

Belimo

Market profile

Country	Switzerland
Sector	Bldg. Equipment & Systems
Market cap (CHF million)	5'587
52-week high / low (CHF)	319/ 514
Price per share (CHF)	454

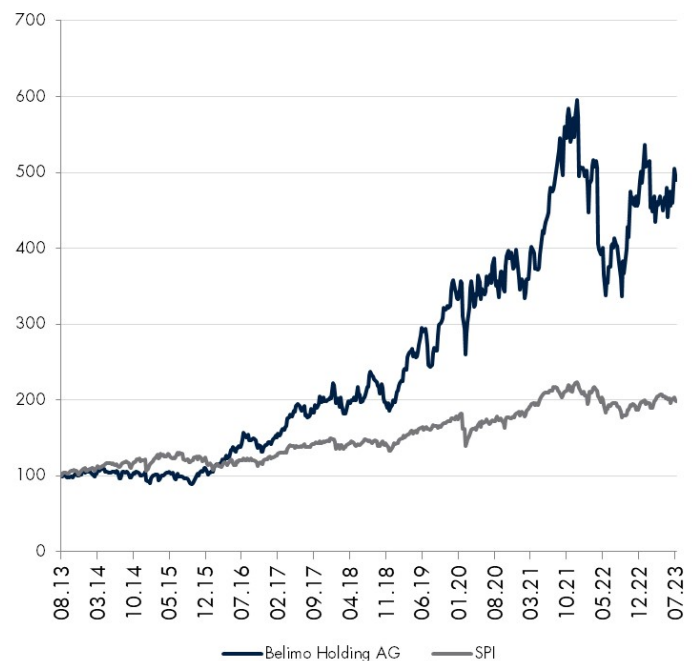
Key metrics (CHF)

	2022	2023e	2024e
EPS	9.95	10.79	12.06
PE	44.22	42.04	37.61
P/Book	11.76	10.21	9.69
Dividend yield	1.93%	2.02%	2.25%

Executive summary

Founded in 1975 in Gossau, ZH, Belimo (which stands for BEraten, LiefereN, MOntieren or in English counsel, deliver, install) is now a leader in regulation and control systems for heating, ventilation, and air-conditioning (HVAC). The company realized CHF 847 million of net sales in 2023. Belimo is organized by markets (EMEA, Americas and Asia Pacific) and by divisions (Innovation, Production, Logistics/ Customization, Finance & Business Services). The Group Functions include Global Quality and Strategy & Brand Management. Five megatrends account for structural growth drivers in the Belimo core markets: energy efficiency, climate change, urbanization, safety in buildings and digitization.

Evolution of stock price with respect to benchmark (rebased)
Source: IAM



Investment case

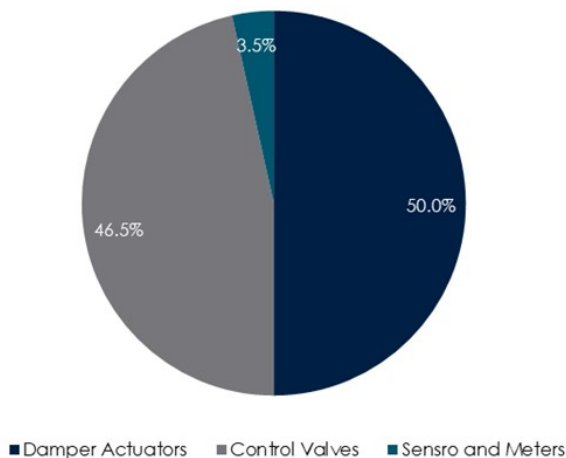
Belimo is the world's leading supplier of innovative electric actuators, valve, and sensor solutions for regulating and controlling heating, ventilation, and air conditioning systems in buildings. The company has a market share of around 20% and its strong balance sheet creates flexibility for targeted bolt-on acquisitions in new technologies or geographic expansion. The company benefits from two growth drivers: energy efficiency and indoor air quality. Belimo's core competencies are development, assembly, quality control and sales, while most of the production is outsourced to specialists. As a result, the business model is less capital intensive and Belimo can invest around 7% of sales in research and development to stay ahead of competition.

