

Press Release
Stockholm, 12 September 2019

Ferronordic intends to expand to Germany as dealer for Volvo Trucks and Renault Trucks

Ferronordic intends to enter into an agreement with Volvo Group Trucks Germany concerning the appointment of Ferronordic as dealer for Volvo Trucks and Renault Trucks in parts of Germany. Simultaneously, Ferronordic would acquire the operations at nine of Volvo's sites in Germany. The purchase price is expected to be approx. SEK 250m*, financed with a loan from Nordea Bank. During 2016-2018, the relevant operations generated an annual average revenue of approx. SEK 1,3bn*, compared to Ferronordic's revenue during the twelve months preceding 30 June 2019 of approx. SEK 3.6 bn. If the transaction is completed, Ferronordic's financial objective for the Group's operating margin would be changed from 7-9% to 6-8%. The transaction is subject to conditions, including final agreements and required approvals.

Lars Corneliusson, Ferronordic's CEO, comments: *"I am proud and excited about this opportunity to grow our business in Europe and further strengthen our partnership with Volvo. Many of our employees, including myself, have a long history in Volvo Trucks. At the same time Ferronordic has operated service centres for Volvo Trucks and Renault Trucks in Russia for a number of years, some of which are ranked by Volvo as among the best in the country. I am thrilled to be able to continue the development of this business in Europe's largest truck market."*

Christian Coolsaet, Managing Director Volvo Group Trucks Germany, comments: *"The anticipated appointment of Ferronordic is part of our strategy for Germany where we, together with strong partners, intend to increase investments and improve our network in the country. The objective is to further improve brand image and customer satisfaction all over Germany. I am delighted to continue the successful development of Volvo Group Trucks in Germany together with such a strong partner like Ferronordic."*

The ambition is that the transaction would be completed by the end of 2019 and that Ferronordic would take over operations as of January 2020.

Transaction summary

- Ferronordic would be appointed dealer for Volvo and Renault Trucks in certain parts of Germany.
- Ferronordic would acquire the sales and aftermarket operations at nine of Volvo's current sites in Germany.
- The transaction would be an asset deal, where Ferronordic would acquire the assets relating to the operations, mostly inventories of trucks and parts, demo trucks and accounts receivable, for a price of approx. SEK 190m*. Additionally, Ferronordic would purchase real estate at three of the sites for a price of approx. SEK 60m*. The total purchase price for these assets is therefore expected to be approx. SEK 250m*, depending on the actual assets existing in the business at the time of completion.
- The transaction would be financed with a four year SEK 320m* loan facility from Nordea Bank.
- Existing agreements relating to the acquired business, i.e. service agreements, leases, etc., would be assigned from Volvo to Ferronordic.

- If the transaction is completed, employees currently working for the nine sites to be taken over from Volvo, including sales personnel and mechanics, would be expected to remain in their positions and join Ferronordic.

Background and rationale

Ferronordic's strategic objectives include expansion into related business areas and geographic expansion.

With approx. 68,000 trucks sold in 2018, Germany is the largest market for heavy trucks (>16 tons) in Europe.

If the transaction is completed, Ferronordic would become dealer for Volvo Trucks and Renault Trucks in certain parts of Germany. In 2018, approx. 12,000 trucks were registered in the relevant area, representing about 18% of the German market for heavy trucks.

The area that Ferronordic would take over is interesting from several perspectives. Firstly, it includes some of the busiest and most developed parts of Germany, like Hannover and Frankfurt Rhine-Main, the second largest metropolitan region in the country. Here Ferronordic expects demand for trucks and service to remain high at the same time as it sees opportunities to increase market share for both Volvo Trucks and Renault Trucks. Additionally, it includes a large part of Eastern Germany with fast growing cities, like Leipzig and Dresden, where Ferronordic expects demand for trucks and service to increase.



The transaction would involve Volvo Group Trucks Germany's sales and aftersales operations at nine sites: Frankfurt, Haiger, Kassel, Hannover, Halle, Leipzig, Görschen, Dresden and Bautzen (including related areas of coverage).

