

## A champion with a hefty price tag

Vaisala's R&D leadership focused strategy and bolt-on acquisitions have paid off well during the last years. Dark clouds are currently hanging over W&E, but thanks to its strong financial position, and growing share of more profitable IM sales, we see Vaisala on track to targeted above 5% growth and above 12% EBIT margins. However, we continue seeing Vaisala's valuation too expensive given the expected financial performance. We maintain our target price of 32€ and our SELL recommendation

### Maneuvering pass a challenging 2020

Vaisala has managed to maneuver pass the corona pandemic rather unscathed. Due to lowered operating expenses caused by the pandemic and good order book & deliveries, performance has been good in both BU's. Currently, W&E is weighed down by the weakened outlook for aviation and lack of larger infra projects, especially in developed countries. IM on the other hand, is expected to be less affected by COVID going forward.

### Profitable growth with R&D leadership strategy

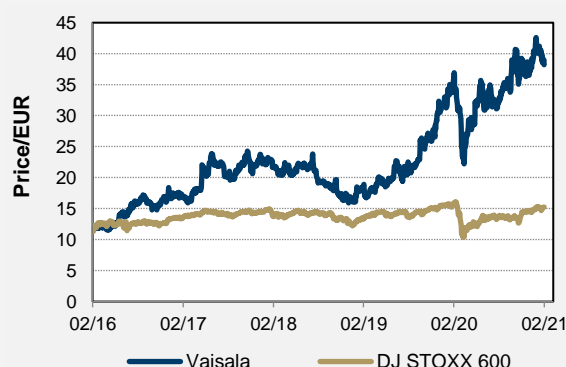
Looking at the coming years, we see Vaisala's targeted above 5% sales growth and >12% margins achievable despite current gloomy outlook for aviation. We expect the growing share of more profitable IM sales to continue supporting Vaisala's growth and operating margin. In 2021E-22E, we estimate Vaisala' net sales to grow by 4.5% and 5.3%, and EBIT margins of 12.2% and 12.6% respectively. We expect W&E market to begin to gradually recover in 2021E-22E with an annual growth rate of approximately 3% and W&E's EBIT margins to gradually improve towards 7% in 2022E. For IM, we expect 2021E-22E continued profitable growth at 7% and 9.6% annual growth rates, respectively. We expect IM's EBIT margins to stay above 20% in 2021-22E.

### Maintain SELL as valuation is expensive

Vaisala's share price has rallied in last few years and is currently around all time high levels. The share price rally is also visible in Vaisala's valuation multiples, which have increased strongly since around mid-2019, resulting in a clear sustained valuation premium of 20-60% during this period. As peer group multiples have rerated as of late, Vaisala's EV/EBIT and P/E valuation premium is now around 20-30% on our 2021-22E estimates. Despite recent surge in valuation multiples, we see valuation too expensive given Vaisala's weaker growth rates and margins compared to our technology peer group. Thus, we maintain our target price of 32€ and our SELL recommendation. Our target price values Vaisala at 21-22e EV/EBIT multiples of 23x and 21x which is above peer group, reflecting Vaisala's strong sustainability profile, growing dividend, and especially IM's highly profitable growth with possibility of further add-on acquisitions.

## Rating

SELL



Share price, EUR (Last trading day's closing price) 38.20

Target price, EUR 32.0

Latest change in recommendation 27-Oct-20

Latest report on company 28-Oct-20

Research paid by issuer: YES

No. of shares outstanding, '000's 36,000

No. of shares fully diluted, '000's 36,000

Market cap, EURm 1,375

Free float, % -

Exchange rate EUR/USD -

Reuters code VAIAS.HE

Bloomberg code VAIAS FH

Average daily volume, EURm -

Next interim report 19-Feb-21

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BUY HOLD SELL

## KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	348.8	39.0	11.2%	-17.7	0.83	22.2	1.8	16.4	-2.7	0.58
2019	403.6	41.1	10.2%	4.6	0.93	34.6	2.9	28.1	0.4	0.61
2020E	382.1	46.7	12.2%	40.2	0.98	38.8	3.5	29.0	2.9	0.63
2021E	399.2	48.5	12.2%	37.5	1.08	35.4	3.3	27.6	2.7	0.65
2022E	420.2	53.0	12.6%	38.1	1.10	34.6	3.1	25.0	2.8	0.67
Market cap, EURm			1,375	Gearing 2020E, %		-10.9	CAGR EPS 2019-22, %			5.7
Net debt 2020E, EURm			-23	Price/book 2020E		6.5	CAGR sales 2019-22, %			1.4
Enterprise value, EURm			1,352	Dividend yield 2020E, %		1.6	ROE 2020E, %			17.3
Total assets 2020E, EURm			349	Tax rate 2020E, %		19.5	ROCE 2020E, %			19.0
Goodwill 2020E, EURm			55	Equity ratio 2020E, %		60.7	PEG, P/E 20/CAGR			5.8

**Investment summary**

Measurement products and services for weather, environment, and industrial applications

Vaisala offers a wide range of observation and measurement products and services for weather, environment, and industrial applications. The company manufactures the sensors in its own cleanroom in Vantaa, Finland. The production of subassemblies is outsourced while final assembly takes place in Vaisala's two factories, in Vantaa, Finland and in Boulder, Colorado. The company has a global network of sales offices.

W&E serves mostly public clients while IM focuses on private industrial clients.

Vaisala has two business areas: Weather and Environment (W&E) and Industrial Measurements (IM). The two areas have synergies in the usage of Vaisala's cleanroom facilities. W&E serves mostly large public-sector clients, with projects that can be very long. In contrast, IM's products are used broadly across private-sector industries, with the average price point low and delivery times often just a few days.

W&E generates most of sales, but IM has a higher growth rate and profitability.

In 2010-2019, Vaisala's net sales have grown at a CAGR of 5.3%. In the same period, W&E's net sales have grown at CAGR of 3.6% while IM's net sales have grown at a CAGR of 9.4%. Overall, Vaisala's net sales and operating margin have developed positively during the 2010's. The improvement has mainly been driven by the increased share of more profitable IM sales. In 2014-2019, W&E's annual EBIT margin varied between 6-8 percent, excluding the 10.5m EUR write-down in 2016. In the same period, IM's EBIT margins have improved from around 15 to 20 percent. Scale economies has been main driver for IM's profitability growth. In 2019, IM generated 35% of Vaisala's net sales and 63% of operating profit.

Several megatrends supporting

Several megatrends support growth in Vaisala's target markets: increasingly common extreme weather events, growing usage of renewable energy, increasing health awareness, efforts to increase power efficiency as well as digitalization.

High R&D efforts and technology driven acquisitions support competitive edge

Technological leadership is at the core of Vaisala's strategy since the company aims for product leadership in its target markets. R&D expenses have amounted to 10-13% of net sales, evenly distributed between both BU'S. In addition, Vaisala's has a history of technology driven acquisitions and the company's strong balance sheet leaves room for further bolt-on acquisitions.

Financial target: above 5% growth and above 12% EBIT margin

Vaisala targets an average annual growth exceeding 5% and an EBIT-margin exceeding 12%. Currently, W&E is weighed down by the weakened outlook for aviation and lack of larger infra projects, especially in developed countries. IM on the other hand, is expected to be less affected by COVID going forward. Looking at the coming years, we see Vaisala's targeted above 5% sales growth and >12% margins achievable despite current gloomy outlook for aviation. We expect the growing share of more profitable IM sales to continue supporting Vaisala's growth and operating margin.

We estimate ~5% growth for 2021-22E, driven by IM sales and gradual recovery in W&E.

In 2021E-22E, we estimate Vaisala' net sales to grow by 4.5% and 5.3%, and EBIT margins of 12.2% and 12.6% respectively. We expect W&E market to begin to gradually recover in 2021E-22E with an annual growth rate of approximately 3% and W&E's EBIT margins to gradually improve towards 7% in 2022E. For IM, we expect 2021E-22E continued profitable growth at 7% and 9.6% annual growth rates, respectively. We expect IM's EBIT margins to stay above 20% in 2021-22E.

Valuation is stretched given Vaisala's financial metrics

Vaisala's share price has been performing very well in last few years and is currently around all time high levels. The share price rally is also visible in Vaisala's valuation multiples, which have increased strongly since around mid-2019, resulting in a clear sustained valuation premium of 20-60% during this period. As peer group multiples have rerated as of late, Vaisala's EV/EBIT and P/E valuation premium is now around 20-30% on our 2021-22E estimates. We see valuation stretched given Vaisala's weaker growth rates and margins compared to our technology peer group.

We maintain SELL with target price of 32 euros

Despite recent surge in valuation multiples, we see Vaisala's valuation too expensive given the expected financial performance. Thus, we maintain our target price of 32€ and our SELL recommendation. Our target price values Vaisala at 21-22e EV/EBIT multiples of 23x and 21x which is above peer group, reflecting Vaisala's strong sustainability profile, growing dividend, and especially IM's highly profitable growth with possibility of further add-on acquisitions.

## 1. Vaisala

### 1.1. Overview

Vaisala develops, manufactures, and sells equipment and systems for weather, environmental and industrial measurements. The company also provides installation, testing, training as well as maintenance and calibration services for its equipment. Vaisala serves both public and private clients in the weather and environmental measurement markets as well as the industrial measurement market.

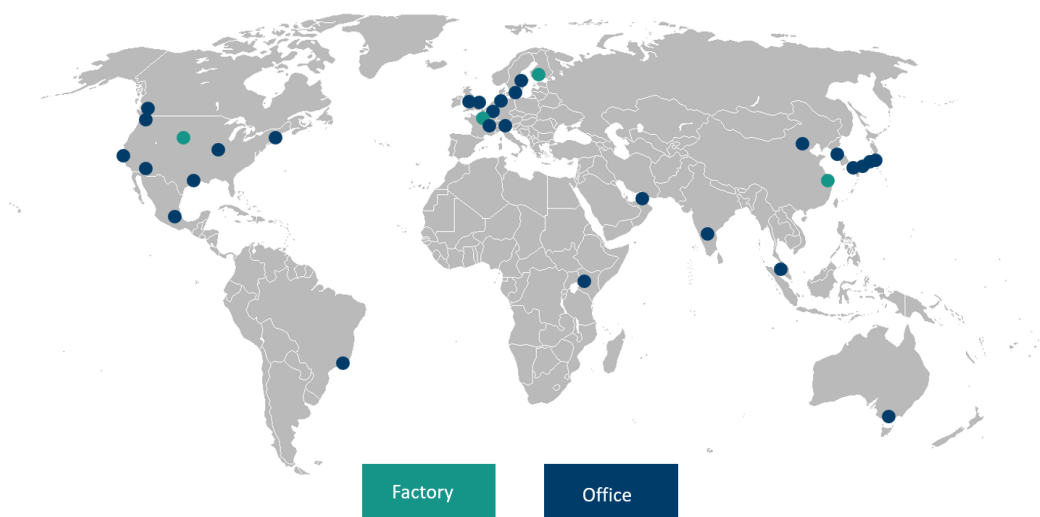
Vaisala was founded in 1936 in Finland when Professor Vilho Väisälä started developing and manufacturing radiosondes for atmospheric measuring. The company was listed on the Helsinki OTC-list in 1988 and has been listed on the Helsinki primary stock exchange since 1994. Kai Öistämö started as the new CEO in October 2020. Öistämö joined Vaisala from US technology company InterDigital, where he has held the position as Chief Operating Officer since 2018, before which he served as Member of the Board. Öistämö has also worked at private equity company Siris Capital Group and been in several leadership position at Nokia, where he was part of the company's Executive Board between 2006 and 2014.

Vaisala has over 30 offices in 18 countries and the company sells its products to private and public sector customers in over 150 countries. At the end of 2019, the company had 11 offices in Americas, 13 in EMEA and 11 in APAC. Vaisala also has a sales force in 18 countries as well as distributors and agents in 100+ countries. In total, Vaisala has approximately 1800 employees.

Vaisala focuses on R&D, product leadership and a high-mix low volume strategy. The company manufactures the critical components as well as assembles, calibrates and tests the measuring equipment. Meanwhile, the production of standardized components is outsourced.

Vaisala has five factories, two in Vantaa, Finland, one in Boulder, Colorado, USA, one in Paris, France, and one in Shanghai, China. The primary factories, located in Vantaa, include a cleanroom and produces the full product range, while the Colorado factory is smaller and produces a limited product range. The factory in Paris relates to the products of Leosphere, a company which Vaisala acquired in October 2018. Vaisala opened a new factory for wind lidar manufacturing to Shanghai in 2019.

Figure 1: Vaisala – Offices and production facilities



Source: Vaisala, Evli Research

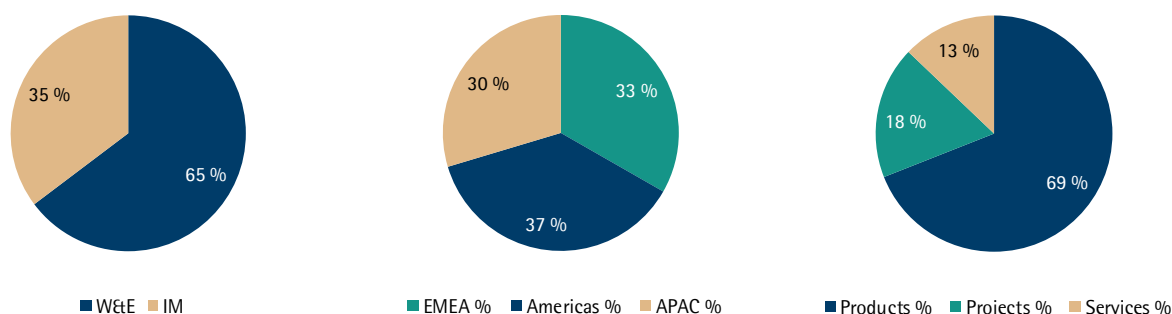
1.2. Main business areas

Vaisala has two business areas:

- **Weather and Environment (W&E)** provides weather-dependent markets with products and services to monitor real-time weather and environmental data. W&E serves the following customer segments: meteorology, transportation, renewable energy and ambient air quality.
- **Industrial Measurements (IM)** offers solutions to monitor operational conditions in various industries including life science, power generation and transmission, HVAC, electronics, automotive, lithium battery manufacturing and food processing. IM serves the following customer segments: industrial instruments, continuous monitoring systems, power/dissolved gas analysis and liquid measurements.

The synergies between IM and W&E are mostly linked to the usage of the company's only cleanroom in Vantaa, Finland, where Vaisala's sensors are manufactured. In addition, there are technological synergies between IM and W&E. In contrast, the two business areas are clearly different in terms of customer base. W&E serves mostly large public-sector clients directly. In contrast, IM serves mostly private sector clients, and many of them through distributors.

