



# Ferronordic Machines

Company Presentation





November 2013



# This is Ferronordic Machines

- Authorized dealer of Volvo Construction Equipment in Russia since June 2010
- Core focus on the Volvo brand
- Strong and growing construction equipment market
- Rapidly increasing presence all over Russia
- LTM revenue and EBITDA of EUR 276m and EUR 17.5m
- Experienced management and board of directors and supporting shareholders

## Growth development (2010-2013 Q3)

	End of 2010	End of Q3 2013
Employees	326	710
Revenue	EUR 127m <sup>(1)</sup>	EUR 276m
Outlets	12	75
Market size	~8,000	~21,000
Brands		  

(1) Annualized 7 month revenue.

# Market overview



# Defining FNM's market



FNM's market						
Addressable market	High quality (new and used) Construction Equipment ("CE")		Parts and attachments	Maintenance and repair services	Rental of CE machines	
Geographic market	Russia					
Areas of use for CE	Construction activities			Operational activities		
Customer / end user activities	Road construction	General construction	Oil and gas	Mining	Quarries and aggregates	Forestry

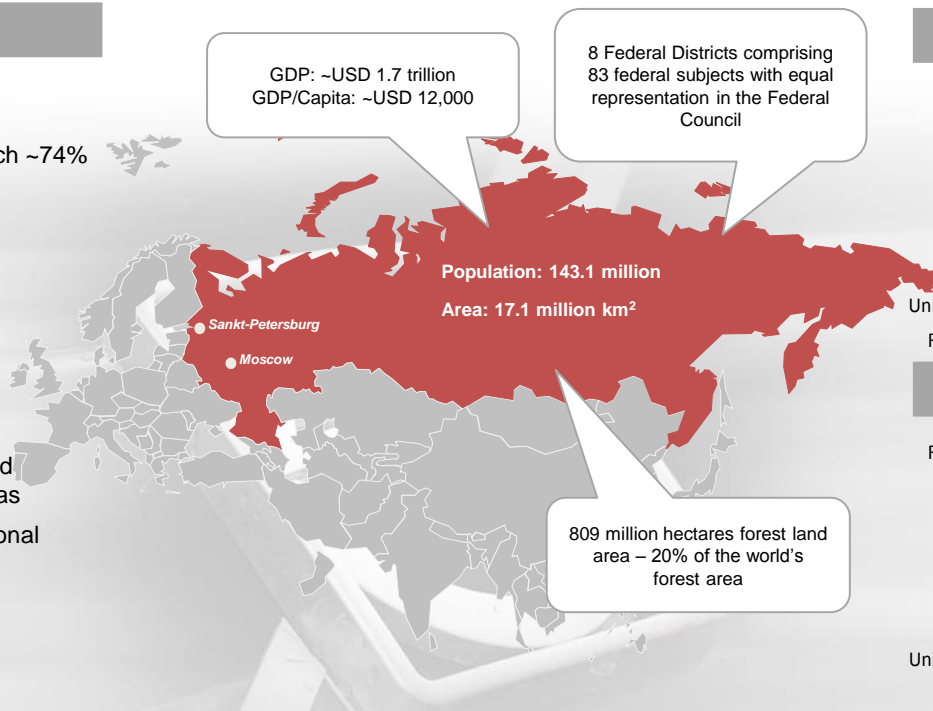
***FNM is active in the Russian market for imported high quality construction equipment. Construction equipment is primarily used for infrastructure- and heavy construction but also used in operational activities in the mining, quarry and forestry sectors***



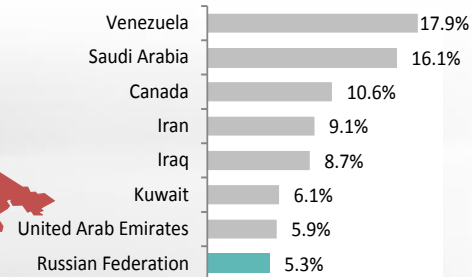
# Russia is the largest country in the world

## Key facts

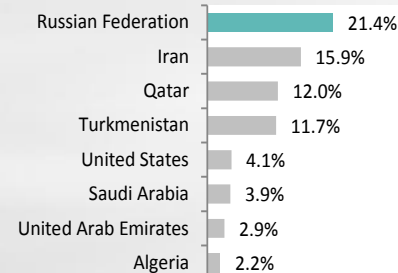
- Capital: Moscow
- Population of ~143.1 million of which ~74% live in urban areas
- Area:
  - ~2x the size of Canada
  - ~5x the size of India
  - ~38x the size of Sweden
- Rich on forest, oil and minerals
  - World's largest forest land
  - Approx. 52% of revenues for Fed Government relates to oil and gas
- Approx. USD 500 billion in international currency reserves
- In 2012, Russia entered WTO