Company description and history

Founded in 1975 in Gossau, ZH, Belimo (which stands for BEraten, Liefen, MONTieren or in English counsel, deliver, install) is now a leader in regulation and control systems for heating, ventilation, and air-conditioning (HVAC). The company realized CHF 847 million of net sales in 2023.

Fig.1: Sales by segments, 2022

Source: Belimo



Group Structure

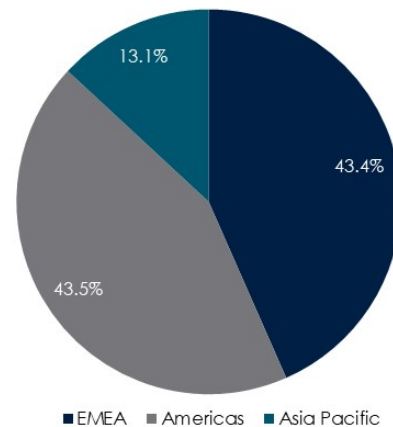
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Megatrends enabling Belimo's growth

Five megatrends account for structural growth drivers in the Belimo core markets: energy efficiency, climate change, urbanization, safety in buildings and digitization.

Fig.2: Sales by regions, 2022

Source: Belimo



Energy efficiency: Smart Controls

As buildings currently consume 40% of the world's energy, with HVAC systems accounting in turn for 40% of that figure, smart control of HVAC systems has a significant impact on global energy efficiency. In most region of the world, regulations increasingly support raising energy efficiency standards for HVAC equipment and encouraging energy-efficiency-driven building renovations.

Climate change : Energy-efficient HVAC solutions

Belimo's field devices help to reduce CO2 emissions from buildings' HVAC systems, the company has a strong commitment to helping limit global warming to less than 1.5° Celsius.

Urbanization: Indoor air quality

As populations shift across the globe from rural to urban areas, more and more people are leading modern, urban lifestyles and are spending 90% of their time in-

doors. State-of-the-art building automation and reliable HVAC components are indispensable for satisfying increasing demands for pleasant room climates and healthy environments.

Safety: protecting lives and assets

Urbanization means more buildings on less or smaller footprints with unusual designs, mixed use and increasing complexity. This poses new challenges for protecting lives and assets, making technical fire protection through motorized fire and smoke control dampers more important than ever before. At the same time, high-performance HVAC system and proper humidification strategies are required to maintain a stable, safe, and healthy indoor air quality.

Digitization: Embracing the age of transparency

Digitization in the building automation industry offers new powerful toolsets for analyzing and optimizing HVAC systems. The applications for smart performance devices are seemingly endless, whether they be in the form of data analytics, monitoring, predictive maintenance, ease of installation, or digital support during the commissioning and system integration phase.

Growth strategy and innovation

The group's long-term growth strategy consists of six initiatives geared to increase customer value and advance solution leadership.