Figure 2: Net sales by business area, geography and type in 2019



Source: Vaisala

- **Product sales** include the sale of products and spare parts.
- **Services sales** include maintenance, repairs, calibrations and digital services, such as consulting and weather subscription services.
- **Project sales** consist of system deliveries, larger high-complexity products or large shipments in the W&E business.

### 1.3. Manufacturing

Vaisala's business model is based on a strong R&D focus and high value add processes. Sensors, the most critical parts of Vaisala's equipment, are manufactured in the company's own cleanroom in Vantaa, Finland. Meanwhile, the manufacturing of subassemblies is outsourced to partners such as Enics. Final assembly, calibration and testing is conducted in Vaisala's four factories.

Vaisala has a high-mix low-volume offering, consisting of approximately 9 000 products. Due to variations in customers' needs, Vaisala makes around 840 engineering changes in its products annually. The products are typically highly customized and made on demand according to customer specifications, which results in minimal inventories.

Increasing productivity is one of Vaisala's strategic development areas. Vaisala's aim is to improve its productivity by 20% by 2020 compared to 2016 level. Vaisala has already managed to improve its standard time system, daily productivity reporting and logistics process, to renew incentive systems and to reduce machinery down-time. The company is still renewing its operative leadership and implementing Andon alert and reaction system.

Vaisala has reduced the number of subcontractors from 900 to around 500 over the past few years, which allows more efficient procurement. Still, transferring component price inflation to product prices is challenging in some segments since Vaisala already prices its products at a premium relative to competitors.

### 1.4. Research and development

Vaisala's development scope ranges from silicon chips to complete systems, software and digital solutions. R&D investment has increased significantly during the past years, amounting to 53 MEUR (13% of net sales) in 2019. The average level of R&D investment has been around 12% during the recent years. Weather and Environment accounted for two thirds of R&D investment while Industrial Measurements accounted for a third. Vaisala also collaborates with the research institutes and universities across various scientific and technological fields.

Two thirds of Vaisala's R&D expenditures relate to renewal of existing offering and defending current market position. Around 50% of annual R&D spend is used for modernization whereas new products account for ~20%. Meanwhile, a fifth relates to maintenance of the current product portfolio while the rest ~10% of R&D expenditures is used to new technology pre-studies and research projects. Vaisala applies for patents selectively since the application process reveals valuable information to competitors.

Vaisala conducts R&D mainly in three locations: Vantaa, Finland, Boulder, Colorado and Leosphere, France. In 2018-2020, the company is investing in new R&D building in Vantaa, Finland. Vaisala also has an ongoing building project in Louisville, Colorado, to build new U.S. headquarters and operations/R&D center. At the end of 2019, Vaisala had 407 employees working in the field of R&D which represents 22% of personnel.

### 1.5. Financial targets

Vaisala updated its financial targets in June 2019. In the long term, Vaisala aims to achieve profitable growth with an average annual net sales growth exceeding 5 percent. Vaisala also targets exceeding 12% operating profit margin (EBIT) in the long term. Earlier Vaisala's objective was profitable growth with an average annual growth of 5%, and to achieve 15% operating profit margin (EBIT). In selected growth businesses, such as digital solutions, life science and power transmission, the target was to exceed 10% annual growth.

### 1.6. Strategy

In June 2019, Vaisala's Board of Directors approved strategy for 2019–2023:

Weather and Environment business area's strategic intent is to remain the undisputable global leader for weather observations. W&E business area's strategy has four pillars: offer industry-leading products for weather observations, strive for excellence in large system project deliveries, exploit digital transformation and develop digital solutions for selected weather critical operations, and expand into environmental measurements with urban air quality as spearhead. Objective is to win by focusing R&D in instrument and weather radar offering renewal, driving growth of wind lidar business, and developing innovative digital solutions targeted to intelligent transportation market.

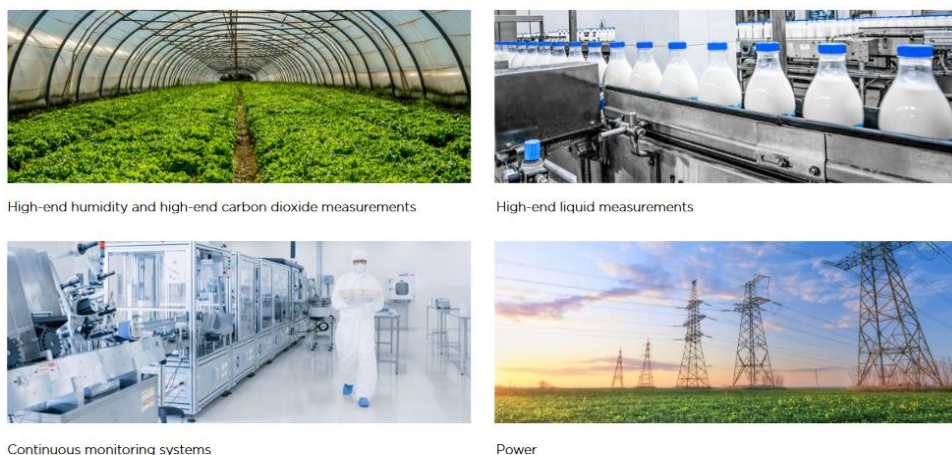
Figure 3: Weather & Environment main markets



Source: Vaisala

Industrial Measurements business area focuses on profitability through product leadership strategy in gas and liquid measurement technologies. In addition to flagship markets; high-end humidity and high-end carbon dioxide, IM is seeking growth from liquid measurements, continuous monitoring systems and power industry applications. IM's target is to exceed Vaisala's average growth. Objective is to win by most reliable measurements, best customer experience, fast delivery as well as excellent sales and service capabilities.

Figure 4: Industrial Measurements' main markets



Source: Vaisala

Growth requires new capabilities and resources. Therefore, Vaisala expects R&D and sales & marketing costs to grow. Amortization and depreciation expenses are also likely to increase following acquisitions and investments.

Table 1: SWOT Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Technological leader in selected niche markets with R&amp;D focus</li> <li>• Large market share and good reputation in weather measurement</li> <li>• Strong sustainability profile</li> <li>• Diversified customer base, particularly in IM</li> <li>• Active product tailoring limits competitive pressures</li> <li>• Asset light due to partial outsourcing of production</li> <li>• Strong balance sheet</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Strong expected growth in many niche markets</li> <li>• Entering new niche markets through acquisitions or R&amp;D</li> <li>• Growth in digital services could improve scalability</li> <li>• Fragmented market and strong balance sheet allow acquisitions</li> <li>• Megatrends such as climate change, increasing use of renewable energy sources and digitalization support Vaisala's business</li> <li>• Miniaturization of sensors limits costs and fuels demand</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Order book offers limited visibility, particularly in IM</li> <li>• Sensitivity of W&amp;E sales to public budgets and individual projects</li> <li>• Weather equipment already up-to-date in developed countries</li> <li>• Weather equipment are mostly maintenance-free and have a long life cycle</li> <li>• Sensitivity to currency fluctuations</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Component price inflation</li> <li>• Weakened technological leadership and a loss of premium price position</li> <li>• Unsuccessful M&amp;A/R&amp;D projects leading to impairments</li> <li>• Disruptions in the company's only clean room/production</li> </ul>
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### 1.7. Market opportunities

Vaisala's business is supported by several megatrends, which create more demand for existing and new products.

- **Climate change and extreme weather conditions** increase the demand for reliable weather equipment and instruments.

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- **Digitalization and big data** create new opportunities for the data distributed by Vaisala. The increased connectivity of transportation supports demand for weather related data as it can be delivered directly to vehicles to increase safety.
- **Urbanization** increases the demand for monitoring systems for weather sensitive infrastructure like airports. In addition, urbanization increases the need for monitoring environmental conditions such as air quality.
- **The increasing use of renewable energy sources** like solar and wind increase the need to predict local weather to estimate energy output from production sites. These predictions are also beneficial when deciding on future energy production sites.
- New **modes of mobility** arise and become more common which increase the demand for solutions to ensure the safety and efficiency of transport in different conditions.
- **Resource efficiency and circular economy** demand improved productivity, quality, and resource efficiency in industrial processes.
- **Growing well-being and health awareness** increase the monitoring of working and living conditions.
- **Smart energy production and utilization:** Vaisala's measurement technologies support the optimization of many industrial processes, which improves energy efficiency.
- **Increasing sustainability and impact awareness;** important to produce sustainable, long-lasting, and reliable products as well as to promote positive impact to society.

### 1.8. Competition

Overall, Vaisala's competitive position is supported by product tailoring, which raises entry barriers for competitors. In addition, Vaisala's heavy R&D efforts help to maintain its technological leadership.

Vaisala operates in various niche markets globally and therefore, the competitive field is very fragmented. Competitors tend to focus on specific types of products or applications, which makes it difficult to identify direct competitors. The number of listed competitors especially in many weather-focused niche markets is limited and potential competitors are usually smaller non-listed and local companies. On the other hand, the competition in e.g. industrial instruments is more global and competitors include also larger companies.

In W&E, clients are mostly public organizations for which price is a key determinant. As a result, Vaisala often participates in the early stages of public projects to ensure that the procurement criteria bring out the superior quality of Vaisala's products. In this respect, we see that Vaisala's close relationship with public sector entities such as universities and meteorological institutes is a source of competitive advantage.

In W&E, Vaisala's competitive position is likely supported by its relatively large size among weather focused instrument manufacturers. A broad product and solution portfolio can also be seen as an advantage especially in global projects. For example, the global environment monitoring market is highly fragmented and regional companies are



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Company report

increasingly under pressure in terms of quality, functionalities, and services (Technavio, 2017).

In IM, Vaisala's products often have a critical role in the client's business. For example, incorrect storage conditions of pharmaceuticals can cause significant financial losses. By comparison, the price of high-quality measurement equipment is small. In these markets, Vaisala has good prerequisites to protect its price premium position.

The range of IM's end user markets is very wide, likely containing numerous niche markets. We see that Vaisala can, thanks to its strong financial position, selectively enter niche markets where it can achieve product leadership, either through acquisitions or R&D.

### 1.9. Acquisitions and divestments

Most of Vaisala's past acquisitions relate to the W&E business segment. Vaisala's largest acquisition took place in October 2018 when Vaisala acquired the French Leosphere SAS, which manufactures remote wind sensing LiDAR instruments for wind energy, aviation, meteorology, and air quality applications. Vaisala sees wind lidar as a big opportunity within renewable energy, aviation applications, and meteorology applications. Leosphere's net sales in 2017 amounted to EUR 27 million and the deal value was EUR 38 million, representing a 1.4x EV/Sales multiple or 14x EV/EBIT multiple (assuming 10% EBIT margin). In August 2019, Vaisala announced an acquisition of professional business-to-business weather services from a Finnish weather forecast services company Foreca. The transferring business serves weather critical professional customers in the fields of transportation, energy, and industry. The purpose of the deal is to strengthen offering of Vaisala's digital solutions, apply named Vaisala Digital. The preliminary consideration transferred in a deal was EUR 7 million.

Vaisala entered the liquid measurement market by acquiring a Finnish K-Patents Group in December 2018. Net sales of K-Patents were EUR 11.4 million in 2017 and the purchase price amounted to EUR 12.5 million, representing a 1.1x EV/Sales multiple. K-Patents is a global market leader in in-line process refractometers for hundreds of applications in e.g. pulp and paper, food and beverage, pharmaceutical, and semiconductor industries. The applications vary from measuring sugar content of soft drinks and juices, to measuring concentration of paper coating chemicals. The acquisition expanded Industrial Measurement's portfolio from gas measurements into high-end liquid measurements and strengthens Vaisala's market position in environmental and industrial measurements.

Vaisala has managed to successfully integrate Leosphere and K-Patents into Vaisala's platform. The company has also indicated the possibility of further add-on acquisitions in IM's liquid measurements area. With company's platform, strong balance sheet and current valuation, Vaisala is in a good position to continue value accretive acquisitions in our view.

Table 2: Selected acquisitions divestments and related write-downs of W&amp;E

Year	Type	Target name	Revenue, millions	Deal/charge value, millions	Curr.	Revenue year	EV/S multiple	Details
2001	Acquisition	Meteorological Systems Unit of <b>Radian International LLC</b> , USA	5		EUR	2000		The acquired unit was a global market leader in wind profilers.
2002	Acquisition	<b>Global Atmospheric Corporation</b> , USA	15.3	14	USD	2001	0.9	
2005	Acquisition	<b>Sigmat Corporation</b> , USA	8.8	16.5	EUR	2005	1.9	Weather radar signal processor and application software company
	Acquisition	<b>CLH Inc.</b> , USA	3.1	2.8	EUR	2004	0.9	Automated weather observing systems and related services for the US airports
2008	Acquisition	<b>Aviation Systems Maintenance, Inc (ASMI)</b> , USA	1.8	2.3	EUR	2008 est.	1.3	An airport service company
2009	Acquisition	<b>Quixote Transportation Technologies, Inc. (QTT)</b> , USA	22.6	20	USD	2009	0.9	Road weather and information technology company
2012	Divestment	Wind profiler business						
2013	Acquisition	<b>3TIER Inc.</b> , USA	6.3	11.5	EUR	2012	1.8	A renewable energy assessment and forecasting services company
	Acquisition	<b>Second Wind Systems Inc.</b> , USA	7	1.4	EUR	2012	0.2	Remote sensing technology and data services for the wind energy industry
	Divestment	Three non-weather road transportation product lines						
2016	Acquisition	Technology and air quality monitoring products from <b>Envitem Oy</b> , Finland						
	Divestment	Certain Transportation products and field services						
	Write-down	Related to <b>Second Wind Systems Inc. and 3TIER Inc</b> intangible assets		10.5	EUR			
2017	Acquisition	<b>Vionice</b> , Finland	0.2	3.7	EUR	2016	18.5	Computer vision and artificial intelligence
2018	Acquisition	<b>Leosphere SAS</b> , France	27	38	EUR	2017	1.4	LiDAR wind measurement equipment
2019	Acquisition	<b>Foreca B2B Weather Services</b> , Finland		7	EUR			Professional Business-to-Business weather services

Source: Vaisala, Evli Research

Table 3: Selected acquisitions divestments and related write-downs of IM

Year	Type	Target name	Revenue, millions	Deal/charge value, millions	Curr.	Revenue year	EV/S multiple	Details
2010	Divestment	Oxygen measurement technology and business						
	Acquisition	<b>Veriteq Instruments Inc.</b> , Canada	5	8.5	EUR	2009	1.7	Continuous monitoring systems and data loggers for life science market
2013	Impairment charge	Goodwill and intangible assets related to <b>Veriteq Instruments Inc.</b>		4.3	EUR			
2018	Acquisition	<b>K-Patents</b> , Finland	11.4	12.5	EUR	2017	1.1	High-end liquid measurement instruments

Source: Vaisala, Evli Research

## 2. Weather and Environment (W&E)

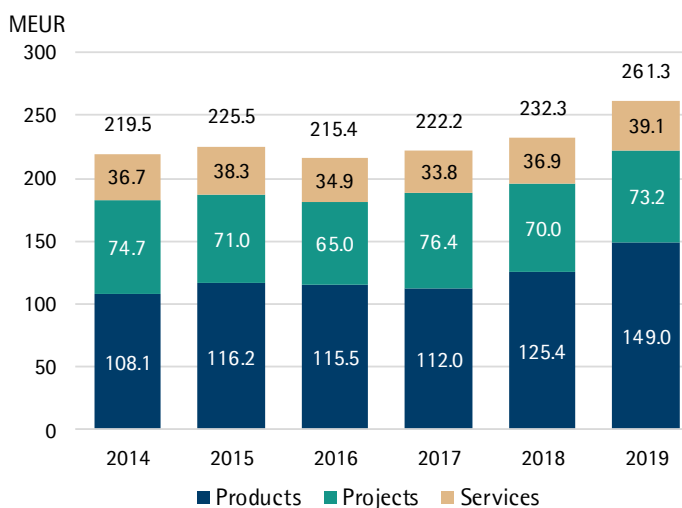
### 2.1. Customers

To our understanding, approximately 90% of W&E's net sales is generated by the public sector. According to Vaisala, the company is a market leader in serving meteorological institutions around the world. Other public clients include transportation authorities and the military. Overall, W&E's growth is sensitive to public sector budgets. In the private sector, W&E serves customers from the maritime- and energy industries.

