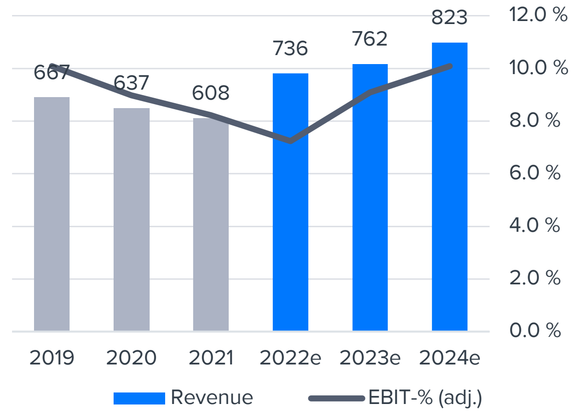
The operating result in euros in 2022 is expected to be at the same level as the comparable operating result from continuing operations in 2021 (50.0 MEUR; 8.2% of net sales). However, relative profitability is expected to deteriorate significantly.

Share price



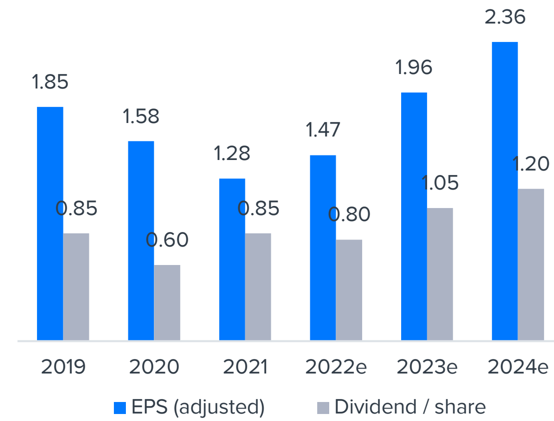
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Solid position in the growth segment of the forest machine market
- Strong hold on customers
- Large after market potential
- Progressing digitalization in logging
- Reasonably good profitability and cash flow

Risk factors

- General cyclicality of forest machine market
- Replacing of missing Russian demand in other markets does not meet expectations
- Competitors' increasing aggressiveness in marketing
- One factory and low degree of outsourcing in manufacturing can be a risk in case of various disruptions

Valuation	2022e	2023e	2024e
Share price	26.3	26.3	26.3
Number of shares, millions	28.0	28.0	28.0
Market cap	735	735	735
EV	654	630	599
P/E (adj.)	17.9	13.4	11.1
P/E	19.2	13.4	11.1
P/FCF	26.4	16.2	12.6
P/B	2.3	2.1	1.9
P/S	1.0	1.0	0.9
EV/Sales	0.9	0.8	0.7
EV/EBITDA	8.2	6.6	5.4
EV/EBIT (adj.)	12.3	9.1	7.2
Payout ratio (%)	58.4 %	53.5 %	50.8 %
Dividend yield-%	3.0 %	4.0 %	4.6 %

Source: Inderes

Contents

Ponsse in brief

Ponsse is one of the leading manufacturers of cut-to-length method-based forest machines in the world whose businesses also includes service and used machine operations. International operations' share of net sales around 80%.

1970
Year of establishment

1995
IPO

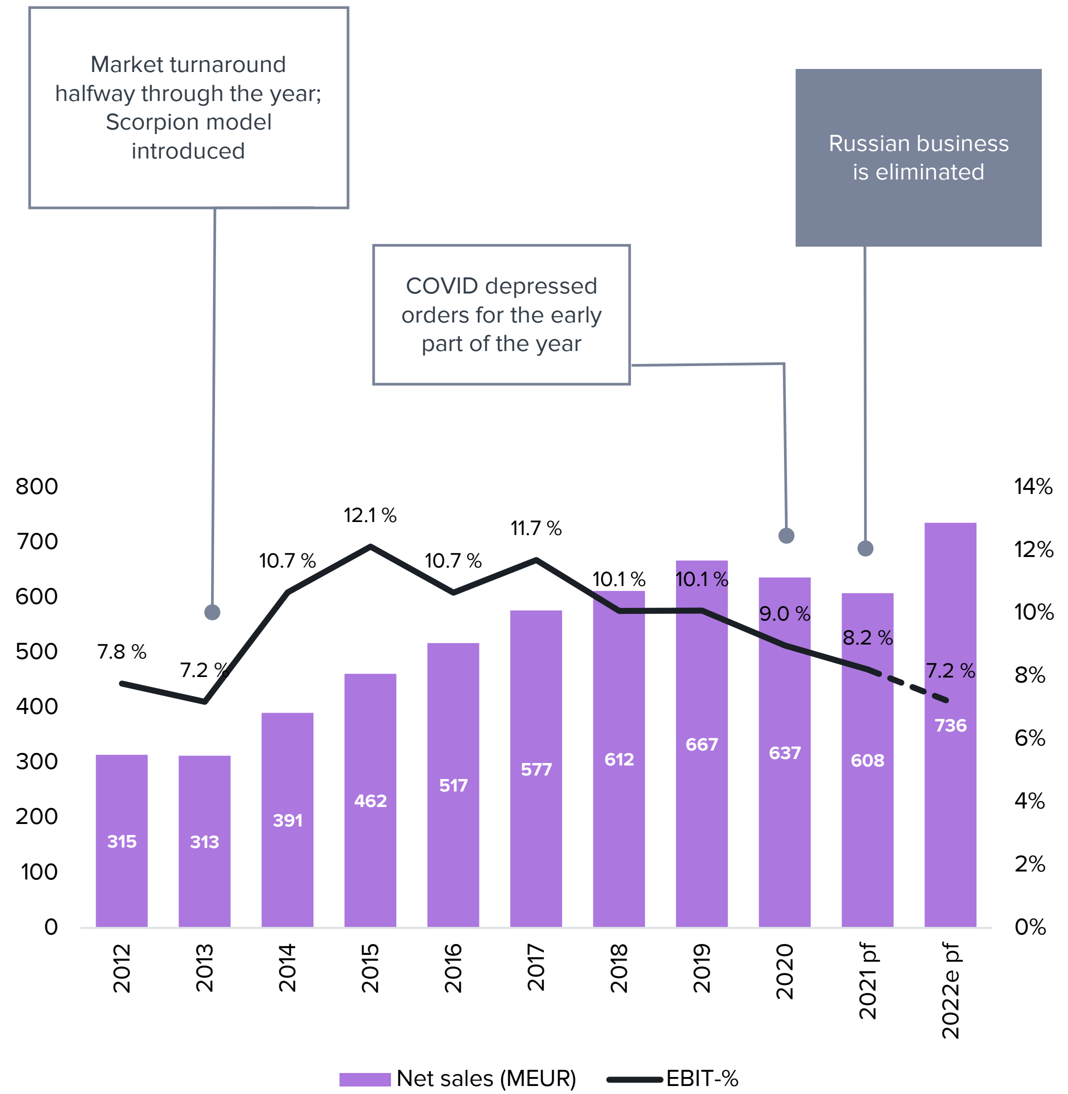
~35%
Global market share in rubber-tire cut-to-length forest machines

8.6% **2012-2021**
Average annual revenue growth

50 MEUR **(8.2% of revenue)**
Operating profit of continuing operations 2021

2076
Personnel 6/2022

Harvesters and forwarders
Main products



Source: Ponsse / Inderes

Company description

Forest machine company with centralized focus and production

Ponsse is an engineering company that manufactures forest machines based on the cut-to-length method and offers related accessory and support services like forest machine data systems, maintenance services, used machine services and training.

Product manufacturing is centralized in Finland and one factory in Vieremä. The aim of the low degree of outsourcing is better overall process optimization. The company's international service network (including resellers and licensed repair shops) consists of some 200 service and spare part points.

Ponsse feels its competitive advantages are the newest and most extensive product offering on the market with the most innovative solutions (e.g. stability and visibility from the driver's viewpoint), productivity/efficiency of products, most versatile customer tailoring and extensive maintenance services.

New forest machine sales

Ponsse sells harvesters and forwarders that it has developed and manufactured to over 2,000 forest machine contractors to 40 countries. The customer risk is highly fragmented, and a typical forest machine contractor only has 1-2 machines.

The number of forest machines sold per year has been 1,100-1,200 in recent years divided almost evenly between harvesters and forwarders. The price range for harvesters is EUR 350,000-550,000 and for forwarders EUR 300,000-400,000 per machine. Some 90% of demand comes from repeat purchases as Ponsse has since the start of its operations delivered over 18,000 forest machines of which an estimated 13,500 is still in use.

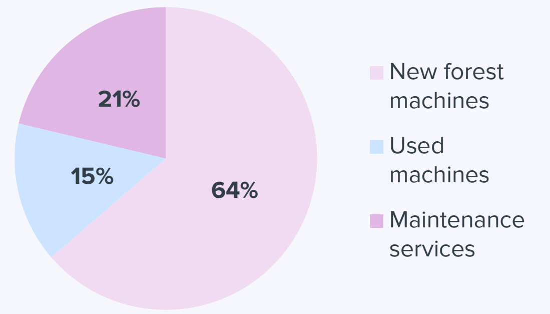
In addition to new forest machines, Ponsse separately sells harvester heads mainly for various manufacturer's excavators. This business only represents around 3-4% of Ponsse's net sales but it's also very profitable and growing faster than forest machine sales.

Aftermarket services

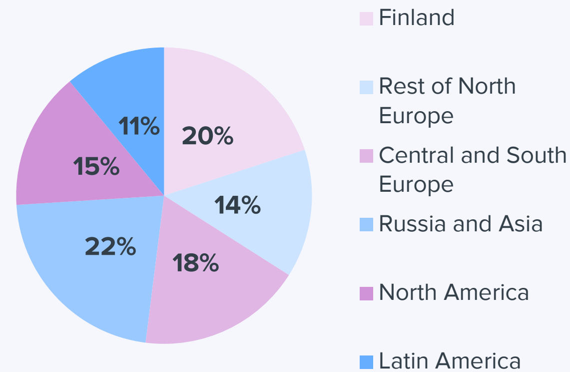
Ponsse's aftermarket services consist of service center operations (21% of net sales) and used machine operations (estimated 15% of net sales). 90% of service center operations consist of wear and spare part services and is carried out through ca. 120 service points of which 30 are Ponsse's own and some 90 are resellers' and licensed repair shops' service points.

Ponsse sells around 65% of new machines through its own sales companies in which case the customer very often offers their used machine as a trade-in. Ponsse sells the used machine and typically again receives a trade-in machine (older and cheaper) in this trade. This process can be repeated 2-4 times until the customer no longer has a relevant trade-in machine to offer. The sales gains from the machines are naturally recognized in Ponsse's net sales.

Net sales breakdown 2021



Geographical breakdown of net sales 2021



Source: Ponsse

Business model for new forest machines 1/3

Majority of manufacturing in own hands

All harvesters, forwarders, and harvester heads manufactured by Ponsse are produced in one factory in Vieremä. Ponsse manufactures the bodywork of the machines (forebody and rearbody, booms, harvester head frame, cab frame) and several other key components itself. Ponsse has aimed to ensure sufficient flexibility in manufacturing under normal circumstances, as well as quality control and core expertise remaining in the company's own hands.

Close cooperation with subcontractors, component situation still challenging

The main parts purchased from outside are machine engines, as well as hydraulic and cast components. Ponsse emphasizes close cooperation with suppliers and transparency throughout the supply chain to ensure supplier relationships. Ponsse has a constantly rolling forecast of its own manufacturing volumes and component requirements, even more than a year ahead.

The situation for components is still challenging and the Vieremä factory is short of semiconductors, hydraulic parts, bearings and powertrain components. Moreover, the company doesn't currently have the capacity to build buffer stocks of components. However, Ponsse is high on the list of preferred customers and, according to the company, a lower priority among subcontractors would have halted production in Vieremä on several occasions.

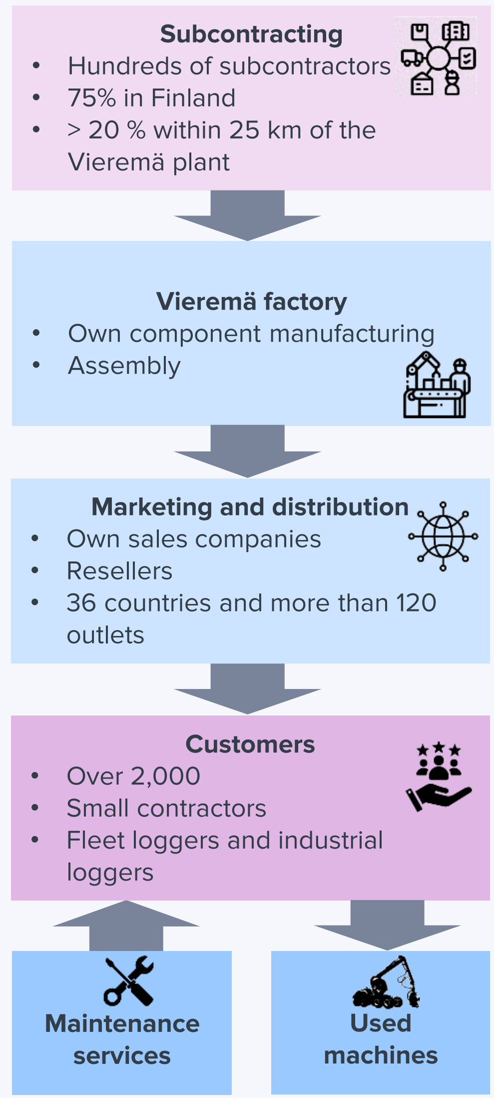
Due to the tight component situation, the production line capacity is fluctuating, which reduces efficiency. There have also been some delays in deliveries, but so far the worst delays have been weeks, not months. There has also been no loss of customers in terms of delivery times, as competitors suffer from the same problems. Delivery times remain at the normal level of around 7 months.

The objectives of the extension investment have been achieved

In 2016-2018, Ponsse invested a total of EUR 38 million in a factory expansion, which increased the area of the Vieremä factory from 27,000 m2 to 40,000 m2 (~290,000 ft2 to 430,000 ft2). The investment included a new assembly line, an increase in the degree of automation and a more efficient warehouse. In the new warehouse system component and accessory packages are collected in cooperation with the customer based on a predetermined specification. Ponsse's manufacturing philosophy where everything happens based on an order and where part manufacturing happens based on the main order did not change after the investment. The investment aimed primarily at shortening delivery times clearly. We estimate that the previous annual capacity of 1,100-1,200 machines increased to 1,500-1,600 machines (+30-35%) as a result of the investment and we don't expect Ponsse's own capacity to become a constraint on delivery speed and volumes in the near future.

According to the company, the quality and productivity programs related to the expansion investment are on target. Quality is described as "at a good level" and the 5% annual improvement in productivity (measured in hours paid per machine delivered) is also on target.

Operational model:



Source: Ponsse / Inderes

Business model for new forest machines 2/3

Products technically top of the line

Ponsse's products have always been considered among the most technically advanced in the industry. Examples include the introduction of the PC in the harvester cab in 1992 and the first introduction of the 8-wheel harvester model in 2009. Ponsse's most significant product launches during 2022 have been at the heavier end of the range, the Scorpion Giant harvester and the Mammoth forwarders. At the same time, the Active Frame suspension system launched in 2018 is being phased out and replaced by the equally effective but simpler Active Cabin suspension system. The 6-wheeled Ergo and Fox harvesters have been eliminated from the range.

A key development for Ponsse in recent years has been the new generation of information systems and user interfaces (marketed as 5G). According to Ponsse, 5G has been very well received by customers. The interface is already available on almost all harvester models and will be extended to forwarders in the future. In August 2022, the company unveiled the all-electric transmission EV1 forest machine concept and low to zero emission equipment will be at the heart of future product development.

For Ponsse, feedback from customers is always key in product development. The company also emphasizes that it has the willingness and ability to take even larger risks in product development and offer original solutions to problems highlighted by customers.

Offering adjusted to different customer segments

The average size of forest machine customers is increasing. In addition to forestry contractors who own and operate individual machines, there have been and will be so-called fleet loggers, which typically have between 20 and 70 machines and need different service packages than traditional contractors. Fleet loggers are often covered by a Ponsse maintenance contract and are very price-conscious also when it comes to maintenance. Larger customers are also represented by so-called industrial loggers, which are often large forestry companies. These companies may have significant forest resources and logging is only part of the chain, at the end of which pulp is usually sold. Typical customers are the Brazilians Fibria and Suzano. Industrial loggers also have high expectations concerning information systems. The key question for the product portfolio is whether Ponsse has the right offering for the different customer segments.