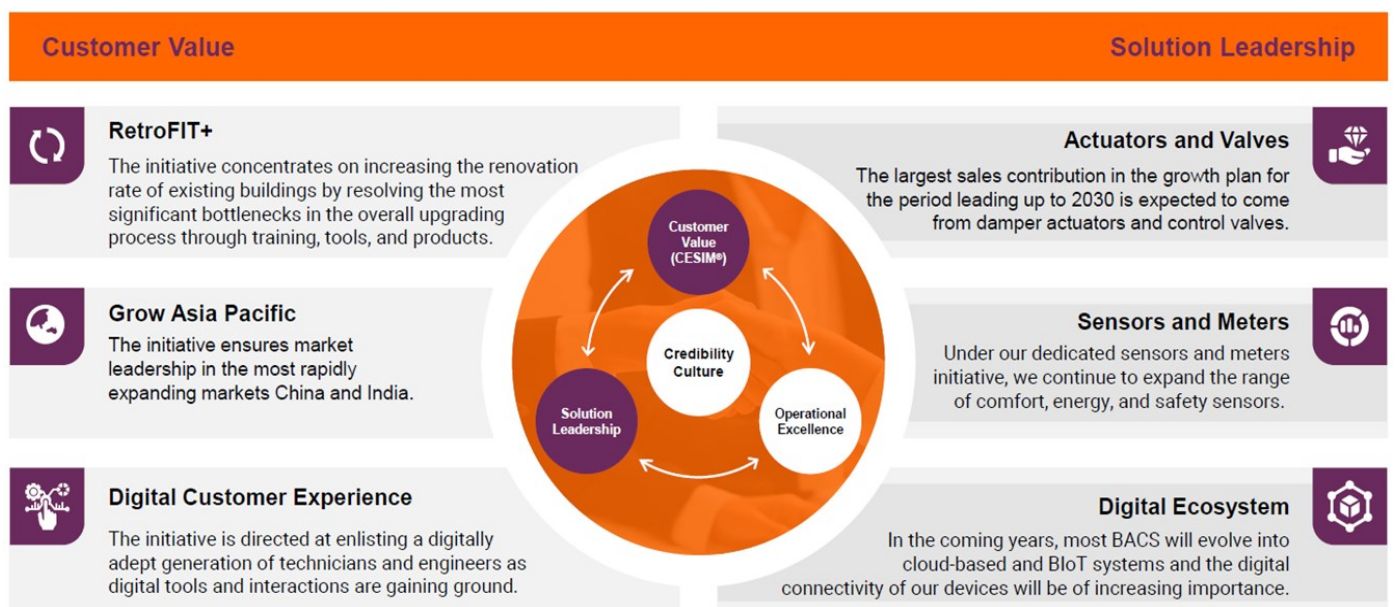
Customer Value

RetroFIT+

Only 2% of the world's buildings are newly constructed each year. This means that concentrating on existing buildings represents the most significant opportunity for reducing greenhouse gas emissions. The renovation rate must, however, be doubled if the ambitious climate targets stipulated by such initiatives as the European Green Deal are to be achieved. The RetroFIT+ initiative concentrates on increasing the renovation rate of existing buildings by resolving the most significant bottlenecks in the overall upgrading process through training, tools, and products. The Design-to-Order offering for factory-fitted, unique retrofit assemblies is reducing on-site labor time. The initiative offers the opportunity to expand the existing retrofit business by leveraging synergies among the business lines damper actuators, control valves, sensors, and meters for an increased impact on comfort, energy efficiency, and safety.

Fig3.: Belimo's six initiatives to increase customer value

Source: Belimo



Grow Asia Pacific

This initiative is ensuring the group's market leadership in the most rapidly expanding market. Most decisive for the success of Belimo in Asia is its concentration on China and India as the world's two most populous nations. In China, a city cluster hub strategy was implemented in 2017 and has since led to significant gains in market share. In 2022, Belimo increased its market presence in China by opening two additional sales offices in Chongqing and Suzhou, bringing the total number of offices to 13. In India, the main pillars of the strategy are the focus on specific vertical markets such as data centers, pharma, and healthcare by building up the sales network for advising consulting engineers and end users. In 2022, Belimo celebrated the opening of its new India headquarters to strengthen the company's footprint and brand awareness on the subcontinent.

Digital Customer Experience

The "digital customer experience" initiative is directed at enlisting a digitally adept generation of technicians and engineers as digital tools and interactions are gaining ground in the HVAC industry. The company's focus has been on enhancing its global website and promoting efficient sizing, selection, and specification software tools. The Belimo RetroFIT App has been launched, enabling Belimo customers to find RetroFIT products quickly. Finding a suitable replacement including CAD/BIM datasets allows them to transform poorly functioning equipment into high-performing systems efficiently.

Solution Leadership

Damper Actuators and Control Valves

The largest sales contribution in the growth plan for the period leading up to 2030 is expected to come from damper actuators and control valves. Over the next few years, Belimo will be making extraordinary investments in the fundamental renewal of the core platforms for both damper actuators and control valves, while at the same time fully integrating its sensors and meters product range. This will allow for a seamless design, installation, and commissioning experience across the product range offering, as the field devices will become more integrat-

ed and require consistent interfaces in the evolving building automation architecture.

Sensors and Meters

Under its dedicated sensors and meters initiative, Belimo has continued to expand the range of comfort, energy, and safety sensors. The company has launched a new product line of room sensors and won an award in the indoor air quality category. Belimo also launched thermal energy meters and gas detection sensors, including carbon monoxide sensors. These versatile self-contained single or dual sensor gas monitors are used for automated ventilation control and alarming systems for recommended building technology applications such as vehicle emissions and industrial health and safety.