Vaisala sees that, in developed countries, the coverage of weather measuring equipment is already extensive. Meanwhile, the demand for upgrades is limited by the long-life cycle of Vaisala's products.

The implementation of large system projects is one of W&E business area's strategic cores. W&E is currently focusing on weather-related capacity building in developing countries. W&E is currently engaged in three large weather infrastructure capacity building projects, in the Bahamas, Argentina and Ethiopia.

Figure 5: Weather and Environment Net sales by type



Source: Vaisala

### 2.2. Products

- **Sounding products** are used for measuring upper-air atmosphere. Vaisala's offering mainly consists of dropsondes, radiosondes and semi-automatic/automatic sounding stations.
- **Weather radar products** include radars, transmitters, receivers and signal processors.
- **Weather stations and sensors** measure wind speed and direction, lightning, cloud height, visibility, air quality, surface temperature, water depth, precipitation and rain.

### 2.3. Services

Vaisala's digital services provide accurate real-time and historic weather data to users around the world to optimize operational decisions, drive research and development, and support a wide variety of business use cases. Digital services combine Vaisala's meteorological expertise and cutting-edge data science. We note, that Vaisala's digital data and services are mostly subscription-based business. For example, Vaisala provides road weather data for the automotive industry, real-time weather and runway condition data for aviation, and lightning detection data and road maintenance systems. In addition, W&E's services include maintenance, support, and consulting services. Vaisala has also offered renewable energy assessment services, but during the second quarter 2020, Vaisala decided to discontinue unprofitable assessment consulting services provided to renewable energy segment. Vaisala will however continue to serve renewable energy sector through its forecasting and weather data services.

Vaisala refocused and reorganized its W&E digital business' operations in August 2019 under the name Vaisala Digital. Vaisala strengthened its digital offering by acquiring Foreca's business-to-business weather services in October 2019. The transferring business serves weather critical professional customers in transportation, energy, and industry segments. According to Vaisala, its W&E digital solutions represents some 10% of the business today (roughly 20-25 MEUR), but ambition is to double it in the medium term.

### 2.4. Projects

Projects typically consist of system deliveries, which include products, software and service sales. The delivery of larger high-complexity products is also classified as projects. At any given time, Vaisala typically has over a hundred ongoing projects. The length of projects varies greatly but is typically between 2-6 months. Sometimes, preparation and implementation spans across several years. Vaisala's role varies from an integrator to a subcontractor. In some projects, Vaisala's subcontractors include the Finnish Meteorological Institute which provides software and training.

Vaisala's target is to close one large infrastructure project every year. Currently, Vaisala has five such projects ongoing, in the Bahamas, Sweden, Argentina, Ethiopia and Alaska, USA:

- **Bahamas**  
In 2016, Vaisala signed a USD 18 million contract with the Ministry for Transport and Aviation of the Commonwealth of the Bahamas. The contract includes weather radars, other products as well as software and training.
- **Sweden**  
In February 2019, Vaisala signed a five-year agreement with the Swedish Transport Administration to provide at least 600 road weather information stations throughout Sweden. The value of the deal is approximately EUR 7 million and deliveries are scheduled for 2020-2024.
- **Argentina**  
Vaisala signed a EUR 15 million contract with the Argentine Air Navigation Service Provider (EANA) in March 2019. Vaisala installs automated weather observing systems to 31 airports across Argentina. The scope and value of the contract was reduced by 5.6 MEUR in Q3/2020.
- **Ethiopia**  
In October 2019, Vaisala announced a project with National Meteorology Agency in Ethiopia to modernize Ethiopia's weather and climate observation

Electronic Equipment & Instruments/Finland, February 10, 2021  
Company report

and monitoring systems. The project is estimated to start in 2020 and run for two years. The value of the project is approximately EUR 13 million.

- **Alaska, USA**

At the beginning of 2020, Vaisala announced a new contract after the successful completion of a project to automate upper-air observations in Alaska. Vaisala will deploy eight additional automated sounding systems in the continental U.S.

According to Vaisala, on-going projects brought approximately 25% of W&E's project revenues in 2019.

## 2.5. Markets

### 2.5.1. Weather

The weather forecasting systems and solutions market is expected to amount 2.3b USD in 2019 and is expected to grow at a CAGR of 5.7% (Markets and Markets, 2019). Vaisala is already engaged in a large part of this market. According to Vaisala's estimates, the addressable weather-related market amounts to some EUR 1.3b (EUR 1.2-1.6b), of which Vaisala holds a market share of approximately 20%.

Table 4: Weather forecasting and environmental monitoring markets

Market name	Market size, billion USD	Year	Expected market growth p.a.	Source
Weather forecasting systems	2.3	2019E	5.7%	Markets and Markets (2019)
Environmental monitoring	14	2020E	4.1%	Markets and Markets (2020)
- Air quality	4.1-4.3	2018-2019	5.6-6.8%	Grand View Research (2019), Markets and Markets (2020)

Table 5: Weather and Environment – Addressable markets

Market name	Market size, MEUR	Market growth p.a.	Vaisala market share	Share of W&E revenue, 2019 (Evli est.)
Meteorology	450-500	0	>25%	>43%
Transportation	300-500	0-5%	>25%	>29%
Renewable energy	330-380	>10%	10-25%	>13%
Ambient air quality	150-200	>5%	<10%	<8%
Total	1300		20 %	

*All figures are Vaisala's estimates unless otherwise stated. Vaisala estimate of the size of market that is addressable currently or with organic development in the roadmap.*

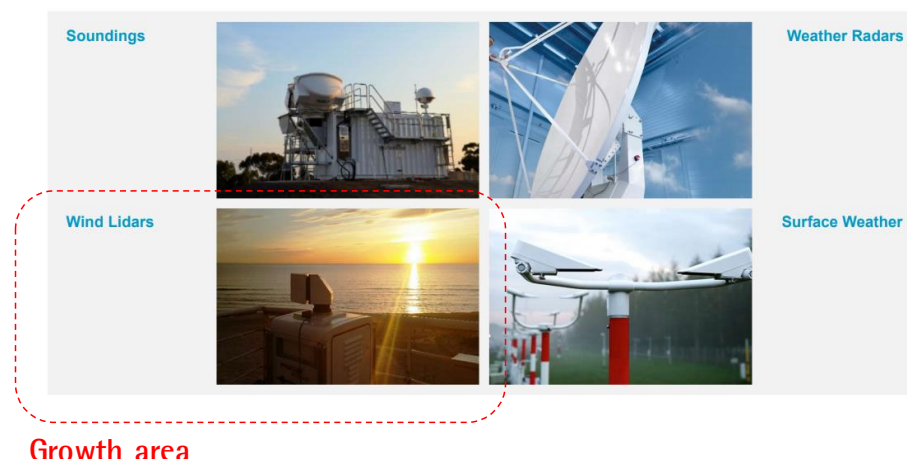
Vaisala's target markets include:

- **Meteorology**

Vaisala's solutions are used in climatology, weather prediction and flood early warning. Other use cases include lightning detection and weather services at sport events. Vaisala estimates that the addressable market amounts to EUR 450-500m while market growth is flat. According to Vaisala, its market share is over 25%.

- Transportation**  
 Vaisala offers weather stations for monitoring road, aviation and maritime conditions. Vaisala serves airlines, airports as well as the maritime industry and road-based transportation. Vaisala estimates that the addressable Transportation market amounts to EUR 300-500m while market growth is 0-5% per annum. According to Vaisala, its market share is over 25%.
- Renewable energy**  
 Vaisala serves the wind energy and solar energy industries which are highly dependent on weather conditions. The acquisition of Leosphere SAS complements Vaisala's offering in renewable energy business area and strengthens company's market position as a global leader of remote wind sensing technologies. Vaisala estimates that the addressable market amounts to EUR 330-380m while market growth is over 10% per annum. According to Vaisala, its market share is between 10% and 25%.

Figure 6: Weather &amp; Environment product portfolio



Source: Vaisala

### 2.5.2. Environmental monitoring

The global environmental monitoring market is expected to account for 14b USD in 2020. Meanwhile, the market is expected to grow at a CAGR of 4.1% (Markets and Markets, 2020). The air quality subsegment amounted to 4.3b USD in 2019 and was expected to grow at a CAGR of 5.6% (Markets and Markets, 2020). The air quality monitoring market is supported by regulation for monitoring pollution and governmental initiatives to maintain better air quality (Grand View Research, 2019).

- Ambient air quality**  
 Vaisala estimates that the addressable market amounts to EUR 150-200m while market growth is over 5% per annum. According to Vaisala, its market share is below 10%. The company sees opportunities particularly in markets like China, India and the Middle East, where air quality is a considerable issue. Vaisala sees that the accuracy of air quality predictions benefits greatly from weather forecasting capabilities. Vaisala's air quality measurement products are very small, the size of a thermos can, and they can be easily combined with Vaisala's weather stations. Meanwhile, competing solutions are significantly larger and more expensive.

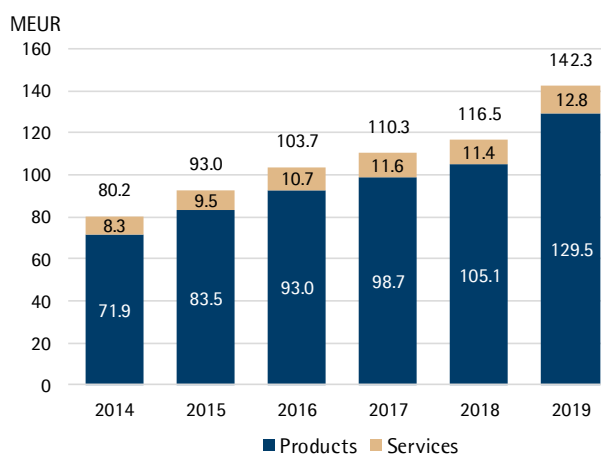
### 3. Industrial Measurement (IM)

#### 3.1. Customers

IM provides measuring systems which help clients to improve product quality, productivity, energy efficiency, maintenance activities and regulatory compliance. Practically all of IM's net sales is generated by the private sector. IM's customers include system integrators, OEM's and end users. Approximately half of IM sales comes from the United States. Other important markets include Japan and China. IM is also increasing its presence in Latin America.

Most of IM sales is direct sales, particularly in the United States. Due to the large customer base, IM also relies on distributors. Online sales represent a small part of sales. The average IM transaction is low, approximately 2000€ according to our understanding. Meanwhile, the delivery time of IM products is very short, often just two days, which leads to a very small inventory of finished products. Vaisala sees that their products often represent only a small part of the clients' capital expenditures. Therefore, the demand is not very sensitive to economic cycles. Meanwhile, customer risk is minimal.

Figure 7: Industrial Measurement net sales by type



Source: Vaisala

#### 3.2. Products and services

Vaisala's IM product offering consists of transmitters, handheld devices, OEM modules and continuous monitoring systems, including wireless solutions. Over 90% of IM's net sales consist of products' sales. The measured parameters include:

- Humidity
- Vaporized hydrogen peroxide
- Hydrogen
- Temperature
- CO<sub>2</sub>
- Dew point
- Moisture in oil
- Structural moisture
- Pressure
- Methane
- Dissolved gas in oil

Electronic Equipment & Instruments/Finland, February 10, 2021  
Company report

Service sales represented 9% of IM's net sales in 2019. Service sales consist mostly of calibration. A large share of the sold equipment is not yet calibrated by Vaisala. According to the company, IM equipment should be calibrated once a year.

### 3.3. Markets

The global market for sensors is estimated to amount 139b-173b USD in 2019 and is expected to grow at a CAGR of 9.5-13.3%. The growth is driven by IoT and big data. Growth is also supported by usage of sensors in consumer electronics, the decreasing manufacturing costs and power consumption of wireless sensors as well as the increasing need for automation in various industries. (Allied Market Research, 2019) (BCC Research, 2019)

Table 6: Sensor markets

Market name	Market size, billion USD	Year	Expected market growth p.a.	Source
Sensors, overall	~139-173	2017-2019E	9.5-13.3%	BCC Research (2019), Allied Market Research (2019)
Selected sensor markets				
- Humidity	~0.9	2018	7.8%	Grand View Research (2019)
- Imaging	~19.8	2019	9.2%	Research and Markets (2020)
- Gas	1-2.2	2019	6.4-8.3%	Markets and Markets (2019), Grand View Research (2020)
- Pressure	13.6	2020E	8.9%	Markets and Markets (2020)
- Liquid analytical instrument	0.4	2017	5.5%	Grand View Research (2019)
- Temperature	6.3	2019	4.7%	Research and Markets (2020)

IM operates in various niche markets across the broad sensor markets. Vaisala estimates that the addressable market amounts to some EUR 1.2b (EUR 1.0-1.3b). Most of IM sales is generated in the broadly defined Industrial Instruments segment. Vaisala estimates that the addressable market for Industrial Instruments amounts to some 600-700 MEUR and that the market is growing at a CAGR of 5%. The other segments are Continuous Monitoring Systems, Power/Dissolved Gas Analysis and Liquid Measurements, which we estimate to represent less than half of IM's revenue. Vaisala also seeks growth by identifying new potential growth markets.