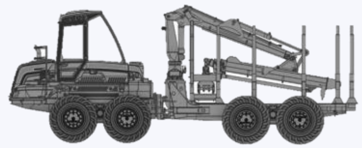
We estimate that the share of components and sub-assemblies common to the different Ponsse machine models is 40-50%. The large number of interchangeable parts allows not only synergies in wear and spare parts operations, but also a wide range and efficient mass customization of machines.

Ponsse's main products

Harvesters (harvesting machines)

Weight, tn	16.7-23.8
Length x width, m	7.3-9.0 x 2.9-3.1
Engine power, kW	145-240
Tractive force, kN	130-230
Crane reach, m	10-11
Price, 1,000 EUR	380-600

Forwarders (carrying vehicles)



Weight, tn	16.3-28.5
Length x width, m	9.9-11.9 x 2.8-3.3
Engine power, kW	165-320
Lifting moment, kN	106-160
Crane reach, m	10
Price, 1,000 EUR	330-440

Source: Ponsse / Inderes

Business model for new forest machines 3/3

Role of logistical costs low

Ready, customer-equipped, and tested forest machines are transported on flatbed trucks to Finnish customers or Iisalmi railroad station and from there via ports to distributors. In 2021, freight and forwarding accounted for only 2.2% of Ponsse's net sales, so the factory's location away from freight hubs is not a problem. The factories of the main competitors are also located in Finland or Sweden.

Distribution covers all key markets

Ponsse's distribution covers all main markets of machine logging, and it takes place through 11 own sales companies and some 40 reseller companies. The distribution network is currently operating in 36 countries with a total of 121 outlets. New additions to the distribution network for 2022 were dedicated sales companies in the Czech Republic and Chile.

According to Ponsse, dealers' sales have developed well in 2022, but there has been no major change in their share of net sales. We estimate that the company's own sales companies account for around 65% of net sales and dealers for 35%. Ponsse is constantly seeking a balance between more capital efficient reseller sales and own sales that offers a better customer contact.

The role of digitalization continues to grow

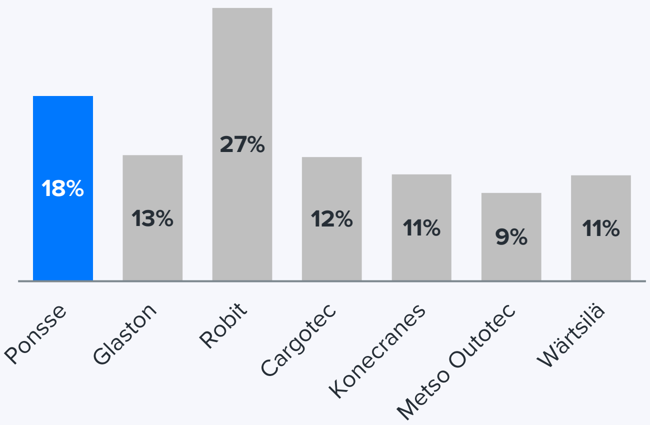
Logging technology and related services are becoming increasingly digital. Megatrends include 1) increasing digital services in forest resource management, equipment management and maintenance, as well as productivity reporting; 2) sustainability, i.e., monitoring and minimizing environmental impacts; 3) connectivity solutions, i.e., optimal data transfer from/to the forest machine (5G technology will open up many new opportunities here); and 4) automation and remote control.

Ponsse's approach is to build digital services on top of collected data. The company has actively increased the number of programmers in the group, which now stands at around 120. One must also take into account the networks they create, which aren't directly reflected in the number of programmers. Application programming interfaces (APIs) have also recently been opened up to customers, allowing them to access the data and develop their own applications based on it. Ponsse, on the other hand, can charge customers for their API calls. Ponsse will also test the functionality and monetizability (proof of concept) of the services that are developed together with customers.

Assessment of business model

In-house component manufacturing makes the business capital-intensive. Indeed, the ratio of tangible assets to net sales (18%) is well above the median for the Finnish machinery sector (12%). However, based on the track-record, the business model is working well. The combination of one factory and low degree of outsourcing can still be risky in case of various disruptions (break-down of an important machine, fire, disruption in energy supply, strike in the factory or, e.g., in railroad traffic) and narrows the company's adjustment possibilities. There is still too little data available to assess the success of the "digital leap".

Tangible assets of machinery companies / net sales 2021



Source: the companies

Business model for services 1/2

Business based on extensive maintenance service network

Ponsse's services business represented 21% of the Group's net sales in 2021 and amounted to some EUR 160 million. The company currently has a total of 160 service points in 35 countries. Of the service points, 39 are owned by Ponsse and 121 by dealers or contracted service providers. Measured in absolute numbers, there are most service points in Finland (25), Sweden (26), and the US (20). The sale of the Russian subsidiary in June 2022 and the termination of operations in the country led to a significant drop in the number of service points (-41 points; -20%). The service network also includes 650 service vehicles that circulate to customer sites, of which a majority are specialized in Ponsse machine maintenance. The service points employ a total of 1080 repair men.

Of the more than 18,000 machines supplied by Ponsse, it's estimated that just over 13,500, or around 75%, are still in use. The delivered machine base has grown at an annual rate of around 7% over the last five years. However, in the current situation, the stock of some 3,000 machines in use in Russia must be removed from the maintenance potential. Practically all the rest, i.e., 10,500 forest machines are covered by maintenance as at minimum spare parts for the machine are purchased from Ponsse or its representative. Ponsse's long-term target is to have over 50% of the annually used machine stock covered by its own service agreements. Ponsse has not reported the current share but we believe it to be around 20-25% even though over one-half of the machine stock is serviced by Ponsse annually. According to Ponsse, it's also in its interest to increase the number of service contracts because a larger proportion of its service contract customers also purchase wear and spare parts (such as bladel chains and plates) through Ponsse, thus increasing Ponsse's share of the money spent by the customer on machine maintenance.

Warranty costs covered with a EUR 4.6 million guarantee provision

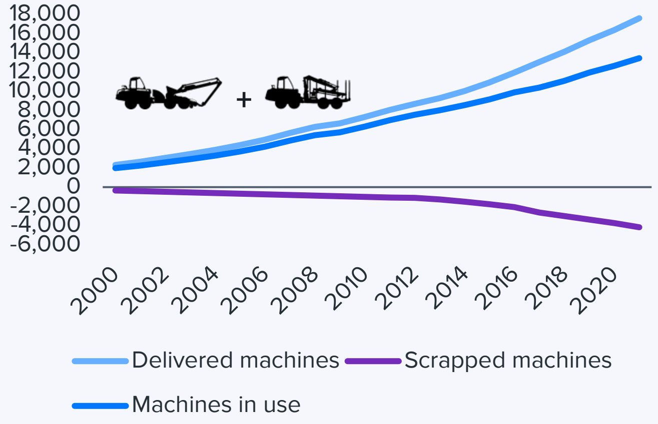
Ponsse gives new forest machines a 12 month or 2,000 operating hour warranty during which possible faults are repaired at the company's expense. At the end of 2021, Ponsse's balance sheet included a EUR 4.6 million guarantee provision based on the failure history recorded in the previous years. The trend of the guarantee provision has been decreasing in recent years which indicates good quality development.

Service agreements aim at predictability

In addition to wear and spare parts, Ponsse offers, for example, three-year or 7,200 operating hour service agreements (Ponsse Active Care) that includes a fixed-price scheduled maintenance with genuine spare parts defined by the factory. Service agreements also include technical assistance, i.e., maintenance advice as well as service center appointments and field maintenance (service vehicle drives to customer's site).

The net sales from service operations varies heavily by market. Because 90% of service net sales consists of wear and spare parts, the operating hours of the machines have a crucial effect on demand. The operating hours of harvesting machines is usually good 2,000 hours per year in the Nordic countries but only some 1,500 hours per year in North America, while in Russia (until the war in Ukraine) and Brazil the operating hours are often over 5,000 hours per year.

Cumulative number of Ponsse machines 2000-2021



Source: Ponsse / Inderes' estimates

Business model for services 2/2

The technical life cycle of a machine usually ends after 25,000-30,000 hours of operation and it's clear that the need for wear and spare parts and other maintenance is significantly higher during the last 10,000 hours of operation than during the first 10,000 hours. We estimate that the share of service operations in Ponsse's net sales in Latin America can be 30-40% while it is 21% at group level.

Plenty of preconditions for service growth and good profitability

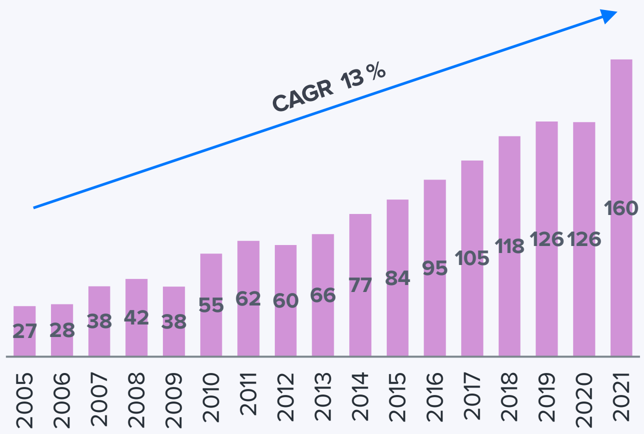
Even after the exit of the Russian market, the following factors support the growth and profitability of the maintenance business: 1) expected growth in the delivered stock of forest machines by over 1,000 machines per year translating to close to 10% increase in the machine stock in use; 2) forest machine entrepreneurs are increasingly keen to outsource maintenance and no longer try to service the machines themselves; 3) cross maintenance of forest machines between different machine brands is low so Ponsse is practically the only maintainer of the machines it has delivered; and 4) the role of cheap pirate parts of questionable quality on the wear and spare parts market is low.

Ponsse has commented on the profitability of its service operations only by saying that the wear and spare part business is more profitable than new machine sales. Ponsse does not differ from other engineering companies in this respect. Ponsse considers maintenance services as part of machine sales and related services. Thus, the aim is not to separately maximize the profitability of service operations but Ponsse's aim is to optimize the life cycle costs of the customer's machine. Life cycle costs determine customer satisfaction and have a crucial effect on brand loyalty when making repeat purchases.

Assessment of business model

The strengths of the business model are an extensive service point network that, however, focuses on resellers and licensed repair shops thus keeping Ponsse's own fixed costs under control. The lack of competition is also positive, especially in the profitable wear and spare parts business. Lack of information on the actual number of service agreements and conversion rate in new machine sales makes it difficult to make an overall assessment. We do, however, believe there is room for growth in preventive services enabled by digitalization. Currently, the main uncertainty in the service business relates to the fate of the approximately 3,000 Ponsse machines in operation in Russia, which we discuss in more detail in the Estimates section.

Maintenance service net sales 2005-2021 (MEUR)



Source: Ponsse

The business model of the used machine sales

In mature markets, customers nearly always have a trade-in machine

In mature markets such as Europe and North America, selling a new forest machine almost always means receiving a trade-in machine. In fast-growing markets such as Brazil, the role of trade-in machines is less important. Ponsse handles the trade-in itself when it has also sold a new machine (around 65% share). On the other hand, dealerships (the remaining 35%) independently manage their own trade-in business.

Chain reactions in the used machine business

Used machine business has a chain reaction effect. When selling new machine, Ponsse receives a trade-in machine, and the same situation is often repeated when selling a “trade-in machine for a trade-in machine”. So, in the end, Ponsse may generate 2-4 trade-in machine deals when selling a new machine. However, round-by-round 1) the average price of the trade-in machine to be sold decreases, and 2) the share of customers offering a trade-in machine falls.

We estimate that when Ponsse sells a new machine itself it receives a trade-in machine in its balance sheet in 90% of cases. When selling a trade-in machine, we estimate the share drops to 65% and when selling a trade in machine for a trade-in machine further to 40%. At this stage, machines are often already at the end of their life cycle. According to Ponsse, the used machine market is active, and all forest machine customers are not looking for new machines. Trade-in machines are usually sold in the same market in which they were received.

Focus on inventory turnover and cash flow

Ponsse’s focus in the used machine business is on inventory management and cash flow. The average selling time for a used machine is 3-6 months. Ponsse has had no need for campaigns or auctions, as demand for trade-in machines has been good with long delivery times for new machines.

Ponsse aims to offer trade-in prices that don’t require the replacement machine to be sold at a loss. However, the margins in the used machine sales are small compared to other business areas.

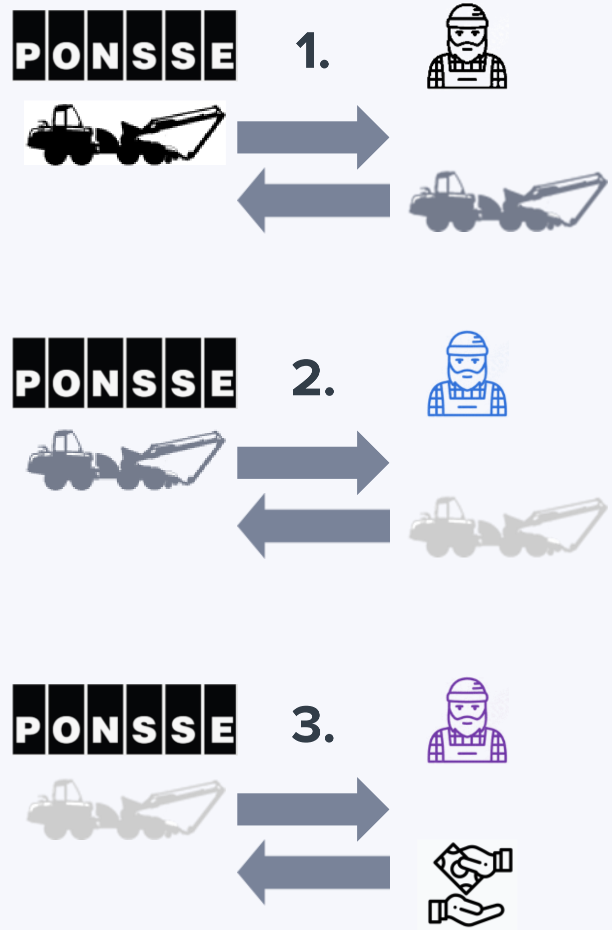
Net sales from used machines EUR 110-120 million

We assume that the "other current assets" in Ponsse's balance sheet (2021: 29 MEUR; 2020: EUR 34 million) is in practice all used machines inventory. This corresponds to 10-13% of equity, which means that the valuation risks are reasonable. Assuming an average sales period of 3-4 months and a sales margin of 3%, used machine net sales in 2020-2021 amounted to EUR 106-119 million, or 16-17% of the group net sales.