Digital Ecosystem

In the coming years, most building automation and controls systems (BACS) will evolve into cloud based and Building IoT (BIoT) systems. Considering these trends and the increasing interest of building operators in energy data and predictive maintenance, the digital connectivity of Belimo devices will be of increasing importance. A well-designed digital ecosystem will allow for seamless integration, providing easy access to data from damper actuators, control valves, sensors, and meters. Being already recognized as the leader in this domain, leveraging platform capabilities, edge logic, and allowing seamless access to device data can become a strong point of differentiation and a source of additional growth for Belimo.

A balanced investment portfolio

Belimo must find the right balance between investments in both existing and new portfolios of products. In its existing business, the company focuses on maintaining a broad, competitive, and differentiated product range, and renewing selected sub-ranges at the end of their lifecycle. In the new business areas, Belimo aims to generate growth by developing unique and innovative products for existing customer groups, for example, through new sales approaches, extra marketing measures, or training. A comprehensive annual strategy ensures that Belimo will strike this desired balance. The Markets and

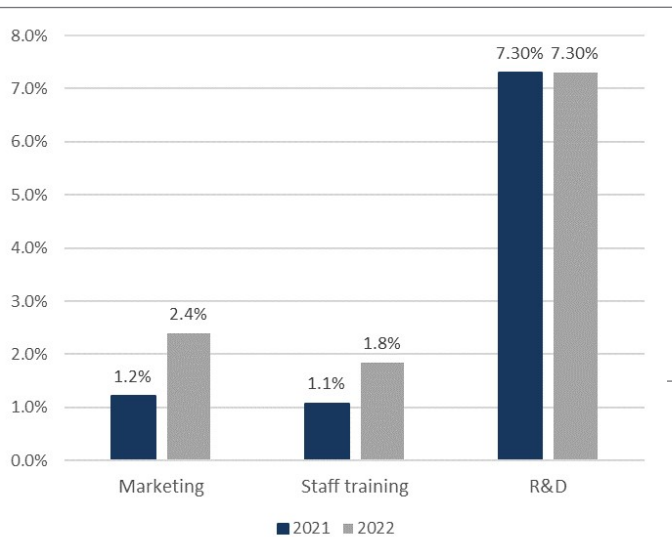


Innovation Committee, a formal team that comprises of senior executives from the three sales regions, Product Management, Group Innovation and Group Strategy, assesses and prioritizes projects to be released for development. An implementation strategy, quarterly progress reviews, and the assignment of an executive business owner and a strategy coach to each of the six growth initiatives together ensure that decisions are transparent and well-grounded. The key performance indicators of the different initiatives are tracked and discussed each quarter by the Executive Committee.

The following are examples of important operative figures that enable balanced allocations between investments in the different areas of the company:

- Percentage of sales spent on R&D.
- Percentage of sales spent on marketing.
- Percentage of sales spent on training.

Fig.4.: Key Performance Indicators, % of net sales
Source: Belimo

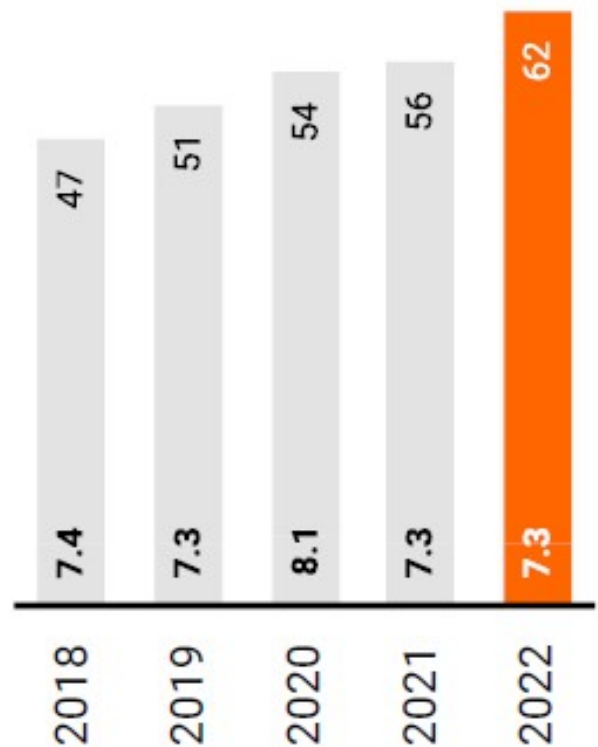


Solution Leadership

Belimo strives for market and technological leadership and invests substantially more than its competitors in innovation to surprise the market with unique solutions. Far-sighted investment into research and development is one of the main success factors for maintaining solution leadership. The key performance indicators are the resources dedicated to research and development as a