Table 7: Industrial Measurements – Addressable markets

Market name	Market size, MEUR	Market growth p.a.	Vaisala market share	Share of IM revenue, 2019 (Evli est.)
Industrial Instruments	600-700	5 %	10-25%	>42%
Continuous Monitoring Systems	150-200	10 %	10-25%	>11%
Power/Dissolved Gas Analysis	200-250	10 %	<10%	<18%
Liquid Measurements	80-100	5 %	10-25%	>6%
Total	1200		10 %	

*All figures are Vaisala's estimates unless otherwise stated. Vaisala estimate of the size of market that is addressable currently or with organic development in the roadmap.*



- **Industrial Instruments**

Vaisala estimates that the addressable market amounts to EUR 600-700m while market growth is 5% per annum. According to Vaisala, its market share is between 10-25%.

The end user markets include:

- industrial drying (e.g. paper)
- electronics
- building automation (particularly ventilation)
- automotive industry
- agriculture and food industry

Vaisala focuses on offering high-end humidity and carbon dioxide measurement solutions, in which Vaisala sees itself as a market leader. The overall markets for humidity and gas sensors are expected to grow at a CAGR of 7.8% and 6.4-8.3%, respectively (Markets and Markets, 2019) (Grand View Research, 2020).

- **Continuous Monitoring Systems**

Within Continuous Monitoring Systems, Vaisala offers solutions for monitoring and alarming of temperature, humidity and other parameters. The most important applications include strictly regulated GxP environments e.g. laboratories, cleanrooms, and warehouses. Vaisala sees that the market growth is driven by tightening requirements for monitoring and reporting of environmental conditions. Vaisala estimates the addressable market size to be EUR 150-200 million with annual growth of 10%. According to Vaisala, its market share is between 10% and 25%.

- **Power/Dissolved Gas Analysis**

Vaisala offers real-time measurement transmitters for power industry to mitigate risks of overload situations and network faults as well as challenges related to equipment at the end of its operational lifespan. According to Vaisala's estimates, the addressable market size is approximately EUR 200-250 million with 10% market growth per annum. Vaisala's market share amounts to below 10%.

- **Liquid Measurements**

In December 2018, Vaisala entered liquid measurements market by acquiring K-Patents Group. Vaisala sees the highest potential in food & beverage, pulp & paper, and chemical industries. Vaisala estimates that the addressable market size of the liquid measurements is EUR 80-100 million. According to Vaisala, annual growth is expected to be 5% on annual level and its market share accounts for 10-25%.

Figure 8: Industrial Measurements markets



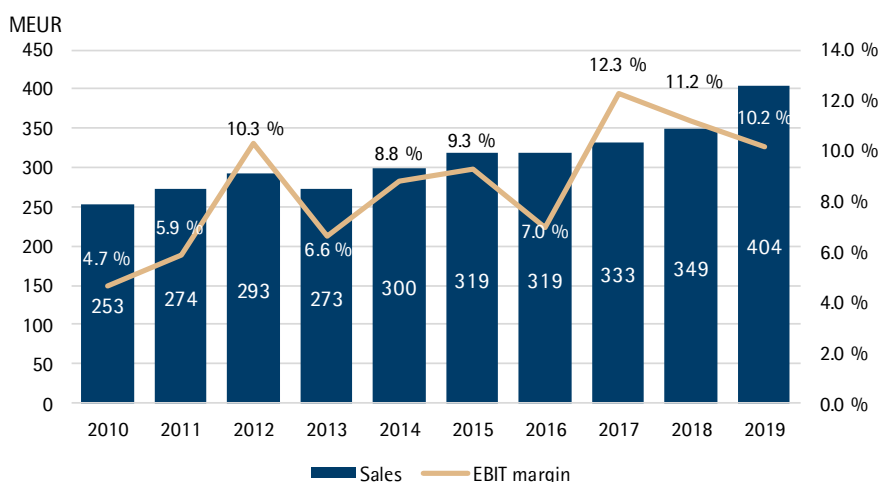
Source: Vaisala

4. Financial Performance

4.1. Net sales and operating profit

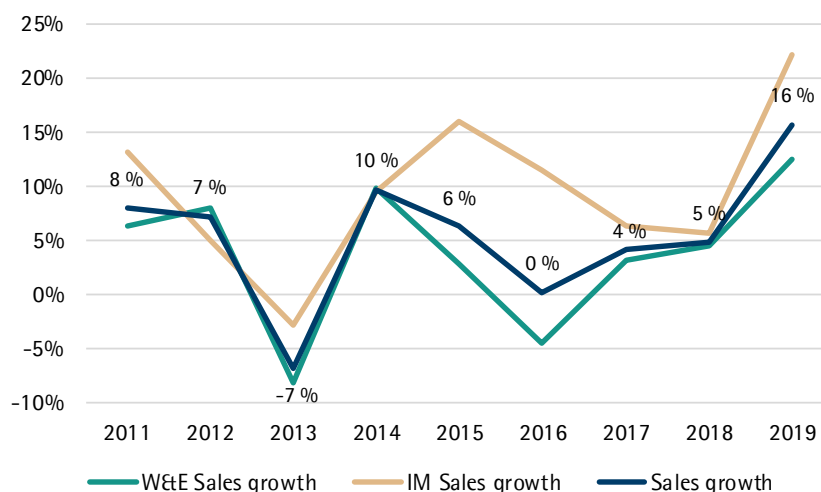
In 2010-2019, Vaisala's net sales grew at a CAGR of 5.3%. In the same period, W&E's net sales grew at a CAGR of 3.6% while IM's net sales grew at a CAGR of 9.4%. Vaisala's net sales and operating margin developed positively during the 2010's. The improvement was mainly driven by the increased share of more profitable IM sales.

Figure 9: Annual sales and EBIT margin



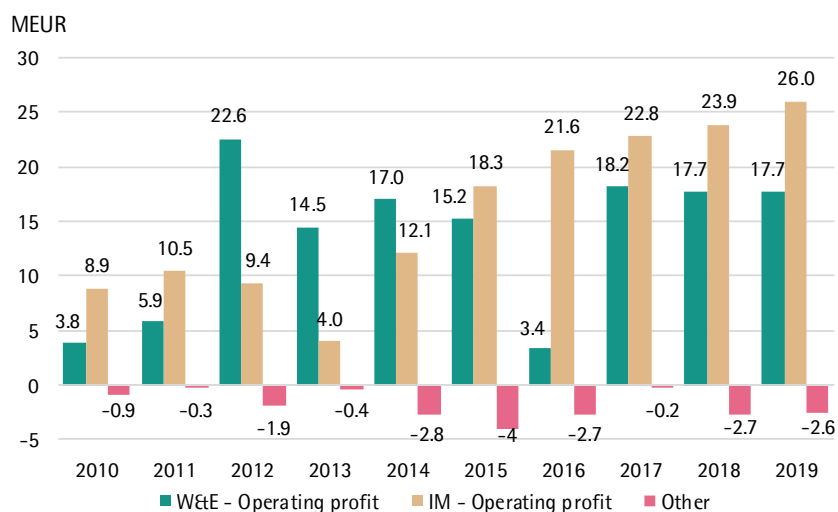
Source: Vaisala

Figure 10: Annual sales growth



Source: Vaisala

Figure 11: Operating profit

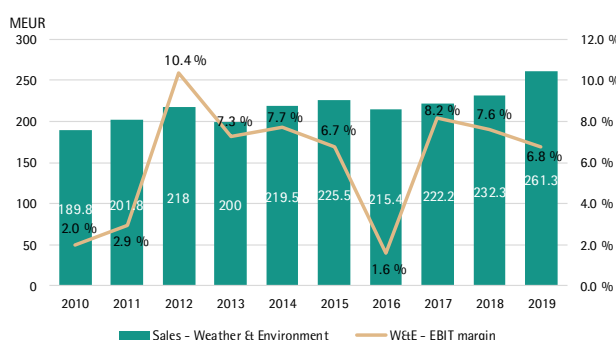


Source: Vaisala

W&E's profitability has fluctuated from year to year, but IM has improved significantly. In 2012-2019, W&E's annual EBIT margin varied mostly between 6-10 percent, excluding 2016 when W&E's EBIT was strained by a 10.5 MEUR write-down in intangible assets. During 2012-2018, IM's EBIT margin has improved from 12 to 20 percent. According to Vaisala, the improved profitability in IM is largely based on scale economies. In 2013, IM's operating profit was strained by EUR 4.3m impairment charge, which was due to lower than expected growth in the Life Science business. In 2019 IM's EBIT slightly decreased to 18.3%.

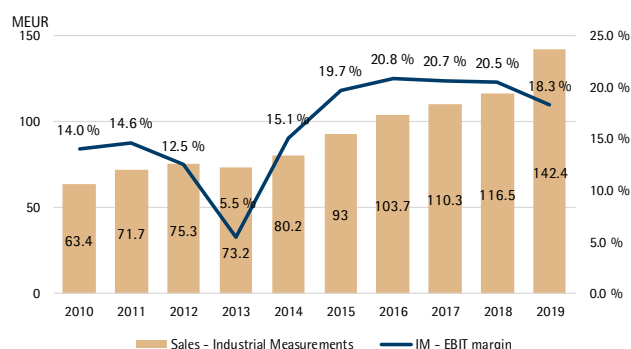
Other costs mainly relate to group level financing (foreign exchange valuation and hedging), taxation and one-off restructuring costs. They also include the wages of Vaisala's M&A and strategy teams.

Figure 12: Annual sales and EBIT margin of W&E



Source: Vaisala

Figure 13: Annual sales and EBIT margin of IM



Source: Vaisala

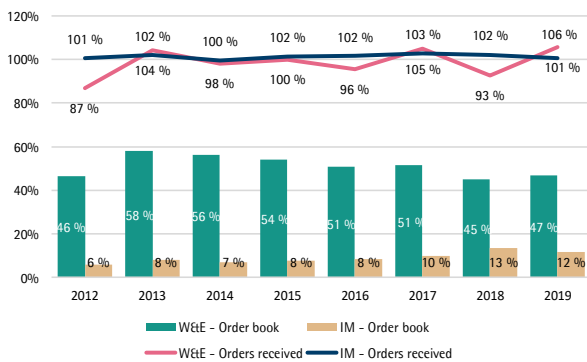
#### 4.2. Order book

IM's order book offers limited guidance since most of the segment's orders are delivered within the same quarter they are received. At the end of Q3/2020, IM's order book amounted to 17.4 MEUR and increased by 7% compared to the previous year driven by strong order intake APAC region. The order intake increased by 2% and totaled 35.3 MEUR. Orders in APAC grew by 19%, but the decline in EMEA's and Americas' order

intake partially offset the increase in APAC. EUR 14.0 million of the order book is scheduled to be delivered in 2020.

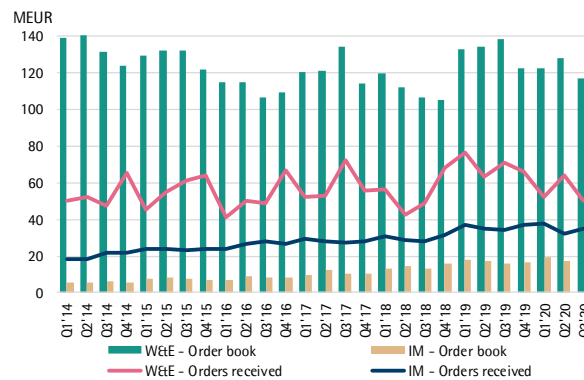
Meanwhile, W&E's order book is larger and has more predictive value. At the end of Q3/2020, W&E's order book decreased by 15% and amounted to 117.2 MEUR. Order book decreased mainly due to lack of large project orders and reduced scope and value of the Argentina contract (-5.6 MEUR). 13 MEUR weather infrastructure project order in Ethiopia is not included in the order book as the finance instrument related to the order is pending ratification by the Ethiopian Parliament. W&E's orders received were heavily impacted by COVID-19 in Q3. Order intake decreased by 29% to 50 MEUR (63.8 MEUR) and orders decreased mainly in MEA and Latin America, while orders in APAC increased by 3%. 52.5 MEUR of W&E's order book is scheduled to be delivered during 2020.

Figure 14: Order book and orders received as % of net sales



Source: Vaisala

Figure 15: Quarterly order book and orders received

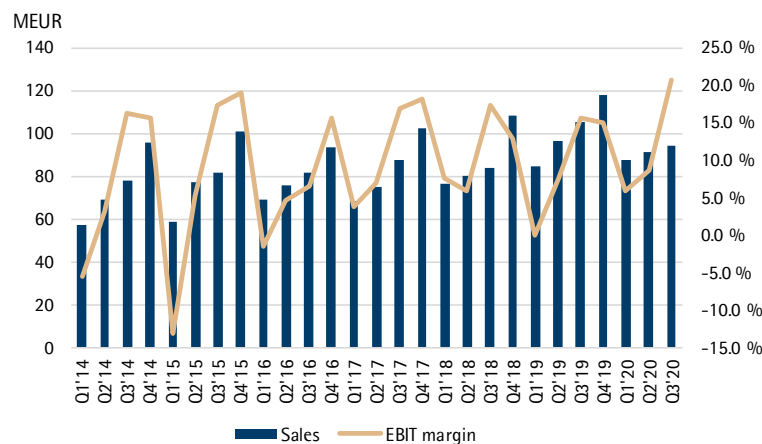


Source: Vaisala

### 4.3. Seasonality

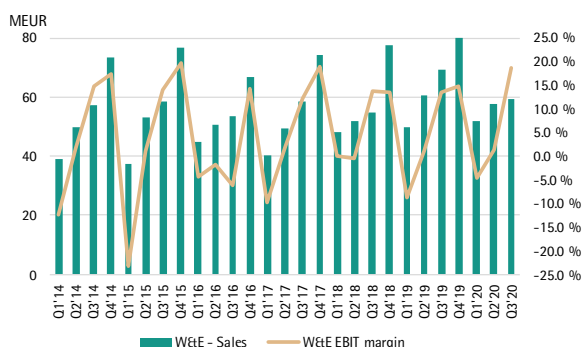
Vaisala's net sales and EBIT margin reflect strong seasonality: Net sales and profitability improve markedly towards the end of the year. The seasonality is driven by W&E's project and product sales.