Assessment of business model

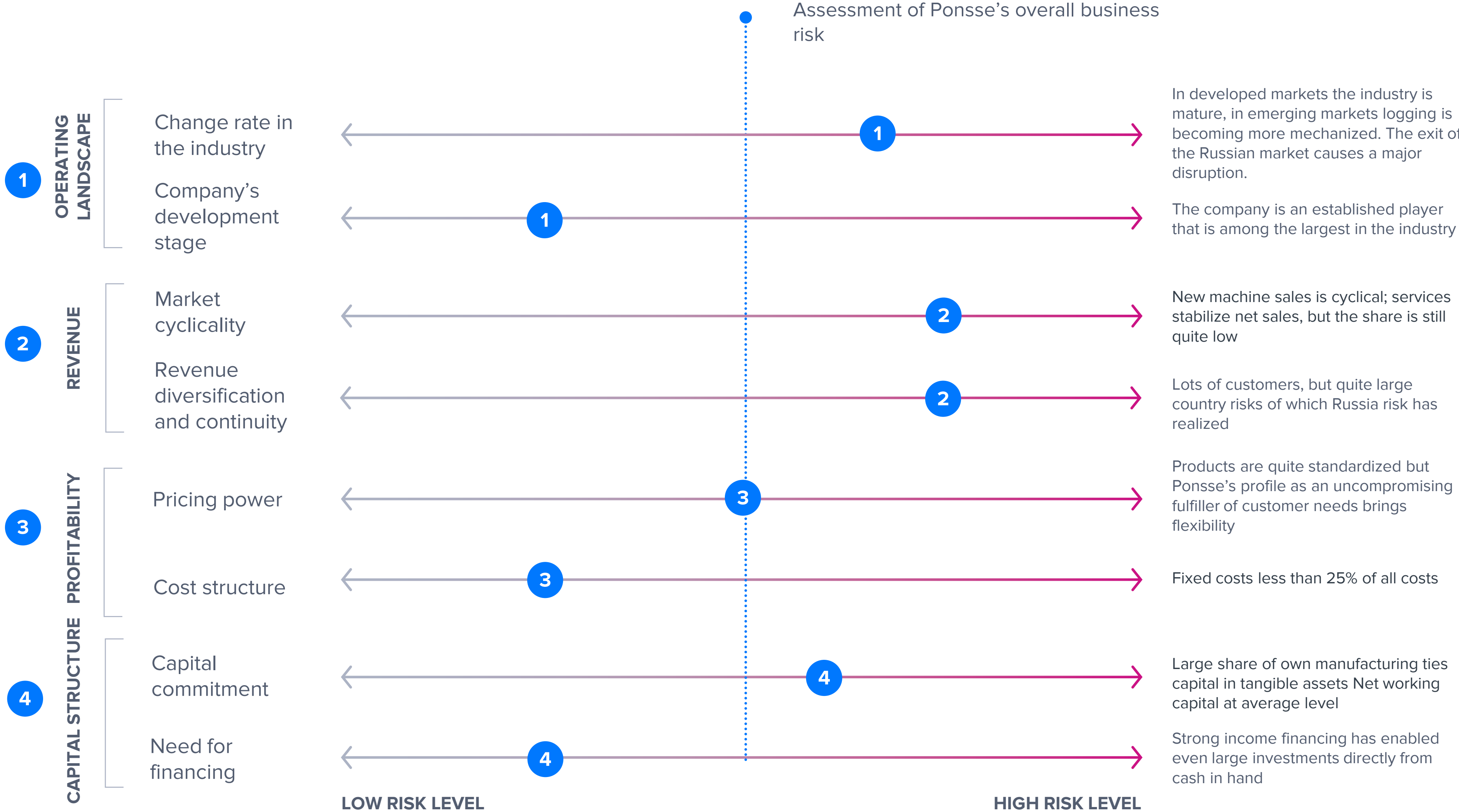
The dynamics are healthy, as the entry of a trade-in machine into the balance sheet has always been preceded by the sale of a new machine and the size of the replacement machine stock is reasonable. Focusing on cash flow is justified and the fact that the business is apparently profitable is a positive feature. If the inventory turnover is assumed to be 4x and EBIT margin to be 3%, Ponsse generates moderate return on investment of some 12% from the used machine business.

Used machine sales have a chain reaction effect



Source: Ponsse / Inderes

Risk profile of the business model



Source: Inderes

Investment profile 1/2

Growth company with good track record

Ponsse has been growing at an annual rate of 9% for the last 10 years before the closure of the Russian market, while its main competitors have been growing at 6-7%. At the same time, the company has become the second largest in the world in cut-to-length forest machines.

The founding family's ownership and involvement in the company has remained significant and currently the Vidgren family owns ca. 64% of the company. On one hand, strong ownership gives the company a long-term perspective and risk tolerance. On the other one, this largely eliminates the possibility of external purchase/redemption.

Despite the cyclical nature of the industry, Ponsse's solid growth and earnings history make the stock a very safe bet for value investors.

Positive value drivers and strengths

Strong market position. Ponsse's market share in rubber-tire cut-to-length forest machines is around 35%, which makes it the second largest player on the market and offers economies of scale from product development to aftermarket. The threshold for entering the market is high due to required investments and the relatively small size of the whole market.

The market for new machinery will grow in the long term Ponsse's operating environment includes both existing and potential growth drivers. The first-mentioned are growth in global logging volumes, driven by general economic growth and growing pulp market as well as ongoing/future investments there, increasing share of wood construction and increased use of wood to replace plastic in the packing industry. Other drivers are increased mechanization in logging and continued growth in the cut-to-length method which Ponsse represents. Potential growth drivers are related to progressing digitalization and automation in logging.

There is growth potential in services. Ponsse still has just over 13,500 delivered machines in operation (including those in use in Russia). Service business that consists primarily of high-margin wear and spare parts sales generated 21% of Ponsse's net sales in 2021 and 40% of operating profit according to our estimate. Although the maintenance of machinery in use in Russia is an open question, and even if the market for new machinery were to face other difficulties, the large and still growing and aging fleet of delivered machinery provides long-term growth opportunities for maintenance.

Earnings development quite predictable. In 2012-2021, Ponsse's EBIT margin varied between 7.2% and 12.1% while the median was 10.1% At the same time, the coefficient of variation of the EBIT margin was low at 16%, which means that the company's performance has a good predictability and a relatively low risk profile in an otherwise cyclical industry.

Strong cash flow offers opportunities. Even after investments, Ponsse's operating cash flow has been clearly positive since 2013. When considering the company's low gearing (net debt/EBITDA = 0.2x) Ponsse has good opportunities to invest in developing digital products, strengthening its presence in, for example, the Americas and Asia, and higher dividend.

Negative value drivers and risks

The industry is cyclical. The market for new rubber-tire cut-to-length forest machines crashed by 65% in the financial crisis year 2009 and the market has fallen by over 20% also in 2012 and 2020. Losing the Russian market as a result of the war in Ukraine means a gap of around 17% in the market for cut-to-length machinery. Filling this gap with growth in other markets in the coming years will be challenging.

Unfavorable timing of expansion investments in the industry. Ponsse's main competitors have invested, in some cases significantly, in increasing capacity. If a negative market scenario were to materialize and the subdued economic trend prolonged, the capacity utilization rate of companies in the industry would fall below expectations and price competition would tighten, which would create margin pressures.

The component situation is still difficult. Ponsse and its competitors have suffered from tight availability of key components and the pressure on margins caused by their increased prices for quite a long time. No large-scale and rapid relief is in sight.

Having just a single factory and low degree of outsourcing in manufacturing can be a risk in case of various disruptions, like a fire or strikes.

Centralized ownership. The already mentioned centralized share ownership in Ponsse decreases the liquidity of the share, as well as the possibility of an offer for the company by an outside buyer or other industry restructuring.

Investment profile 2/2

1. **Track-record of faster than market growth**
2. **Predictable profitability and strong balance sheet**
3. **Market for new machines is cyclical**
4. **There might have been over-investment in the sector**
5. **Family company that is unlikely to be sold**

Potential

- Ponsse has a track-record of long-term above-market growth and is the #2 company in its segment in the world.
- Maintenance service business has growth potential, although the exit of the Russian service market will put pressure in the near future
- The company's performance is highly predictable and the strong balance sheet and cash flow provide the conditions to implement the plans
- New digital services

Risks

- The market for new machinery is cyclical and filling the gap left by Russia is challenging
- Large investments in the sector in recent years may lead to increased price competition and margin pressure
- The component situation is still difficult
- Having just a single factory and a low degree of manufacturing outsourcing can cause problems in the event of various disruptions

Source: Inderes

Strategy and financial objectives 1/3

No published strategy

Ponsse has no actual published strategy. The company speaks of a continuous strategy process where the operating plans are updated annually, and they are “implemented through the budget”. Ponsse’s idea is that the company does not want to become captive by a particular strategy in a quickly evolving operating landscape and technology revolution. We find the lack of a published strategy to be negative for investors but still find the overall picture to be quite clear and the fact that the company has clear financial targets makes estimating easier.

Our assumptions of key strategic factors

Based on discussions with Ponsse’s management and other materials we find the following factors to be the company’s strategic cornerstones:

1. **Tight focus.** Unlike the main competitors that act as part of international conglomerates, Ponsse’s entire operations only involve around developing, manufacturing, and selling rubber-tire cut-to-length forest machines.
2. **Considering customer needs in all operations.** This means extensive and continuous collection of customer feedback, that is user experience, critique and development ideas, and highlighting this in the entire chain from product development via manufacturing and distribution to aftermarket business. Knowing the customers and even considering their families in operations is important which we believe sets the company apart from its competitors.
3. **Innovation.** Ponsse gives designers free rein to develop new solutions and the company is prepared to take significant risks in product development. One example of such an innovation is placing the crane behind the cab in the Scorpion harvester which proved to be an excellent solution.
4. **Expertise in the company's own hands.** Ponsse has focused product manufacturing on one unit and feels it benefits considerably from having all key expertise in its own hands and from close integration between product development, procurement, and manufacturing. According to the company, this is visible in efficiency, quality, and reaction speed.
5. **Sustainable development and responsibility.** Ponsse’s vision is to be the most desired cooperation partner in sustainable forestry and carbon neutral in the long term. The company’s responsibility model is divided into a) social responsibility (products and services, personnel, operations), b) environmental responsibility (sustainable forestry, product life-cycle management, operating method that saves natural resources), and c) financial responsibility (balanced and sustainable finances, proactive and risk perceiving financial management, supporting the continuity of stakeholders).

Strategy update did not lead to major changes

Ponsse has recently engaged in extensive strategy update discussions. The strategic baseline is not changing. According to the company, "you just have to go back to basics and be able to live without Russia", a market which cannot be replaced quickly. The focus will remain on providing a personalized customer experience and new digital services. The customer message is profiled as "Ponsse offers the best forestry machines and maintenance in the world". At the heart of the digital solutions is the Ponsse Opti 5G information system. The roles of profitability and cash flow will also become more prominent.

Assessment of the strategy

Of the above presented strategic cornerstones we particularly like the first two. Strong focus on the company's core competence area is in the interests of investors and the company’s objective to keep customer needs as the leading operating principle helps generate new orders and stand out from the competition. In contrast, we find the one factory manufacturing concept is a risk despite its good sides and the fact that the situation among the main competitors is largely similar does not change our view.

Strategy and financial objectives 2/3

The success of a strategy is measured by its functionality in practice and Ponsse's strategy seems efficient. It is not easy to replicate, and the company's growth, profitability and cash flow have all been at a good level. The situation is also affected by the oligopolistic structure of the cut-to-length forest machine market and the fact that the forest machine market is not the core business of the Groups that own Ponsse's main competitors. The competitive situation remains relatively calm. However, that could change if, for example, overcapacity in the sector leads to a significant tightening of price competition. This would probably require Ponsse to reassess its product, market and pricing strategies.

Financial objectives

Ponsse's reported financial targets are:

- **Growth:** Net sales grow faster than the market
- **Profitability**: EBIT margin ≥ 12%
- **Cash flow**: Operational cash flow ≥ EBITDA
- **Capital efficiency**: Asset turnover ratio ≥ 2x

The relationship between the targets and the actual figures for recent years is as follows:

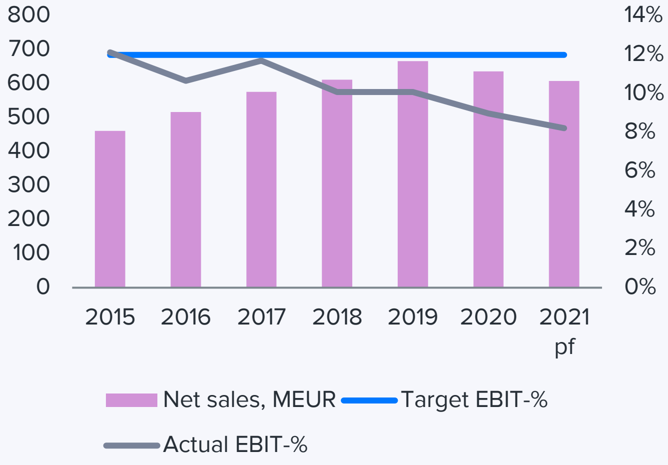
- **Grow:** Over 2017-2021, Ponsse's net sales grew by an average of +8% p.a. (excluding Russia, estimated at +7% p.a.), which exceeds our market growth estimate of +4%. The growth rate of the main competitor, Deere Forestry, was only +3% p.a. on average over the same period.
- **Profitability**: The EBIT margin in 2017-2021 was 8.2-11.7% so close to the target level at its best. The COVID pandemic had a negative impact on profitability in 2020 (9.0%) and the 2021 figure (8.2% pro forma) reflects the elimination of the highly profitable Russia business.
- **Cash flow:** Operational cash flow in 2017-2021 was 64-121% of EBITDA (97% on average) so the target is realistic.
- **Capital efficiency:** Ponsse calculates this as a net sales/average balance sheet ratio. The target was slightly missed in 2017-2019 (1.7x-1.8x) and clearly missed in 2020-2021 (1.4x-1.5x).

Ponsse's financial targets were set before Russia's war in Ukraine. The company sees the final impact of the Russian market exit, possible stagflation and an increase in interest rates and therefore the cost of financing as the main risks to achieving its objectives.

Net sales growth target is realistic

This objective has been achieved in recent years and we believe that it is possible to continue to achieve it on a pro forma basis, i.e., in a market from which Russia has been eliminated. This growth is supported by the continued expansion of the distribution network. As for other drivers of faster than market growth, Ponsse says that

Actualized profitability vs. target



Source: Ponsse

Strategy and financial objectives 3/3

there is more demand for the Scorpion harvester than can currently be committed to supply. Expectations are also high for the new Mammoth forwarders and feedback has been very good in Scandinavia and America. However, the limited data available on the growth rate of the market makes it difficult to assess whether the target has been met.

The profitability target is well into the future

In the past, Ponsse has only achieved the 12% EBIT margin target under very favorable conditions. Even under normal circumstances, achieving the target would require successful volume growth, good productivity at the Vieremä plant and tight cost control. Since the start of the war in Ukraine, Ponsse has indicated that the target is quite far in the future, in our interpretation about five years down the road. This target has been pushed back not only by the exit from the Russian market but also by the recent sharp cost inflation.

Cash flow target is realistic

Because the operational cash flow is already mathematically close to the EBITDA, the target depicts Ponsse's willingness to keep net working capital under control. The company has succeeded well in reaching the target in recent years.

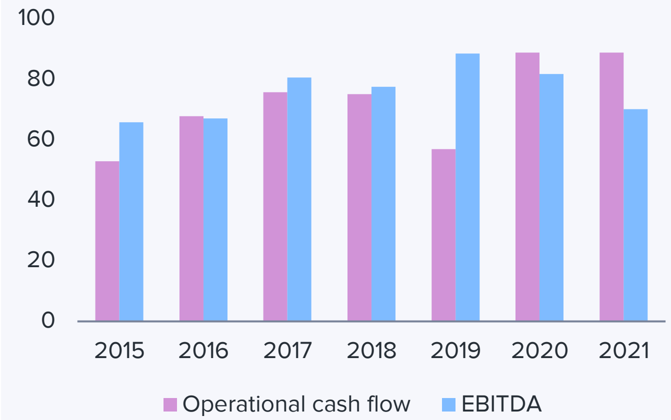
Higher dividends would raise capital efficiency

Decreasing capital efficiency in the way Ponsse measures it is not worrying as it has been based on balance sheet growth because of increasing equity (i.e. good profitability) and growth investments in 2018-2019, as well as raising the liquidity reserve during the COVID years of 2020-2021. For investors, the sensible way to reduce the balance sheet and improving the ratio in future would naturally be higher dividend distribution.

No precise dividend policy, but the dividend sum is likely to continue growing

According to Ponsse's dividend policy "dividend is distributed based on the company's long-term earnings development and equity requirements". The dividend payout ratio has been 43-52% between 2018 and 2021. We expect the dividend payout to increase from 2023 onwards as the net gearing ratio becomes increasingly negative. However, we believe the dividend payout ratio will remain at around 50%.

Operational cash flow and EBITDA (MEUR)



Source: Ponsse

Forest machine market 1/5

Global industrial roundwood market 2.0 billion cubes

The global market size for forest machines is affected primarily by the logging volumes of industrial roundwood that is ca, 2.0 billion cubic meters per year and the mechanization rate in logging. In addition to industrial roundwood, roughly the same volume of wood is used as firewood. The largest final demand markets for industrial roundwood, i.e. logs and pulpwood, are found in the construction (sawn timber), packaging, furniture, furnishing and other wood product industries (incl. plywood and other wood panel and wood product industries) and chemical pulp and pulp industries. The two first mentioned industries are responsible for some 65% of roundwood demand and the share of pulpwood is around 35%.

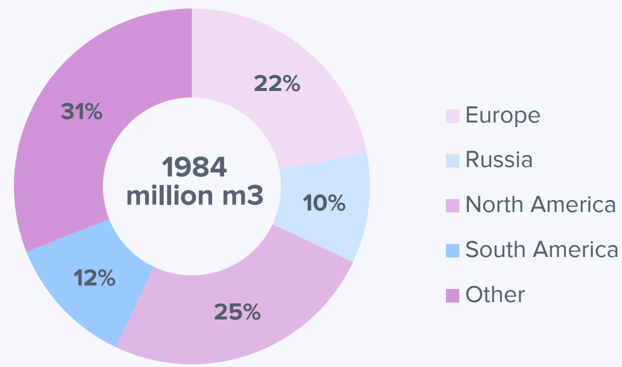
The industry is globally mature and growth in certain end products (e.g. cardboard and other packaging materials) is offset by a gradual decline in demand for some other products (printing paper). However, the reduction in the consumption of printing papers doesn't imply a corresponding reduction in the use of pulp, as the amount of recycled fiber that disappears from the market has to be replaced by pulp.