## Proved reserves of oil (% of total)



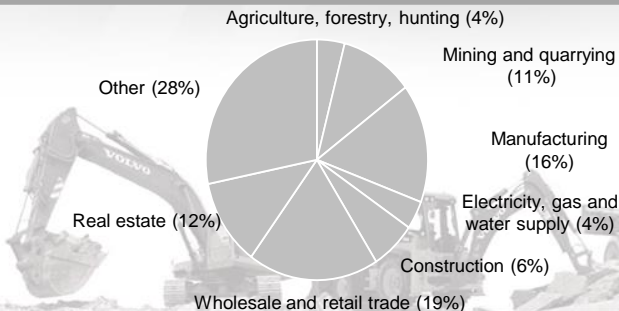
## Proved reserves of gas (% of total)



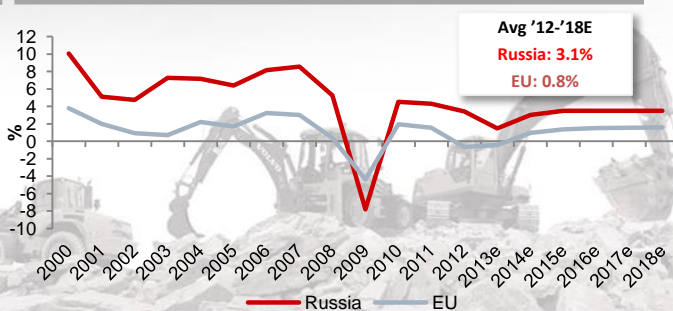
## Major geographical regions

Region	Population (m)	Main use of CE machines
Central	38.4	Road and general construction
Northwest	13.6	Forestry industries, construction
South	23.4	Residential construction, oil & gas
Volga	29.9	Industrial production
Urals	12.1	Oil and gas extraction
Siberia	19.3	Mineral and metal extraction
Far East	6.3	Gold, diamond, oil and gas extraction

## GDP breakdown (approximate split, FY 2011)









## Russian GDP-growth



Source: UNECE, IMF, British Petroleum and Rosstat

# Main areas of use for construction equipment

	<i>Equipment mainly used for construction activities</i>			<i>Equipment also used for operational activities</i>		
Activity	Road construction	General construction and other <sup>1)</sup>	Oil and Gas	Mining	Quarry and aggregates	Forestry
Relevant areas of use	<ul style="list-style-type: none"> <li>Construction of new roads</li> <li>Upgrading of existing roads</li> <li>Maintenance and repairs of roads</li> </ul>	<ul style="list-style-type: none"> <li>Heavy industry</li> <li>Utilities</li> <li>Residential construction</li> <li>Non-residential construction</li> </ul>	<ul style="list-style-type: none"> <li>Oil and gas infrastructure</li> <li>Site construction (e.g. refineries)</li> <li>Maintenance of infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure</li> <li>On-site construction and maintenance</li> <li>Operational uses</li> </ul>	<ul style="list-style-type: none"> <li>Extraction and production of raw material for road and general construction</li> </ul>	<ul style="list-style-type: none"> <li>Site construction and maintenance</li> <li>Harvesting</li> <li>Off-road transport</li> </ul>
Main geographical areas	<ul style="list-style-type: none"> <li>All of Russia</li> </ul>	<ul style="list-style-type: none"> <li>All of Russia</li> </ul>	<ul style="list-style-type: none"> <li>Volga</li> <li>Urals</li> </ul>	<ul style="list-style-type: none"> <li>Northwestern</li> <li>Siberia</li> <li>Far East</li> </ul>	<ul style="list-style-type: none"> <li>Northwestern</li> <li>South</li> <li>Siberia</li> </ul>	<ul style="list-style-type: none"> <li>Northwestern</li> <li>Siberia</li> </ul>
Example products						
Portion of FNM sales	<b>~22%</b>	<b>~44%</b>	<b>~5%</b>	<b>~12%</b>	<b>~11%</b>	<b>~6%</b>

**Construction output in Russia is USD 84 billion<sup>2)</sup>, and is estimated to increase by 7% real CAGR '12-'15 (nominal CAGR 15%)**

## Volvo Construction Equipment

1) Other areas of use (total 17%) include agriculture and landscaping, demolition, industrial material handling, and recycling and waste  
 2) Corresponding to EUR 61 billion and RUB 1.7 trillion

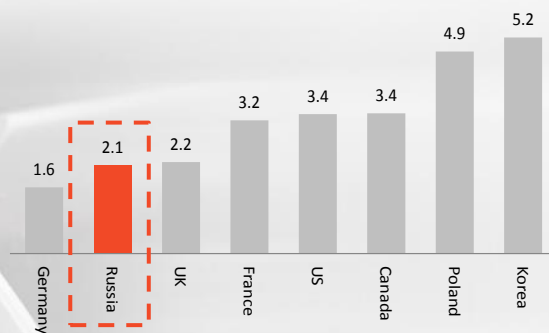
# Significant need to improve infrastructure, both roads...