Figure 16: Vaisala's quarterly sales and EBIT margin



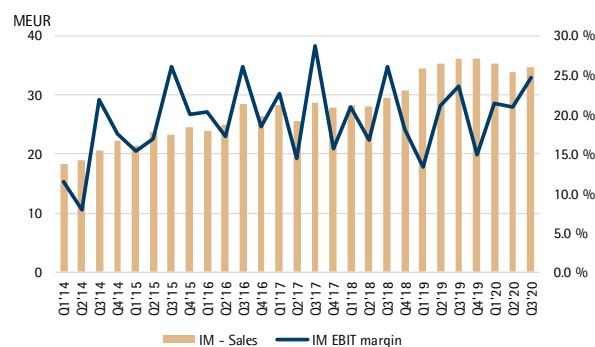
Source: Vaisala

Figure 17: W&E's quarterly sales and EBIT margin



Source: Vaisala

Figure 18: IM's quarterly sales and EBIT margin

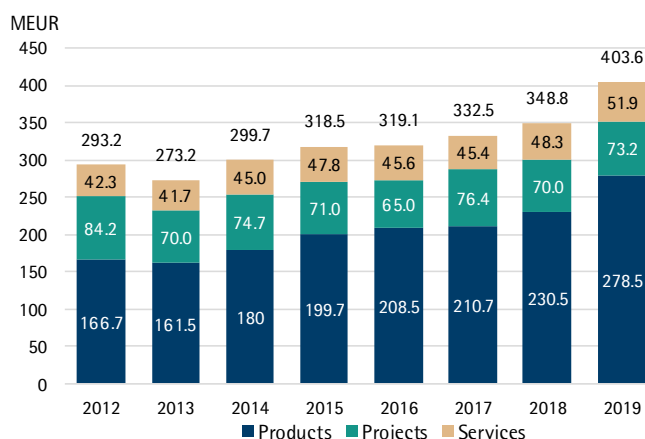


Source: Vaisala

#### 4.4. Net sales by type

Excluding the year 2017, the share of product sales has slowly increased at the expense of project sales. This mostly reflects the increasing share of IM sales, which does not contain project sales.

Figure 19: Net sales by type

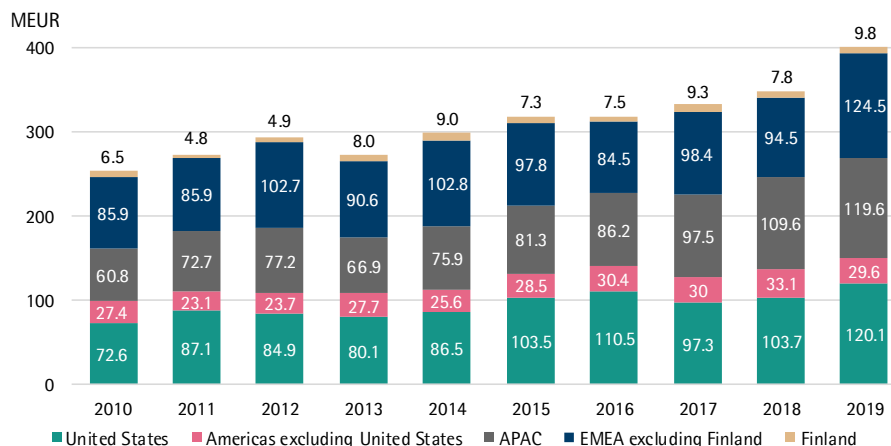


Source: Vaisala

#### 4.5. Sales by geography

Vaisala's geographical sales distribution has remained relatively stable during the 2010s. It is noteworthy to mention that the share of net sales in APAC has increased from 24% in 2010 to 30% in 2019, meanwhile EMEA (excluding Finland) has decreased from 34% to 31%, respectively. In 2019, sales to United States, EMEA and APAC each accounted for about a third of net sales. Excluding the United States, the share of Americas amounted to just 7%. Finland's share was insignificant.

Figure 20: Sales by geographical area

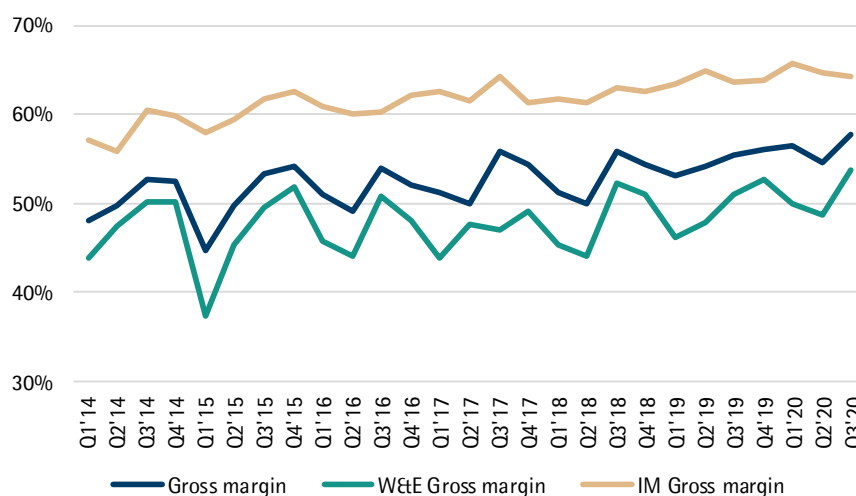


Source: Vaisala

#### 4.6. Gross margin

Vaisala's annual gross margin has amounted to over 50% since 2014. The gross margin is higher in IM than in W&E since W&E projects often contain civil engineering tasks, such as the building of electric lines in Bahamas. Vaisala typically outsources these tasks at very low margins. For example, Vaisala's project sales decreased by 48% in Q3/20 but W&E's gross margin improved by almost 3 percentage points as the share of more profitable digital services and products increased at the same time. Despite the lower margins in W&E's project sales, Vaisala sees project business also important as it supports sales of higher-margin products and services in the long-term. Vaisala's COGS include depreciations and amortizations.

Figure 21: Quarterly gross margin

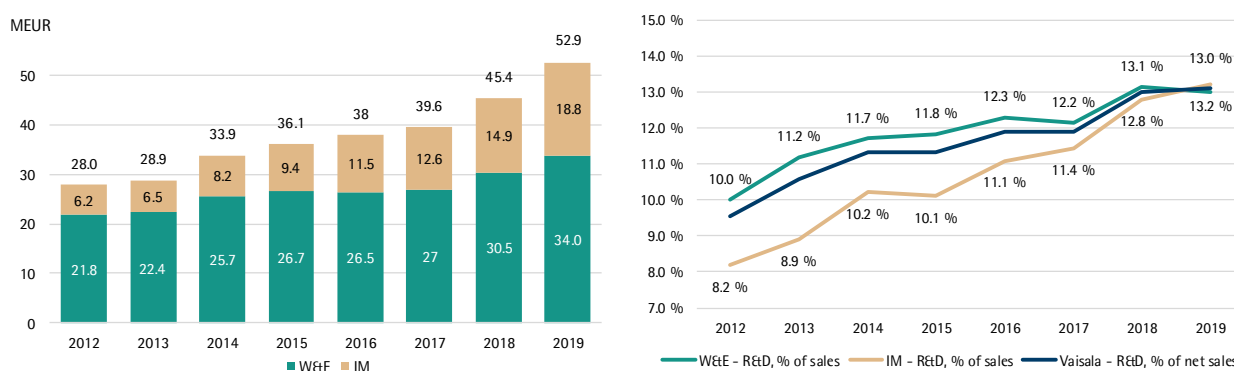


Source: Vaisala

#### 4.7. Research & development

Vaisala's R&D costs have increased steadily over the years. Relative to net sales, R&D expenditures have increased more rapidly in IM than in W&E. In 2019, R&D efforts were almost evenly distributed between the two business areas: W&E's R&D expenses amounted to 34.0 MEUR (13% of W&E's net sales) and IM's amounted to 18.8 MEUR (13.2% of net sales), respectively. R&D is a backbone of Vaisala's product leadership strategy, and the company aims to keep Group R&D expenditures at over 10 % of net sales. R&D expenses are typically charged as costs.

Figure 22: R&D expenses

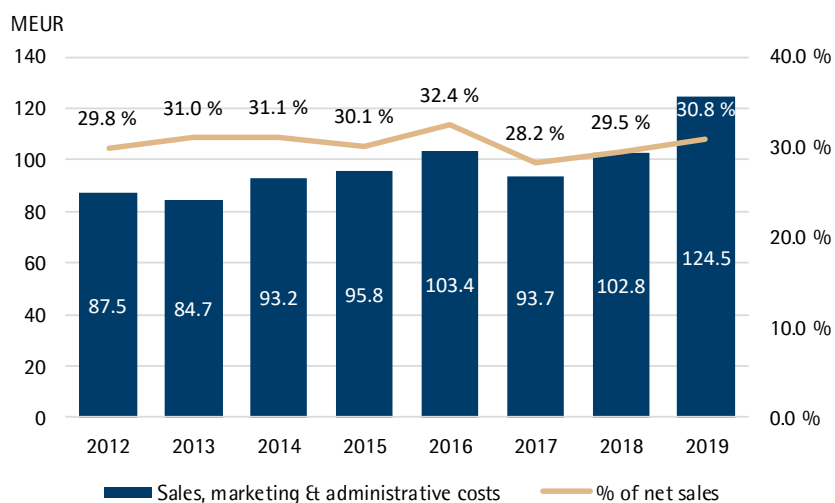


Source: Vaisala

#### 4.8. Sales, marketing & administrative costs

Vaisala's sales, marketing & administrative costs have remained relatively stable over the years. Sales, marketing & administrative costs have accounted for approximately 30% of net sales.

Figure 23: Sales, marketing & administrative expenses

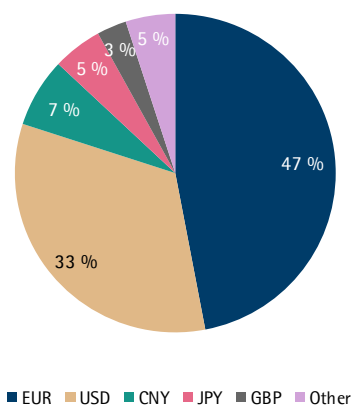


Source: Vaisala

#### 4.9. Currencies

According to Vaisala's 2019 annual report, 47% of the Group's sales are denominated in EUR, 33% in USD, 7% in CNY, 5% in JPY and 3% in GBP. Costs and purchases occur mostly in EUR and USD. Vaisala hedges maximum of position that consists of order book, purchase orders and net receivables with foreign exchange derivatives.

Figure 24: Net sales by currency



Source: Vaisala

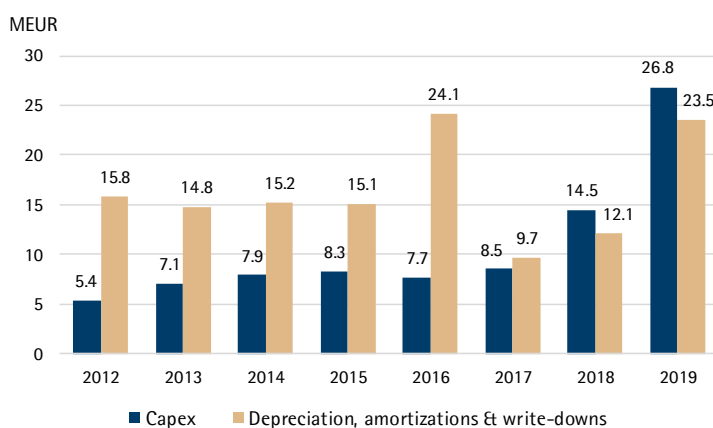
Vaisala does not hedge intra-group loans, deposits or equities of foreign subsidiaries. Vaisala's largest translation risk exposures are in USD. In recent years, net translation adjustments have largely determined Vaisala's net financial items. In Q3/2020, foreign currency translation had a negative impact of EUR 1.7 million on Vaisala's net sales.

#### 4.10. Capex

Vaisala sees that a typical level for the annual CAPEX is around 10 MEUR. In 2019 CAPEX totaled EUR 26.8 million. CAPEX was mostly related to investments in machinery and equipment to develop and maintain production and service operations. Vaisala's CAPEX has also inflated by two building projects, in Vantaa and Louisville, US. The project in Vantaa is estimated to cost EUR 30 million while the project in Colorado is estimated to cost 12 MEUR. Vaisala expects the CAPEX to materialize mostly in 2019 and 2020. At the end of Q3/2020, capital expenditure totaled EUR 24 million and commitments related to building projects amounted to EUR 1 million.



Figure 25: Capex, depreciation, amortization &amp; write-downs



Source: Vaisala

#### 4.1.1. Market outlook for 2020

Market outlook is impacted by the COVID-19 pandemic and related economic downturn. For weather observation solutions, market in developed countries is expected to remain relatively stable while in developing countries the negative impact of the COVID-19 pandemic will be more significant. The restrictions imposed by governments and authorities on people and businesses as well as travel, will cause delays or interruptions globally in project and service deliveries.

- **Weather and Environment**

According to Vaisala, climate change and severe weather events drive need for continued replacement and enhancement of weather observation and forecasting capabilities. However, due to the economic impact and constraints caused by COVID-19 pandemic, decisions on larger meteorology infrastructure projects may be postponed.

In aviation, market for weather observation solutions is expected to suffer due to the steep decline in air traffic and consequent fall in aviation revenues. Ground transportation and road surface state modeling markets are expected to be more stable.

The renewable energy market is generally expected to continue to grow, but short-term investments in wind and solar energy capacity may suffer from increased market uncertainty and financing constraints.

- **Industrial Measurements**

In industrial measurements, increasing focus on energy and operations efficiency as well as increasing regulations and requirements for high-quality and security drive the need for high-end industrial instruments and systems. Industrial instruments and liquid measurements markets are expected to suffer from implications of the COVID-19 pandemic. Continuous monitoring systems and power industry markets' growth is expected to continue.

#### 4.1.2. Guidance for 2020

In Q3, Vaisala reiterated the business outlook that was published on October 21, 2020. Vaisala estimates that its full-year 2020 net sales will be in the range of EUR 370–390 million and its operating result (EBIT) will be in the range of EUR 40–48 million.

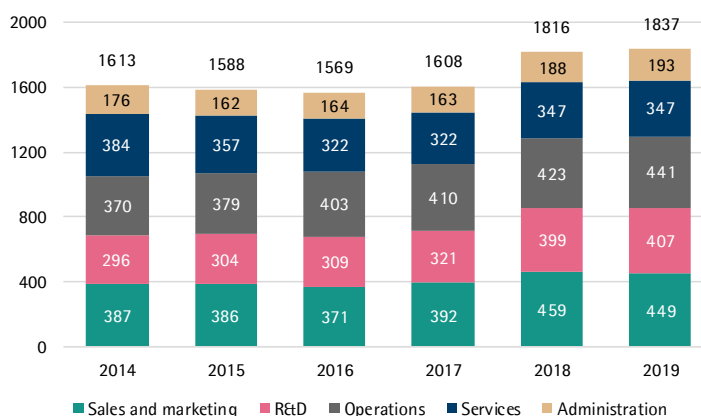
4.13. Taxation

Vaisala's tax rate is largely between the levels of US and Finnish corporate tax rates. The tax rates are very close, 20% and 21% respectively. However, Vaisala is also charged a state tax, some 10%, which comes on top of the US corporate tax.