Global logging volumes increased by an average of 1.4% per year over the period 2011-2020. Growth was fastest in Russia (2.3%), while growth was slower in Europe (1.5%) and the Americas (0.8%). We expect global logging volumes to continue to trend upwards at 1.5% per year, with the fastest growth in Latin America as plantation forests continue to increase. Among other things, growth is supported by the estimated 1.5% annual growth in market pulp demand in 2021-2025 (source: UPM).

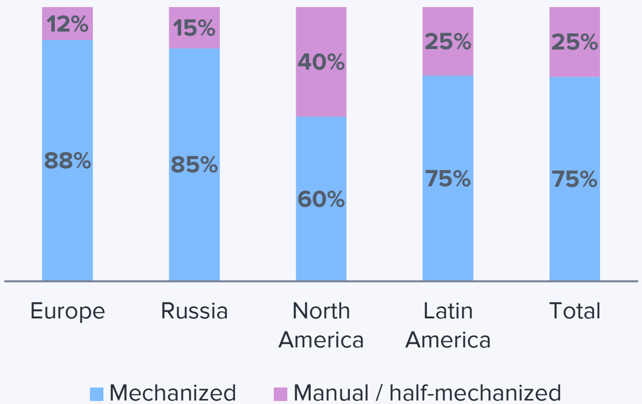
Degree of mechanization in logging continues increasing

The key driver for forest machine markets has from the start been the benefits gained from the mechanization of logging. Mechanical felling, delimbing, cutting, and transporting either with a feller, skidder and delimber or, on the other hand, harvester and forwarder has increased the efficiency of logging considerably and clearly improved logging quality and safety compared to the traditional chainsaw and horse/farm tractor combination. Globally, the mechanization rate is rising steadily and has already reached over 60%, and Ponsse estimates that in its main markets, Europe, Russia and the Americas, it reached 75% in 2020. Mechanization rates will continue to rise as a) in developed markets, semi-automated harvesting chains (logger felling + cable skidding + roadside processing) can be effectively replaced by harvesters and b) in emerging markets, the combination of excavator + harvester head is increasingly replacing the work of loggers.

Geographical breakdown of logging volumes 2020



Mechanization rate in logging on Ponsse's key markets 2020



Source: Ponsse / FAO / Inderes

Forest machine market 2/5

Several competitive advantages of the cut-to-length method

As global logging volumes are growing slowly, the most important thing for Ponsse is the progress of mechanization and, above all, the technology used in forest machines.

The market for forest machinery is almost entirely divided between two technologies, the full-tree / tree-length method (FT/TL) and the cut-to-length method (CTL). In the full-tree method, the tree is 1) felled with a feller-buncher; 2) transported from the forest with a skidder; 3) delimbed with a delimber and, if necessary, 4) cut to lengths suitable for transport with a slasher. In the cut-to-length method 1) the harvester fells, delimbs, measures and cuts the wood in the forest to the customer's (e.g. sawmill or paper mill) desired measurements. The wood is piled by timber grades next to the logging road from where they 2) are transported with a forwarder to assorted piles next to the forest truck road.

The market analysis focuses on the market for rubber-tire cut-to-length (RTCTL) machines. Globally, 80-85% of CTL logging is done with RTCTL machines and the rest with tracked machines. However, even tracked machines practically always need a rubber-tired forwarder for short-haul timber transport. As a result, we estimate that RTCTL machines account for 92-93% of all CTL machines.

The advantages of RTCTL over FT/TL are:

- **Reduced environmental impact** (trimmed crowns and limbs serve as a working platform so that the machine doesn't stress the soil and, on the other hand, there is less damage to the trees remaining after thinning).
- **Higher yields from logging**
- **Better suitability for soft soils**
- **Savings in transportation costs** (capacity of a forwarder clearly higher than that of a skidder)
- **Better quality and cleaner outcome**, due to fewer handling rounds and "gentler" handling (wood is carried not dragged)

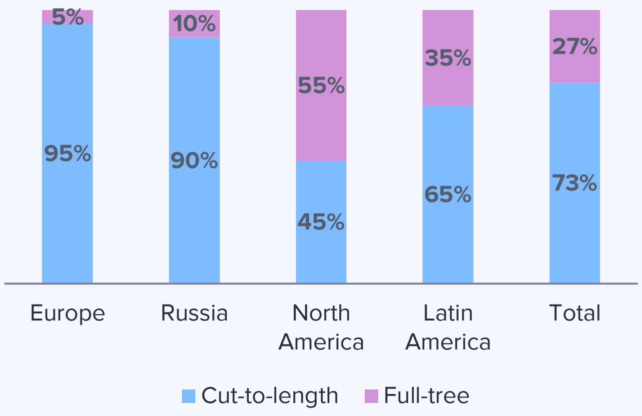
In turn, the disadvantages of RTCTL are:

- **Higher investment cost**
- **Higher skill requirements of the machine operator**
- Performance risks of more complex technologies
- **Reduced effectiveness of harvester head** with some tree species

The market share of the cut-to-length method has increased

In mechanical harvesting, the commodity method has steadily increased in popularity at the expense of the full-tree

Mechanized logging methods in Ponsse's key markets 2020



Source: Ponsse

Forest machine market 3/5

method and now accounts for more than 60% of the total, up from around 20% in the early 1990s. This is due to the spread of the CTL method, particularly in continental Europe, Russia and Latin America. Ponsse estimates that RTCTL machines will account for around 73% of mechanized logging in the company's core markets of Europe, Russia and the Americas in 2020. The share would have been 70% even if the Russian market were eliminated from the calculation.

Geographical differences still major

In Northern Europe, the share of the cut-to-length method of all mechanicall logging is full 100% and elsewhere in Europe 85-95%. Thus, the market growth potential from increasing the share of cut-to-length method is small in these areas.

In Russia, the adoption of the CTL method was rapid before the war in Ukraine and its share in mechanized logging rose from 65% in 2012 to 93% in 2021. In Russia, the CTL method has been popular wherever there is Western forest industry. The method has been favored by the carrying capacity of the machines on soft soil, the suitability for harvesting during muddy spring/fall periods and the shift to managed plantation and cultivated forests. The effects of the closure of the Russian market are discussed in more detail below.

In North America, the share of the cut-to-length method is lower than in other markets (around 45%). Reasons for this are: 1) seeing timber as a raw material whose use doesn't need to be optimized; 2) customers whose timber storage, other logistics and processing are geared to handling it as a bulk product; and 3) the lack of the high level of skills and language skills required for the CTL method among the forestry workforce. However, the share of the cut-to-length method in North America has been on the rise in recent years, moving regionally from the East to the West and South.

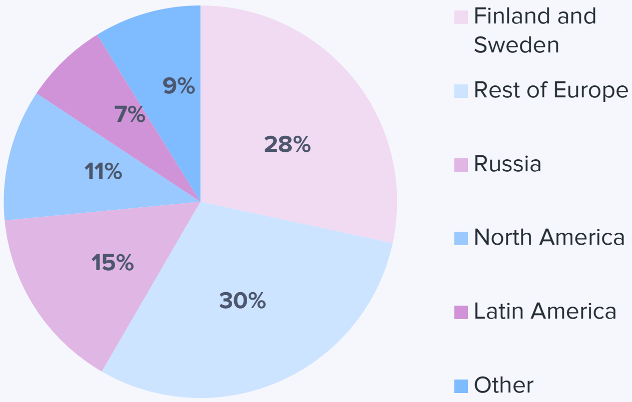
In Latin America, mechanized logging is mainly concentrated on tree plantations, where the performance of trucks utilizing the CTL method is good. However, instead of the usual harvesters, trees are often felled using tracked felling machines, which Ponsse doesn't manufacture. The share of the CTL method in Brazil's mechanized logging is estimated at around 70% and has been increasing in recent years. Another important market, Uruguay is nearly fully dominated by the cut-to-length method.

In Asia, the mechanization of logging in China with a combination of tracked machines and attachment grapples has opened up the grapple market for Ponsse. Other Asian markets are small.

Market focus in Europe

In 2021, the market for cut-to-length forestry machinery grew significantly after the COVID pandemic depressed the 2020 figures. However, the market was still very European-dominated and,

Geographical breakdown of the CTL market (2021)



Source: Ponsse / Inderes

Forest machine market 4/5

with Europe as a whole accounting for 58% of the total market. Of this, Finland and Sweden accounted for 28% and the rest of Europe for 30%. Russia's share of the forest machine market rose to 15% from 12% the previous year and in 2021 it remained the world's largest CTL market, alongside Sweden. North America stood for 11% and Latin America for 7% of the market.

Forest machine demand is cyclical

Even though the overall market for rubber-tire cut-to-length forest machines has grown strongly over the past 25 years the industry is cyclical. In 2009, the global market plummeted to 1,400 machines from 4,000 machines in 2008, so by -65%. The market did not exceed the 2008 level until 2018. A considerable drop was also seen in the market in 2012 (around -25%) and due to COVID in 2020 (around -20%). The latest market shock was experienced when Russia's invasion of Ukraine led to the withdrawal of Western forest machine manufacturers from the Russian market, which accounted for 15% of global volumes in 2021. Market shocks of different sizes will continue to be possible.

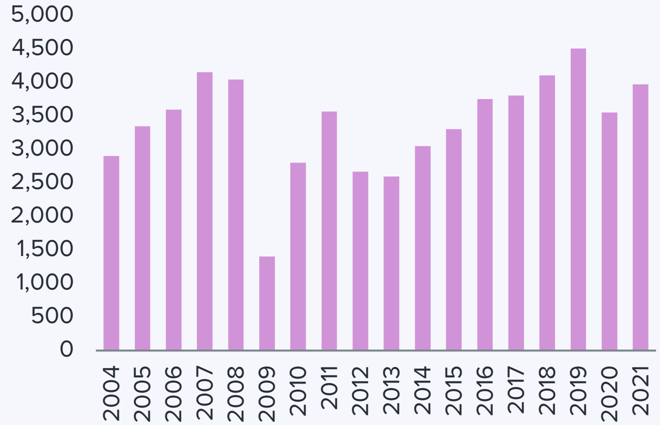
New machine market size of the cut-to-length method EUR 1.6-1.8 billion in 2021

There is very little research material available covering the entire forest machine market. The relevant market for Ponsse would be most easily assessed in terms of the volumes of machines sold and the net sales of the main players. Manufacturers do not, however, report delivery volumes for individual years nor net sales purely from new machine sales. Ponsse has estimated that just over 3,600 RTCTL forest machines were sold worldwide in 2021. This figure is not evenly distributed between harvesters and forwardeds, as even tracked harvesters (used for 15-20% of all machine harvesting) need a rubber-tired forwarder to assist them. We therefore estimate that 54% of the RTCTL machines sold were forwarders and 46% harvesters. Furthermore, if we assume an average selling price of EUR 450,000 for harvesters and EUR 360,000 for forwarders, the global market size for RTCTL new equipment sales in 2021 was around EUR 1,400-1,500 million. The total CTL equipment market should also include the market for harvesting heads for farm tractors and tracked machines, which we estimate to be in the range of EUR 200-300 million.

Closure of the Russian market plays a big role

The war in Ukraine has led to the closure of the Russian forest machinery market to Western players, with at least Ponsse and its main competitors Deere Forestry and Komatsu Forest withdrawing from the market. The Russian RTCTL market has been volatile in recent years, but by 2021 it was in the top 2 in the world with a volume of around 600 machines and a market share of 15%. Like the global market, the Russian machinery market

CTL forest machine market 2004-2021 (number of machines)



CTL equipment market breakdown 2021

	Harvesters	750 MEUR
	Forwarders	700 MEUR
	Harvester heads	200-300 MEUR
	Total	1,650-1,750 MEUR

Source: Ponsse / Inderes

Forest machine market 5/5

has been dominated by the big three Western players: Ponsse estimates its market share in Russia in 2021 at around 40%, Deere Forestry at 40%, while Komatsu's share was much lower at 10%. Help from non-sanctioned countries is unlikely to be forthcoming, as Amkodor's forestry machines in Belarus, for example, use Western axle assemblies, hydraulic components and harvester heads.

The cessation of timber imports from Russia and the closure of the logging market to Western machinery doesn’t automatically imply a significant increase in logging and machinery markets in other countries, as around 80% of Russia's annual logging of around 200 million m3 has ended up on the domestic market. Ponsse estimates that about half of Finland's timber imports from Russia (9 million m3 in 2021) will be replaced by domestic wood and the rest by imports from other Baltic Sea countries. This is unlikely to increase the domestic forestry machinery market but will rather increase the number of machine operation hours.

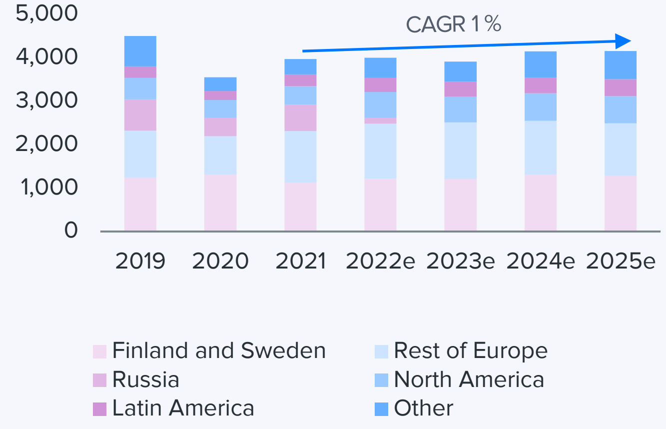
Ponsse is also concerned about the fate of the 3,000 in-use forest machines it has supplied to Russia. This represents around 22% of all Ponsse machines in operation. Due to the high number of driving hours, the maintenance of this fleet has been active and very profitable for Ponsse. The Russian subsidiary, which the company sold in June, had a stock of spare parts equivalent to about 120-180 days of consumption. Once it runs out, the local players will probably try to maintain the machines with home-made spare parts. When this path is exhausted and the machine no longer works, it will be dismantled for spare parts. Overall, the fate of the Ponsse machines in Russia looks bleak at the moment, and in the next few years Russian harvesting volumes could as much as halve.

Forest machine market estimates 2022-2025

Of the main drivers of industrial timber demand, construction growth projections for 2022-2024 are mostly sluggish. Euroconstruct expects European housebuilding volumes to grow by 1.7-1.9% p.a. in 2022-2024. In the US, residential construction is forecast to decline by 5% p.a. and commercial and office construction to grow by 1% p.a. between 2022 and 2023. (source: edzarenski.com). The volume growth forecast for the pulp market for 2021-2025 is 1.5% p.a., as mentioned earlier.

With end demand for industrial timber expected to grow by 1.5-2.0% in the coming years, faster volume growth in the CTL forest machine market is possible through 1) the uptake of mechanized logging; 2) an increase in CTL's market share; and 3) the offsetting effects of the Russian market. Individually, the above factors have a relatively small impact, but together they provide reasonable growth benefits. In our estimates, Russia's exit from the market will push the global CTL forest machine market to a slow decline in 2022-2025 (+1% p.a.), but if Russia is excluded from the calculation, growth is already moderate at 5% p.a.

CTL forest machine market 2019-2025e (number of machines)



Source: Ponsse / Inderes estimates

Competition 1/4

Market practically divided between three players

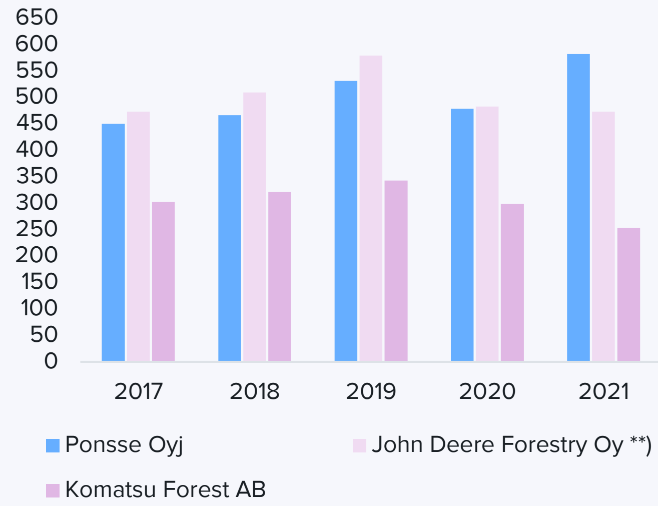
The global market for rubber-tire cut-to-length forest machines (RTCTL) of ca. 3600-3700 units (2021) was primarily or an estimated 80-85% divided between three players. These are Ponsse, Deere Forestry from the USA and Komatsu Forest from Japan. Of these, only Ponsse focuses purely on the cut-to-length method, while Deere Forestry and Komatsu Forest also manufacture full-tree method machines in the US. All of Deere's cut-to-length method machines are manufactured in Joensuu in Finland and Komatsu's cut-to-length forest machines are manufactured in Umeå in Sweden.

