

CONCENTRIC

February 2024



LUND UNIVERSITY FINANCE SOCIETY EST 1991



Key investment highlights



- 
- 1 Uniquely positioned in a niche environment with stable demand
 - 2 Strong FCF generation ability of SEK 467m in 2022A
 - 3 Diverse market presence with manufacturing on 3 continents
 - 4 Industrial electrification → Market CAGR 8.9% 2023E-2030E
 - 5 Proven M&A strategy driving accelerated growth

Key investment highlights (cont.)



Strong positioning enables future growth opportunities

1) Strong business model & demand...

Extensive expertise in the pump industry enables Concentric to cater to their customer's specific needs



Although being exposed to market fluctuations, Concentric's products are business critical, with customers often having large order books



Strategically positioned to capitalize on the shift towards eco-friendly vehicles following EMP acquisition



Global presence and distribution network, allows them to reach OEM:s worldwide



R&D expense
~2.1% of sales
5y average



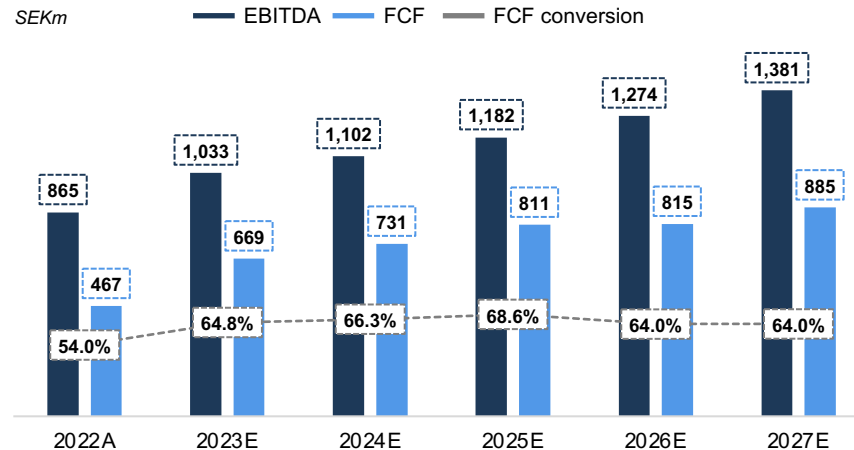
EBITDA margin
~22.8%
5y average



ROIC
~22.9%
5y average

Sources: Analyst estimates, Bloomberg, Company information

2) ...leads to strong FCF generation

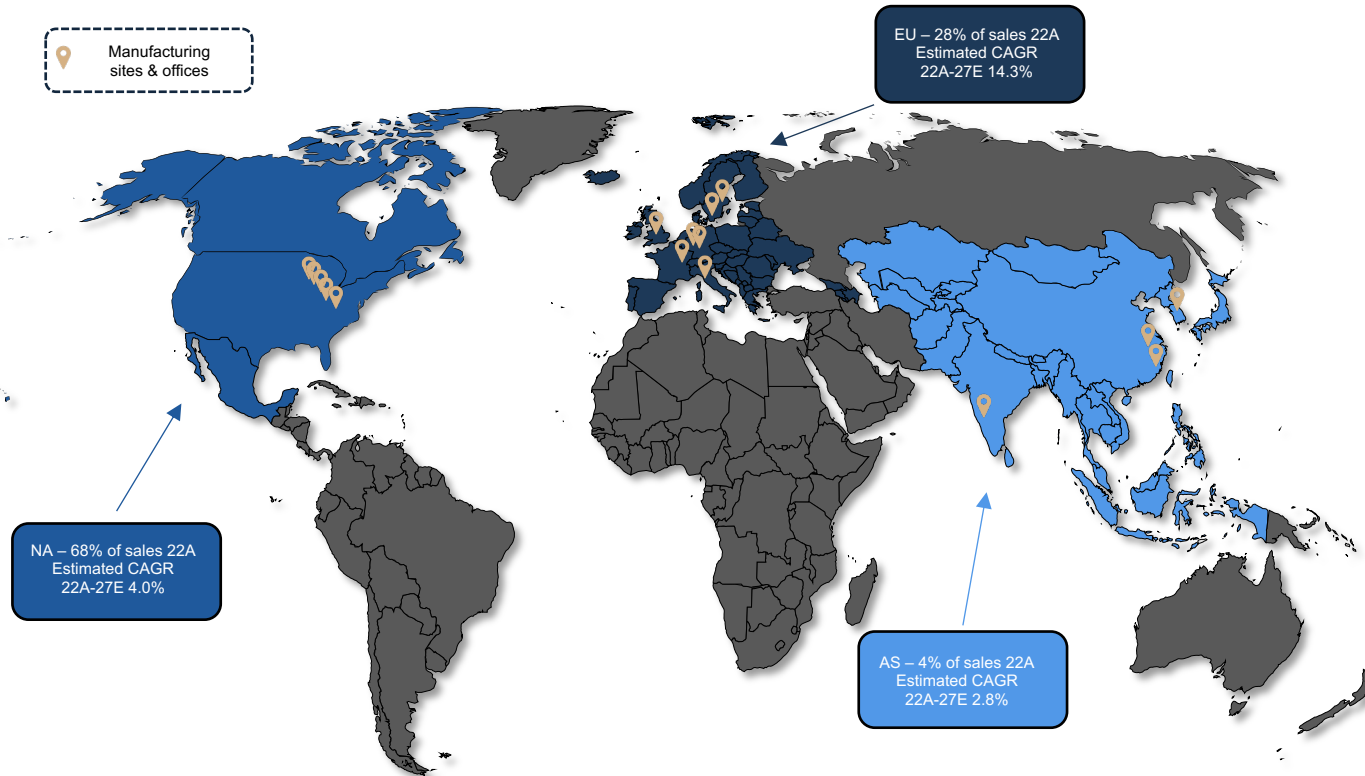


Comments

- Through its efficient operations and financial management globally, Concentric can generate a large amount of FCF
- The substantial amount of cash generated enables R&D spending, strategic investments and acquisitions
- Strong FCF generation allows them to navigate economic fluctuations more efficiently, and seize opportunities for sustained growth

Key investment highlights (cont.)

3) Strong global presence on multiple markets



Comments

- With sustainability being more important than ever, companies in emission-heavy sectors will have to switch to components that reduce emissions