## The general quality of infrastructure in Russia is poor

- The bulk of the infrastructure was built during the Soviet era
- As much as 40% of roads do not meet regulatory requirements according to Rosavtodor
- Russia ranks 136 of 144 in terms of road quality (World Economic Forum, Global Competitiveness Report 2012-13)
- Only 63% of airports have paved runways and of these, 70% were built more than 40 years ago (PMR Publications)
- The average age of port facilities in Russia is 30 years and they are operating at ~90% capacity utilisation on average (PMR Publications)
- Approximately ~35% of the gap between labour productivity in Russia and in the OECD can be explained by the infrastructure sector (World Economic Forum)

## Relatively low infrastructure investments historically

### Average public investment 2006-2011 (% of GDP)



Source: OECD

## Road density in Russia is relatively low...

### Road density (km per '000 sq. km land area)

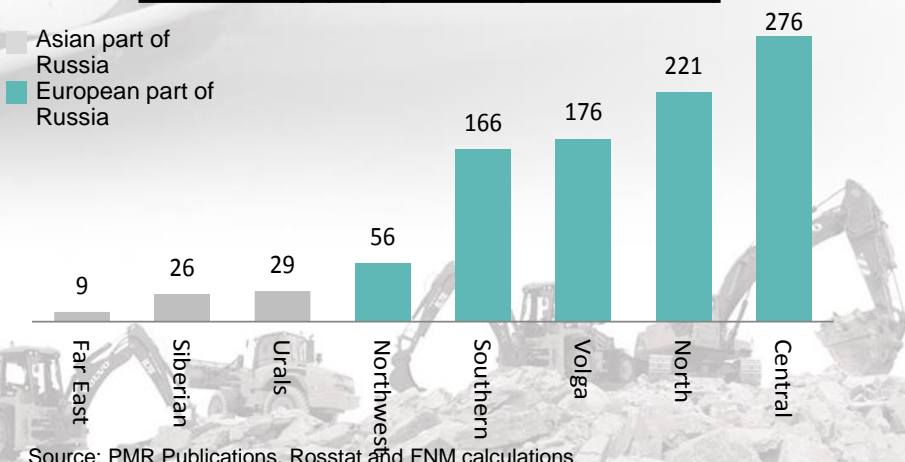
Total road network in Russia is ~933 thousand kilometers



Source: World Bank and FNM calculations

## ... and there are large difference between Federal Districts

### Road density (km per '000 sq. km land area)



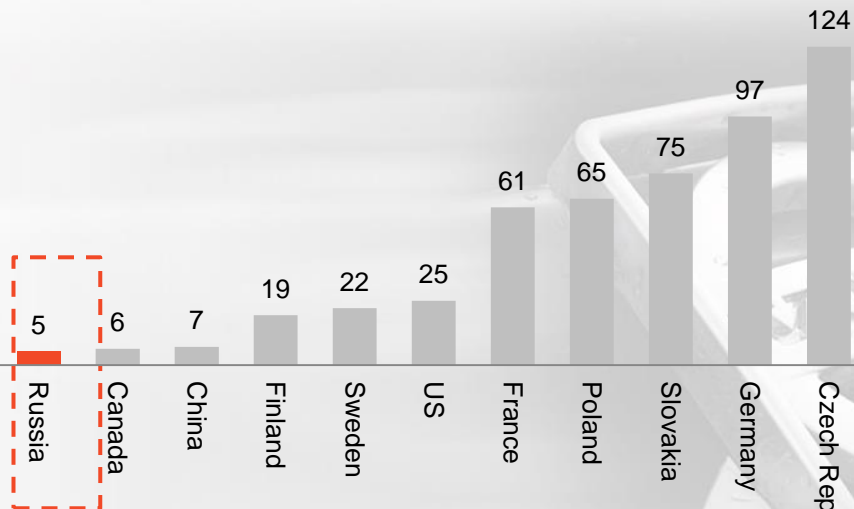
Source: PMR Publications, Rosstat and FNM calculations

# ...and a more extensive railway network

Rail density in Russia is also relatively low...