4.14. Employees

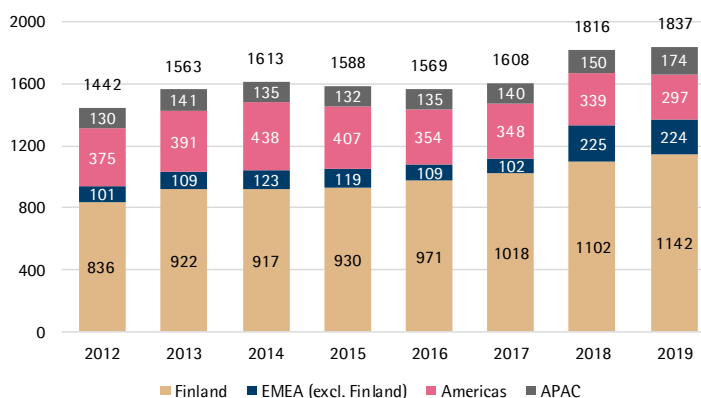
The average number of employees remained stable at around 1600 between 2014-2017. Personnel increased in 2018 due to the acquisitions of Leosphere and K-Patents and at the end of 2019, number of employees was increased to 1837. Over 60% of employees are located in Finland. Vaisala aims to increase the share of employees working in sales & marketing and R&D.

Figure 26: Employees by function



Source: Vaisala

Figure 27: Employees by geographical area



Source: Vaisala

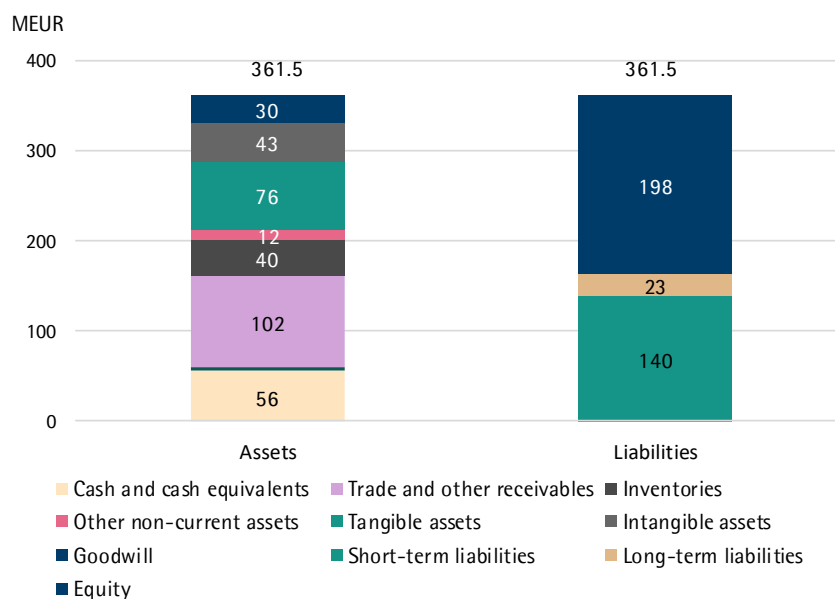
4.15. Balance sheet

Vaisala has a strong balance sheet that provides stability and allows growth through acquisitions. The company has maintained a negative gearing and an equity ratio of close to 70% for several years. In 2018, the equity ratio decreased to 55% due to a EUR 50 million unsecured revolving credit facility which was used for working capital needs, for financing of acquisitions and for general purposes. Vaisala's gearing was 14.5% at the end of Q3/2020, while the equity ratio was 56.3%.

## Electronic Equipment & Instruments/Finland, February 10, 2021 Company report

Vaisala's financial position has remained strong despite EUR 24 million capital expenditure and EUR 22 million dividend in 2020. In September 2020, Vaisala had interest-bearing loans totaling EUR 55.2 million from financial institutions, of which EUR 40 million was related to term loan and EUR 15.2 million to utilized revolving credit facility. Interest-bearing lease liabilities totaled to EUR 12.5 million. Cash and cash equivalents decreased to EUR 39.1 million (Q4/19: 56.4) due to EUR 25 million repayment of revolving credit facility.

Figure 28: Assets and liabilities, 2019



Source: Vaisala

### 4.16. Goodwill

At the end of 2019, Vaisala's balance sheet contained 29.8 million euros of goodwill which was entirely related to the W&E segment. IM related goodwill was fully written off in 2013. The acquisition of Leosphere in 2018, increased the W&E related goodwill on Vaisala's balance sheet by EUR 8.3 million. Goodwill related to the acquisition of Foreca's business-to-business weather services in 2019 was EUR 3.8 million.

### 4.17. Shares

Vaisala has two share classes, A and K. Each class K share entitles to 20 votes while each class A share entitles to 1 vote. The class A shares are traded on the Nasdaq Helsinki Ltd while the class K shares are not traded on the stock market. Both A and K shares are entitled to the same amount of dividends per share.

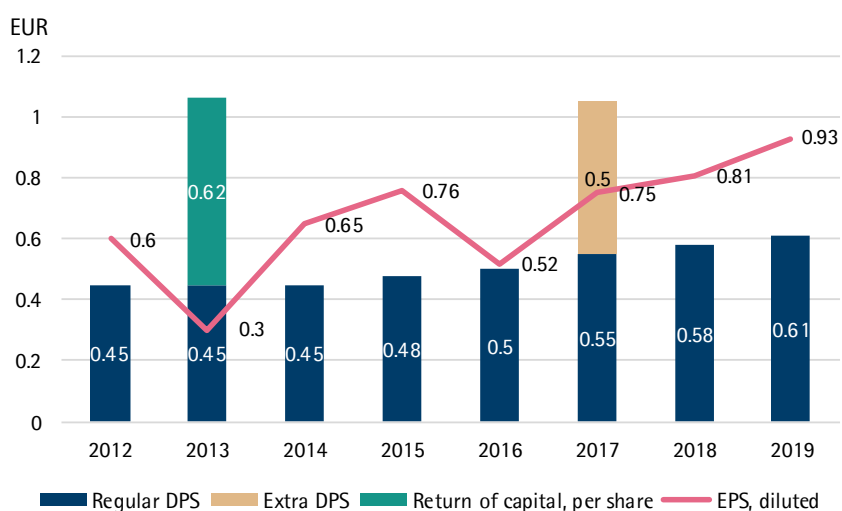
On April 10, 2018, Vaisala issued 3 389 331 new series K shares and 14 829 033 new series A shares in the share issue without payment. The issue brought the total number of Vaisala shares to 36 436 728 of which 6 778 662 are series K shares and 29 658 066 series A shares. On October 31, 2020, the series A shares amounted to 29 705 636 and represented 81.5% of the total number of shares and 18.0% of the total votes. The series K shares amounted to 6 731 092 and represented 18.5% of the total number of shares and 82.0% of the total votes. Vaisala holds a total of 437 039 company's series A shares, which represent 1.5% of series A shares and 1.2% of all shares.

The descendants<sup>1</sup> of the founder Professor Vilho Väisälä hold a significant portion of total shares and votes. For example, the descendants control Novameter Oy (10.4% of shares, 13.8% of votes) and the Weisell Foundation (4.0% of shares, 0.9% of votes). They also hold at least 23% of shares and 41% of votes through personal share accounts. The shareholder data was last updated on January 31, 2021.

#### 4.18. Dividend and earnings per share

Vaisala aims to pay a stable dividend which will increase in line with net profit development. Meanwhile, Vaisala's goal is to maintain high solvency and to take future investment plans into account. Vaisala's low leverage leaves room for acquisitions if potential targets arise. Meanwhile, the expected increase in CAPEX for 2018-2020 should reflect in somewhat weaker cash flow relative to previous years.

Figure 29: Dividend



Source: Vaisala

## 5. Estimates

Looking at 2020, we expect 2020E net sales to decline roughly 5% to 382 MEUR and reported EBIT to increase to 46.7 MEUR (41.1 MEUR), resulting in a 12% EBIT-margin. Our sales estimate is slightly over the midpoint of Vaisala's guidance for 2020, while EBIT estimate is closer to the upper range (net sales of EUR 370-390 million and EBIT of EUR 40-48 million). All in all, Vaisala has managed to maneuver pass the corona pandemic rather unscathed. Due to lowered operating expenses caused by the pandemic and good order book, performance has been good in both BU's. Our estimated 2020E net sales decline is mostly attributable to W&E, where we expect net sales in 2020E to decline 7% due to the pandemic affecting deliveries. IM is also expected to suffer short term from COVID repercussions, but IM sales are expected to be more stable despite the pandemic and our estimated net sales for 2020E are 140 MEUR (-1.7% y/y). Due to the good order book and successful deliveries, coupled with lower operating expenses from COVID-19, we estimate 2020E W&E's EBIT margin at 7% and IM's EBIT margin at 21,5%.

Currently, W&E is weighed down by the weakened outlook for aviation and lack of larger infra projects, especially in developed countries. A possible prolonged pandemic coupled with restrictions imposed by governments and authorities may cause continued delays or

<sup>1</sup> Including, but not limited to, the Väisälä and Voipio families

Electronic Equipment & Instruments/Finland, February 10, 2021  
Company report

interruptions globally in project and service deliveries. IM on the other hand, is expected to be less affected by COVID going forward.

Looking at the coming years, we see Vaisala's targeted above 5% sales growth and >12% margins achievable despite current gloomy outlook for aviation. We expect the growing share of more profitable IM sales to continue supporting Vaisala's growth and operating margin. In 2021E-22E, we estimate Vaisala' net sales to grow by 4.5% and 5.3%, and EBIT margins of 12.2% and 12.6% respectively. We expect W&E market to begin to recover in 2021E-22E with an annual growth rate of approximately 3% and W&E's EBIT margins to gradually improve towards 7% in 2022E. For IM, we expect 2021E-22E continued profitable growth at 7% and 9.6% annual growth rates, respectively. We expect IM's EBIT margins to stay above 20% in 2021-22E.

Figure 30: Estimates summary

Interim figures	2017	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20	Q3'20	Q4'20E	2020E	2021E	2022E
<b>Net sales</b>	<b>332,6</b>	<b>348,8</b>	<b>84,2</b>	<b>96,1</b>	<b>105,2</b>	<b>118,1</b>	<b>403,6</b>	<b>87,2</b>	<b>91,4</b>	<b>94,0</b>	<b>109,5</b>	<b>382,1</b>	<b>399,2</b>	<b>420,2</b>
Weather & Environment	222,2	232,3	49,6	60,7	69,1	81,9	261,3	51,8	57,6	59,2	73,5	242,1	249,4	256,4
Industrial Measurements	110,3	116,5	34,6	35,4	36,1	36,3	142,4	35,4	33,8	34,8	36,0	140,0	149,8	163,8
EBITDA	50,6	51,1	6,3	12,9	21,8	23,6	64,6	10,1	13,5	24,7	19,5	67,8	70,3	75,0
D&A	9,7	12,1	6,3	5,7	5,4	6,0	23,5	4,9	5,6	5,2	5,4	21,1	21,8	22,0
<b>EBIT</b>	<b>40,9</b>	<b>38,9</b>	<b>0,0</b>	<b>7,2</b>	<b>16,3</b>	<b>17,6</b>	<b>41,1</b>	<b>5,2</b>	<b>7,9</b>	<b>19,5</b>	<b>14,1</b>	<b>46,7</b>	<b>48,5</b>	<b>53,0</b>
Weather & Environment	18,2	17,7	-4,3	0,6	9,3	12,0	17,7	-2,4	0,7	11,1	7,3	16,7	17,0	18,5
Industrial Measurements	22,8	23,9	4,6	7,5	8,5	5,4	26,0	7,6	7,1	8,6	6,8	30,1	33,0	37,0
Other operations	-0,2	-2,7	-0,3	-0,9	-1,5	0,1	-2,6	0,0	0,1	-0,2	0,0	-0,1	-1,5	-2,5
EBIT excl. IAC	41,7	42,6	3,0	9,4	18,4	19,9	50,7	6,9	9,8	21,4	16,0	54,1	55,5	61,0
<i>Sales growth %</i>	<i>4,2 %</i>	<i>4,9 %</i>	<i>10,2 %</i>	<i>20,0 %</i>	<i>25,1 %</i>	<i>9,0 %</i>	<i>15,7 %</i>	<i>3,6 %</i>	<i>-4,9 %</i>	<i>-10,6 %</i>	<i>-7,3 %</i>	<i>-5,3 %</i>	<i>4,5 %</i>	<i>5,3 %</i>
<i>EBITDA margin %</i>	<i>15,2 %</i>	<i>14,7 %</i>	<i>7,4 %</i>	<i>13,4 %</i>	<i>20,7 %</i>	<i>20,0 %</i>	<i>16,0 %</i>	<i>11,6 %</i>	<i>14,8 %</i>	<i>26,3 %</i>	<i>17,8 %</i>	<i>17,7 %</i>	<i>17,6 %</i>	<i>17,8 %</i>
<i>EBIT margin %</i>	<i>12,3 %</i>	<i>11,2 %</i>	<i>0,0 %</i>	<i>7,5 %</i>	<i>15,5 %</i>	<i>14,9 %</i>	<i>10,2 %</i>	<i>6,0 %</i>	<i>8,6 %</i>	<i>20,7 %</i>	<i>12,9 %</i>	<i>12,2 %</i>	<i>12,2 %</i>	<i>12,6 %</i>
<i>Adj. EBIT margin %</i>	<i>12,5 %</i>	<i>12,2 %</i>	<i>3,5 %</i>	<i>9,8 %</i>	<i>17,4 %</i>	<i>16,9 %</i>	<i>12,6 %</i>	<i>7,9 %</i>	<i>10,7 %</i>	<i>22,8 %</i>	<i>14,6 %</i>	<i>14,2 %</i>	<i>13,9 %</i>	<i>14,5 %</i>

Source: Evli Research

Our estimates do not reflect the impact of potential acquisitions. Considering Vaisala's M&A history of bolt-on acquisitions, the fragmented market, and Vaisala's financial position, acquisitions are likely to take place. We see acquisition potential especially in the IM business area. If they are technology focused, like the most recent acquisitions, we expect to see a gradual impact on sales after integrating the acquired companies into Vaisala's production, R&D, and sales channels.

## 6. Valuation

Finding close peers for Vaisala is a challenge due to Vaisala's significant involvement in the weather measurement market. Our peer group consists of technology focused companies that manufacture measurement instruments, are listed in either Western Europe or North America, and have significant R&D expenditures: in 2019, R&D expenditures among peers were 6-20% of net sales (mean: 13%, median: 14%, Vaisala: 13.1%). The level of depreciations and amortizations are largely comparable.

