

Schindler

Market profile

Country	Switzerland
Sector	Industrial Products
Market cap (CHF million)	18'474
52-week high / low (CHF)	294.2 / 165.8
Price per share (CHF)	169.6

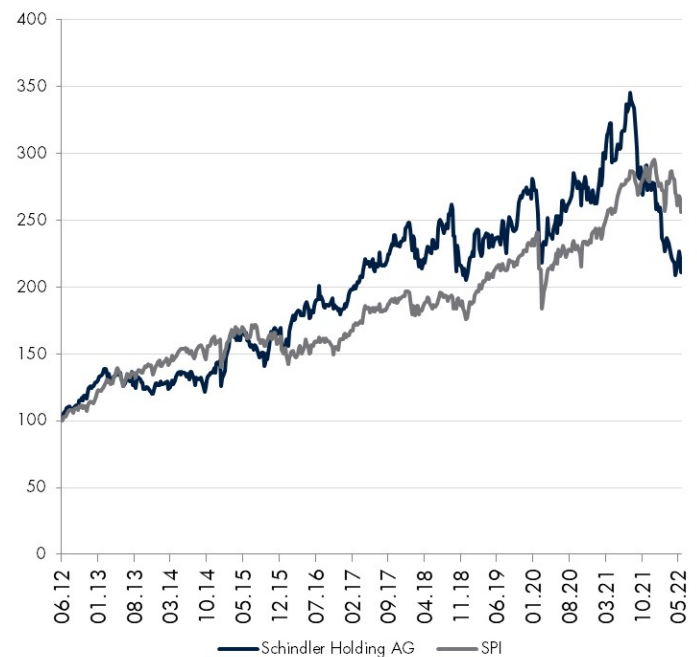
Key metrics (CHF)

	2021	2022e	2023e
EPS	7.87	7.19	8.16
PE	22.0	24.1	21.2
P/Book	4.34	4.00	3.73
Dividend yield	1.63%	2.27%	2.41%

Executive summary

Schindler's history traces back more than 140 years ago. It started from a local manufacturer of machines in Lucerne into a global elevator and escalator business. The company is now a leading provider of sustainable and smart urban mobility. The goal of Schindler is to engineer vertical mobility to make urban spaces more comfortable, inclusive, and sustainable. The group employs about 69 thousand people in 1000 branches across 100 countries. In terms of regions, 44% of Schindler's sales were in Europe in 2021, North, Central and South America together contributed 26% of sales, while Asia, Australia and Africa accounted for the remaining 30%.

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



Investment case

Schindler is one of the top three elevator and escalator manufacturers globally and has stable if not very high margins with potential for improvement. While the new installations business is driven by the urbanization trend and infrastructure measures as well as an increasingly important modernization business, the high-margin service business benefits from a growing installed base. Currently, the company is facing headwinds from various sides (real estate issues in China, macroeconomic slowdown in the developed world, and the need to reshuffle its product portfolio with more modularity). However, the new management should be able to tackle the challenges more consistently and thus the gap with competitors is poised to decrease if not completely disappear.

Schindler

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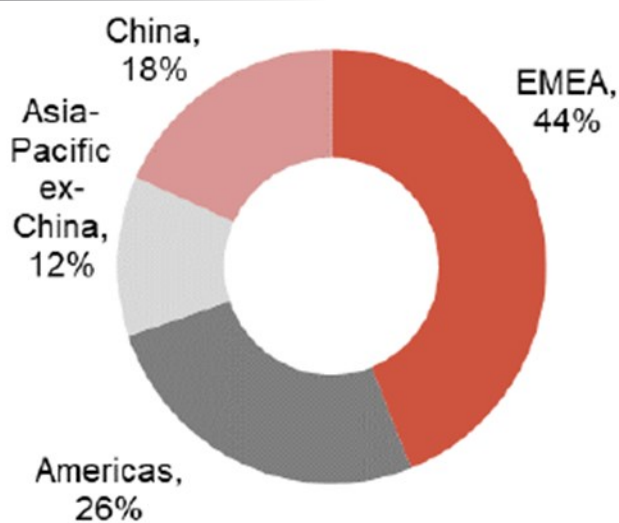
June 2022