... but the times they are a-Changin'

## Rail density (km per '000 sq. km of land area)



Source: World Bank and FNM calculations

➔ **85 thousand km of railway of which ~50% is electrified**

➔ **Railways account for ~42% of freight transportation (second place after roads)**

### *Railway Transport Development Strategy until 2030*

- Stipulates EUR ~95 billion of investments in new railways by 2030
- Revision is expected in 2013 – could imply that initiatives should be completed by 2020 instead
- If completed – 80 out of 83 federal subjects would have access to the railway network

### *RZD (Russian Railways)*

- One of the largest rail carriers in the world
- Investment program 2013-2015 of EUR ~25 billion
- Stable finances with EUR ~35-40 billion in authorized capital and has an investment grade credit rating

### *Large projects are planned*

- Baikal-Amur and Trans-Siberian railways:
  - Investments of EUR ~20 billion by 2030 to extend and improve the above railways
- FIFA World Cup 2018:
  - Investments of EUR ~20 billion in new infrastructure and stations
  - Also discussions for a high speed train connecting the host cities with an estimated investment need of EUR ~125 billion
- Moscow metro
  - Moscow plans to invest up to EUR ~20 billion on new metro stations in 2012-2020

*There is a significant need for expanding the Russian road as well as railroad network since improved infrastructure will be an important part in Russia's continued economic development*



# Company overview




# The FNM business concept

## The dealership value chain


**VCE**

Current share of revenue:  
96%



**Other OEM**

Current share revenue: 4%




- Training
- Marketing
- Branding




Import and delivery

**VCE manufactures and imports construction equipment and spare parts into Russia and delivers to FNM**


**FNM**


Equipment sales




Attachments



Spare parts

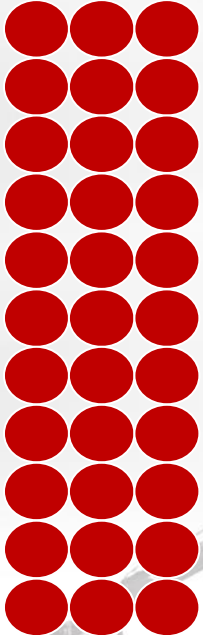


Repair and maintenance



Other services

**Customers**



**FNM has a complete offering – a one-stop-shop for the construction equipment users**

# Strategic and financial objectives

***Ferronordic Machines' vision is to be regarded as the leading service and sales company within its business areas in the CIS markets***

## Strategic objectives

- Leadership within the market for construction equipment
- Geographical expansion of current product portfolio
- Expansion into related business areas such as other machinery and commercial vehicles
- Extract synergies in dealer network infrastructure development and support functions

## Financial objectives

- “Best in class” growth and margin
- Revenue from aftermarket 40%
- Absorption rate of 1.0x (gross profit from aftermarket shall cover 100% of fixed operating expenses)

# Strategic cornerstones

## Customer orientation

- Leading service and product availability
- Tailored service and repair programs
- Financial services offerings
- Developed trade-in system
- Fleet & Residual value management
- Rental fleets

## Build on strong brand – Volvo CE

- World's 3rd largest manufacturer of construction equipment
- Building on No. 1 brand position in Russia
- Broad range of equipment for road-, general construction, oil- and gas, mining and civil engineering companies
- Development through additional strong brands

## Superior infrastructure

- High density network – many points of presence, less “show-off buildings”
- Mobile workshops and service vans/trucks
- Well equipped, purpose-built facilities in select locations
- Infrastructure to be used for other brands

## Operational excellence

- Implementation of best practices and processes
- Leading IS/IT systems
- Close cooperation with manufacturers
- Get the right people to do the right job right
- Continuous improvement of processes