- The shift to emission-reducing components is poised to benefit Concentric, as their products reduce emissions
- Concentric has manufacturing sites in North America, Europe and Asia, which enables them to sell their products locally
- Plans to further expand their distribution network in EU and AS will increase their global presence
- Projected global sales CAGR of 7.3% 2022A-2027E

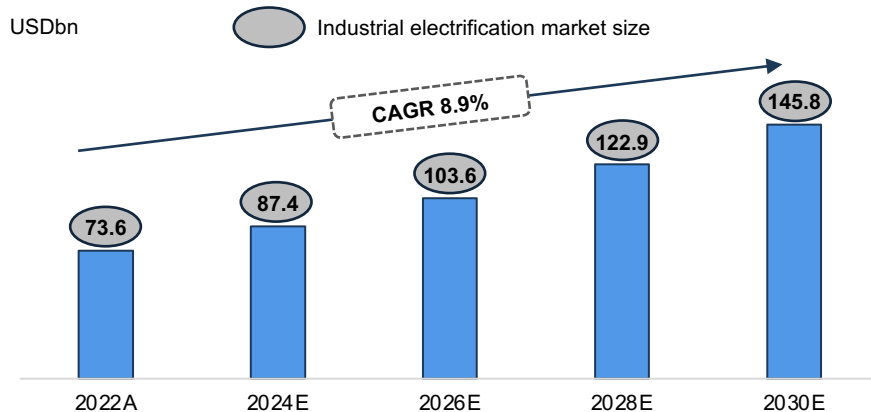
Sources: Analyst estimates, Company information

Key investment highlights (cont.)



Concentric is well-positioned to ride the sustainability wave

4) Sustainability trend driving top-line growth



Comments

- Poised to benefit from the transition to a lower-carbon future through the electrification of industrial processes, the company objective is to achieve 20% of total sales from electric products by 2025
- The integration of EMP into Concentric significantly enhances its technical capabilities and product range, accelerating its growth in the electric products sector

5) Proven M&A strategy

Company	Key metrics	Comments
	Acquired: 2021 TV: SEK 1,260m Sales: SEK 1,530m	<ul style="list-style-type: none"> • Acquisition expanded their product offering to electric products • Increased cross-selling abilities • EMP products accounted for 17% of sales in 2022A
	Acquired: 2021 TV: SEK 95m Sales: SEK 88m	<ul style="list-style-type: none"> • Expanded Concentric's hydraulic solutions portfolio • Enhanced cross-selling abilities • Increased market share within the global transmission market
	Acquired: 2013 TV: SEK 106m Sales: SEK 237m	<ul style="list-style-type: none"> • Licos is a leading producer of water pumps, and electromagnetic fan clutches • The acquisition solidified Concentric's position in NA further

"The strength of Concentric's balance sheet supports our ambition for further acquisitions [...] which can offer either technical or geographical revenue growth"