Company description and history

Schindler's history traces back more than 140 years ago. It started from a local manufacturer of machines in Lucerne into a global elevator and escalator business. The company is now a leading provider of sustainable and smart urban mobility. The goal of Schindler is to engineer vertical mobility to make urban spaces more comfortable, inclusive, and sustainable. The group employs about 69 thousand people in 1000 branches across 100 countries. In terms of regions, 44% of Schindler's sales were in Europe in 2021, North, Central and South America together contributed 26% of sales, while Asia, Australia and Africa accounted for the remaining 30%.

Fig.1: Sales by geography, 2021

Source: Schindler



Group structure

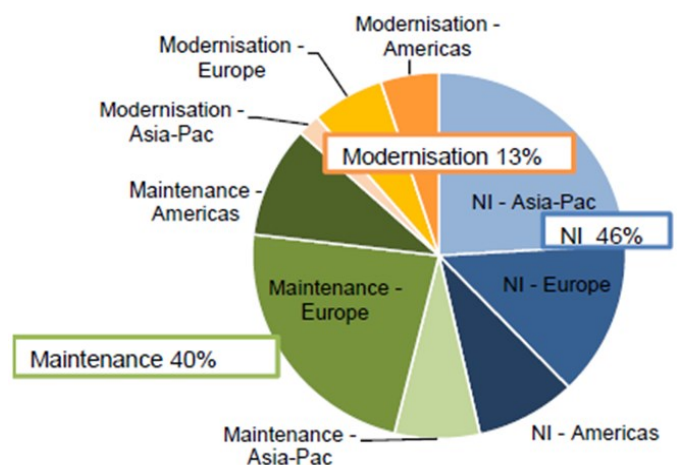
The group is organized around three divisions: New installations of product and services, Maintenance and repair, and Modernization.

Products and services

The Group's vision is to shape the cities of tomorrow, through technology and innovation. The vision of the company is to provide urban mobility that's smart, inclusive, and sustainable. There are three types of products: Elevators, Escalators and Moving Walks, and Moving Goods. Schindler's elevators help make urban spaces more efficient, from big to small, heavy to light, from low-rise to high-rise, they create vertical mobility. If you need to move lots of people, escalators and moving walks are the answer. Where mass movements are part of the equation in large buildings like shopping malls, airports or train stations, escalators and moving walks help people get to their destination safely. Finally, freight elevators are designed to move heavy loads. Schindler's largest can carry as much as 45 tons.

Fig.2: Business mix by revenue, 2021

Source: Schindler



Maintenance and Repair

Through maintenance and repair, Schindler extends the lifetime of any elevator, escalator or moving walk, no matter what the brand. The digital services help leverage



the power of connected elevators and escalators. This contributes to improve reliability and life span of customers' equipment.

Modernization

Modernization doesn't just help ensure enhanced functionality, safety, comfort, and compliance with changing regulations and codes, it also help add value to buildings by upgrading equipment and improving the user experience, while making buildings more sustainable. Modernization helps to increase a building's energy efficiency and reduces its overall carbon footprint through energy-efficient technologies that reduce the carbon footprint of the building and the operational costs of the elevator. Schindler's modernization solutions protect the customers' investment for the long-term by, for example, focusing on the components that need to be upgraded and extending the lifespan with upgraded accessibility, aesthetics, controls, and illumination options, while increasing comfort.

Alongside Modernization, Schindler also has a unit called CleanMobility solutions. As we are living in a changing world, the way we interact with each other is changing even faster. There are new challenges in public spaces as we learn how to share it comfortably while maintaining safety and protection. Within this new context, Schindler aims to keep its elevators and escalators sanitary and safe.

Transit management: The Schindler PORT Technology revolutionized the science of optimizing traffic flow through a building while offering personalized service and access control. It enables building users to navigate the urban space efficiently, safely, and securely while touching only their mobile phone or access card.