percentage of net sales. This share has remained stable at a rate of more than 7% over the last five years, amounting to 7.3% in 2022. To support the growth of Belimo, the research and development activities are increasing, not only in size and value but also internationally, with three hubs outside of Hinwil (Switzerland): Danbury for the Americas, Grossröhrsdorf for EMEA, and Shanghai for Asia Pacific. Also, a new product creation process has been introduced in 2022. Its goal is to ensure the cooperation between the different teams and further improve the already high-quality standards of Belimo's products.

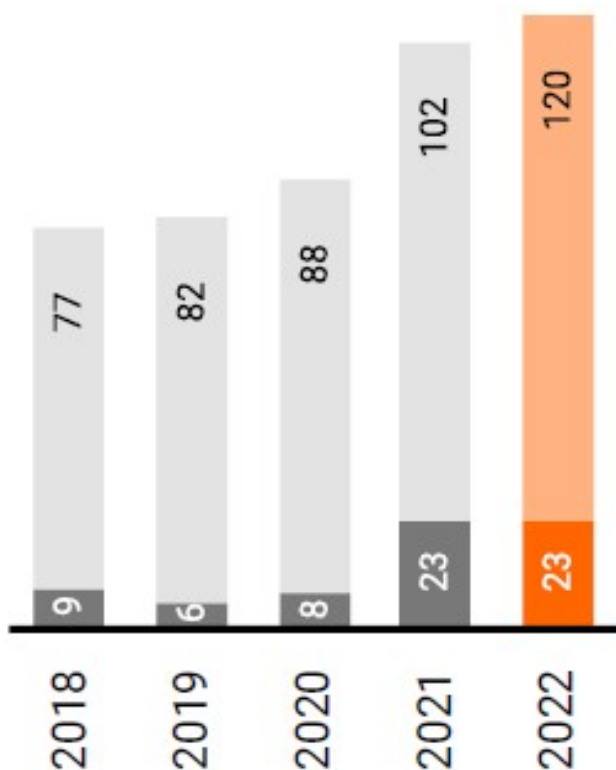
Fig. 5: Research and development costs
Source: Belimo



Most building management systems are now using networks instead of signal voltage to increase peripheral intelligence and deliver more data. This allows information from Belimo's devices to be supplied easily to on-premises building management and cloud-based internet of Things systems. This evolution is in response to regulatory pressures and the desire of building owners and operators to lower their operating costs and increase indoor comfort, allowing them to attract better tenants and

achieve higher rental yields. Data is at the forefront of this change. It is being used locally to streamline building operations to suit demand and diagnose faults quickly or before they occur, and remotely by cloud-based systems for building benchmarking and optimization. At the same time, data helps Belimo to understand changes in the usage of the specific building and application trends, ensuring its field devices remain relevant and continue to provide value for its customers and theirs. In addition, continuing to support common network platforms, and providing edge logic and valuable data are strong points of differentiation and a source of additional growth.

Fig. 6: Number of patents (newly created patent at the bottom)
Source: Belimo



Belimo handles a growing number of patents and trademarks via strategic management of its intellectual property. The primary reason for pursuing strategic intellectual property management is to ensure that both Belimo and its customers have the right to use products developed by the Company. Secondly, deploying strategic intellectual property management helps protect essential elements in

the customer journey, as well as technological advantages and subsequent innovation leadership. In 2022, Belimo filed the same high number of new patent applications as in the previous year, further strengthening its intellectual property portfolio. The number of patent families in active ownership increased to 120 as a total of 23 new patent families were created. Strategic intellectual property management is especially relevant in the age of digitization. Belimo puts significant effort into monitoring activities in this field, as it is increasingly competing with IT companies that file for a vast number of patents. This field is another vital intellectual property area and Belimo has already filed several patent applications.