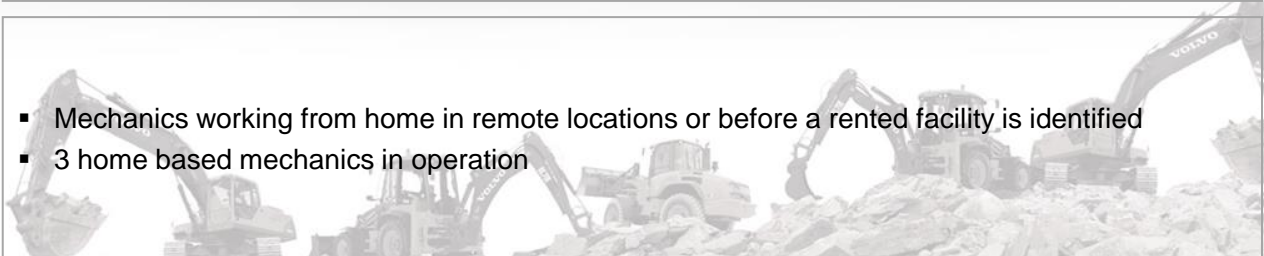
# FNM's network

FNM has 75 points of presence throughout Russia

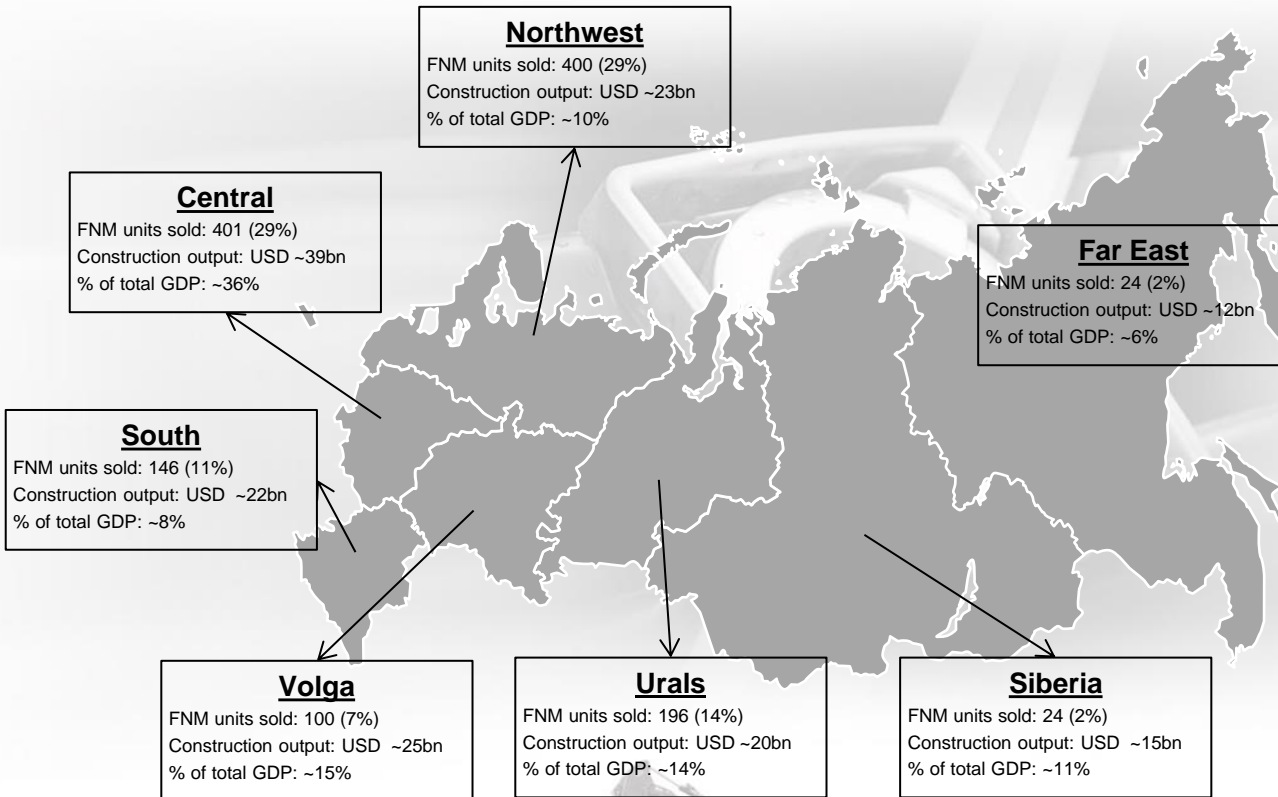


***FNM has 17 facilities with more than 10 employees / facility***

# 4 categories of points of presence

<p>Owned dealer facility</p>		<ul style="list-style-type: none"> <li>▪ Medium- to large sized purpose built facility which include service and repair workshop areas, warehouse, offices and machine display areas</li> <li>▪ 2 owned facilities in operations, a 2,382 sqm facility in eastern Moscow and a 2,620 sqm facility in Arkhangelsk</li> <li>▪ 2 owned land plots for construction in near time</li> </ul>
<p>Rented dealer facility</p>		<ul style="list-style-type: none"> <li>▪ For shortening time-to-market, FNM initially often rents a facility</li> <li>▪ Facilities' standards vary from basic to purpose-built and may have a purchase option</li> <li>▪ 65 rented facilities in operation</li> </ul>
<p>Customer based service depot</p>		<ul style="list-style-type: none"> <li>▪ To support large fleets of machines on a customer site, FNM is able to quickly organize a modular service depot based on a air-filled hangar and/or container concept</li> <li>▪ This solution can also be used as temporary solution for FNM's construction sites</li> <li>▪ FNM has 5 customer based outlets in operation</li> </ul>
<p>Home based mechanic</p>	<p>N/A</p> 	 <ul style="list-style-type: none"> <li>▪ Mechanics working from home in remote locations or before a rented facility is identified</li> <li>▪ 3 home based mechanics in operation</li> </ul>

# Geographical footprint







Market potential <sup>1)</sup>	
Central	~25%
Northwest	~12.5%
South	~12.5%
Volga	~50%
Urals	
Siberia	
Far East	

- In 2010, 82% of FNM's units sold came from Northwest and Central regions, which currently have ~40% of the construction output in Russia
- However, FNM is expanding its operations continuously to capitalize on the large projects in the regions east of the Ural mountains, of e.g. infrastructure development and extraction of minerals
- The 82% of units sold in NW and CTR had decreased to 58% in 2012 and was 51% in H1 2013
- This clearly shows how successful FNM is pursuing its strategy