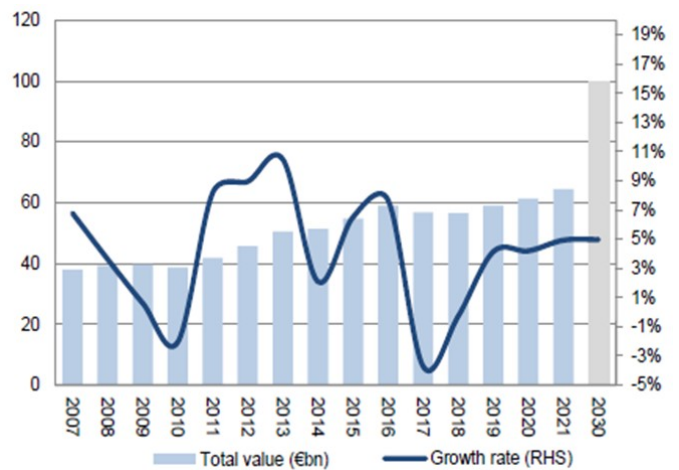
Schindler Ahead: the company's digital media services turn elevators and escalators into communication platforms. They provide new ways to inform, entertain, and communicate with passengers, tenants, and customers. Schindler's digital services complement maintenance service contracts, adapting to the customers' specific needs and requirements. The range of services starts with connectivity and ends with the full installation's management, from elevators to escalators.

Schindler's markets

The global elevator and escalator (E&E) market was estimated to be about USD 65 billion in 2021 and it should reach the USD 100 bn threshold by 2030. Maintenance accounts for about half of the overall E&E market, with new equipment accounting for about 35% and modernization 11%.

Fig.3: E&E market by value and growth rate

Source: Schindler

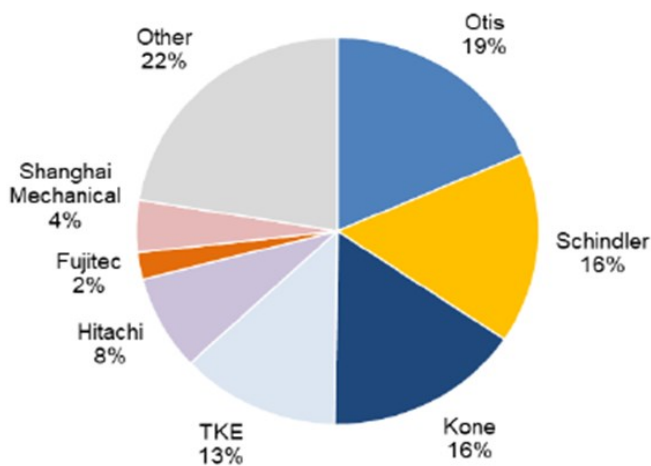


The new equipment market grew by 6% in 2021, mainly driven by APAC ex China. China is still, and by far the biggest market for new equipment, with 66% of new installations in 2021. However, after a decade of terrific growth, the Chinese market is now much more challenging, following the Evergrande scandal, lockdowns and an urbanization rate which is now comparable with developed countries. The global E&E installed base has been growing steadily over the past few years, reaching 19 million units in 2021. As of 2021, China accounted for 43% of the global installed base, followed by EMEA (36%). China is becoming increasingly important in the maintenance market with a rapidly growing installed base (from 34% of global installed base in 2018 to 43% in 2021). However, the service value per unit is less than half of the global average. This fact casts a serious doubt about the hope of substituting the lack of growth in new equipment by more maintenance in China.

Competitive landscape

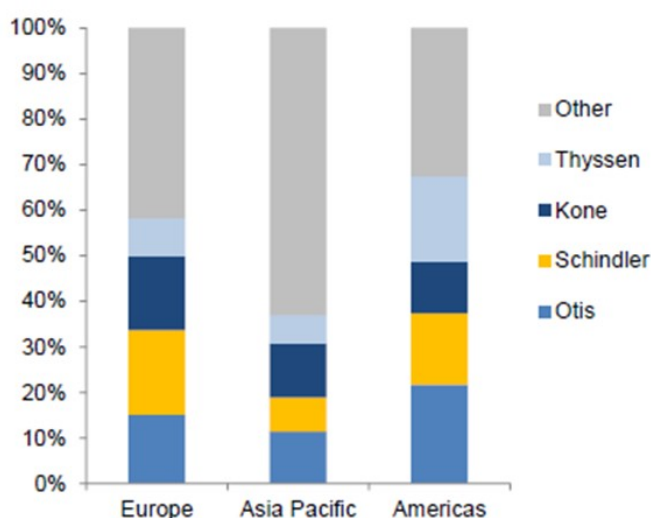
Globally, Schindler is number 2 at par with Kone, both companies controlling 16% of the global market, behind Otis, the clear leader with a market share of 19%.