-Martin Kunz, CEO

Sources: Deloitte, Company information, Statista

Concentric overview

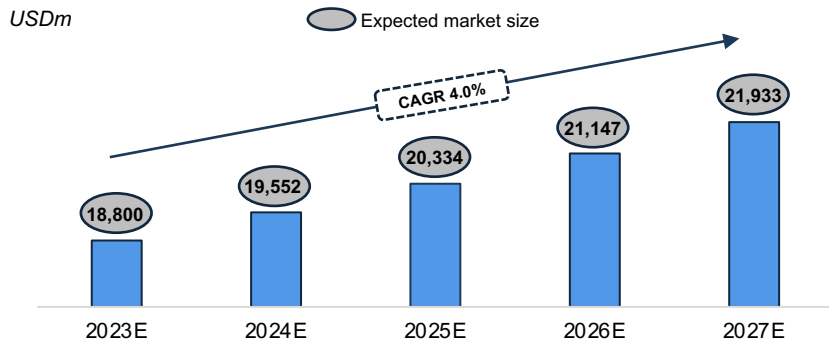


Concentric is an experienced pump manufacturer with a focus on sustainability

Company description

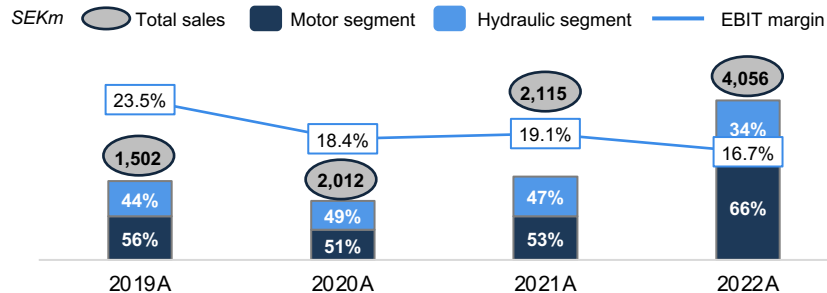
- Founded in 1921, Concentric is one of the leading pump manufacturers globally
- The company's business segments consists of engine- and hydraulic products, which are sold to larger OEM:s in the automotive industry
- With global manufacturing presence in North America, Europe and Asia, they can sell most of their products locally
- Listed on Mid Cap Stockholm with a market cap of SEK 6,510m and EV of SEK 7,435m

Global hydraulic pumps and motors market

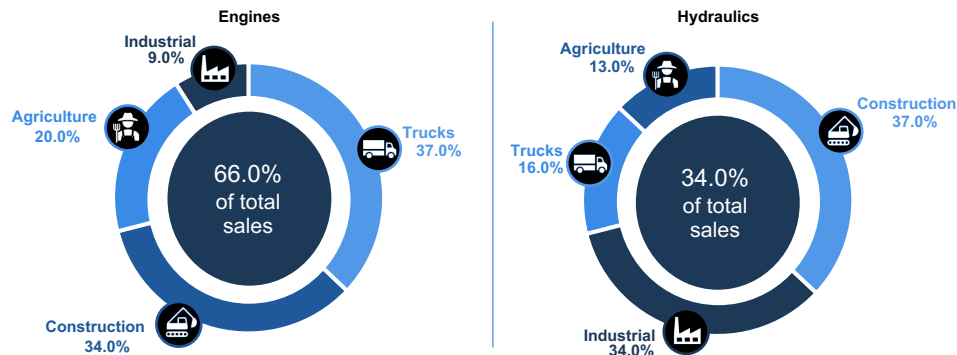


Sources: Bloomberg, Company information, Research And Markets

Financial overview



Business area and revenue split 2022A







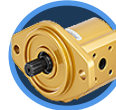



Concentric overview (cont.)



Pioneering precision pumps, led by visionary leaders, and expanding through strategic acquisitions