There is hardly any comparable peer data

Assessing the market shares of three large manufacturers is made difficult by the scarcity of information. We have circumvented the problem by comparing only the figures for the parent companies in the forest machine business that use the cut-to-length method. Both Deere's and Komatsu's financial period deviate from the calendar year. To improve comparability with Ponsse, we have added the net sales of Waratah OM Oy, a subsidiary that manufactures harvester heads, to John Deere Forestry Oy's net sales figures. Komatsu Forest AB's previous reported financial period ended already on March 31, 2021, but we have used, e.g., market share data from the Finnish and Swedish markets and estimated Komatsu Forest AB's SEK-denominated net sales to have decreased by some 2% y-o-y in the financial period that ended on March 31, 2022.

The graph shows Ponsse Oyj's, John Deere Forestry Oy's and Komatsu Forest AB's closest comparable net sales data for 2017-2021. Based on the figures, Ponsse has grown nicely over the period (CAGR = 7%), John Deere Forestry has stagnated (CAGR = 0%) and Komatsu Forest has declined (CAGR = -4%). However, in interpretation of the graph, the differences between the companies should be treated with caution, as in addition to different financial years, differences may be caused by 1) differences in intra-group transfer prices and margins; 2) a different sales mix, i.e., the share of net sales accounted for by the trade-in business and aftermarket business; and 3) exceptionally strong (+121% y-o-y) growth of Ponsse Oyj in Russia, a market that has now disappeared. Based on the volume data collected and our own estimates, Ponsse's global market share for RTCTL machines in 2021 was 33-35%, Deere Forestry's 28-30% and Komatsu Forest's already much lower at 17-18%.

Net sales of forest machine parent companies, MEUR *)



**) companies' fiscal periods differ from one another*
***) figures from Waratah Oy (harvester heads) have been included to improve comparability.*

Source: the companies

Competition 2/4

Ponsse's market share remains strong even if Russia is lost

The adjacent graph shows our partially indicative estimate of the volumes of different manufacturers in the geographic market for rubber-tired cut-to-length machinery in 2021. On this breakdown, Ponsse is strong in all the regions considered, with market shares ranging from 30 to 40%. In the Russian forest machinery market, Deere Forestry and Ponsse held the top two positions with a combined market share of around 80%. Although the loss of the Russian market is a significant blow for Ponsse, it should be noted that the company's market share will remain above 30% even in the market from which Russia has been eliminated.

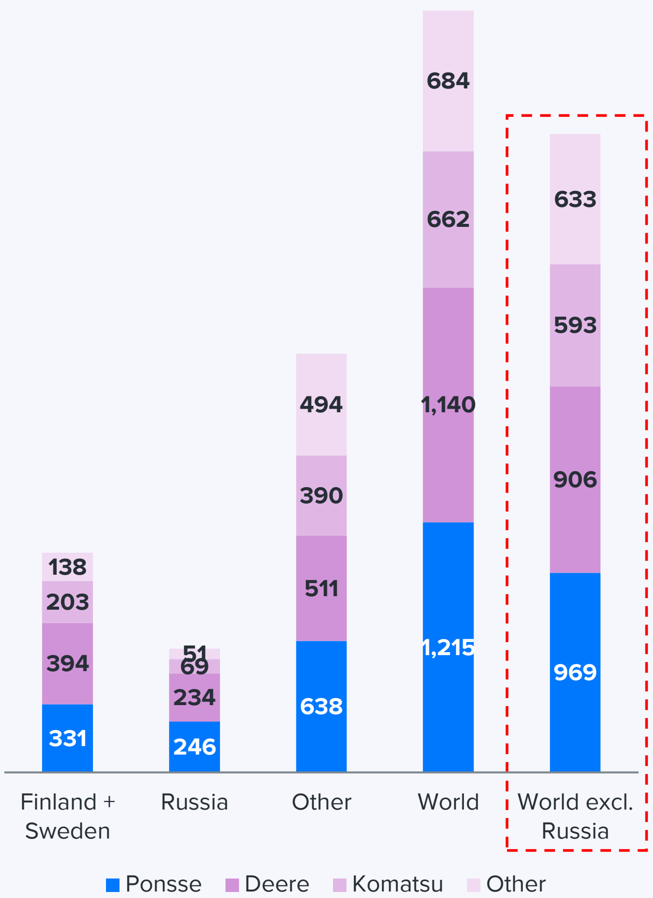
Ponsse more active in renewing its model selection than its competitors

We estimate that the increase in Ponsse's global market share from 26% in 2018 to 33-35% in 2021 is due not only to the successful ramp-up of the Vieremä expansion investment, but also to the modern product portfolio. In recent years, the biggest new additions to the Ponsse product range have been the redesigned Scorpion harvester, launched in early 2021, and the Scorpion Giant harvester and Mammoth forwarder, introduced in 2022. The all-electric EV1 forwarder concept, launched in August 2022, will put pressure on competitors to come up with similar solutions.

The main competitors have been far more conservative than Ponsse in launching product innovations. Deere's announced product innovations have focused on new harvester heads. In 2020, Komatsu launched three lighter end forwarder models (825TX, 835TX and 845), but otherwise it has mainly made product updates in recent years. Ponsse estimates that small improvements to models, e.g., such that affect load and handling, usually maintain competitiveness, but rarely gain market share.

Ponsse's product range has long been broader than that of its competitors. If the 6- and 8-wheeled versions of the same product aren't counted as separate models, Ponsse has 8 different models for both harvesters and forwarders, while Deere and Komatsu have 5-6 different models for both harvesters and forwarders. Calling an individual machine, a separate model is largely a question of definition. Measured by key power/capacity indicators Ponsse's, Komatsu's and Deere's model selections are quite close to one another.

Indicative RTCTL machine volumes in different areas 2021



Source: Metsatrans.com / skogsforum.se / Ponsse / Inderes estimates

Competition 3/4

Profiles of main competitors and their differences

In addition to differences in geographical focus, the key differences between Ponsse, Deere Forestry and Komatsu Forest in terms of strategies and operating models are the following based on our assessment:

- **Independence.** Deere Forestry and Komatsu Forest are cost centers of larger Groups while Ponsse is an independent player. This may for the first two lead to a shorter review period when assessing the success of the forest machine business and if problems become prolonged to the divestment of the business, heavy restructuring or even shutdown.
- **Group support**. Deere Forestry as part of Deere that manufactures agricultural and other outdoor working machinery is strategically natural. Deere Forestry's R&D expenses for the financial year ended 10/2021 were 22% lower than Ponsse's, but Deere Forestry will still be able to benefit from the Deere Group's large (EUR 1.3 billion in 2021) product development investments. According to Ponsse, larger investments will be reflected in, for example, digitalization and automation expertise, where Deere may be somewhat ahead of Ponsse.

  Komatsu Group's fragmented product and customer base does not in our opinion support investments in forest machine operations that is classified as a niche area. In addition to forestry machinery, Komatsu manufactures earthmoving and construction machinery, as well as machinery and equipment for the metal and mining industries. Komatsu Forest's R&D costs are also only 50% of those of Ponsse. However, Komatsu's new forest machine factory in Umeå, which has just opened, shows a commitment to business.
- **Pricing** Ponsse's and Deere Forestry's comparable machines are roughly priced at the same levels. Ponsse does, however, emphasize that it wants to keep the life cycle costs of its machines below Deere's. Komatsu Forest machines are on average 5-15% cheaper and the company is also known for its aggressive pricing, especially in South America recently. Overall, Ponsse says price competition hasn't intensified, but the company says that it's not worth taking in every deal and that profitability takes precedence over volume.
- **Digitalization.** Digitalization plays a crucial role in supporting the information needs in the customer's business and in machine maintenance. Fleet management software play a key role; they help collect, deliver, and analyze data on operation and performance both at the level of stands marked for cutting and at the level of an individual body, machine, and driver. All large manufacturers have their own fleet management solutions (Ponsse Manager, Komatsu MaxiFleet, Deere TimberManager), for which new functionalities are constantly developed and to which it is technically easy to add new functionalities. We estimate that in the current situation differences in how technically advanced the software is are small and it comes down to the priorities of the buyer/user of the forest machine. Of the major forest machine manufacturers, Deere has been seen as a pioneer in digital services, but Ponsse believes it has caught up. It will be interesting to see, for example, how the Ponsse Data API service gains popularity among customers. The service processes the data collected from individual forest machines in a cloud environment and then makes it available to the customer's IT systems. As far as we know, there is no similar system available from competitors.

Competition 4/4

Timing of capacity growth now unfavorable

Following Ponsse's 2017-2019 factory expansion, its main competitors have also invested in their factories. Komatsu Forest built its new forest machine factory in Umeå in 2020-2021. The factory centralizes Komatsu's entire CTL forest machine production of Komatsu products. The investment amounted to approximately SEK 1 billion (~100 MEUR) and the factory has a production area of 30,000 m2. The reference point is Ponsse's Vieremä factory whose production area is now 40,000 m^2. The size of the investment is explained by the fact that Komatsu has invested not only in the final assembly, but also in its own sub-manufacturing, i.e., expansion up the value chain. However, the ramp-up of the new plant between 2021 and 2022 has encountered many operational problems, both in optimizing the in-house manufacturing process and in the supply chain.

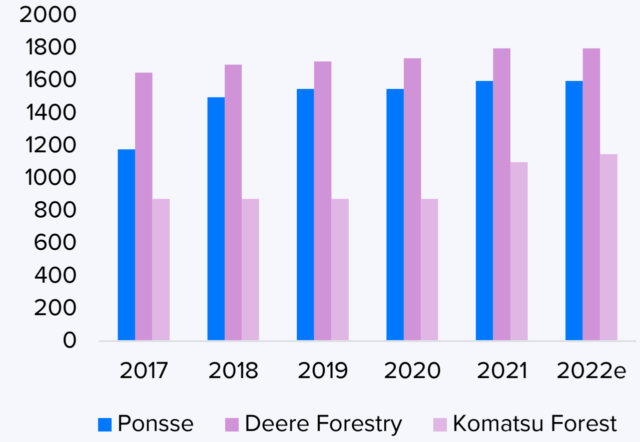
In 2019-2021, Deere Forestry also made a EUR 15 million investment in its Joensuu plant to improve and expand the plant's assembly and testing facilities and increase component manufacturing capacity. The production area was increased to 32,000 m2. According to Deere Forestry, the investment will help it to better meet peak-cycle demand and will allow it to increase its machine manufacturing capacity in the future.

Simply comparing the floor areas or number of personnel of different manufacturers' factories does not paint the full picture of the capacity as manufacturing concepts (factory layout and own part manufacturing vs. share of outsourcing) vary considerably. We estimate that the factory investment will increase Komatsu Forest's capacity from just under 900 units to around 1,100-1,200 units, and Deere Forestry's capacity will increase quite marginally from around 1,700 units to around 1,800 units. The current capacity of Ponsse is around 1,500-1,600 forest machines. With the forest machinery market projected to grow slowly between 2022 and 2025, the increase in Komatsu's capacity in particular could lead to an overcapacity situation and a significant increase in price competition.

Small manufacturers kikely to stay small

In the forest machine market, small manufacturers such as Sweden's Rottne and Eco Log and Finland's Logset will hold a combined share of 12-13% of their domestic markets in Finland and Sweden (2020-2021). However, we don't expect their market share to increase elsewhere, and it's possible that the opposite will happen. We believe the small companies lack the critical mass for competitive product development and above all to build an extensive service point network.

Indicative capacity of manufacturers' main factories (machines/year)



Source: Ponsse / Deere Forestry / Komatsu Forest / Inderes estimates

Financial position 1/3

Strong track record of net sales growth

Even though the basic nature of Ponsse's industry is cyclical, the company's growth story is stable. In the past 20 years, reported net sales have only decreased in five years (2008, 2009, 2012, 2013 and 2020). Of these, the drop in 2008 (-50%) can be seen as exceptional, in the other above-mentioned years the drop has been modest (1%-5%). Between 2012 and 2021, the compound annual growth rate (CAGR) of net sales was a brisk 10%. In the same period, the growth in maintenance services was equally rapid at 10% p.a. Ponsse's strong long-term growth story is, in addition to a strong market, based on a modern model portfolio. Growth has been organic and mainly taken place through expanding the service network.

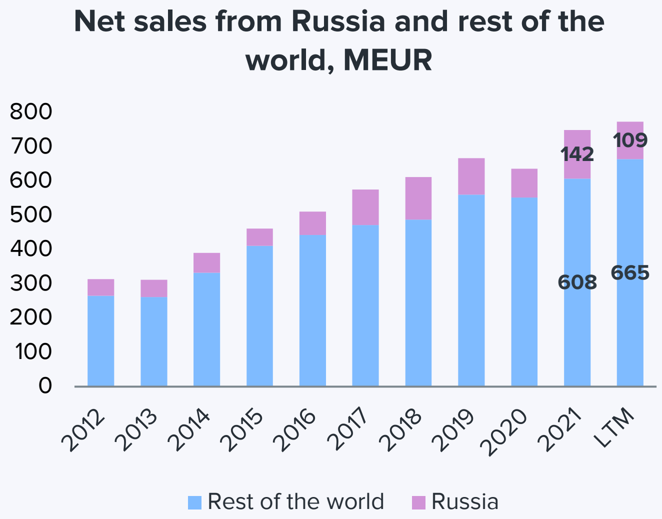
Russia loss is big, but not catastrophic

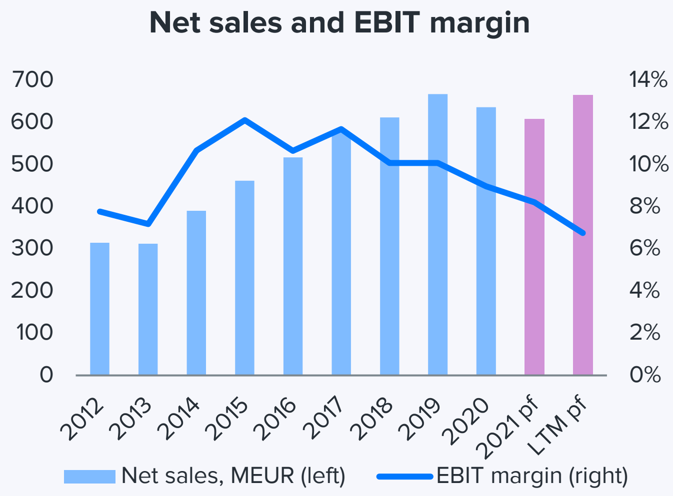
As a result of the Russian invasion of Ukraine, Ponsse was forced to divest its business in Russia and sold its subsidiary in the country in June 2022. There is no return to the market in sight. In 2022, net sales in Russia accounted for 19% of the group net sales. We have estimated the historical development of Ponsse's net sales excluding Russia and the adjacent graph illustrates this. Our main findings are that 1) Russia net sales grew slightly faster than group net sales in 2012-2021 (12-13% p.a. vs. 10% p.a.), but net sales growth from continuing operations has also been 9-10% p.a. Therefore, Russia has by no means been the only driver of Ponsse's growth, as 2) the coefficient of variation of Ponsse's Russia net sales in 2012-2021 (40%) is quite clearly above the group average (28%). Thus, the closure of the Russian market slightly lowers Ponsse's risk profile.

Relatively small share of fixed costs

In 2012-2021, Ponsse's profitability has been quite stable for a cyclical company, with an EBIT margin of 6.8% at its lowest (Q3'21-Q2'22, pro forma) and 12.1% at its highest (2015). Materials and services (some 65% of net sales) are emphasized in Ponsse's cost structure as are personnel costs (some 14%). The share of other operating costs (e.g. operating and maintenance, freight, rents, marketing, and administration) is around 9% and depreciation 3%. With this cost structure, Posse should in our opinion in normal market conditions be able to consistently deliver an EBIT margin of 9-10%.