- FNM units sold are 2012 figures (share of total in brackets)  
 - Note that an additional 79 units were sold to Key accounts, subdealers and other (not attributable to any region)  
 - Construction output are figures from PMR Publications

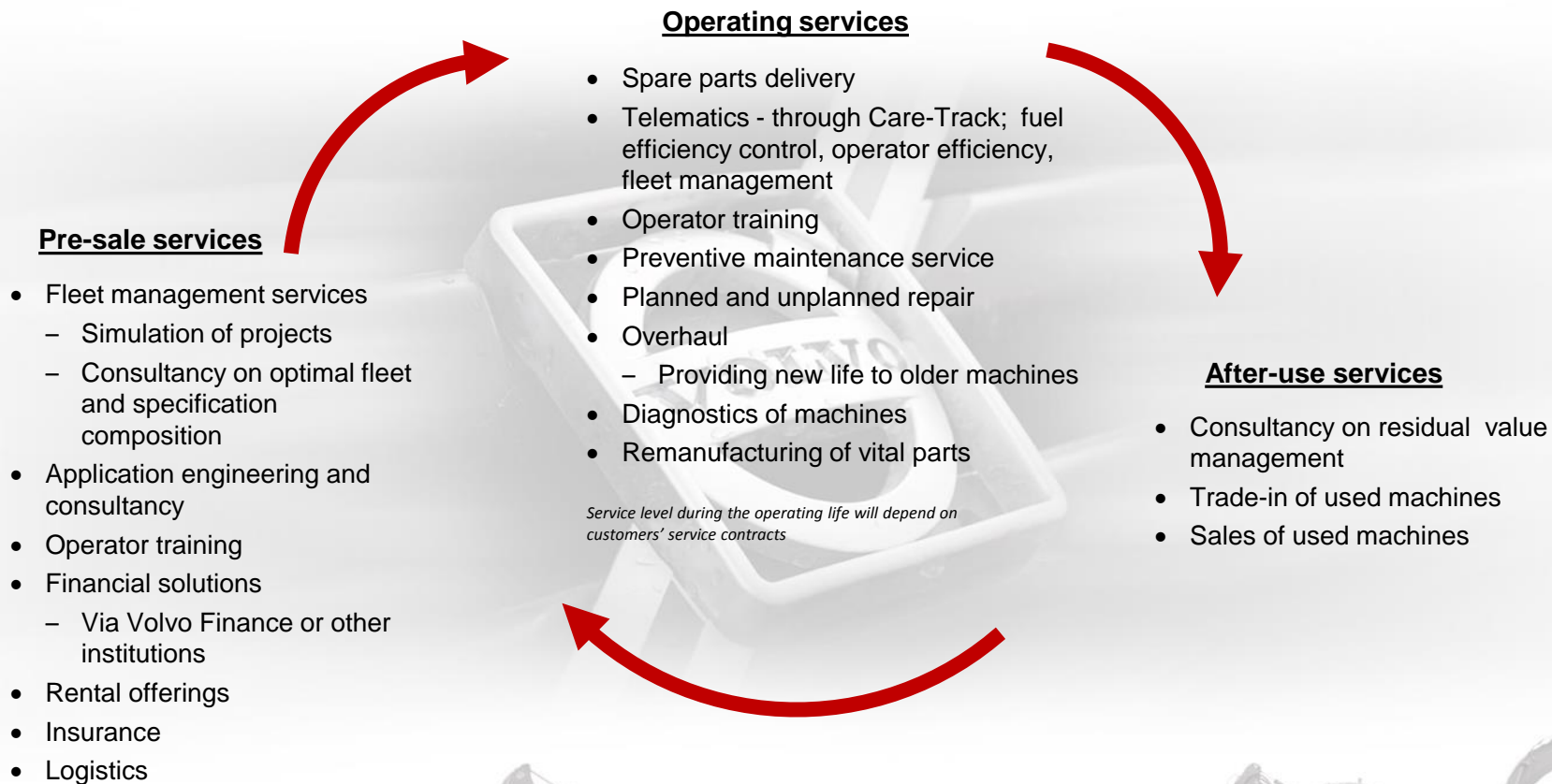


# Selection of machines in FNM's equipment portfolio

Product type	Example product	Units sold 2012
Backhoe loaders	 EUR ~ 65 – 80k	571
Excavators	 EUR ~ 130 - 520k	384
Articulated haulers	 EUR ~ 320-600k	138
Wheel loaders	 EUR ~ 200-650k	82
Road construction equipment	 EUR ~ 60 - 390k	126
Skid steer loaders	 EUR ~ 40k	35