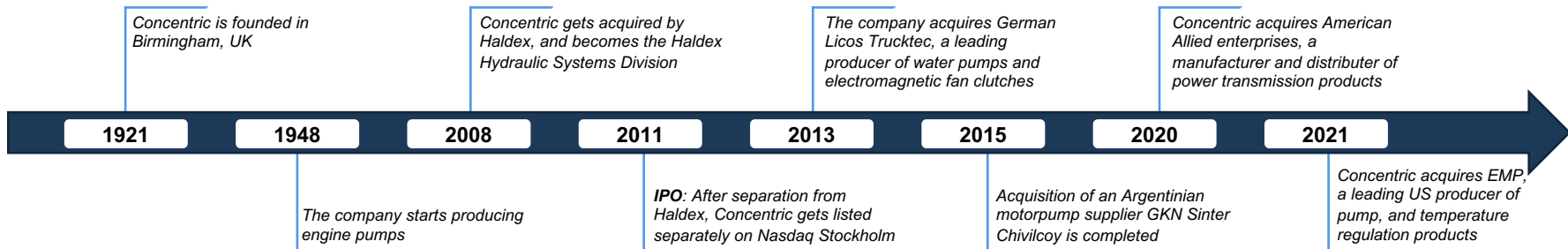
Selection of products

Engine products		Hydraulic products	
			
Oil Pump	Electric Cooling System	Main Hydraulic Pump	Low Noise Pump
			
Fuel Transfer Pump	E-Oil Pump	High Power Density Unit	Electro Steering

Key people

 Martin Kunz CEO	 Anders Nielsen Chairman of the Board	 Marcus Whitehouse CFO
		
 PENTAIR	 xylem	 SCANIA  MAN
		 JCB 

Timeline



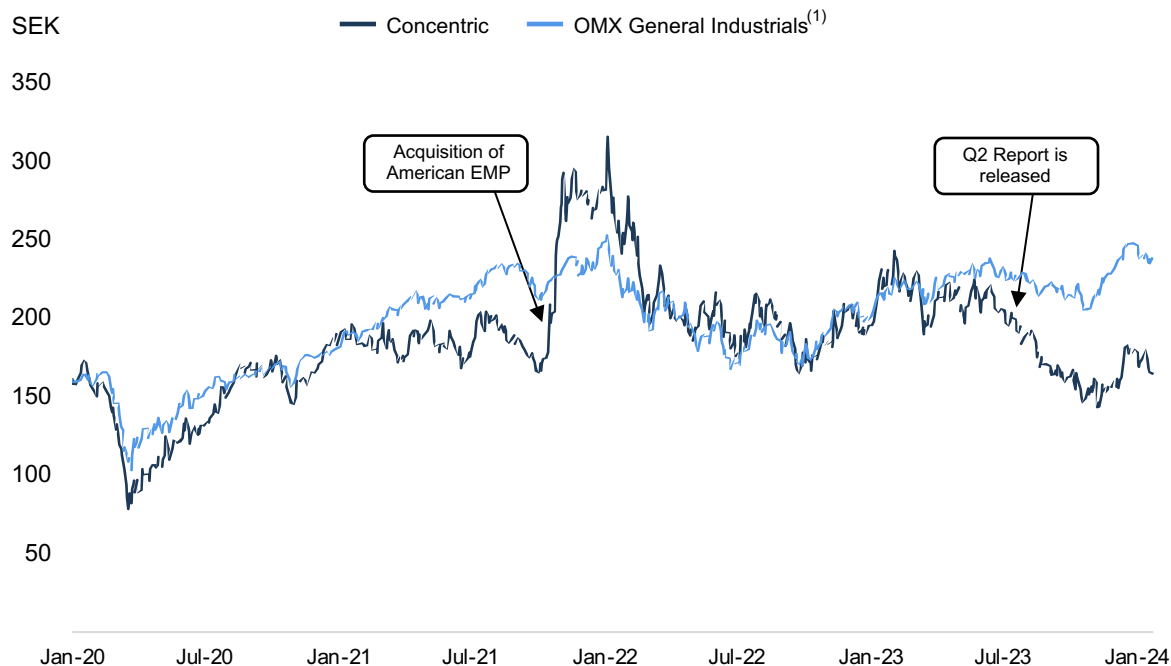
Sources: Company information

Share price performance and ownership



A company with a decentralized ownership but prominently Swedish institutional owners

Share price performance



Note: (1) OMX General Industrials benchmarked at Concentric Jan-2020 share price of 161 SEK
Sources: Avanza, Börndata, Company information

Ownership

Company Name	Country	% of shares
Swedbank Robur		8.9%
Nordea		8.5%
FÖRSTA AP-FONDEN		8.0%
CLIENS		6.4%
Lannebo		4.8%
Top 5		36.6%
FJÄRDE AP-FONDEN		4.7%
Handelsbanken		4.6%
AMF		4.5%
STATE STREET		4.1%
BNY MELLON		2.4%
Top 10		56.9%