Fig.4: Global market share by value, 2021
Source: Companies' data



Then we have ThyssenKrupp and a few Japanese players including Hitachi, Fujitec and Mitsubishi. Otis also has the largest share of maintenance in its business split, while Kone has the smallest as its new equipment business accounts for over 50% of revenue. In terms of margins, Schindler is clearly behind its peers while Otis is the leader.

Fig.5: Regional E&E market share by value, 2021
Source: Companies' data



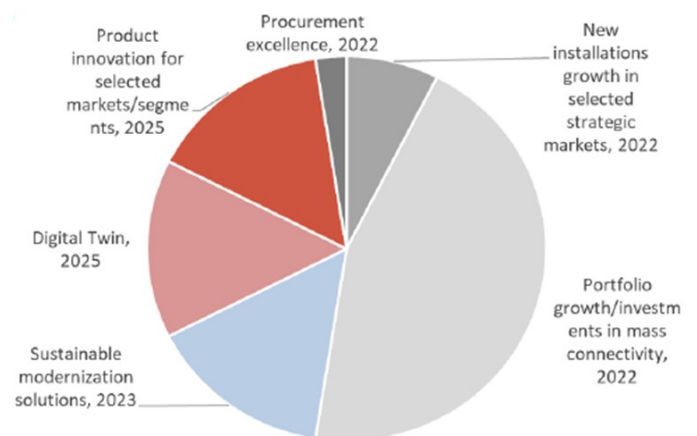
Strategy

Over the last decade, Schindler had a market share gain strategy. As a result, the company's margin deteriorated, triggering a management change. The new CEO emphasized the urgency to close the gap to peers in terms of margins. This will not be an easy task and Schindler faces a combination of challenges.

- 1) Managing the foreign exchange burden.
- 2) Regaining new installation competitiveness.
- 3) Resolving supply chain disruptions.
- 4) Streamlining product portfolio complexity
- 5) Adjusting for China's new installations market contraction.

To tackle these challenges, Schindler has mulled a program called Top Speed 23. Its main goals are to accelerate digital transformation, boost product innovation, and address profitability gaps.

Fig.6: Top Speed 23 program, % expense by area
Source: Schindler

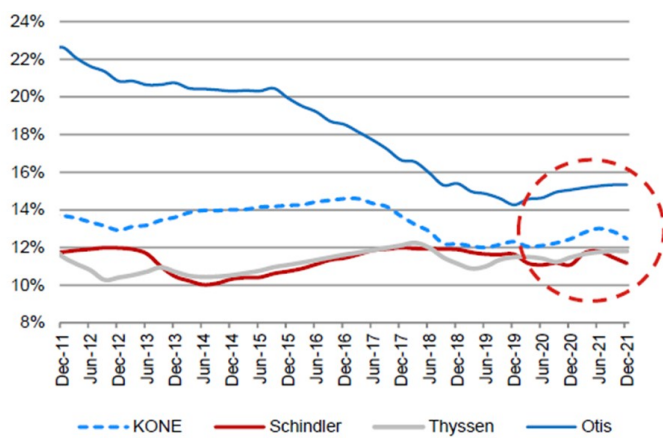


Developing modularity is a key element to solve the portfolio complexity issue and streamline the portfolio. In 2021, the global rollout of Schindler's first platform of modular elevators advanced but was impacted by issues disrupting the supply chain. However, order intakes of modular elevator is now ramping up and customer feedback is very positive. The group's production is heavily outsourced and only 6% of employees are in production,

which mainly involves assembly. Schindler has reduced the number of its production sites from 13 in 2017 to 11 in 2021. It has 4 production facilities in Europe (Switzerland, Austria, Slovakia), 4 in Asia (China India and Vietnam), and 3 in Americas (USA and Brazil). The company estimates that the modular platform enables approximately up to 30% energy efficiency.