What stands out in Ponsse's cost structure is the low share of fixed costs of net sales (24-26% in 2019-2021) for an engineering company. We have included personnel costs, depreciation and other operating expenses adjusted by freight and forwarding expenses as fixed costs. For other engineering companies, the share often exceeds 40%. The difference is largely explained by the personnel and other maintenance costs of the peer companies' own maintenance and service organizations. In Ponsse, the share of maintenance in net sales is small compared to its peers (21%) and even here 90% of net sales





Source: Ponsse

Financial position 2/3

is accounted for by wear and spare parts services, which aren't particularly labor-intensive.

Fixed costs are also flexible if necessary

The split between variable and fixed costs is simplistic and its meaningfulness depends on the period under consideration. When Ponsse's net sales decreased by 5% due to COVID in 2020, the personnel costs dropped by 8% and other operating expenses by as much as 17%. Ponsse utilized temporary layoffs in cutting personnel costs and in other operating expenses the 37% cut in marketing costs and 60% drop in travel expenses was visible. Thanks to the cuts, Ponsse was able to maintain its EBIT margin at a reasonable level of 9.0% (2019: 10.1%) even though the share of material costs in net sales increased by 2 percentage points during the COVID year.

High-margin business lost with Russia

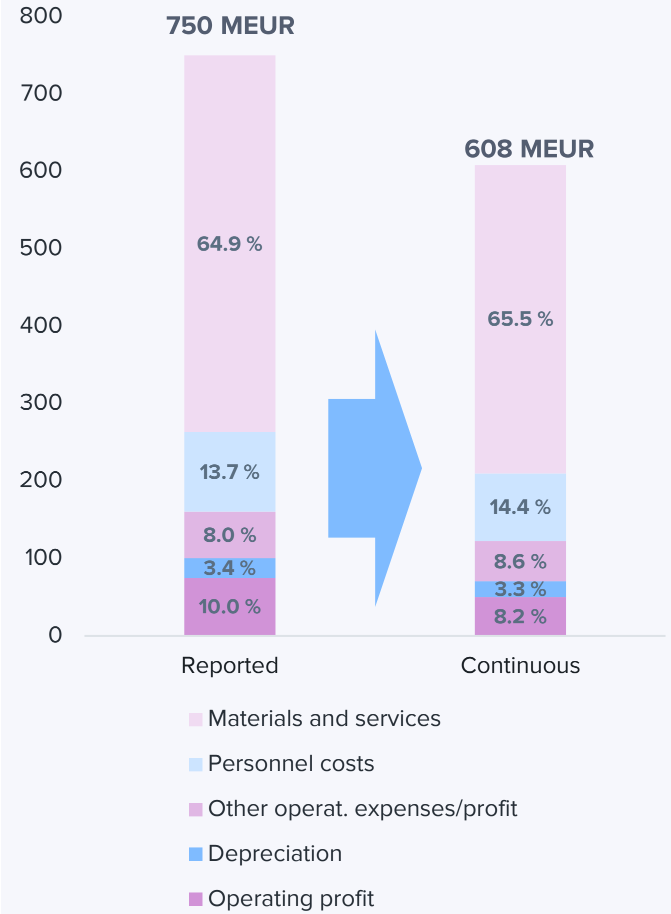
The exit of the Russian business resulted in a rather significant change in Ponsse's cost structure. In the 2021 pro forma figures for continuing operations, the share of material, personnel and other operating expenses of net sales is 0.6-0.7 percentage points higher in each category than in the corresponding reported figures. As a result, Ponsse's 2021 EBIT margin for continuing operations was 1.8 percentage points lower (act. 8.2%) than the reported margin (10.0%). Both Ponsse's new equipment sales and especially its service business in Russia appear to have been clearly more profitable than the group average. Based on the pro forma figures published by Ponsse, the EBIT margin of the company's discontinued Russian operations was as high as 17.7% in 2021. The Russian business accounted for 33% of Ponsse's reported EBIT in 2021, so the loss is quite significant.

Good working capital control supports cash flow

Since 2008, Ponsse has reported positive operational cash flow every year that has fluctuated between EUR 11.2 million (2009) and EUR 102.4 million (2021). Strong cash flow has been the result of both good profitability and successful working capital control. The used machine business is increasing Ponsse's inventories, but their cycle time has also fallen from just over 140 days in 2016 to just over 90 days in 2021.

As Ponsse sells most of its machines in cash, the turnover time for the entire sales receivable stock is fast - 20-21 days in recent years. This has, however, been influenced by Russia's significant role in business. The turnover period for trade payables, on the other hand, is 50-70 days. The difference in turnover times explains why during the 2017-2021 period of net sales growth (8% per year on average), the company's net working capital change has been very moderate (only 6 MEUR in total).

Reported and pro forma cost structure 2021 (MEUR & % of net sales)



Source: Ponsse

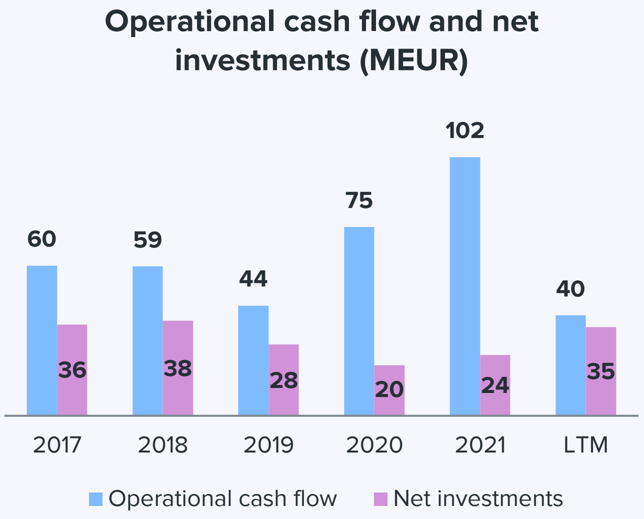
Financial position 3/3

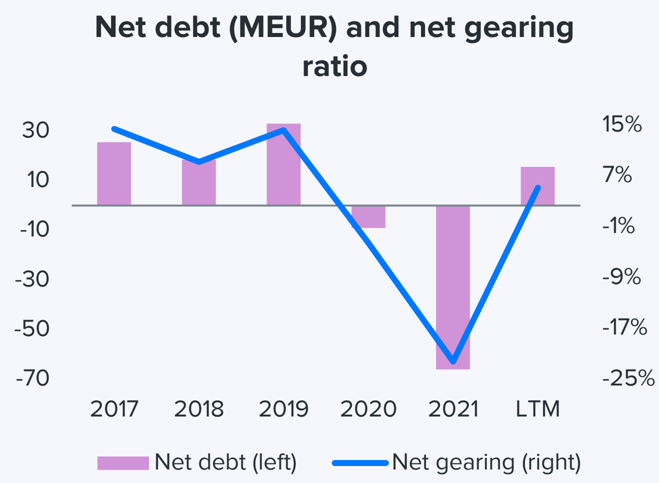
Investment financed fully with cash in hand

Funding investments with operational cash flow is part of Ponsse’s cautious financing strategy. Over the past 20 years, the Group’s investments have only twice (2008 and 2012) exceeded operational cash flow. Over the past five years (2017-2021), Ponsse’s operational cash flow has been 128% higher than net investments (337 MEUR vs. EUR 148 million) and this period also covers the EUR 36 million expansion investment in Vieremä. From a cash flow viewpoint, Ponsse thus has a lot of operational leeway.

Financial indicators are in shape

The strong cash flow has also resulted in clearly strengthened financial indicators. At the end of Q2'22, Ponsse's net gearing was 5%. The net debt / EBITDA ratio, which measures debt-servicing capacity, was also still excellent at 0.2x, although it weakened slightly from a year ago (0.0x). Overall, Ponsse's financial risk is low. In 2022, the average interest rate paid by the company on its bonds will be around 1%, but this is expected to rise to around 2% in 2023. There is no real collateral in financing nor are there any financial covenants.





Source: Ponsse

Estimates 1/4

Background assumptions of net sales estimate

We estimate Ponsse’s net sales development as a combination of the expected sales volume of new forest machines and related used machine business, as well as growth in service business based on the delivered machine stock. Our estimate is based on our earlier assumption of a 1% p.a. growth in the cut-to-length forest machinery market from 2022 to 2025 (5% p.a. pro forma, i.e. excluding Russia).

The table shows our estimates of both market volume development and the development of Ponsse’s volumes and market share in 2020-2024. The decrease in market share in 2022 is due to the fact that Ponsse's dependence on the Russian market is slightly higher than the average for other machinery suppliers. Overall, Ponsse's market share will remain fairly stable over the estimate period as the company's strong and modern product portfolio helps to compensate for the loss in Russia. We don't estimate that the component shortage will affect Ponsse's supply ability, as the impact has so far been relatively limited and we expect the availability of components to improve.

Overall, we expect Ponsse's new machine sales to grow by 5% p.a. in 2022-2025. (11 % p.a. pro forma). Of this growth, 1 percentage point (6 pp pro forma) comes from volumes and 4 percentage points from prices, whose increases are reflected in Ponsse's net sales and profitability with an average lag of 7 months, i.e., in line with the order backlog cycle. The projected price increases are very front-loaded, as we estimate price increases of around 10% for machines already sold in 2022 (i.e. not yet delivered).

Alongside the forest machines, Ponsse sells harvester heads (attachment grapples), which we estimate to have a net sales of EUR 27-28 million in 2022 and a growth rate of around 5% p.a. thereafter.

As market growth for new machinery is rather sluggish, this is also reflected in the used machine sales. We expect used machine sales to grow by an average of 1% p.a. (+3% p.a. pro forma) between 2022 and 2025. The estimate accounts for the loss of the rather significant used machine sales from Belarus. In Russia, used machine sales have been limited.

Our maintenance service business growth estimate for 2022-2025 is -2% p.a. as the 3,000 machines will be left out of the service. Maintenance service net sales outside Russia are expected to grow at an annual rate of 6% over the estimate period, with price increases for wear and spare parts playing a key role in this growth.

Combining these segments, we expect Ponsse Group's reported net sales growth for 2022-2025 to be 3% p.a. and pro forma growth to be 9% p.a.

Volume development of the CTL forest machine market and Ponsse 2020-2024e (number of machines)

	2020	2021	2022e	2023e	2024e
Market total	3,550	3,970	4,000	3,911	4,149
change %	-21%	12%	1%	-2%	6%
Ponsse	1,060	1,215	1,160	1,158	1,253
change %	-13%	15%	-5%	0%	8%
Market share	29.9%	30.6%	29.0%	29.6%	30.2%

Source: Ponsse / Inderes’ estimates

Estimates 2/4

Background assumptions of profitability estimate

Our estimate for the profitability development of continuing operations in 2022-2025 is based on the following assumptions:

- Equipment sales in the early part of the estimate period will continue to be forwarder-heavy, which is unfavorable for margins. This is due to increasing sales in areas where harvester sales are focused on harvester heads and the base machine may be an excavator, for example. We estimate that in 2022, around 45% of the units sold will be harvesters and 55% forwarders. We expect the mix to balance at 50-50 from 2024 onwards.
- The different segments' shares of net sales from continuing operations will change, with the share of equipment sales rising from 64% in 2021 to 69% in 2025, while the share of used machines will fall from 15% in 2021 to 14% in 2025 and the share of maintenance from 21% in 2021 to 18% in 2025. In terms of profitability, the net effect of the changes is neutral.
- Apart from the impact of the above-discussed exit of the Russian business, other changes in the cost structure are relatively small. In the 2022-2025 income statement we expect the share of material and service costs of net sales to be 64.0-64.5% (2021 continuing operations actual: 65.5%), the share of personnel costs to be 14.1-14.6% (14.4%), share of other operating expenses 8.2-10.3% (9.1%), and share of depreciation 3.2-3.6% (3.3%). The stability of the cost structure reflects the company's relatively low operating leverage and Ponsse's good historical track-record of passing on material cost increases to own product prices. In the 2022 estimate, the high share of other operating expenses (10.3%) is explained by the excessive increase in the volume of purchased services in H1'22 relative to net sales, from which Russia has been removed. We believe that Ponsse will be able to rectify the situation quite quickly.
- The interest Ponsse paid on its loans rises from 1.0% (2022) to 2.4% (2025).
- The group tax rate in 2022-2025 is 22.0-23.4%.

Return to normal in investments

We estimate the company's investments in 2022-2025 to be slightly above normal at EUR 27-32 million. The figure will be boosted by a EUR 15-16 million investment in Epec's new factory in 2022-2023. At the same time, Ponsse is very selective in other investments in fixed assets, focusing only on essential maintenance and replacement investments.

Estimates for 2022

In continuing operations, Ponsse's H1'22 order intake (397 MEUR) was at the previous year's level (-1% y-o-y). Both price increases and currencies supported order intake and it is difficult to assess its volume development. Order intake improved in Q2'22, especially in the Americas. The order book for continuing operations at the end of H1'22 (357 MEUR) was 39% higher than a year earlier. H1'22 net sales from continuing operations grew 19%, but EBIT (6.2%) was clearly down year-on-year (9.1%). In H1'22, the share of material costs of net sales was surprisingly at the same level as a year ago, but the share of wage costs was already on the rise. However, other operating expenses played the biggest role in the deterioration of margins (10.2% of net sales vs. 8.3% y-o-y). These costs reflect the increased share of purchased services mentioned earlier. EPS from continuing operations in H1'22 were also burdened by foreign exchange losses of over EUR 3 million and an unexpectedly high corporate tax rate of 28%.

Ponsse's 2022 guidance indicates a similar EBIT from continuing operations in euros as in 2021 (50.0 MEUR). Relative profitability is expected to deteriorate significantly. The guidance may look challenging, as after H1'22 Ponsse's EBIT from continuing operations is EUR 6 million behind H1'21. However, the company believes that net sales growth, the impact of previous price increases on profitability from Q4'22 onwards, and

Estimates 3/4

ongoing cost-cutting will help the company to meet or exceed guidance.

We expect the rapidly deteriorating cycle picture to be reflected in Ponsse's H2'22 order intake, which we expect to decline 4% year-on-year for continuing operations. In contrast, we forecast H2'22 net sales to grow by 23% year-on-year, driven by a strong order book at the end of H1'22 and the impact of implemented price increases.

Our estimate for the H2'22 EBIT margin from continuing operations is 8.2%, up from 7.4% year-on-year. The rise is supported by both volume growth and price increases, which Ponsse has used to neutralize the effects of component inflation by the end of the year. At the same time, the impact of cost savings (e.g. change negotiations) is starting to be felt. As a sum of the actual H1'22 and the H2'22 estimate, we expect full-year 2022 order intake from continuing operations to be EUR 751 million (-3% y-o-y), net sales EUR 736 million (+21% y-o-y) and EBIT EUR 53 million (margin 7.2%). In terms of euro-denominated EBIT, Ponsse doesn't have room for big disappointments in H2'22 relative to our estimates without the risk of a negative profit warning materializing.

Our expectation for the full year 2022 net financial expenses (-3.3 MEUR) is EUR 1.4 million higher than in 2021, mainly due to exchange rate losses in H1'22. Despite high taxes in H1'22, we expect the corporate tax rate (23.4%) to decrease year-on-year (26.9%), as the 2021 Ponsse Latin America tax charge was a one-off item. Our adjusted EPS estimate for 2022 is EUR 1.47, up 17% from EUR 1.26 in 2021. Our dividend estimate is EUR 0.80 (2021: 0.60+0.25) translating to a 58% (2021: 68%) payout ratio.

Estimates for 2023-2025

Based on Ponsse's forest machine sales volume estimates and 1) annual increases in average prices we expect the net sales from new machine sales to grow by 5% in 2023, by 9% in 2024, and by 2% in 2025. Given the high benchmark figure for 2022, we expect an annual growth rate of only 1% for used machine sales in 2023-2025.

With the exit of the Russian maintenance market, we estimate the machine stock under maintenance (less than 15 years old) to grow from 11,300 machines (2022e) to 13,300 machines (2025e) and the maintenance net sales per machine to be EUR 10,900-11,300. Our net sales growth expectations for maintenance are 6% (2023e), 8% (2024e) and 6% (2025e). On a combined basis, our net sales growth forecasts for the group are 4% (2023e), 8% (2024e) and 3% (2025e).

Our result estimates for 2023-2025 are based on above-presented assumptions of the cost structure. Volume growth and price increases support the increase in the EBIT margin for 2023-2024 (2023e: 9.1%; 2024e: 10,1%), but the rate of improvement will slow down thereafter (2025e: 10.5%) and the margin will remain quite far from Ponsse's 12% target.