Valuation summary

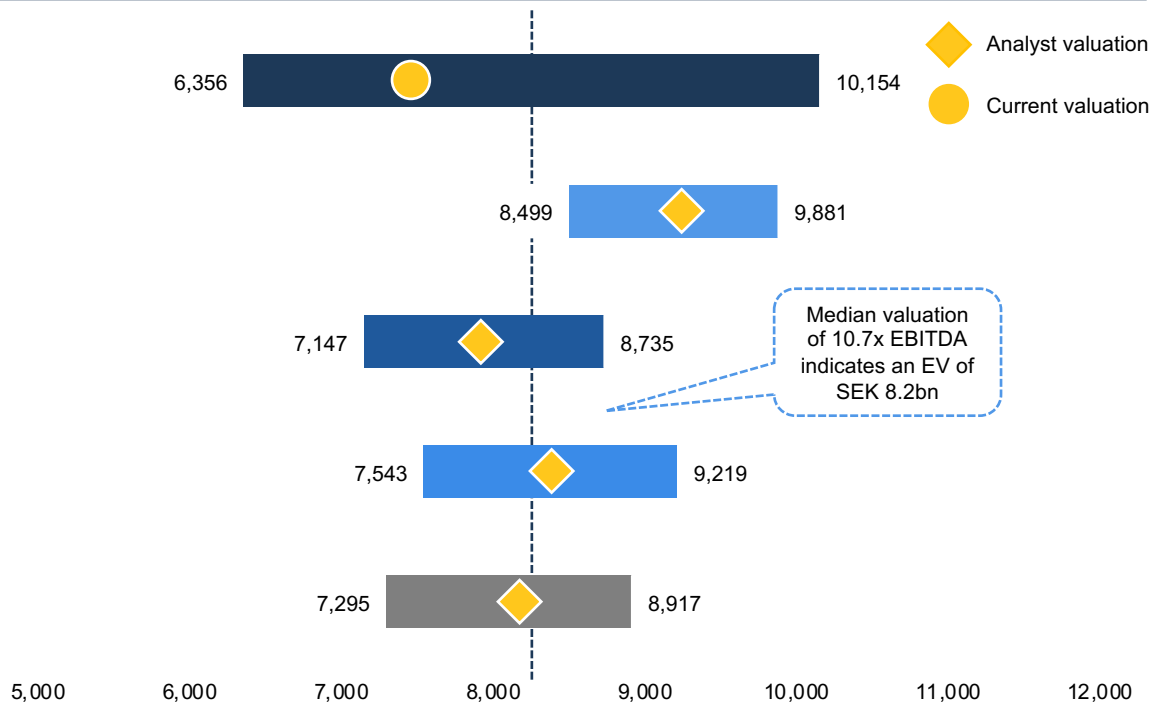


EV valuation ranges from SEK 7.1 – 9.9bn

Method

52 week Trading high / low	<ul style="list-style-type: none"> High: 243 SEK Low: 143 SEK
DCF	<ul style="list-style-type: none"> WACC: 11.5 – 12.5% PGR: 1.5 – 2.5%
Trading Comps	<ul style="list-style-type: none"> -10% EV/EBITDA: 9.3x +10% EV/EBITDA: 11.3x
Precedent Transactions	<ul style="list-style-type: none"> -10% EV/EBITDA: 9.8x +10% EV/EBITDA: 11.9x
LBO	<ul style="list-style-type: none"> -10% EV/EBITDA: 9.5x⁽¹⁾ +10% EV/EBITDA: 11.5x

Enterprise value – Football Field (SEKm)



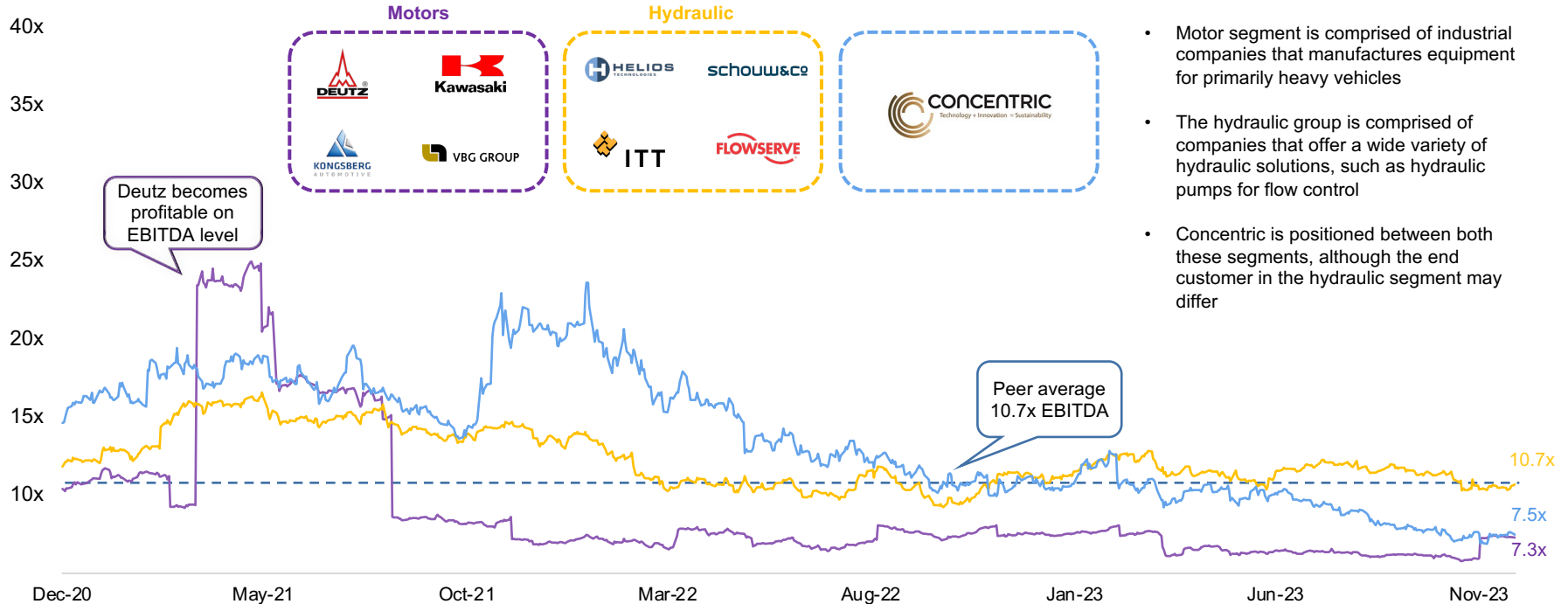
Note: (1) Based on entry multiple of 10.5x EBITDA
Sources: Analyst estimates, Bloomberg, Capital IQ, Company information