# FNM is focused on a life-cycle approach



*FNM provides an outstanding level of customer service due to high level of professionalism and industry experience – as well as a large outlet network which enables customer proximity*

## Management


**Lars Corneliusson**

Co-owner of Ferronordic Machines AB, President and CEO of Ferronordic Machines LLC  
 More than 15 years experience from the truck and automotive industries in Russia. For 12 years Managing Director of Volvo Vostok and President of Volvo Trucks in Russia


**Erik Eberhardson**

Co-owner and Executive Vice Chairman of Ferronordic Machines AB, Head of Business Development of Ferronordic Machines LLC  
 More than 15 years experience from the truck and automotive industries in the CIS countries. Previously President and CEO of OJSC GAZ and President of Volvo CE in the CIS countries. Board member of Lindab AB


**Anders Blomqvist**

Co-owner and Chief Financial Officer of Ferronordic Machines AB  
 12 years of investment banking experience in London, Chicago and New York. Has worked for both Credit Suisse First Boston and HSBC Bank. Previously CFO and COO at Emeyu LLP


**Henrik Carlborg**

Head of legal  
 Over 10 years of legal experience specialized in corporate finance, private equity, real estate and general commercial law in Sweden and Russia. Previously Partner at Hannes Snellman, senior legal positions in Mannheimer Swartling and White & Case.


**Onur Gucum**

Commercial Director  
 Over 15 years of experience in Construction Equipment. Had various international project and operational assignments with Volvo including Russia. Previously Chief Operational Officer in Zeppelin, Caterpillar dealer in Russia.


**Nadia Arzumanova**

HR Director  
 Over 10 years of combined HR and business experience. Has worked in BP and Shell focused on HR General and Organizational Development. Previously acted on business side in Sales, Marketing and Purchasing.

## Board of Directors


**Per-Olof Eriksson**

Chairman of the Board  
 Board member of Investment AB Öresund and Biotage. Previously CEO of Sandvik and Seco Tools


**Marika Fredriksson**

Director  
 CFO Vestas Wind Systems. Previously SVP and CFO of Gambro, Autoliv and Volvo CE


**Martin Leach**

Vice Chairman  
 Chairman Magma Group. Previously chairman and CEO of GAZ International and CEO of Ford of Europe and Maserati


**Tom Jörning**

Director  
 MD of Volvo Trucks (CEE)


**Magnus Brännström**

Director  
 CEO of Oriflame


**Kristian Terling**

Director  
 Managing Director of Houlihan Lokey. Previously various positions within Credit Suisse, Handelsbanken and Merrill Lynch