Partnership with Suppliers

Belimo views its suppliers as key partners, and the most critical element of its asset-light model. Partnerships with suppliers are critical for Belimo to uphold its customer-oriented flexibility and deliver high-quality field devices that arrive on schedule. Especially in challenging times, these long-term partnerships are essential for high product availability. The supplier network is also crucial for maintaining the company's asset-light model. Suppliers are not only considered as providers of parts and assemblies, but also as key partners when developing specifications for products or services. This means they contribute significantly to the company's innovative capacity, as they help to fulfill end-users' needs while cost-effectively meeting mandates.

Financial analysis

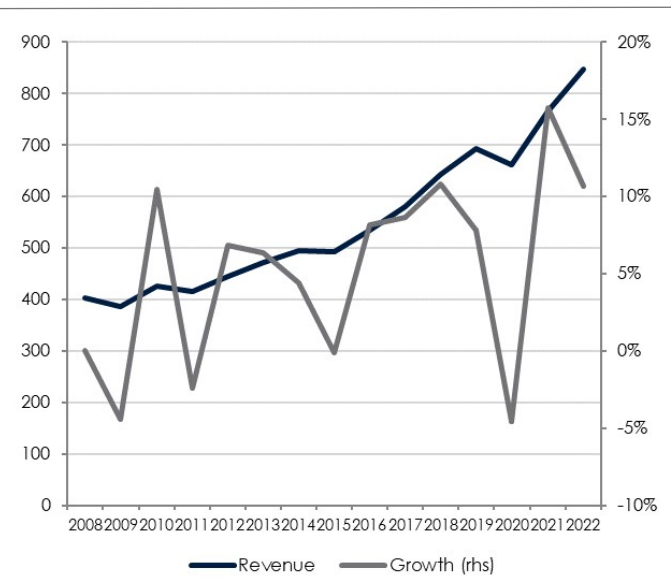
Revenues

Net sales grew 10.7% in Swiss franc in 2022 despite significant headwinds. The company had to face supply chain shortages and, because of the war in Ukraine, had to exit its Russian business which represented approximately 3% of the top line. Among the regions, The Americas stood out decisively with a net sales growth of 21.3% in local currencies. In the Asia Pacific region, Belimo recorded a top line increase of 11.4% in local currencies.



Fig.7: Evolution of sales

Source: Belimo

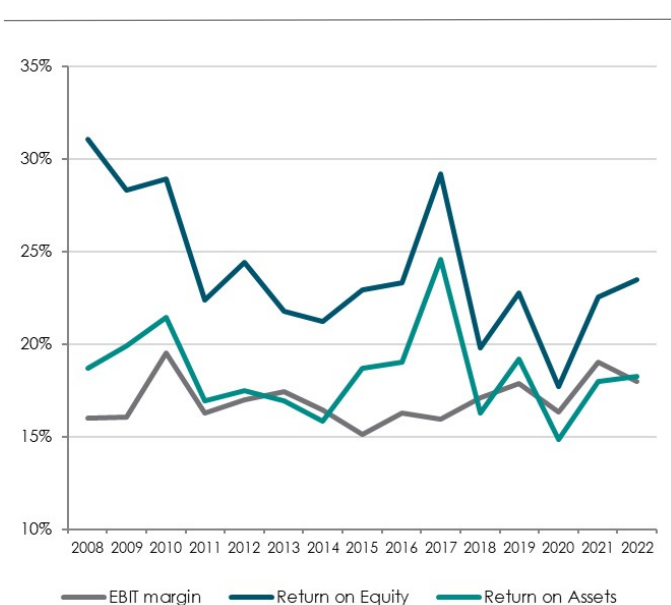


Profitability

In 2022, the company had to deal with rising inflation. Material, energy, and freight expenses increased more than expected by the management. Price adjustments partially compensated for higher input costs but operating margins decreased from 19% in 2021 to 18% in 2022.