Multiples over time



Current average below historical group average

EV/EBITDA – 3 years



Comments

- Motor segment is comprised of industrial companies that manufactures equipment for primarily heavy vehicles
- The hydraulic group is comprised of companies that offer a wide variety of hydraulic solutions, such as hydraulic pumps for flow control
- Concentric is positioned between both these segments, although the end customer in the hydraulic segment may differ

Sources: Capital IQ

Comparable companies



Peer valuation implies an EV/EBITDA multiple of 7.2x⁽¹⁾ in 2024

Financial information (SEKm)

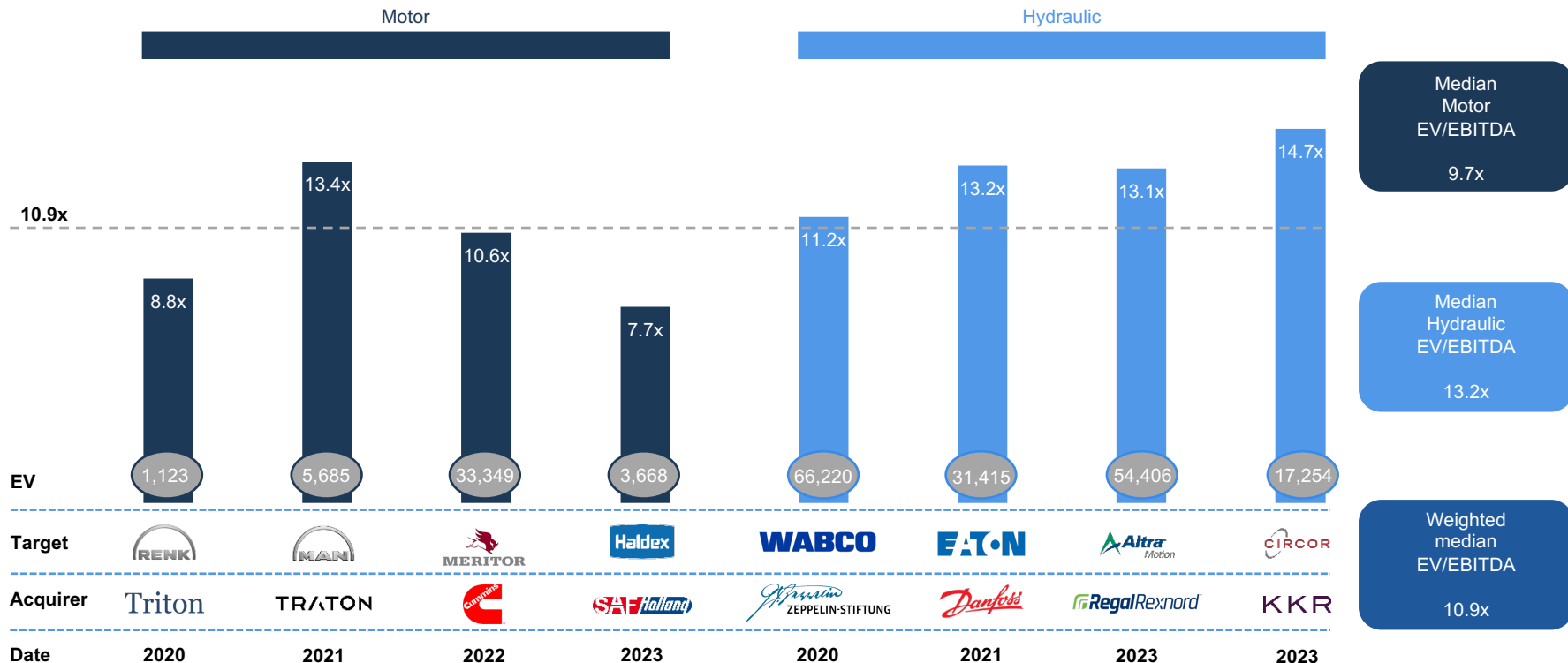
		MCAP	EV	Revenue CAGR	EBITDA margin	ROIC	P/E	EV/EBITDA
		LTM	LTM	22A-24E	LTM	LTM	2024E	2024E
Motors	Deutz	7,946	10,319	6.2%	10.4%	10.8%	6.8x	3.7x
	Kawasaki Heavy	39,729	97,187	2.7%	5.6%	6.1%	8.1x	7.0x
	VBG Group	6,759	6,974	10.2%	15.5%	10.7%	10.3x	7.1x
	Kongsberg	1,683	2,894	3.5%	10.8%	1.0%	8.3x	4.2x
	Median	7,353	8,647	4.8%	8.5%	8.4%	8.2x	5.6x
Hydraulic	Schouw & Co	21,288	31,669	8.2%	7.2%	5.7%	11.1x	7.3x
	Flowserve	55,748	67,276	17.5%	10.4%	6.2%	15.3x	10.3x
	Helios	14,770	20,573	1.8%	21.5%	8.6%	15.2x	10.4x
	ITT	104,927	103,968	9.4%	20.3%	14.2%	19.4x	12.4x
	Median	38,518	49,473	8.8%	15.4%	7.4%	15.2x	10.3x
Concentric	6,510	7,435	6.7%	18.0%	15.2%	9.2x	6.4x	