Fig 7.: EBIT margin development 2012–2021

Source: Companies' data



New Management

To implement this strategy, Schindler has appointed its Chairman, Silvio Napoli as CEO. He will replace Mr. Thomas Otterli whose tenure lasted nearly 6 years but was affected by decreasing margins during the last few years. Mr. Napoli will cumulate both roles which is questionable in terms of corporate governance, even if the company justifies its choice by a concern for efficiency.

Fig.8.: Management structure

Source: Schindler



Mr. Napoli became Chairman of the Board of Directors in 2017 and was appointed CEO in January 2022. He first joined Schindler in 1994. From 2008 to 2013, he served as a member of the Group Executive Committee with responsibility for the Asia-Pacific region. He then served as CEO of the Group until March 2016.

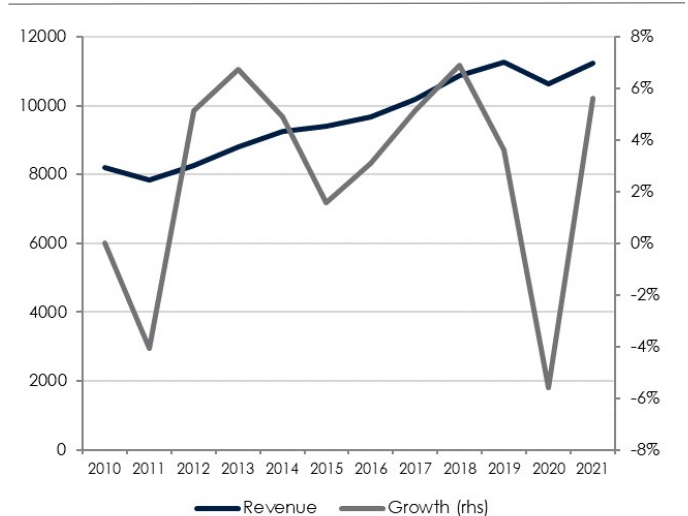
Financial analysis

Revenues

Sales have increased by 5.6% in 2021, a nice rebound after a lacklustre 2020, but are still below the 2019 pre-covid level. This illustrates the negative effects of lockdowns, and the problems facing the real estate sector in China. For 2022, Schindler has guided for revenue growth between 1 and 6% in local currencies .

Fig.9: Evolution of sales

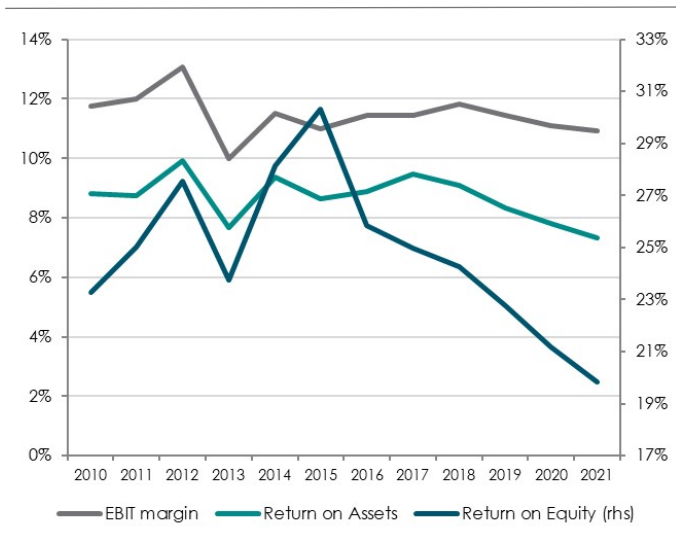
Source: Schindler



Profitability

The group's profitability has been regularly declining over the last few years. This reflects two main issues the company will have to fix. First, Schindler tried to compete on prices in the Chinese markets to gain market shares. This strategy worked obviously at the expense of profitability. Then on the costs side, the range of products was too large and thus production efficiencies difficult to implement.

