Metso Corporation

October 10, 2025

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Overview

Metso

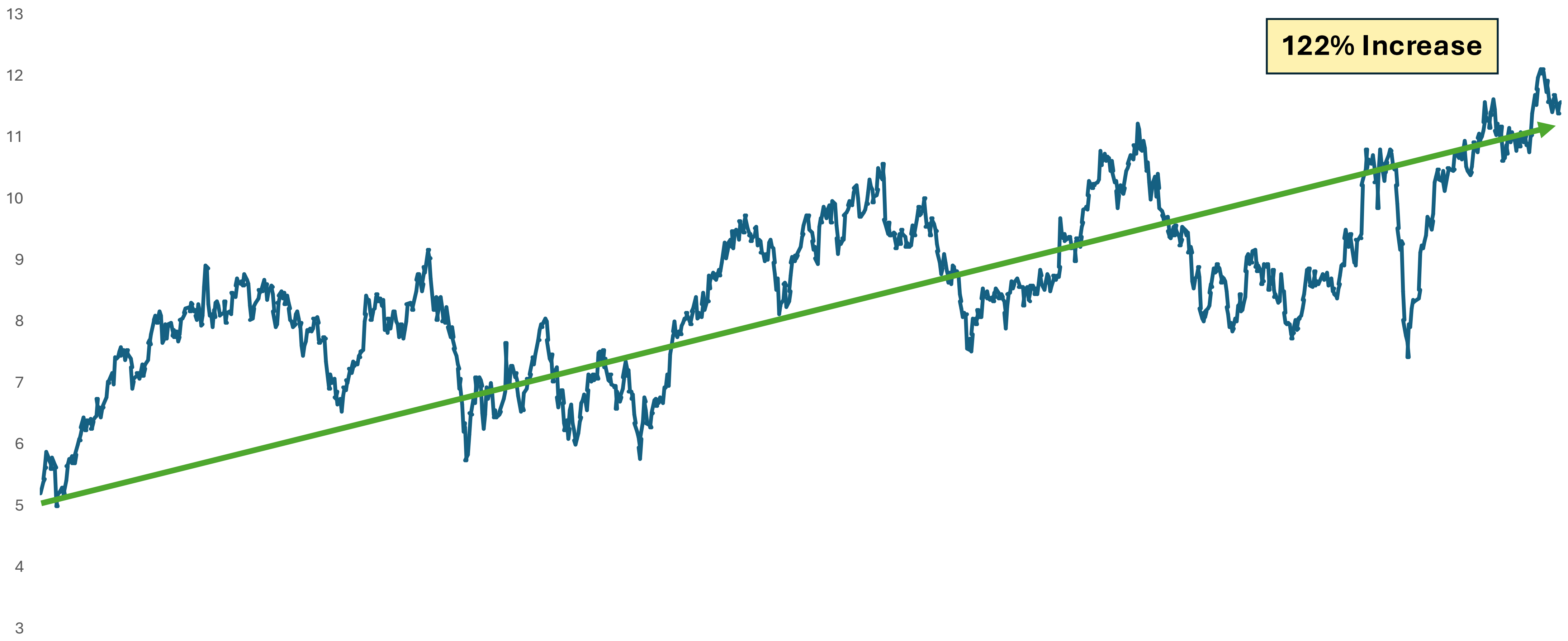
Ticker:
METSO

Stock Price:

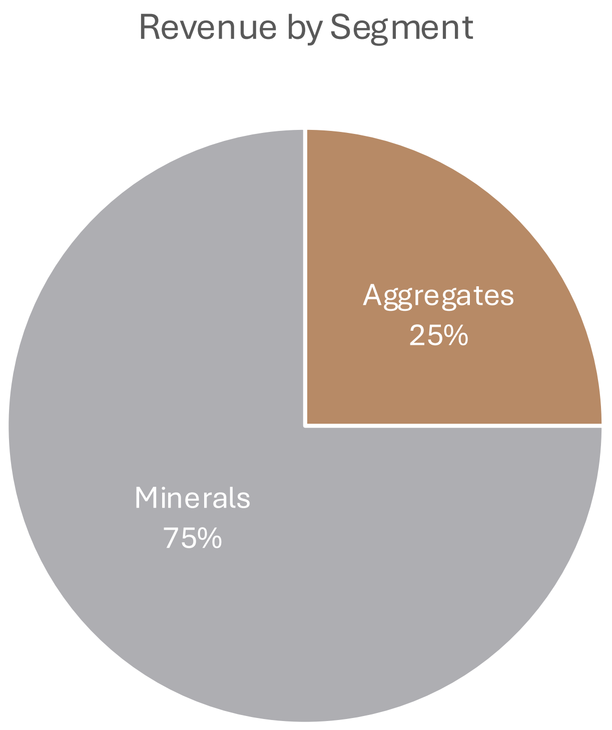
€11.75

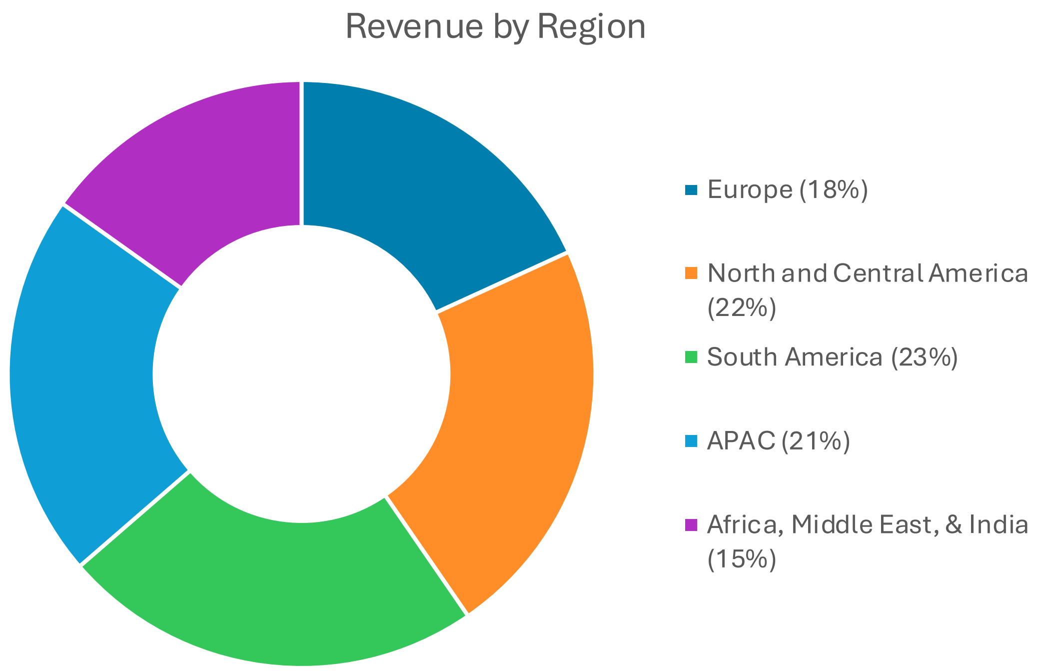
- Leading manufacturer for mineral refinement equipment
- $4.86 billion in worldwide sales in FY2024
- Market capitalization of ~$9.7 billion
- Sami Takaluoma took over as CEO in Nov. 2024

5 Year Stock Performance (since Sep. 2020)



Revenue Breakdown





Industry Overview

- Aggregates (sand, gravel, crushed rock)
  - Aggregates are used as bulk input in concrete, asphalt, road base, rail ballast and similar infrastructure products.
  - Sells machines that crush and screen rock for construction materials
  - Customers are quarries and road or infrastructure contractors
  - Mix of direct sales plus >250 distributors
  - Recurring pull from parts and service
- Minerals (copper, iron ore, nickel)
  - Equipment and process systems that turn mined ore into usable metals
  - Customers range from the big global miners to smaller regional players
  - End-to-end scope from testing to full plant systems
  - Recurring pull from parts and service

Competitive Advantage

- Extremely capital-intensive business
  - Metallurgy labs, foundry access, machining, tests, rigs, site commissioning
- High switching costs (especially for primary crushers and mills)
  - Contractual lock-in, technical integration
- Largest crushing equipment fleet
- Outcomes-based contracting
  - Higher switching costs and higher recurring margins
  - Expensive to replicate
  - Requires scale
    - Requires enough fleet telemetry, linear wear history, and field density

Why now?

- Several projects are being undertaken to secure rare earth / critical mineral supply chains
  - These projects will require equipment
- China recently put restrictions on rare earth technology, equipment, and expertise
- Metso is one of a handful of companies which provides the goods and after-market services
- Expect higher levels of global mining capex
  - Particularly in North America and Europe as they attempt to reduce dependence on China
- Higher metal prices
  - Gold, copper, and platinum prices are up this year

Solid and Conservative Debt Profile

- Net Debt / EBIT ≈ 1.9
- Debt/equity ≈ 0.66x
- Interest coverage ≈ 7.5
- Not overly reliant on very short-term funding
- Investment grade
- Average maturity of 3.8 years will require continued access to markets

Management

- Post-Covid supply chain, logistics, and inflation issues
  - Even before the merger, Metso was centralizing its European warehouse operations to improve logistics efficiency
  - They did miss some quarters vs analyst expectations as deliveries slipped, but the issues were industry-wide and largely outside their control
- Committed to €120m annual cost synergies by end of 2021 and delivered ~€142m run-rate instead, and did so earlier than promised, with integration costs lower than initially indicated
- Rapid, decisive portfolio cleanup (recycling, aluminum)
  - Quick on operational restructuring but outcome took years

Management

- Built a more reliable business by growing services to >50% of sales
- Wind down of Russian operations was as smooth as reasonably expectable
- Maintained and grew profitability through multiple shocks
- The biggest issue was the UK gasification projects which was a pre-merger Outotec decision that Metso management inherited and then cleaned up at significant cost.

Valuation

- New growth and profitability goals (September 24)
  - Annual sales growth (CAGR) of at least 7% (new target)
  - Adjusted EBITA margin over 18% (previously over 17% over the cycle)
- Approximate 2026e EBIT to be €0.85-0.95 billion
- Apply 10-11x EV/EBIT
- Target range €13.00 - €15.50
- Comfortable margin of safety

Risks

- Falling mining capex because of:
  - Lower metal prices
  - Perceived oversupply or slowing demand
  - Worsening credit conditions
- Poor execution on projects

Metso: Summary Investment Thesis

- ✓ Strong brand in the highly important rare earth / critical mineral industry
- ✓ Few non-Chinese competitors
- ✓ Excellent management that operates as owners
- ✓ "Strategic decoupling" presents a regime shift opportunity and Metso is well positioned to capitalize
- ✓ Strong momentum

Metso is a good business, in a good industry, with good management, at a good price.