EPS grow and balance sheet strengthened

Overall, the expected average EPS growth for 2022-2025 is a strong 19% p.a. (pro forma). This is against the backdrop of a weak comparison year of 2021. 60% of earnings growth is generated from net sales growth and 40% from margin improvements.

Improving profitability and a strong balance sheet and cash flow will lead to higher dividends. Our dividend estimates are EUR 1.05 (2023e), EUR 1.20 (2024e) and EUR 1.30 (2024e) indicating a payout ratio of 51-54%.

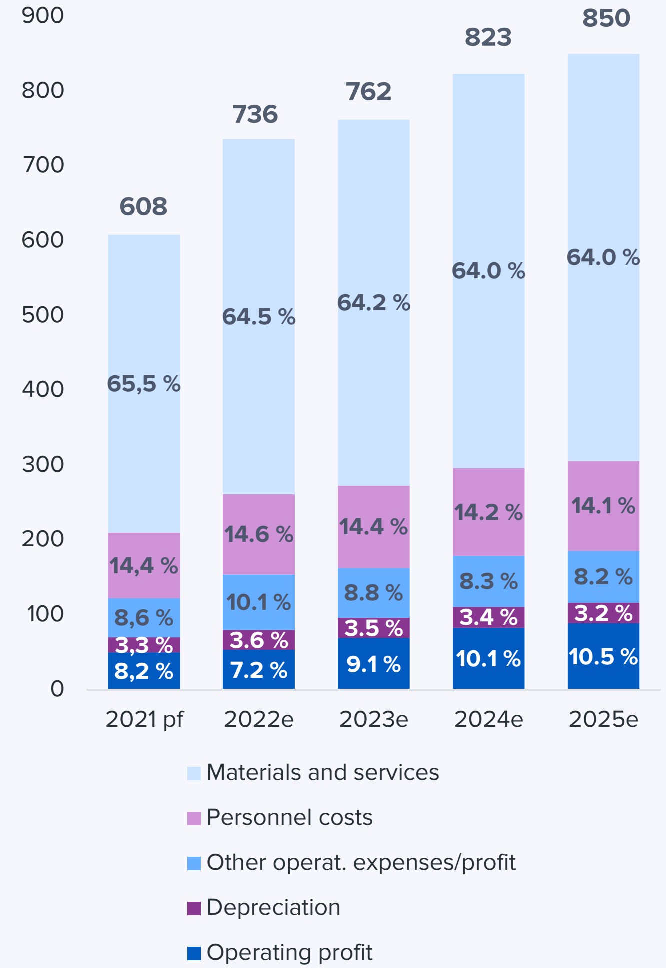
Estimates 4/4

Our estimates for Ponsse's operational cash flow in 2022-2025 are strong (56-94 MEUR) and these funds can easily cover future investments. In our forecast, net debt is increasingly negative and in 2025 the company would have net assets of EUR -169 million and gearing of -39%. If “overcapitalization” of the balance sheet is to be avoided, the company must make significant new investments/contributions or significantly increase the dividend payout ratio.

Long term estimates

After the actual estimate period we expect on average 2-3% growth from Ponsse with terminal growth at 2.5%. We believe the EBIT margin will remain at 10.0-10.4%. Our terminal margin assumption of 10.0% is the same as the 2012-2021 median (10.1%). We don’t expect an increase close to the target of 12%, as earnings pressure has increased following the closure of the high-margin Russian business.

Net sales breakdown as costs and profit 2021-2025e, MEUR & %



Source: Ponsse / Inderes’ estimates

Income statement

Income statement	2020	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	**637**	**608**	**156**	**196**	**174**	**210**	**736**	**762**	**823**	**850**
EBITDA	**81.8**	**70.1**	**16.1**	**19.2**	**19.9**	**24.9**	**80.0**	**96.0**	**111**	**117**
Depreciation	-24.6	-20.1	-7.1	-6.3	-6.7	-6.7	-26.8	-26.7	-27.7	-27.5
EBIT (excl. NRI)	**57.1**	**50.0**	**9.0**	**12.9**	**13.2**	**18.2**	**53.3**	**69.3**	**83.0**	**89.1**
EBIT	**57.1**	**50.0**	**9.0**	**12.9**	**13.2**	**18.2**	**53.3**	**69.3**	**83.0**	**89.1**
Net financial items	-17.7	-1.9	1.6	-3.2	-0.3	-1.4	-3.3	1.1	1.7	2.5
PTP	**39.6**	**48.1**	**10.6**	**9.8**	**12.9**	**16.8**	**50.1**	**70.4**	**84.7**	**91.5**
Taxes	-7.3	-12.9	-2.1	-3.7	-2.6	-3.3	-11.7	-15.5	-18.6	-20.1
Net earnings	**32.3**	**35.2**	**8.5**	**6.1**	**10.3**	**13.5**	**38.4**	**54.9**	**66.1**	**71.4**
EPS (adj.)	**1.58**	**1.28**	**0.28**	**0.34**	**0.37**	**0.48**	**1.47**	**1.96**	**2.36**	**2.55**
EPS (rep.)	**1.15**	**1.26**	**0.30**	**0.22**	**0.37**	**0.48**	**1.37**	**1.96**	**2.36**	**2.55**

Key figures	2020	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	-4.6 %	-4.5 %	9.4 %	28.8 %	26.7 %	19.3 %	21.0 %	3.5 %	8.0 %	3.2 %
Adjusted EBIT growth-%	-15.1 %	-12.5 %	-28.3 %	-9.8 %	23.5 %	45.6 %	6.5 %	30.1 %	19.8 %	7.3 %
EBITDA-%	12.8 %	11.5 %	10.3 %	9.8 %	11.4 %	11.9 %	10.9 %	12.6 %	13.5 %	13.7 %
Adjusted EBIT-%	9.0 %	8.2 %	5.7 %	6.6 %	7.6 %	8.7 %	7.2 %	9.1 %	10.1 %	10.5 %
Net earnings-%	5.1 %	5.8 %	5.4 %	3.1 %	5.9 %	6.4 %	5.2 %	7.2 %	8.0 %	8.4 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**158**	**163**	**164**	**170**	**169**
Goodwill	3.8	3.8	3.8	3.8	3.8
Intangible assets	36.7	42.1	43.3	44.5	46.1
Tangible assets	112	112	111	116	113
Associated companies	0.8	0.8	0.9	0.9	0.9
Other investments	0.4	0.4	0.4	0.4	0.4
Other non-current assets	0.8	0.2	0.2	0.2	0.2
Deferred tax assets	3.1	3.4	4.5	4.5	4.5
Current assets	**316**	**350**	**363**	**395**	**445**
Inventories	142	167	169	175	189
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	50.4	61.6	69.9	72.4	78.2
Cash and equivalents	124	121	123	147	178
Balance sheet total	**474**	**513**	**527**	**565**	**615**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**255**	**297**	**325**	**358**	**394**
Share capital	7.0	7.0	7.0	7.0	7.0
Retained earnings	240	278	293	325	362
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	4.4	8.3	22.0	22.0	22.0
Other equity	3.5	3.5	3.5	3.5	3.5
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**56.6**	**55.5**	**40.1**	**40.1**	**40.1**
Deferred tax liabilities	1.1	1.0	0.8	0.8	0.8
Provisions	5.0	4.6	4.3	4.3	4.3
Long term debt	50.5	49.9	35.0	35.0	35.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.1	0.1	0.1	0.1
Current liabilities	**162**	**160**	**162**	**167**	**180**
Short term debt	64.1	4.9	7.0	7.0	7.0
Payables	98.2	155	155	160	173
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**474**	**513**	**527**	**565**	**615**

Valuation and recommendation 1/3

Basis of the valuation

We examine the valuation of Ponsse's share from three perspectives, namely 1) the total shareholder return model, which takes into account earnings growth, relative valuation level and dividend yield; 2) the earnings-based valuation multiples (P/E and EV/EBIT) and their relation to the peer group and the historical multiples of the share; and 3) the DCF model. Based on the results these generate we try to form an overall picture of the share's fair value on which we base our investment view.

Positive and negative value drivers

According to our view, factors that support Ponsse's share value are:

- **Tight focus** on the growing market of cut-to-length machines
- **Strong market position** as the world's second largest player in the selected segment and evidence of a stable or growing market share
- **Flexible cost structure** for an engineering company which helps in economic fluctuations
- **Strong long-term performance history**, with an emphasis on consistency and predictability
- **Strong balance sheet** that both protects from market shocks and offers opportunities for new growth investments.

According to our view, the following factors depress Ponsse's share value:

- **Uncertainty about replacing the closed Russian business.** Russia accounted for almost 20% of Ponsse's net sales before the market closure and it is uncertain to what extent and in what timeframe Ponsse will be able to replace the lost net sales in other markets.
- **Smaller size than the average peer.** The valuation of shares in medium-sized companies like Ponsse (which are not interpreted by the market as "growth companies") suffers somewhat from a lack of visibility and recognition relative to peers that are often 3-5 times larger in terms of market capitalization.
- **Relatively small share of recurring business**. The small share of recurring business (typically service work) in net sales raises the risk profile and thus lowers the valuation level in relation to peers. In 2021, 21% of Ponsse's net sales was from maintenance services, compared to 32% for Cargotec, 35% for Valmet and 37% for Caterpillar.
- **Thin liquidity of the share.** In all, 64% of Ponsse's share capital is held by the founding family so the free float is quite small. The liquidity of this stock is thin: over the past year, the turnover rate was only 15%, compared to 124% for Cargotec and 71% for Valmet. However, liquidity has also been declining in other smaller machinery companies. For example, in Glaston it was 20% and in Raute 14%. In any case, the low liquidity of the stock is driving away some institutional investors and is reflected in valuation levels.

Valuation	2022e	2023e	2024e
Share price	26.3	26.3	26.3
Number of shares, millions	28.0	28.0	28.0
Market cap	735	735	735
EV	654	630	599
P/E (adj.)	17.9	13.4	11.1
P/E	19.2	13.4	11.1
P/FCF	26.4	16.2	12.6
P/B	2.3	2.1	1.9
P/S	1.0	1.0	0.9
EV/Sales	0.9	0.8	0.7
EV/EBITDA	8.2	6.6	5.4
EV/EBIT (adj.)	12.3	9.1	7.2
Payout ratio (%)	58.4 %	53.5 %	50.8 %
Dividend yield-%	3.0 %	4.0 %	4.6 %

Source: Inderes

Valuation and recommendation 2/3

- **Absence of acquisition target option.** Ponsse's ownership structure and also the basis of operations makes it an unlikely acquisition target and thus eliminates any possible speculation upside from the pricing of the share.

Peer group and its valuation

Due to the lack of direct peers Ponsse's peer group is quite mixed and is largely formed of clearly larger companies than Ponsse, like Finnish Cargotec and Valmet, and international conglomerates like Deere & Company and AGCO. In assembling the peer group, we have emphasized the companies' focus on either the forest industry, lifting equipment or construction machinery in a broad sense. We believe these sectors have similar end-use demand and profitability drivers as Ponsse. We emphasize 2023 in our valuation analysis of the peer group.

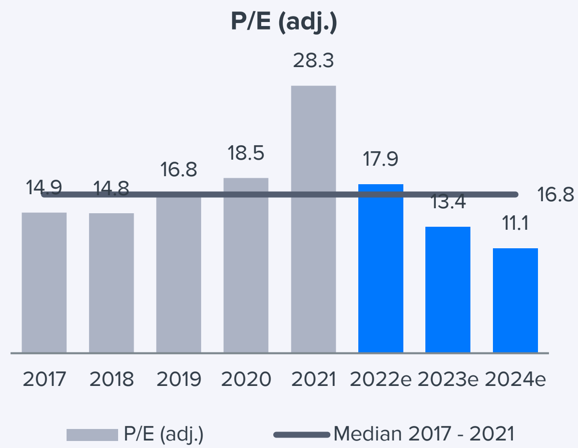
The peer group's median P/E for 2023 is 11x. Ponsse's corresponding ratio with our estimates is 13x. The 2023 EV/EBIT ratio is 10x for the peer group and 9x for Ponsse. The P/E ratio values Ponsse's share at a 23% premium but the EV/EBIT ratio at an 8% discount to the median of its peers. As Ponsse's net gearing ratio is clearly below the median of its peers, we consider the EV/EBIT ratio more appropriate for valuation comparison than the P/E ratio.

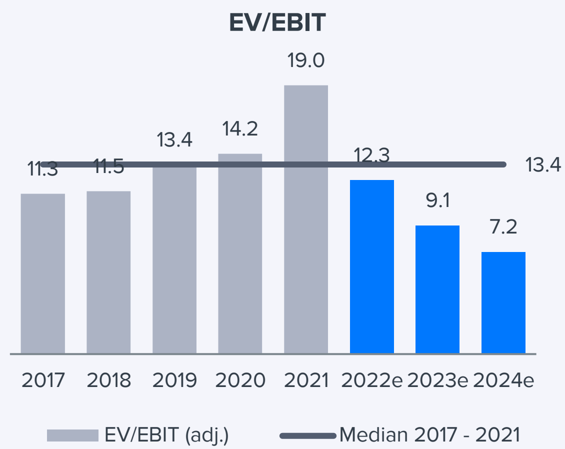
The 2023 median ratios for the peers are quite low. This is against a background of 14-15% year-on-year earnings growth expected from peers, which is optimistic in the current economic outlook. Our own expectation for Ponsse's 2023 earnings growth (EBIT and net profit) is 30-34%, still well above peers. If the earnings growth expectations of the peer group and Ponsse start to look too optimistic, the share price of both peers and especially Ponsse will come under pressure as the denominator of the valuation multiples decreases.

By other measures (EV/EBITDA and P/S), Ponsse's stock is at a 5-6% discount to its peers. Overall, we find Ponsse's valuation multiple picture to be neutral to mildly challenging.

Ponsse's acceptable valuation multiples

Even without the factors related to the Russian market, the other factors lowering the valuation level of Ponsse's share would justify a reasonable multiple discount of e.g., 5-10% relative to the median of the peer group. We acknowledge that Ponsse's long growth track-record, steady and predictable earnings performance and strong balance sheet would argue in favor of a lower or no discount. However, the direct effects of the closure of the Russian market and the uncertainty associated with compensating for lost business elsewhere still justify, in our view, a discount of at least 5% relative to peers. For 2023, this would imply an EV/EBIT multiple of 9.4x for Ponsse. In turn, this would imply a discount of about 30% to Ponsse's historical EV/EBIT ratio, but the equity market and Ponsse are now in a much less favorable situation than in previous years.





Valuation and recommendation 3/3

Result of total return model is unfavorable

According to our calculations, the total expected return on the Ponsse share (the upside potential based on earnings growth and the expected change in the 2023 valuation multiplier plus dividend yield) is around 6% p.a. The return comprises a 2 % share price potential p.a. and a dividend yield of some 4%. The figure is driven by a rapid increase in adjusted EBIT from EUR 45 million in Q3'21-Q2'22 to EUR 69 million in 2023. For 2023, we have estimated an acceptable EV/EBIT ratio of 9.4x above, with a 5% discount to the peer group median. The total expected return on the stock is below the required return on equity of 9-10%, resulting in a weak risk-adjusted expected return.

The cash flow model indicates reasonable potential

The weakness of the DCF model that is based on discounting future free cash flows is its sensitivity to terminal period growth and profitability assumptions, and therefore the results should be interpreted with caution. In the Ponsse DCF model, the weight of the terminal period in the value of cash flows (55%) is fairly neutral.

We use a weighted average cost of capital (WACC) of 9.2% and a cost of equity of 9.5%. Under these assumptions, the DCF value of Ponsse's share is around EUR 33, indicating an upside of 25%. The potential is reasonable, but given the risks of the model, the upside is by no means significant.