Relative to the peer group, Vaisala's estimated dividend yield of ~2% is high for 2020E-2021E. Some of the peers do not pay dividend at all. Vaisala's ROCE is also significantly above peer group median which likely reflects Vaisala's asset-light operating model. In contrast, Vaisala's EBIT margin is below the peer group, which reflects W&E's relatively low profitability for a technology company. We also note that Vaisala's expected net sales growth is somewhat lower than peers, as is also the expected sales decline for 2020E.

Vaisala's share price has been performing very well in last few years and is currently around all time high levels. The share price rally is also visible in Vaisala's valuation multiples, which have increased strongly since around mid-2019 resulting in a clear sustained valuation premium of 20-60% during this period. As peer group multiples have

Electronic Equipment & Instruments/Finland, February 10, 2021  
Company report

erated as of late, Vaisala's EV/EBIT and P/E valuation premium is now around 20-30% on our 2021-22E estimates. We see valuation stretched given Vaisala's expected weaker financial performance compared to peer group.

Despite recent surge in valuation multiples, we see Vaisala's valuation too expensive given the expected financial performance. And thus, we maintain our target price of 32€ and our SELL recommendation. Our target price values Vaisala at 21-22e EV/EBIT multiples of 23x and 21x which is above peer group, reflecting Vaisala's strong sustainability profile, growing dividend, and especially IM's highly profitable growth with possibility of further add-on acquisitions.

Figure 31: Peer group

VAISALA PEER GROUP	Security identifier	EBIT % 20E	EBIT % 21E	EBIT % 22E	EBITDA % 20E	EBITDA % 21E	EBITDA % 22E	ROCE % 20E	ROCE % 21E	ROCE % 22E
Keysight Technologies	KEYS-US	24,9	26,1	27,0	27,0	29,0	29,7	17,1	18,0	17,0
National Instruments Corp.	NATI-US	15,7	16,7		17,8	21,4	23,0	13,4	14,5	15,1
Spectris	SXS-GB	12,5	14,3	15,4	17,5	19,0	19,6	10,9	13,0	14,5
Oxford Instruments	OXIG-GB	15,6	16,5		18,7	19,6	20,5	16,6	17,1	15,8
Trimble	TRMB-US	22,2	22,3	23,2	24,3	23,9	25,1	12,5	12,7	13,3
Hexagon	HEXA.B-SE	24,8	27,3	27,8	35,8	36,7	36,8	10,5	12,0	12,2
Peer Group Average		19,3	20,5	23,3	23,5	24,9	25,8	13,5	14,5	14,7
Peer Group Median		19,0	19,5	25,1	21,5	22,6	24,0	13,0	13,8	14,8
Vaisala (Evli est.)		12,2	12,2	12,6	17,7	17,8	17,8	19,0	19,9	21,0
Premium/discount to peer median		-36 %	-38 %	-50 %	-17 %	-21 %	-26 %	46 %	45 %	42 %

	Security identifier	ROE % 20E	ROE % 21E	ROE % 22E	DIV % 20E	DIV % 21E	DIV % 22E	P/E 20E	P/E 21E	P/E 22E
Keysight Technologies	KEYS-US	29,1	28,4	24,7	0,0	0,1	0,2	29,5x	25,4x	23,4x
National Instruments Corp.	NATI-US	11,9	8,0	11,8	2,5	2,6	2,7	38,5x	55,1x	35,7x
Spectris	SXS-GB	9,5	11,6	12,2	2,1	2,2	2,3	29,0x	23,5x	21,4x
Oxford Instruments	OXIG-GB	13,5	17,4	16,7	0,7	0,8	0,8	31,7x	29,2x	26,5x
Trimble	TRMB-US	15,7	15,7	15,7	0,0	0,0	0,0	34,1x	31,7x	27,9x
Hexagon	HEXA.B-SE	12,3	14,3	14,3	0,9	1,0	1,0	35,4x	30,1x	27,7x
Peer Group Average		15,3	15,9	15,9	1,0	1,1	1,2	33,0x	32,5x	27,1x
Peer Group Median		12,9	15,0	15,0	0,8	0,9	0,9	32,9x	29,6x	27,1x
Vaisala (Evli est.)		17,2	17,4	16,6	1,6	1,7	1,8	38,8x	35,4x	34,6x
Premium/discount to peer median		33 %	16 %	11 %	108 %	94 %	87 %	18 %	20 %	28 %

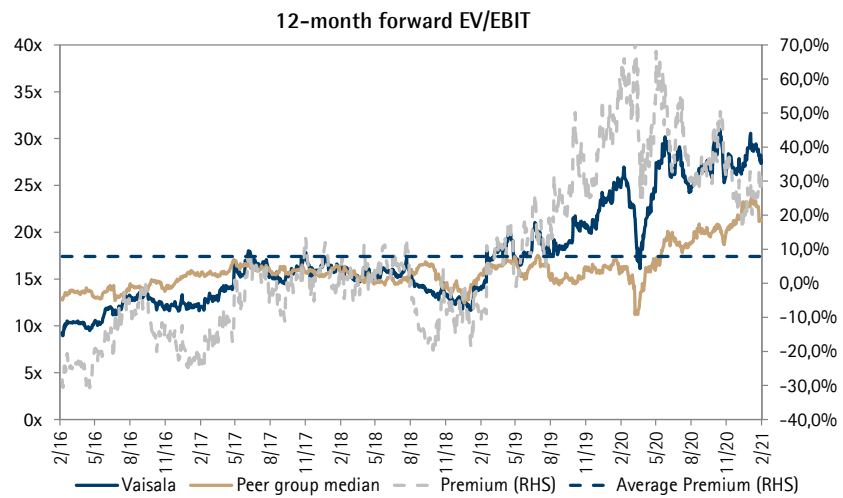
	Security identifier	EV/S 20E	EV/S 21E	EV/S 22E	EV/EBITDA 20E	EV/EBITDA 21E	EV/EBITDA 22E	EV/EBIT 20E	EV/EBIT 21E	EV/EBIT 22E
Keysight Technologies	KEYS-US	6,3	5,5	5,1	21,6x	19,0x	17,2x	23,5x	21,1x	18,9x
National Instruments Corp.	NATI-US	4,1	3,7	3,5	24,3x	17,5x	15,2x	27,5x	22,4x	19,6x
Spectris	SXS-GB	2,6	2,5	2,4	13,7x	13,2x	12,1x	19,2x	17,5x	15,3x
Oxford Instruments	OXIG-GB	3,5	3,3	3,1	19,0x	16,8x	14,9x	22,7x	20,0x	17,8x
Trimble	TRMB-US	6,3	5,7	5,1	24,0x	24,0x	20,4x	26,3x	25,7x	22,1x
Hexagon	HEXA.B-SE	7,7	7,0	6,4	21,9x	18,9x	17,5x	31,6x	25,5x	23,2x
Peer Group Average		5,1	4,6	4,3	20,8x	18,2x	16,2x	25,2x	22,0x	19,5x
Peer Group Median		5,2	4,6	4,3	21,8x	18,2x	16,2x	24,9x	21,7x	19,2x
Vaisala (Evli est.)		3,5	3,3	3,1	19,9x	18,8x	17,6x	28,9x	27,5x	24,9x
Premium/discount to peer median		-32 %	-28 %	-27 %	-9 %	3 %	9 %	16 %	26 %	29 %

	Security identifier	Sales growth 20E	Sales growth 21E	Sales growth 22E	Net debt / EBITDA 20E	Net debt / EBITDA 21E	Net debt / EBITDA 22E	Equity ratio % 20E	Equity ratio % 21E	Equity ratio % 22E
Keysight Technologies	KEYS-US	7,8%	11,4%	5,2%	0,1x	-0,5x	-0,9x	45,7	48,9	54,4
National Instruments Corp.	NATI-US	-5,1%	9,7%	6,4%	-0,8x	-0,8x	-0,8x	64,8	63,5	68,2
Spectris	SXS-GB	-17,0%	2,5%	4,4%	-0,3x	-0,7x	-0,8x	69,7	73,2	75,3
Oxford Instruments	OXIG-GB	-10,3%	5,5%	5,4%	-1,5x	-1,6x	-1,8x	61,6	63,5	62,0
Trimble	TRMB-US	-0,8%	7,2%	8,6%	1,9x	1,2x	0,5x	51,3	54,7	57,4
Hexagon	HEXA.B-SE	0,1%	8,5%	5,8%	1,6x	1,2x	0,7x	55,5	57,7	59,5
Peer Group Average		-4,2%	7,5%	6,0%	0,2x	-0,2x	-0,5x	58,1	60,2	62,8
Peer Group Median		-2,9%	7,8%	5,6%	-0,1x	-0,6x	-0,8x	58,6	60,6	60,7
Vaisala (Evli est.)		-5,3%	4,5%	5,3%	-0,4x	-0,6x	-0,7x	61,6	64,8	65,8

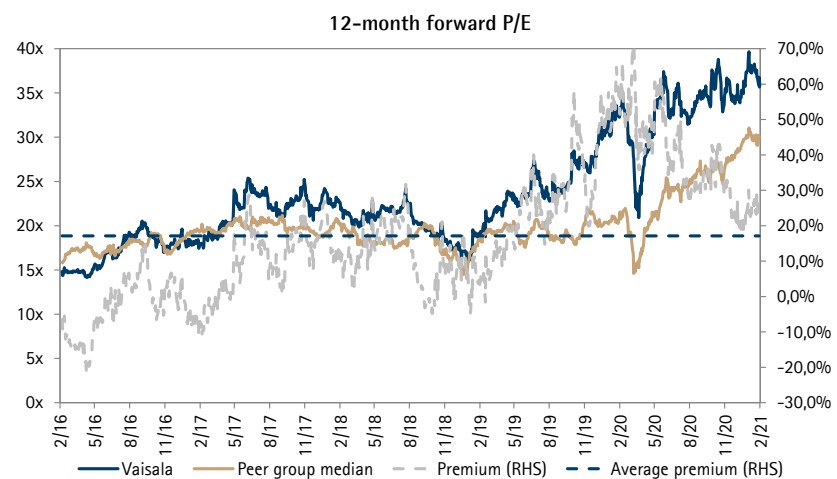
Source: Factset, Evli Research

Updated on February 9th, 2021

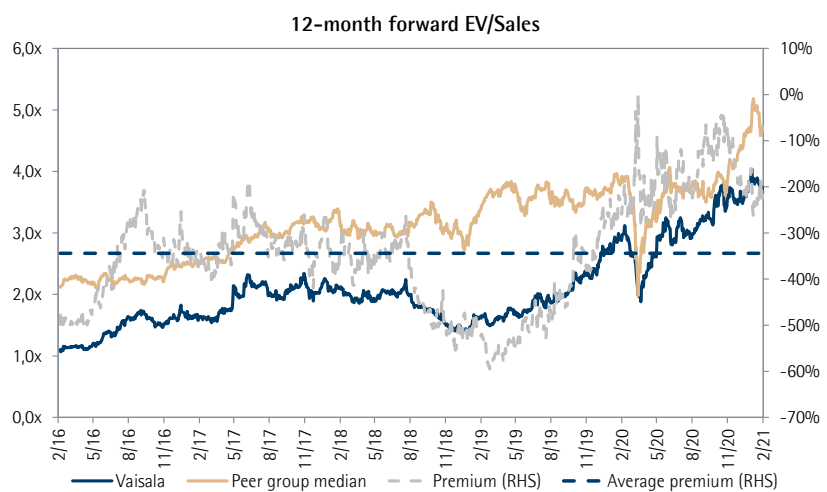
Figure 32: Historical valuation levels



Source: Factset



Source: Factset



Source: Factset

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## INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3	2020Q4E	2020E	2021E	2022E
Net sales	84.2	96.1	105.2	118.1	403.6	87.2	91.4	94.0	109.5	382.1	399.2	420.2
EBITDA	6.3	13.0	21.8	23.6	64.7	10.1	13.5	24.7	19.5	67.8	70.9	74.8
<i>EBITDA margin (%)</i>	<i>7.5</i>	<i>13.5</i>	<i>20.7</i>	<i>20.0</i>	<i>16.0</i>	<i>11.6</i>	<i>14.8</i>	<i>26.3</i>	<i>17.8</i>	<i>17.7</i>	<i>17.8</i>	<i>17.8</i>
EBIT	0.0	7.2	16.3	17.6	41.1	5.2	7.9	19.5	14.1	46.7	48.5	53.0
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>7.5</i>	<i>15.5</i>	<i>14.9</i>	<i>10.2</i>	<i>6.0</i>	<i>8.6</i>	<i>20.7</i>	<i>12.9</i>	<i>12.2</i>	<i>12.2</i>	<i>12.6</i>
Net financial items	0.2	-0.7	0.6	-1.1	-1.0	-0.2	-0.9	-1.3	-0.2	-2.7	0.0	0.0
Pre-tax profit	0.2	6.5	16.9	16.5	40.1	5.0	7.0	18.2	13.9	44.0	48.5	53.0
Tax	0.0	-1.4	-3.6	-1.5	-6.5	-0.9	-1.2	-3.7	-2.8	-8.6	-9.7	-13.2
<i>Tax rate (%)</i>	<i>25.0</i>	<i>21.5</i>	<i>21.3</i>	<i>9.2</i>	<i>16.4</i>	<i>18.0</i>	<i>17.1</i>	<i>20.3</i>	<i>20.0</i>	<i>19.5</i>	<i>20.0</i>	<i>25.0</i>
Net profit	0.2	5.1	13.3	15.0	33.5	4.1	5.8	14.5	11.1	35.4	38.8	39.8
EPS	0.00	0.14	0.37	0.42	0.93	0.11	0.16	0.40	0.31	0.98	1.08	1.10
EPS adjusted (diluted no. of shares)	0.00	0.14	0.37	0.42	0.93	0.11	0.16	0.40	0.31	0.98	1.08	1.10
Dividend per share	0.00	0.00	0.00	0.00	0.61	0.00	0.00	0.00	0.00	0.63	0.65	0.67
<b>SALES, EURm</b>												
Weather and Environment	49.6	60.7	69.1	81.9	261.3	51.8	57.6	59.2	73.5	242.1	249.4	256.4
Industrial Measurements	34.6	35.4	36.1	36.3	142.4	35.4	33.8	34.8	36.0	140.0	149.8	163.8
<b>Total</b>	<b>84.2</b>	<b>96.1</b>	<b>105.2</b>	<b>118.1</b>	<b>403.6</b>	<b>87.2</b>	<b>91.4</b>	<b>94.0</b>	<b>109.5</b>	<b>382.1</b>	<b>399.2</b>	<b>420.2</b>
<b>SALES GROWTH, Y/Y %</b>												
<i>Weather and Environment</i>	<i>3.1</i>	<i>16.7</i>	<i>26.6</i>	<i>5.5</i>	<i>12.5</i>	<i>4.4</i>	<i>-5.1</i>	<i>-14.3</i>	<i>-10.2</i>	<i>-7.3</i>	<i>3.0</i>	<i>2.8</i>
<i>Industrial Measurements</i>	<i>22.7</i>	<i>26.0</i>	<i>22.4</i>	<i>18.1</i>	<i>22.2</i>	<i>2.3</i>	<i>-4.5</i>	<i>-3.6</i>	<i>-0.7</i>	<i>-1.7</i>	<i>7.0</i>	<i>9.3</i>
<b>Total</b>	<b>10.4</b>	<b>20.0</b>	<b>25.1</b>	<b>9.0</b>	<b>15.7</b>	<b>3.6</b>	<b>-4.9</b>	<b>-10.6</b>	<b>-7.3</b>	<b>-5.3</b>	<b>4.5</b>	<b>5.3</b>
<b>EBIT, EURm</b>												
Weather and Environment	-4.3	0.6	9.3	12.0	17.7	-2.4	0.7	11.1	7.3	16.7	17.0	18.5
Industrial Measurements	4.6	7.5	8.5	5.4	26.0	7.6	7.1	8.6	6.8	30.1	33.0	37.0
Other	-0.3	-0.9	-1.5	0.1	-2.6	0.0	0.1	-0.2	0.0	-0.1	-1.5	-2.5
<b>Total</b>	<b>0.0</b>	<b>7.2</b>	<b>16.3</b>	<b>17.6</b>	<b>41.1</b>	<b>5.2</b>	<b>7.9</b>	<b>19.5</b>	<b>14.1</b>	<b>46.7</b>	<b>48.5</b>	<b>53.0</b>
<b>EBIT margin, %</b>												
<i>Weather and Environment</i>	<i>-8.7</i>	<i>1.0</i>	<i>13.5</i>	<i>14.7</i>	<i>6.8</i>	<i>-4.6</i>	<i>1.2</i>	<i>18.8</i>	<i>9.9</i>	<i>6.9</i>	<i>6.8</i>	<i>7.2</i>
<i>Industrial Measurements</i>	<i>13.3</i>	<i>21.2</i>	<i>23.6</i>	<i>15.0</i>	<i>18.3</i>	<i>21.4</i>	<i>21.0</i>	<i>24.7</i>	<i>18.9</i>	<i>21.5</i>	<i>22.0</i>	<i>22.6</i>
<b>Total</b>	<b>0.0</b>	<b>7.5</b>	<b>15.5</b>	<b>14.9</b>	<b>10.2</b>	<b>6.0</b>	<b>8.6</b>	<b>20.7</b>	<b>12.9</b>	<b>12.2</b>	<b>12.2</b>	<b>12.6</b>