Note: (1) Valuation weighted 66% motor segment & 34% hydraulic segment, per sales split in 2022
Sources: Analyst estimates, Bloomberg

Precedent transactions



Historical transactions imply an EV/EBITDA of 10.9x⁽¹⁾



Note: (1) Median EV/EBITDA weighted per sales split in 2022A
Sources: Bloomberg, Capital IQ

Discounted cash flow valuation



Preliminary DCF valuation yields an indicative EV of SEK 9.1bn

Discounted cash flows

SEKm	2022A	2023E	2024E	2025E	2026E	2027E
EBITDA	865	1,033	1,102	1,182	1,274	1,381
% margin	21.3%	23.9%	23.9%	23.9%	23.9%	24.0%
EBIT	677	818	873	936	1,009	1,095
Tax	(133)	(162)	(173)	(186)	(201)	(219)
NOPAT	544	656	699	750	808	876
(+) D&A	188	215	230	246	265	286
(-) CapEx	(62)	(108)	(115)	(124)	(133)	(144)
(+/-) Change in NWC	(109)	(1)	14	41	(17)	(19)
FCFF	561	761	828	914	923	1,000

Comments

- WACC at 12.0%
- Perpetuity growth rate set at 2.0%, in line with historical Swedish GDP-growth
- With a top line CAGR of 5.1% 2022A-2032E, supported by market tailwinds, the DCF implies an EV of SEK 9.1bn

		PGR				
		0.5%	1.5%	2.0%	2.5%	3.5%
WACC	EV	9,469	9,922	10,186	10,481	11,191
	11.0%	9,005	9,399	9,628	9,881	10,485
	11.5%	8,583	8,928	9,126	9,345	9,861
	12.0%	8,197	8,499	8,673	8,863	9,308
	12.5%	7,842	8,109	8,261	8,427	8,813
	13.0%					

DCF Summary	
Sum of PV of FCF	3,148
Terminal value	11,683
PV of terminal value	3,777
Enterprise value	9,126
Implied EV / EBITDA 2023E	8.8x
Implied EV / EBITDA 2024E	8.3x

Sources: Analyst estimates, Company information

Leveraged buyout analysis

LBO analysis implies an EV/EBITDA of 10.5x



LBO cash flows

Bank debt & Senior notes	2023A	2024E	2025E	2026E	2027E	2028E
Debt	4,134	3,983	3,373	2,660	1,915	1,074
Interest expense	(56)	(216)	(185)	(150)	(112)	(70)
Debt repayment	(151)	(610)	(714)	(744)	(841)	(957)
Net income	497	481	550	629	718	820
(+) D&A	215	230	246	265	286	303
(-) CapEx	(108)	(115)	(124)	(133)	(144)	(152)
(+/-) Δ NWC	(1)	14	41	(17)	(19)	(13)
Levered cash flow	603	610	714	744	841	957

Comments

- Entry multiple of 10.5x EBITDA implies an EV of SEK 8,106m
- Based on a purchase of the company in Q4 2023
- Exit multiple equals entry multiple
- Corporate tax rate set at 20.0%
- LBO implies MoM of 3.7x and IRR of 29.6%