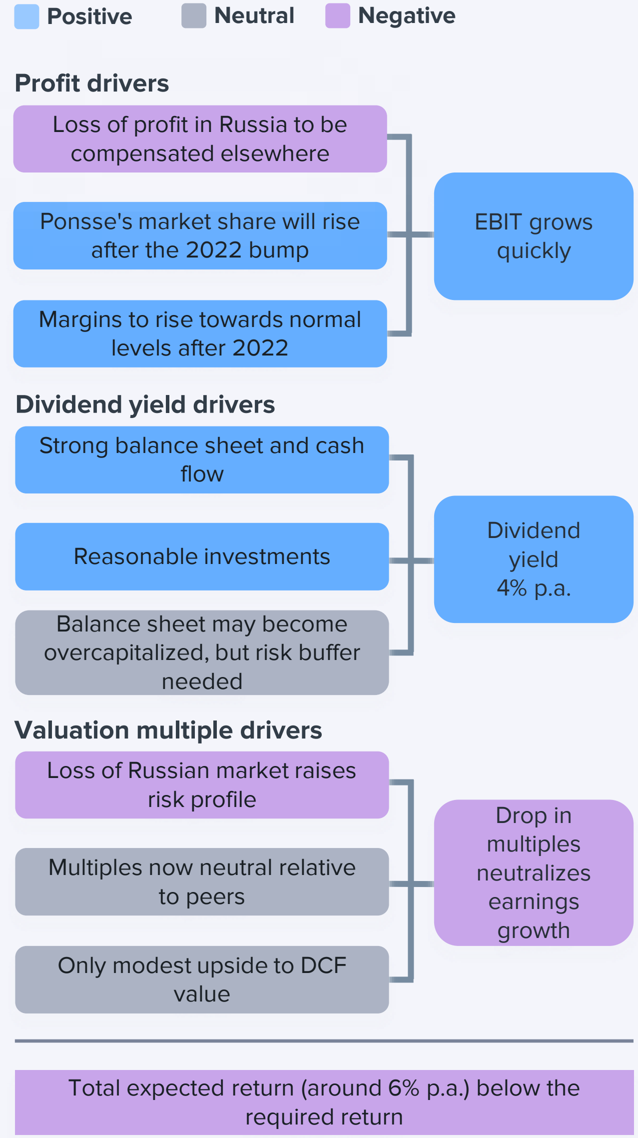
Investment view

We maintain our Reduce recommendation on Ponsse with a neutral valuation and an elevated risk profile due to the uncertainty surrounding the substitution of the Russian market. We set a new target price of EUR 27.50 (29.00), with which the EV/EBIT multiple for 2023 is at a 3% discount to the peer median, and which accounts for the cuts in our estimates.

The key reasons for our still cautious investment view are: 1) total expected return on the share doesn't meet the required return; 2) the component situation remains difficult and puts pressure on both operations and profitability; 3) fully offsetting the loss of volume and profitability in the Russian market in other markets is challenging. The overcapacity situation in forest machine manufacturing may also intensify price competition and put pressure on margins; 4) our own forecasts for 2023-2024 are demanding in terms of the forest machine market as a whole, Ponsse's market share and margin development. The forecasting risk is higher than usual in the current Russian-induced disruption.

A potential positive driver in the near term is a higher-than-expected order intake in regions outside Russia, which could be based on increasing market share thanks to new models. Information on improving component availability and easing pricing pressures would also be positively received by the market.

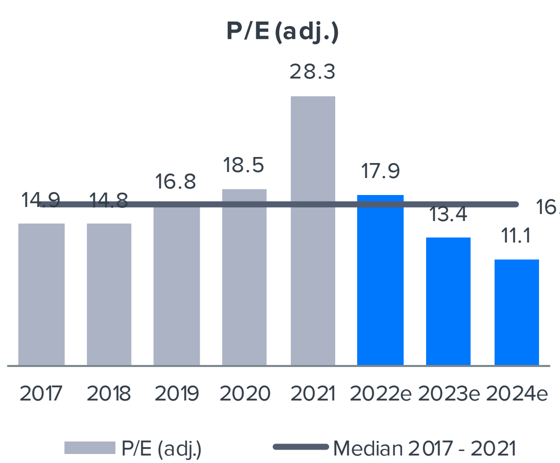
TSR drivers 2022e-2024e

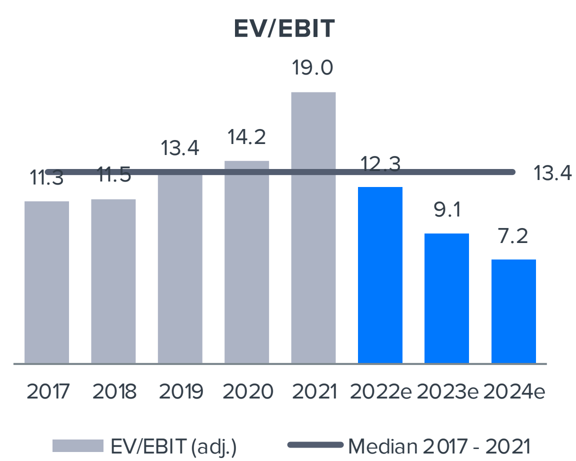


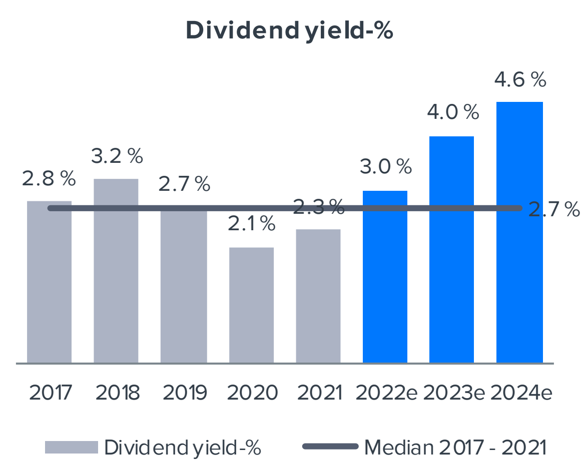
Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	26.38	24.75	31.00	29.20	36.25	**26.25**	**26.25**	**26.25**	**26.25**
Number of shares, millions	28.0	28.0	28.0	28.0	28.0	**28.0**	**28.0**	**28.0**	**28.0**
Market cap	738	692	868	818	1015	**735**	**735**	**735**	**735**
EV	763	711	901	809	949	**654**	**630**	**599**	**566**
P/E (adj.)	14.9	14.8	16.8	18.5	28.3	**17.9**	**13.4**	**11.1**	**10.3**
P/E	16.5	15.8	16.7	25.3	28.9	**19.2**	**13.4**	**11.1**	**10.3**
P/FCF	33.2	21.9	>100	12.4	14.3	**26.4**	**16.2**	**12.6**	**11.3**
P/B	4.2	3.5	3.7	3.2	3.4	**2.3**	**2.1**	**1.9**	**1.7**
P/S	1.3	1.1	1.3	1.3	1.7	**1.0**	**1.0**	**0.9**	**0.9**
EV/Sales	1.3	1.2	1.3	1.3	1.6	**0.9**	**0.8**	**0.7**	**0.7**
EV/EBITDA	9.5	9.2	10.2	9.9	13.5	**8.2**	**6.6**	**5.4**	**4.9**
EV/EBIT (adj.)	11.3	11.5	13.4	14.2	19.0	**12.3**	**9.1**	**7.2**	**6.4**
Payout ratio (%)	46.9 %	51.2 %	45.8 %	52.1 %	67.7 %	**58.4 %**	**53.5 %**	**50.8 %**	**51.0 %**
Dividend yield-%	2.8 %	3.2 %	2.7 %	2.1 %	2.3 %	**3.0 %**	**4.0 %**	**4.6 %**	**5.0 %**

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**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**
Cargotec Corp	2095	2703	8.6	7.1	6.7	5.5	0.7	0.6	9.5	8.0	3.9	4.5	1.3
Valmet Oyj	4637	5082	11.0	9.4	8.1	7.4	1.0	1.0	12.9	11.3	5.1	5.3	1.9
Palfinger AG	930	1598	12.2	10.3	7.4	6.6	0.8	0.8	13.2	10.9	2.5	3.2	1.5
Deere & Co	111874	158546	19.2	16.4	14.6	12.7	3.4	3.1	16.2	14.2	1.2	1.3	6.3
Komatsu Ltd	19699	26063							13.5	10.4	2.9	3.7	1.3
AGCO Corp	8426	10203	8.3	7.8	6.8	6.4	0.8	0.8	9.6	8.9	4.8	0.8	2.3
Terex Corp	2404	2977	7.6	6.7	6.7	6.1	0.7	0.7	9.0	7.9	1.4	1.5	2.1
Caterpillar Inc	99608	130452	16.6	14.6	13.2	12.1	2.3	2.2	15.1	13.7	2.4	2.6	6.6
Escorts Ltd	3216	2614	23.2	23.6	21.5	21.4	2.9	2.6	27.4	28.9	0.3	0.4	3.3
Ponsse (Inderes)	**735**	**654**	**12.3**	**9.1**	**8.2**	**6.6**	**0.9**	**0.8**	**17.9**	**13.4**	**3.0**	**4.0**	**2.3**
Average			**13.3**	**12.0**	**10.6**	**9.8**	**1.6**	**1.5**	**14.0**	**12.7**	**2.7**	**2.6**	**2.9**
Median			**11.6**	**9.9**	**7.8**	**7.0**	**0.9**	**0.9**	**13.2**	**10.9**	**2.5**	**2.6**	**2.1**
Diff-% to median			***6%***	***-8%***	***5%***	***-6%***	***-3%***	***-5%***	***36%***	***23%***	***22%***	***52%***	***6%***

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

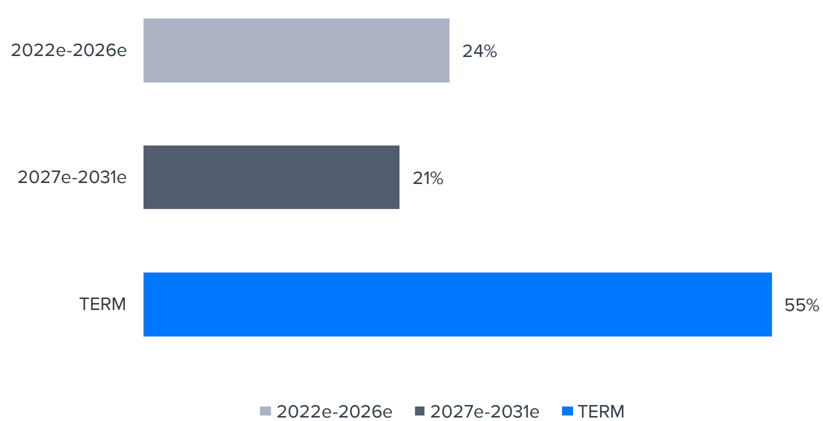
DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	**50.0**	**53.3**	**69.3**	**83.0**	**89.1**	**91.0**	**92.8**	**94.5**	**96.1**	**97.6**	**100**	
+ Depreciation	20.1	26.8	26.7	27.7	27.5	27.6	26.9	27.5	28.0	28.5	28.9	
- Paid taxes	-13.4	-13.0	-15.5	-18.6	-20.1	-20.8	-21.3	-21.8	-22.2	-22.6	-23.1	
- Tax, financial expenses	-0.7	-0.9	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	
+ Tax, financial income	0.2	0.1	0.6	0.8	0.9	1.2	1.3	1.5	1.6	1.7	1.7	
- Change in working capital	20.2	-10.6	-3.0	-7.0	-3.1	-3.0	-3.0	-2.9	-2.8	-2.7	-2.8	
Operating cash flow	**76.5**	**55.6**	**77.8**	**85.5**	**93.9**	**95.6**	**96.3**	**98.3**	**100.1**	**101.9**	**104.1**	
+ Change in other long-term liabilities	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-24.8	-27.3	-32.3	-27.0	-29.0	-24.7	-30.4	-30.8	-31.2	-31.6	-33.2	
Free operating cash flow	**51.3**	**28.1**	**45.5**	**58.5**	**64.9**	**70.9**	**65.9**	**67.4**	**68.9**	**70.3**	**70.9**	
+/- Other	19.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	71.2	27.9	45.5	58.5	64.9	70.9	65.9	67.4	68.9	70.3	70.9	1090
Discounted FCFF		**27.1**	**40.6**	**47.8**	**48.6**	**48.6**	**41.4**	**38.8**	**36.3**	**33.9**	**31.4**	**482**
Sum of FCFF present value		877	850	809	761	713	664	623	584	548	514	482
Enterprise value DCF		**877**										
- Interesting bearing debt		-54.8										
+ Cash and cash equivalents		121										
-Minorities		0.0										
-Dividend/capital return		-23.8										
Equity value DCF		**919**										
Equity value DCF per share		**32.8**										

Wacc	
Tax-% (WACC)	21.0 %
Target debt ratio (D/(D+E)	5.0 %
Cost of debt	3.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	0.40%
Risk free interest rate	2.0 %
Cost of equity	**9.5 %**
Weighted average cost of capital (WACC)	**9.2 %**

Source: Inderes

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	667.4	636.6	608.3	**736.1**	**762.2**
EBITDA	88.5	81.8	70.1	**80.0**	**96.0**
EBIT	67.3	57.1	50.0	**53.3**	**69.3**
PTP	66.6	39.6	48.1	**50.1**	**70.4**
Net Income	52.0	32.3	55.1	**38.2**	**54.9**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	426.8	474.0	512.6	**527.0**	**565.0**
Equity capital	232.1	255.0	297.3	**325.3**	**357.8**
Goodwill	3.8	3.8	3.8	**3.8**	**3.8**
Net debt	33.0	-9.1	-66.1	**-81.3**	**-105.3**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	88.5	81.8	70.1	**80.0**	**96.0**
Change in working capital	-29.1	14.9	20.2	**-10.6**	**-3.0**
Operating cash flow	44.2	86.7	76.5	**55.6**	**77.8**
CAPEX	-35.8	-22.5	-24.8	**-27.3**	**-32.3**
Free cash flow	6.3	65.7	71.2	**27.9**	**45.5**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	1.3	1.3	1.6	**0.9**	**0.8**
EV/EBITDA (adj.)	10.2	9.9	13.5	**8.2**	**6.6**
EV/EBIT (adj.)	13.4	14.2	19.0	**12.3**	**9.1**
P/E (adj.)	16.8	18.5	28.3	**17.9**	**13.4**
P/E	3.7	3.2	3.4	**2.3**	**2.1**
Dividend-%	2.7 %	2.1 %	2.3 %	**3.0 %**	**4.0 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	1.86	1.15	1.26	**1.37**	**1.96**
EPS (adj.)	1.85	1.58	1.28	**1.47**	**1.96**
OCF / share	1.58	3.09	2.73	**1.99**	**2.78**
FCF / share	0.23	2.35	2.54	**0.99**	**1.62**
Book value / share	8.29	9.11	10.61	**11.61**	**12.77**
Dividend / share	0.85	0.60	0.85	**0.80**	**1.05**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	9%	-5%	-4%	**21%**	**4%**
EBITDA growth-%	14%	-8%	-14%	**14%**	**20%**
EBIT (adj.) growth-%	9%	-15%	-13%	**7%**	**30%**
EPS (adj.) growth-%	10%	-15%	-19%	**14%**	**34%**
EBITDA-%	13.3 %	12.8 %	11.5 %	**10.9 %**	**12.6 %**
EBIT (adj.)-%	10.1 %	9.0 %	8.2 %	**7.2 %**	**9.1 %**
EBIT-%	10.1 %	9.0 %	8.2 %	**7.2 %**	**9.1 %**
ROE-%	24.1 %	13.3 %	12.7 %	**12.3 %**	**16.1 %**
ROI-%	23.5 %	12.4 %	13.8 %	**14.3 %**	**18.8 %**
Equity ratio	55.0 %	54.4 %	58.6 %	**62.3 %**	**64.0 %**
Gearing	14.2 %	-3.6 %	-22.2 %	**-25.0 %**	**-29.4 %**

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
10/23/2019	Reduce	27.00 €	29.30 €
12/4/2019	Accumulate	29.50 €	28.10 €
2/17/2020	Reduce	31.00 €	32.90 €
2/19/2020	Reduce	29.50 €	29.85 €
3/18/2020	Reduce	20.00 €	21.00 €
4/22/2020	Reduce	20.00 €	22.95 €
8/12/2020	Reduce	25.00 €	25.50 €
10/21/2020	Accumulate	29.00 €	26.05 €
11/26/2020	Reduce	31.00 €	29.85 €
2/17/2021	Reduce	33.00 €	33.20 €
4/16/2021	Accumulate	42.00 €	37.70 €
4/21/2021	Accumulate	46.50 €	42.85 €
5/17/2021	Reduce	45.50 €	43.00 €
8/11/2021	Reduce	45.50 €	44.00 €
10/13/2021	Accumulate	45.50 €	39.70 €
10/27/2021	Reduce	45.50 €	46.30 €
2/23/2022	Reduce	36.00 €	34.25 €
3/3/2022	Reduce	30.00 €	28.00 €
4/27/2022	Reduce	30.00 €	28.35 €
8/4/2022	Reduce	30.00 €	24.70 €
8/10/2022	Reduce	29.00 €	27.25 €
9/11/2022	Reduce	27.50 €	26.25 €

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Mikael Rautanen
2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

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

Olli Koponen
2020

Joni Grönqvist
2019, 2020

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2018, 2020

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