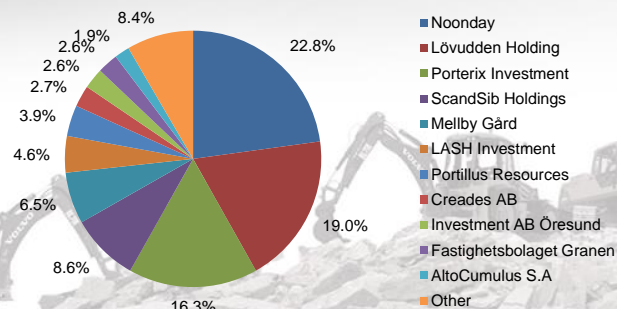

**Erik Eberhardson**

Vice Chairman  
 See management


**Lars Corneliusson**

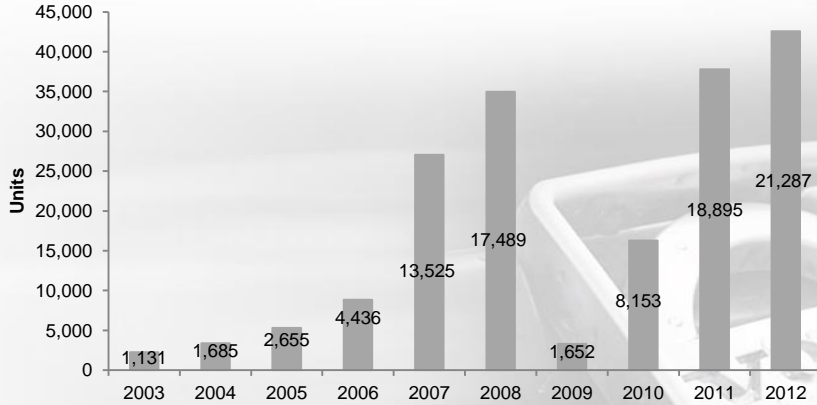
Director  
 See management

## Ownership structure (ordinary shares)



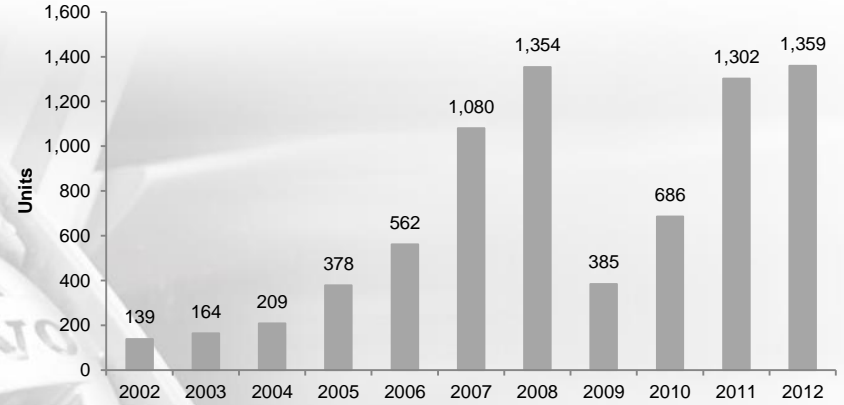
# Historical financial development

## Russian CE market – import statistics and estimates



Source: Import statistics (excluding Chinese manufacturers)

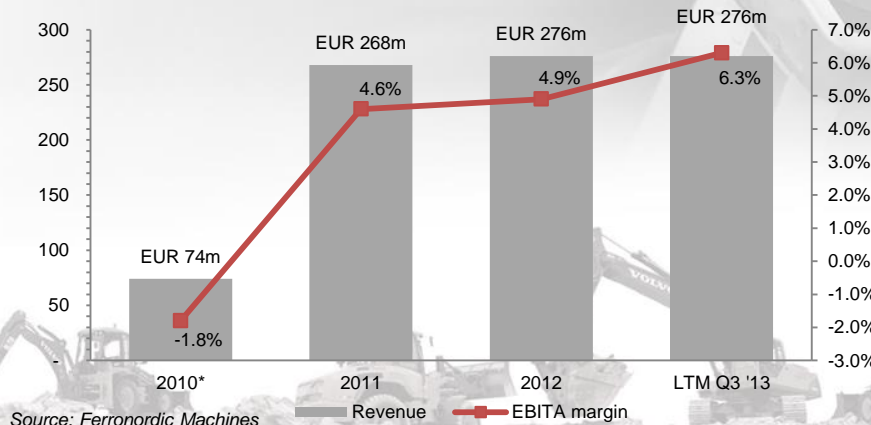
## Volvo CE and FNM – VCE units sold



Source: Ferronordic Machines estimates

Note: Units sold 2002–May 2010 refer to Volvo CE; units sold Jun 2010–2012

## Sales and EBITDA development (2010-Q3 2013 LTM)



Source: Ferronordic Machines

## Absorption rate



Source: Ferronordic Machines

# Profit & Loss Jan-Sep 2013

EUR MM	Jan-Sep 2013	Jan-Sep 2012
Revenue	207.6	207.9
Gross Profit	34.9	29.9
<i>% Margin</i>	16.8%	14.4%
EBITDA	12.9	8.8
<i>% Margin</i>	6.2%	4.2%
EBITA	6.9	5.0
<i>% Margin</i>	3.3%	2.4%
Net Income*	0.9	(1.2)
Net Debt	56.5	75.7

- Similar product mix as last year
- Revenue increase of 5% in local currency
- Improved gross margin by 2.4%-point
- Partly offset by 11% increase in OPEX
  - One-off expenses
  - Growing organization throughout Russia
- EBITDA growth of 46%
- Significant change in unrealized FX loss
- Lower financial indebtedness

\* Excludes amortisation of transaction related intangibles and unrealized FX loss/gain.

# Balance sheet summary

EUR MM	Sept. 2013	Sept. 2013 Pro Forma
Cash & Cash Equivalentents	7.7	16.8
Short term debt	11.5	11.5
Bond	45.7	---
Financial leases	7.1	7.1
<b>Net debt</b>	<b>56.5</b>	<b>1.7</b>
<i>Net Debt/EBITDA</i>	3.2x	0.1x
Working capital	27.4	27.4x
<i>% of Revenue</i>	10%	10%
Shareholders Equity	8.2	64.4
Total Assets	157.1	166.2
<i>Equity/Assets</i>	5%	39%

Note: Pro forma for SEK 500m preference share issue and redemption of bond.

# Summary

**Market with strong underlying growth drivers**

**Attractive market position and strong partnership with the No. 1 brand in Russia**

**Experienced management team and Board of Directors**

**Strong growth track record with improving margins and cash flow generation**

**Strong ownership structure**



### Cautionary statement

Some statements herein are or may be interpreted as forward-looking and the actual outcome could be materially different. In addition to the factors explicitly commented upon, the actual outcome could be materially affected by other factors like for example, the effect of economic conditions, exchange-rate and interest-rate movements, political risks, impact of competing products and their pricing, product development, commercialization and supply disturbances

