



# Global Company Highlight: Kone

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Company Highlight Series

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Ticker:  
(KNEBV.HE)

Year Founded 1910

Headquarters Helsinki, Finland

Entered Strategy Q4 2020

Based in Helsinki, Finland, Kone is a leading manufacturer and provider of maintenance services for elevators and escalators. Kone's revenues are geographically well-diversified, benefiting from a global installed base of more than one million.<sup>1</sup> Notably, the Kone investment thesis is bolstered by a strong competitive position in China, where it is the market leader in new equipment and maintenance services.

## Know What You Own

We added Kone to the Jensen Global Quality Growth Strategy in December 2020 due to its attractive valuation and sustainable competitive advantages. The worldwide elevator industry is an oligopoly dominated by four global original equipment manufacturers (OEMs): Otis, Kone, Schindler, and Thyssenkrupp. Industry sales are typically divided among three lines of business: new equipment, maintenance, and modernization services. As a result, entrenched competitors are buoyed by their respective installed bases of equipment, allowing them to monetize profitable recurring maintenance and modernization services, and thereby leading to more stable cash flows. For Kone, new equipment, maintenance, and modernization account for 53%, 32%, and 15% of revenue, respectively.<sup>2</sup>

Kone's competitive advantages include its scale in manufacturing, sales and distribution, and maintenance services. The company has consistently gained market share in recent years across its key markets in Asia-Pacific, the US and Europe,<sup>3</sup> thanks to its streamlined product portfolio and operational efficiency. We are particularly impressed by Kone's business execution in China over the past decade, in which it overtook Otis to become the market leader in that region.

## Outlook

Kone is a well-managed company operating in an attractive global industry with a good mix of defensive and growth characteristics. Due to its annuity-like stream of revenues, the maintenance business demonstrates resilience across the business cycle, and the company continues to grow its installed base through the sale of new equipment.

Looking forward, we expect the company to generate mid-single-digit revenue and high-single-digit earnings growth. Our top-line forecast is based on new equipment sales in

<sup>1</sup> "Kone as an Investment: Equity 2020," Kone Corp., 4, 7.

<sup>2</sup> Ibid, 3.

<sup>3</sup> Ibid, 22.



Asia-Pacific, improved maintenance attachment rates in China due to an increasing emphasis on service quality, and global elevator modernization efforts. Additionally, we expect margin gains based on growth in high profitability services, such as predictive maintenance, as well as economies of scale and normalization in input costs.

In summary, we view Kone as a high-quality business with a robust financial profile and attractive prospects for future business value creation. We are pleased to have added the company to the Global Quality Growth portfolio.

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