Sources			
	Amount	xEBITDA	Capital %
Bank Debt	3,307	4.3x	40.0%
Senior Notes	827	1.1x	10.0%
Tot. Debt	4,134	5.4x	50.0%
Sponsor Equity	4,134	5.4x	50.0%
Tot. Sources	8,268	10.7x	100.0%

Uses			
	Amount	xEBITDA	Capital %
Debt retirement	925	1.2x	11.2%
Equity payment	7,181	9.3x	86.9%
Tot. Uses	8,106	10.5x	98.0%
Fees & Expenses	162	0.2x	2.0%
Tot. Uses	8,268	10.7x	100.0%

Sources: Analyst estimates, Company information

Buyer universe

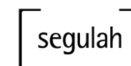


Potential strategic acquirers & financial sponsors

Strategic acquirers







Financial sponsors



Potentially interested parties

Selected strategic acquirers



Company	Key metrics		Comments
	Ownership Market Cap. Revenue Capacity ⁽¹⁾	Public SEK 477.9bn SEK 538.9bn SEK 65.2bn	<ul style="list-style-type: none"> Volvo manufactures trucks, engines, buses, and other construction equipment and serves customers worldwide Given Concentric's existing supplier relationship with Volvo and shared suppliers, there is potential to rationalize the supply chain, leading to economies of scale An acquisition of Concentric could lead to faster development of their fuel cell trucks
	Ownership Market Cap. Revenue Capacity ⁽¹⁾	Public SEK 331.8bn SEK 353.8bn SEK 29.7bn	<ul style="list-style-type: none"> Cummins Inc designs, manufactures, distributes and services diesel and natural gas engines, and electric power generation systems in more than 190 countries Their product lineup matches well, and since they are a customer of Concentric and share suppliers, there is an opportunity to streamline the supply chain, resulting in economies of scale Has acquired vehicle manufacturing plants, and Meritor in 2021
	Ownership Market Cap. Revenue Capacity	Private N/A SEK 937.8bn N/A	<ul style="list-style-type: none"> Bosch has a broad product offering, ranging from home appliances to industrial products, with the industrial segment including DC motors, pumps and valves, blowers and more Similar product offering to Concentric's core business, and a supplier of many endeavors, where Concentric's expertise and products would be valuable Acquisition of HydraForce in 2023 to enhance global hydraulics offering
	Ownership Market Cap. Revenue Capacity ⁽¹⁾	Public SEK 175.0bn SEK 308.8bn SEK 94.8bn	<ul style="list-style-type: none"> Weichai Power specializes in manufacturing of diesel engines, heavy vehicles, construction machinery, hydraulic products, and other related parts With Concentric already being a supplier to Weichai, and the two companies being active in the same segments, both with global exposure, there are potential synergies between the companies Acquisition history of multiple industrial companies, most recently Lovol Heavy Industry in 2021

Notes: (1) Cash position
 Sources: Bloomberg, Company information

Potentially interested parties (cont.)



Selected financial sponsors

Company	Key metrics	Comments
Triton	AUM SEK 203bn # of portfolio companies 52 Latest fund size SEK 18bn Ticket size SEK 4 – 20bn	<ul style="list-style-type: none"> A European private equity firm with a track record of investments in the industrial sector With a focus on the industrial sector and expertise in operational improvements, Concentric fits as a company that would benefit from strategic growth and operational enhancements Potential cost synergies between Concentric and portfolio company Renk that produces transmissions, and other automotive parts
NORDIC CAPITAL	AUM SEK 339bn # of portfolio companies 52 Latest fund size SEK 101.8bn Ticket size SEK >3bn	<ul style="list-style-type: none"> A Swedish private equity company that primarily invests in sectors where they have experience and a proven track record, especially in manufacturing With a large part of their portfolio being companies in the industrial segment and a focus on the Nordics, Concentric would be a good fit for their portfolio Notable investments within the automotive industry as Autocirc in 2023
IK Partners	AUM SEK 63bn # of portfolio companies 64 Latest fund size SEK 32bn Ticket size SEK >1.7bn	<ul style="list-style-type: none"> A European private equity firm with a strong presence in the Nordic countries, focusing on mid-sized companies with growth potential Concentric's position in the engine and fluid power market could align with IK Investment Partner's focus on industrials and their strategy of fostering growth in mid-sized companies Has made multiple investments in automotive and heavy vehicle segment
CARLYLE	AUM SEK 1,663bn # of portfolio companies 290+ Latest fund size SEK 32bn Ticket size SEK 3 – 21bn	<ul style="list-style-type: none"> A leading global investment firm with a wide range of investment activities across various industries, including industrial, technology and automotive Focuses on companies with potential for growth and global expansion, making Concentric a perfect fit for their portfolio Investments within the same sector, such as the acquisition of Flender AG in 2021

Sources: Company information