Fig.8: Profitability

Source: Belimo

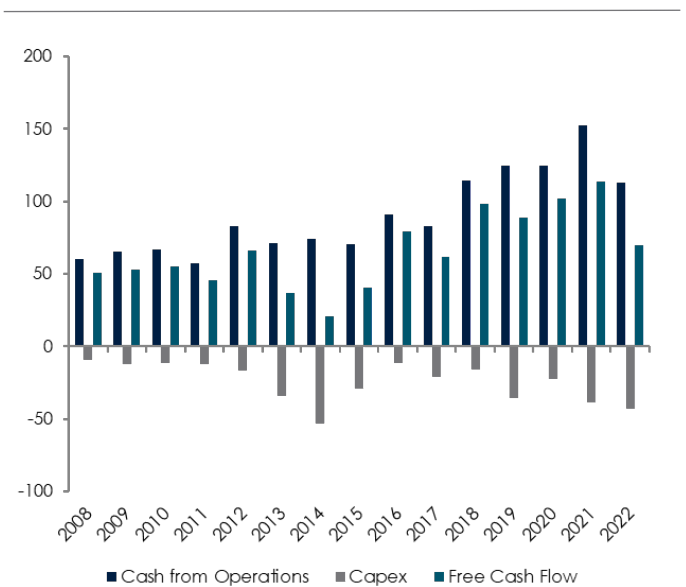


Capex and cash flow

Operating cash flow amounted to CHF 112.9 million in 2022. Higher safety stocks and longer transport times led to an increase in net working capital and affected operating cash flow negatively. Capital expenditures increased too as the company is expanding its presence in some promising markets like India. As a result, free cash flow decreased from the record level of 2021, but remains very healthy at CHF nearly 70 million.

Fig.9 Cash flow

Source: Belimo



Capital distribution

In 2022, dividends increase from CHF 92.2 million to 104.5 to reach a yield of about 1.9%. The company has a pragmatic approach and may progressively increase the dividend, provided it will not affect its growth projects. At current valuation, the free cash flow yield is lower than the dividend yield.

Strong balance sheet

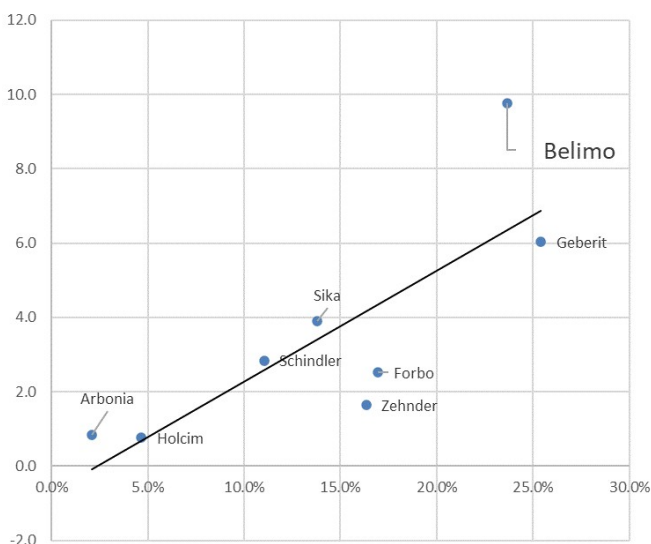
Belimo has an extremely strong balance sheet with a net cash position of over CHF 75 million. The total debt to equity ratio is 2.2% and net debt to EBITDA at -0.4. Belimo has a low capital intensity business model with fixed assets accounting for only about 40% of total assets.

Peer Comparison

It is difficult to find comparable peers to Belimo. International competitors like Siemens, Invensys, and Johnson Control are large conglomerates and are only competitors to Belimo in a small part of their business. In Switzerland, there are many companies active in the “building suppliers” sector, but they are not involved in HVAC. That said, we can build a sample representative of the companies involved in buildings construction and renovation and look at some metrics and ratios to determine relative profitability and valuations. These companies are: Arbonia, Holcim, Schindler, Sika, Zehnder, Forbo and Geberit. According to the chart below, Belimo seems very expensive, well above the regression line, despite a high ROIC. However, market participants agree to pay a premium as the company enjoys a promising growth potential linked to its role in decarbonization and political will to accelerate green capex and renovation of the housing sector.

Fig.10: EV/Invested Capital versus ROIC

Source: companies' data



Investment case

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Main risks

Belimo is a high quality company. However, although its PE ratio is now back to its five year average level, it remains very high, making the share price vulnerable to further increase in interest rates or to any earnings disappointments.

Fig.11: One year forward PE ratio

Source: Belimo