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	318.6	319.2	332.6	348.8	403.6	382.1	399.2	420.2
<i>Sales growth (%)</i>	<i>6.3</i>	<i>0.2</i>	<i>4.2</i>	<i>4.9</i>	<i>15.7</i>	<i>-5.3</i>	<i>4.5</i>	<i>5.3</i>
EBITDA	44.6	46.3	50.3	51.1	64.7	67.8	70.9	74.8
<i>EBITDA margin (%)</i>	<i>14.0</i>	<i>14.5</i>	<i>15.1</i>	<i>14.7</i>	<i>16.0</i>	<i>17.7</i>	<i>17.8</i>	<i>17.8</i>
Depreciation	-14.7	-13.5	-9.5	-12.1	-23.6	-21.1	-22.4	-21.8
EBITA	29.9	32.8	40.8	39.0	41.1	46.7	48.5	53.0
Goodwill amortization / writedown	-0.4	-10.6	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	29.5	22.2	40.8	39.0	41.1	46.7	48.5	53.0
<i>EBIT margin (%)</i>	<i>9.3</i>	<i>7.0</i>	<i>12.3</i>	<i>11.2</i>	<i>10.2</i>	<i>12.2</i>	<i>12.2</i>	<i>12.6</i>
Reported EBIT	29.5	22.2	40.8	39.0	41.1	46.7	48.5	53.0
<i>EBIT margin (reported) (%)</i>	<i>9.3</i>	<i>7.0</i>	<i>12.3</i>	<i>11.2</i>	<i>10.2</i>	<i>12.2</i>	<i>12.2</i>	<i>12.6</i>
Net financials	3.4	-0.2	-2.8	-1.4	-1.0	-2.7	0.0	0.0
Pre-tax profit	32.9	22.0	38.0	37.6	40.1	44.0	48.5	53.0
Taxes	-5.5	-3.3	-10.9	-8.0	-6.5	-8.6	-9.7	-13.2
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	27.4	18.7	27.1	29.6	33.5	35.4	38.8	39.8
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET, EURm</b>								
<b>Assets</b>								
Fixed assets	63	46	46	72	83	82	80	79
Goodwill	16	17	16	55	55	55	55	55
Right of use assets	0	0	0	12	12	12	12	13
Inventory	39	32	29	32	40	37	39	41
Receivables	77	78	84	93	105	100	104	109
Liquid funds	59	72	91	73	56	53	56	65
Total assets	264	255	274	347	361	349	356	372
<b>Liabilities</b>								
Shareholder's equity	181	179	186	183	198	212	228	244
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	12	11	12	12	13
Deferred taxes	5	0	1	9	8	8	8	8
Interest bearing debt	0	0	0	41	40	19	6	0
Non-interest bearing current liabilities	75	71	81	89	94	89	92	97
Other interest-free debt	3	4	5	9	7	7	7	7
Total liabilities	264	255	274	347	361	349	356	372
<b>CASH FLOW, EURm</b>								
+ EBITDA	45	46	50	51	65	68	71	75
- Net financial items	59	0	-3	-1	-1	-3	0	0
- Taxes	-7	-9	-7	-9	-8	-9	-10	-13
- Increase in Net Working Capital	2	2	7	-4	-16	3	-2	-3
+/- Other	-59	3	2	11	0	0	0	0
= Cash flow from operations	39	42	49	48	40	59	59	59
- Capex	-8	-8	-8	-14	-35	-19	-22	-21
- Acquisitions	0	0	-2	-52	0	0	0	0
+ Divestments	0	1	0	0	0	0	0	0
= Free cash flow	31	35	39	-18	5	40	38	38
+/- New issues/buybacks	0	-4	-2	5	3	0	0	0
- Paid dividend	-16	-17	-18	-37	-21	-22	-23	-23
+/- Other	-3	-1	0	31	-3	-21	-12	-5
Change in cash	12	13	19	-19	-16	-3	2	10

Electronic Equipment & Instruments/Finland, February 10, 2021  
Company report

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	602	794	659	1,159	1,375	1,375	1,375
Net debt (excl. convertibles)	-72	-91	-20	-5	-23	-38	-53
Enterprise value	529	703	638	1,154	1,352	1,337	1,322
Sales	319	333	349	404	382	399	420
EBITDA	46	50	51	65	68	71	75
EBIT	22	41	39	41	47	49	53
Pre-tax	22	38	38	40	44	49	53
Earnings	19	27	30	34	35	39	40
Equity book value (excl. minorities)	179	186	183	198	212	228	244
<b>Valuation multiples</b>							
EV/sales	1.7	2.1	1.8	2.9	3.5	3.3	3.1
EV/EBITDA	11.4	14.0	12.5	17.8	19.9	18.9	17.7
EV/EBITA	16.1	17.2	16.4	28.1	29.0	27.6	25.0
EV/EBIT	23.8	17.2	16.4	28.1	29.0	27.6	25.0
EV/OCF	12.7	14.3	13.2	28.9	22.8	22.6	22.5
EV/FCFF	14.9	17.1	-38.5	141.1	29.6	32.0	31.0
P/FCFE	34.0	40.6	-37.2	250.6	34.2	36.6	36.1
P/E	32.2	29.3	22.2	34.6	38.8	35.4	34.6
P/B	3.4	4.3	3.6	5.8	6.5	6.0	5.6
Target EV/EBITDA	0.0	0.0	0.0	0.0	16.7	15.7	14.7
Target EV/EBIT	0.0	0.0	0.0	0.0	24.2	23.0	20.7
Target EV/FCF	0.0	0.0	0.0	0.0	28.1	29.7	28.9
Target P/B	0.0	0.0	0.0	0.0	5.4	5.1	4.7
Target P/E	0.0	0.0	0.0	0.0	32.5	29.7	29.0
<b>Per share measures</b>							
Number of shares	35,703	35,692	35,790	35,881	36,000	36,000	36,000
Number of shares (diluted)	35,703	35,692	35,790	35,881	36,000	36,000	36,000
EPS	0.52	0.76	0.83	0.93	0.98	1.08	1.10
Operating cash flow per share	1.17	1.38	1.35	1.11	1.65	1.64	1.64
Free cash flow per share	0.99	1.10	-0.49	0.13	1.12	1.04	1.06
Book value per share	5.00	5.20	5.11	5.52	5.88	6.33	6.78
Dividend per share	0.50	1.05	0.58	0.61	0.63	0.65	0.67
Dividend payout ratio, %	95.5	138.3	70.1	65.3	64.1	60.3	61.0
Dividend yield, %	3.0	4.7	3.2	1.9	1.6	1.7	1.8
FCF yield, %	5.9	4.9	-2.7	0.4	2.9	2.7	2.8
<b>Efficiency measures</b>							
ROE	10.4	14.9	16.1	17.6	17.3	17.7	16.8
ROCE	12.4	22.4	18.5	17.0	19.0	19.9	21.1
<b>Financial ratios</b>							
Inventories as % of sales	10.1	8.6	9.2	9.8	9.8	9.8	9.8
Receivables as % of sales	24.3	25.3	26.7	26.0	26.0	26.0	26.0
Non-interest bearing liabilities as % of sales	22.2	24.4	25.5	23.2	23.2	23.2	23.2
NWC/sales, %	12.1	9.5	10.1	12.7	12.7	12.7	12.7
Operative CAPEX/sales, %	2.4	2.5	4.1	8.7	5.0	5.4	4.9
CAPEX/sales (incl. acquisitions), %	2.4	1.9	-10.7	8.7	5.0	5.4	4.9
FCFF/EBITDA	0.8	0.8	-0.3	0.1	0.7	0.6	0.6
Net debt/EBITDA, book-weighted	-1.6	-1.8	-0.4	-0.1	-0.3	-0.5	-0.7
Debt/equity, market-weighted	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Equity ratio, book-weighted	70.0	67.7	52.8	54.9	60.7	63.9	65.6
Gearing, %	-40.5	-49.2	-11.0	-2.5	-10.9	-16.6	-21.5

**COMPANY DESCRIPTION:** Vaisala develops, manufactures and markets products and services for environmental and industrial measurement. Vaisala's strategy relies on R&D and focusing on technology leadership in its selected segments. Vaisala has two segments: Weather & Environment (W&E), and Industrial Measurement (IM). The W&E customers include meteorological institutes, airports, roads and railroad, defense, and energy industry. IM serves industrial customers in life science, power transmission, and targeted industrial applications offering a broad range of measurement instruments to ensure operational quality and productivity. Headquartered in Finland, Vaisala employs around 1,850 professionals worldwide.

**INVESTMENT CASE:** Vaisala should continue to profitably grow due to continued good growth in IM, with possible additional organic and non-organic opportunities in other niche areas supporting growth, and a more stable outlook for W&E. Vaisala benefits from its strong R&D based market leadership in both segments, with main profitability drivers being economies of scale and increasing share of IM sales. The healthy business and strong net cash position support ability to pay an increasing dividend.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Novameter Oy	3,774,792	144.197	10.5%
Nordea Bank Ab (publ), Finnish Branch	3,186,914	121.740	8.9%
Skandinaviska Enskilda Banken Ab (publ) Helsinki Branch	2,247,215	85.844	6.2%
Finnish Academy of Science and Letters	2,130,832	81.398	5.9%
Mandatum Life Insurance Company Ltd.	1,533,300	58.572	4.3%
Nordea Nordic Small Cap Fund	1,475,832	56.377	4.1%
Ilmarinen Mutual Pension Insurance Company	1,470,628	56.178	4.1%
Weisell-Säätiö Sr	1,440,000	55.008	4.0%
Voipio Mikko	1,268,312	48.450	3.5%
Caspers Anja	969,496	37.035	2.7%
Ten largest	19,497,321	744.798	54%
Residual	16,502,679	630.402	46%
Total	36,000,000	1,375.200	100%

#### EARNINGS CALENDAR

#### OTHER EVENTS

#### COMPANY MISCELLANEOUS

CEO: Kai Öistämö

CFO: Kaarina Muurinen

IR: Paula Liimatta

Vanha Nurmijärventie 21, 01670 Vantaa

Tel:

## DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

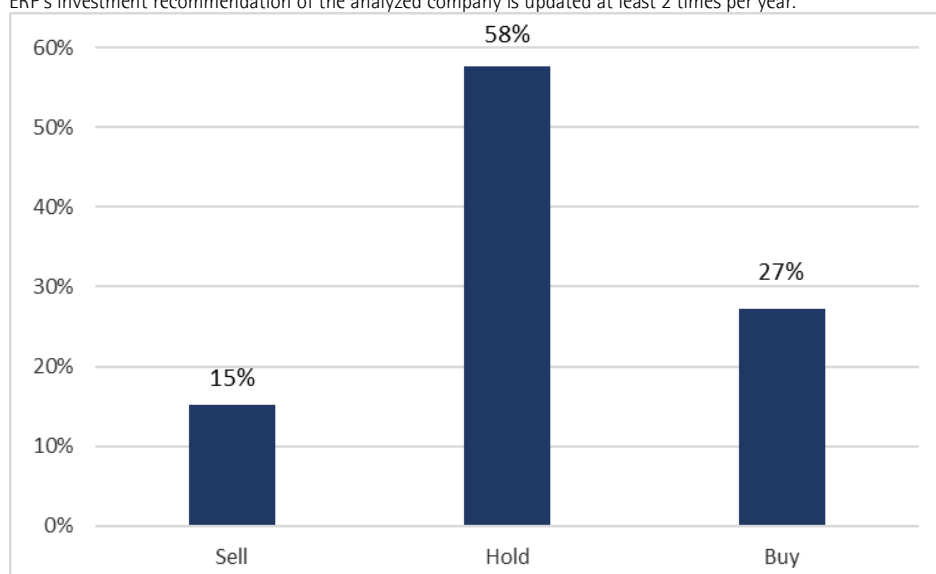
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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Name(s) of the analyst(s): Forslund

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