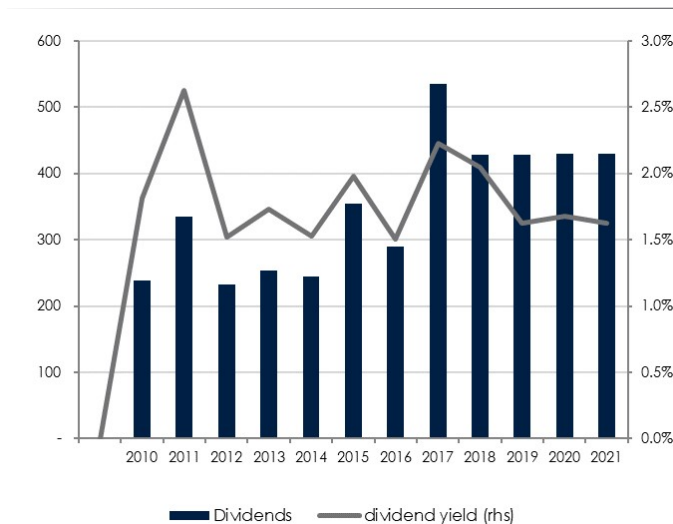
Fig.10: EBIT margin, RoA, RoE
Source: Schindler



Capital distribution

Schindler’s dividend per share has not improved since 2018, staying at CHF 4.0 per share. Given current market conditions, the focus on efficiency and margin improvement, there is no willingness to increase capital distribution in the foreseeable future. However, as the company is still very cash generative and has a strong balance sheet, there would be room, in our view, and given the depressed level of the shares, for a share buy-back program.

Fig.11: Evolution of dividends
Source: Schindler



Strong balance sheet

The company’s balance sheet is very solid with a debt-to-equity ratio of 25%. Some would even argue that the company is under levered. UBS has rated the Schindler corporate bond A+ in 2021.

Fig.12: Debt to equity ratio
Source: Schindler



Capital structure

Schindler has two kinds of shares: registered shares and participation certificates. Both are traded on the SIX Swiss Exchange. Holders of participation certificates have the same rights as holders of registered shares with the exception of attendance at the Annual General Meeting and voting rights. At the end of 2021 the Schindler and Bonnard families and parties related to these families held 69.2% of the voting rights.

ESG considerations

Schindler has a strong sustainability commitment and considers itself as a provider of solution to build a lower carbon economy. The company thinks of ESG factors as strategically important and has integrated them into its management systems, policies and continuing technical, business, and leadership trainings. Schindler has established six ESG priorities, which were identified through consultations with the Group Executive Committee and a selection of senior managers across the organization. A panel of independent experts added their insights to



ensure the roadmap was focused on the areas that could make the biggest contributions.

1) Enhance safety

Safety is at the heart of everything the company does. Every day, about 1.5 billion people rely on Schindler's products to get around. Therefore, safety and reliability of the products are critical. Schindler products are engineered, manufactured, installed, and maintained to the highest safety standards. The most rigorous safety and quality protocols that apply to the product's entire life cycle are scrupulously followed, from development to design, and installation to maintenance and modernization. Employee safety also is a key ESG objective and Schindler pursues a zero-incident policy. The company strives to create a safe, inclusive, and sustainable work environment.

2) Pioneer smart urban mobility

This is the heart of Schindler mission statement: shaping urban landscape. Building on connectivity is a key strategic axis for Schindler. Connected elevators and escalators offer enhanced planning, maintenance, management, and user experience. The PORT technology developed by Schindler helps optimizing traffic flow in a building, including personalized service and access control. It not only reduces waiting times for elevators by up to 40%, but also the number of stops required, managing elevator trips in the most efficient manner, and keeping related energy consumption to a minimum. Digitalization and connectivity can help unlock value for customers. However, the uptake of such new technologies underscores the importance of establishing a cyber resilient environment. Data protection and product security are key elements to meet the needs of employees, customers, and partners. Cyber resilience covers Schindler's products, services, and applications, via leading-edge IT solutions, awareness, and education, as well as product robustness.

