



## Wärtsilä

Manufacturer of marine power engines and energy systems

### FIRST BOUGHT

April 2021

### WHAT TYPE OF COMPANY IS IT?

Wärtsilä is a leading Finnish industrial manufacturer of marine power engines and energy systems.

### WHY DID WE INITIATE A POSITION?

In line with our philosophy and process, we started a position on the back of troughing market cycle and company specific challenges which had impacted market sentiment and the share price in 2021. During this period, Wärtsilä's revenues were based off fixed-term revenue contracts which affected its ability to pass on higher input costs caused by supply chain constraints during the COVID crisis. Additionally, operational vulnerabilities arose from a concentration of software engineers employed out of Ukraine as the Russia-Ukraine conflict escalated which in turn impacted the company's near-term margin profile.

### HOW DOES THE COMPANY EXHIBIT FUNDAMENTAL QUALITY?

We believe Wärtsilä has a strong product line-up which has helped cement its market leading position in the industry. Wärtsilä's engines are known for fuel versatility and can run on traditional fuel liquefied

natural gas (LNG) and lower-emission fuels such as ammonia and biofuels. Its dual-use engines offer strong fuel efficiency and are widely used for marine propulsion and power generation in shipping/energy sectors. The company's product versatility has positioned it well in a transitioning energy landscape, especially as regulatory and environmental pressures grow.

We also believe that Wärtsilä's management team has shown a proven track record of implementing operational changes to drive long-term profitability. Post 2021, the company conducted a comprehensive overhaul of revenue contract structures shifting from fixed price models to more flexible arrangements with cost-pass-throughs to reduce margin volatility. The company also focused on deleveraging and improving balance sheet quality whilst finding new growth drivers in its marine services business.

### WHAT STRUCTURAL TAILWINDS ARE SUPPORTING LONG-TERM GROWTH?

At the point of initiation, we believed Wärtsilä was poised to benefit from a resurgence in cruise and shipping demand through their global service and spare parts network following cyclical, post COVID lows. The company is also well positioned to benefit from the International Maritime Organisation (IMO) Net Zero Framework aimed at decarbonising the shipping industry by 2030, as global emissions regulations become more stringent for shipping engines. In the marine sector, we anticipate that there will be robust demand for more emission-friendly engines across both new-build and existing fleets which will drive stronger demand for Wärtsilä engines across various end markets.

### KEY POINTS FOR WARTSILA

- Market leading manufacturer of marine power engines with a strong product value proposition.
- Track record of driving profitability through operational improvements coupled with a resilient business model and financial position.
- Strong long-term growth outlook driven by decarbonisation tailwinds in the shipping industry and secular growth in energy demand.

### CONSIDER THE RISKS

Investors should consider the risks that may impact their capital, before investing. The value of your investment may fluctuate from the time of the original investment. Please refer to the risks section enclosed. A decision to invest should take account of all the characteristics and objectives described in the prospectus and KIID/KID and/or offering documents. Please refer to the sustainability related disclosures for information on the commitments of the portfolio: [www.wellington.com/en/legal/sfdr](http://www.wellington.com/en/legal/sfdr).

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