3) Increase sustainability in the supply chains

Schindler relies on a global network of suppliers for production materials and services. The company's commitment to improve their competitiveness, ethical behavior,

and environmental management practice is embedded across the environment, quality, and vendor policies. Schindler has created a global supplier relationship management and information portal. It enables suppliers to be directly involved in the sharing of information, target setting, and actions tracking according to improvement plans.

4) Lower vehicle fleet emissions

Schindler operates a global fleet of more than 20'000 vehicles to effectively maintain its product portfolio and deliver swift and reliable services to customers. These vehicles account for the largest proportion of the company's direct energy consumption. Over the years, Schindler has diversified its action to progress on its fleet target while recognizing the need to speed up its transition toward a more sustainable fleet of vehicles. The company's commitment to reduce fleet emissions is stipulated in its Global Fleet Policy

A) Selecting fuel-efficient and low-emission vehicles

B) Eliminating travel through smart Remote Monitoring

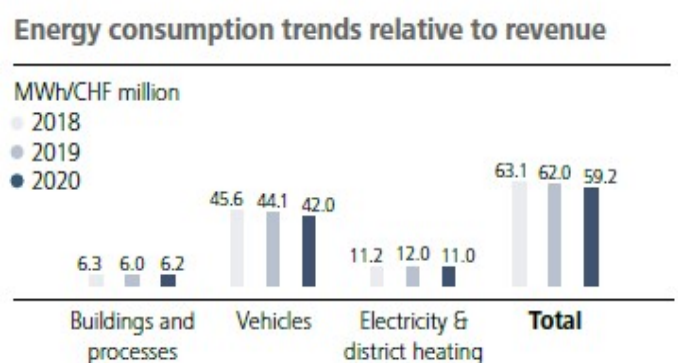
C) Intelligent route planning for service technicians

The focus also has been broadened to a life cycle perspective, including spare parts and material delivery, and the company explores innovative mobility solutions for more sustainable modes of transportation.

The intensity of the carbon footprint of Schindler's global fleet of vehicles decreased by 23% in 2021 vs 2017.

Fig. 13: Energy consumption

Source: Schindler



Schindler targets carbon neutrality by the year 2030 and currently has 60% of renewables as a percentage of power consumed.

5) Attract diverse talents

Schindler's global presence gives access to a full spectrum of human diversity, reinforcing the company's ability to adapt and innovate. Schindler believes that work must be inclusive in all aspects. It must be a place where people of all backgrounds are welcome and empowered to achieve great things. Diversity and inclusivity are truly considered as means to generate more innovative ideas and thinking.

6) Create value in communities

The company wants to make a positive contribution to communities through its targeted Responsibility initiatives. With youth unemployment being a global challenge, Schindler is proud to give young people the opportunity to take their first step into the world of work and develop the skills and experience they need to move forward in their careers. Within the Group, apprenticeships help prepare future generations of service technicians and fitters.

Investment case

Schindler is one of the top three elevator and escalator manufacturers globally and has stable if not very high margins with potential for improvement. While the new installations business is driven by the urbanization trend and infrastructure measures as well as an increasingly important modernization business, the high-margin service business benefits from a growing installed base. Currently, the company is facing headwinds from various sides (real estate issues in China, macroeconomic slow-down in the developed world, and the need to reshuffle its product portfolio with more modularity). However, the new management should be able to tackle the challenges more consistently and thus the gap with competitors is poised to decrease if not completely disappear.

SWOT analysis

Strengths

- Strong market positions with broad regional coverage.
- New experienced CEO with clear strategy.
- Good business mix with New Equipment, Maintenance and Modernization segments.

Weaknesses

- Profitability below peers (Otis and Kone)
- Underrepresentation in key market of China.

Opportunities

- Schindler operates in in a global growth industry driven by the megatrend of urbanization.
- Significant pent-up demand for modernization.
- Market share gains in China.

Threats

- Ongoing supply chain bottlenecks.
- Increasing raw material prices.
- Increasing competitive pressures in China.