By applying Ferronordic's business model and commercial procedures in Germany, and by making continued investments to improve the sales and service network in the area, Ferronordic sees good opportunities to grow the revenue and profitability of the business, partly by gaining a larger share of the aftermarket sales, and partly by increasing Volvo and Renault Trucks' market shares. This improvement should also be supported by Volvo's strategy in Germany, which aims for improved brand image and customer satisfaction in the whole country.

The business

The operations that would be acquired from Volvo consist of sales of new trucks and aftermarket sales (parts and service). During 2016-2018, these operations generated an average revenue of approx. SEK 1,3bn* per year with an operating profit around zero (Ferronordic's revenue during the last twelve months (as per 30 June 2019) was approx. SEK 3,6bn with an operating margin of 8.8%). The operations currently have a total of 163 full-time employees, compared to Ferronordic's current full-time equivalent headcount of 1,146 employees (as of 30 June 2019).

Effect on Ferronordic

The purchase price for the assets to be purchased from Volvo, including real estate for three sites, is expected to be approx. SEK 250m*.

Ferronordic has obtained a commitment letter for a four year loan facility from Nordea Bank in an amount of up to EUR 30m (SEK 320m*). The facility is expected to fund the purchase of assets from Volvo Group Trucks Germany and some of the initial investments related to the acquired business.

The transaction is expected to result in an increase of the Group's net debt of approx. SEK 300m*, partly depending on the valuation of lease liabilities relating to leases in the new business according to IFRS 16.

To improve and increase the sales and service network in its area, Ferronordic plans to make investments into new and improved workshops. The scale and timing of the investments will depend on various factors, e.g. if new workshops will be leased or purchased, and to what extent existing facilities can be identified or whether new facilities need to be constructed.

Ferronordic sees opportunities to grow the market share of Volvo Trucks and Renault Trucks in the area and expects Ferronordic's share of the total aftermarket sales (parts and service) in the area to increase over time. As the aftermarket sales increases, the profitability of the new business is expected to improve.

In 2020, the revenue contribution from the new business is expected to be approx. SEK 1,3bn*.

During the integration phase, the new business is expected to have negative impact on the Group's earnings and cash flows. Thus, in 2020, the new business is expected to have a negative impact on the Group's operating profit and net income of approx. SEK -40m* and SEK -50m*, respectively (including one-off expenses). The negative impact on operating cash flows in 2020 is expected to be approx. SEK -40m*. Earnings and operational cash flows of the new business are expected to turn positive towards the end of 2021.

The transaction is not expected to have significant impact on Ferronordic's existing business in Russia and Kazakhstan. Investments required to improve and increase Ferronordic's sales and service network in Germany would initially and partly be financed with cash flows generated by Ferronordic's current operations in Russia. Such cash flows are however not expected to affect Ferronordic's investment plans in Russia and Kazakhstan.

Revised financial targets

If the transaction is completed, Ferronordic's financial objectives would be changed as follows:

- Tripling of revenue in Russia and CIS from 2016 to 2021 (unchanged for existing business)
- Operating margin of 6-8% (currently 7-9%)
- Net debt to EBITDA of 0-2 x (over a business cycle) (unchanged)

The revised operating margin objective reflects expected lower operating margin in the new business compared to the current business. The objective for financial leverage would remain unchanged despite the initial net debt increase expected from the transaction.

The dividend policy would remain unchanged, i.e. the ambition is that at least 25% of the result should be distributed to the shareholders. However, the Board will take several factors into consideration when proposing the level of dividend, including the Group's expansion opportunities, financial position and investment needs.

Timing

The ambition is that the transaction would be completed by the end of 2019 and that Ferronordic would start operating the new business from January 2020.

Term and conditions

The transaction is subject to conditions, including final agreements and required approvals.

**According to the EUR/SEK exchange rate per 11 September 2019.*

Invitation to telephone conference

Ferronordic invites investors, analysts and the media to a presentation where Lars Corneliusson, CEO, and Erik Danemar, CFO, comment on today's announcement. The presentation will be held on 12 September 2019 at 16:00 CET and can be followed via telephone conference or audiocast.

The presentation will be held in English and will be followed by a questions and answers session. Questions can be asked via the telephone conference or in written form via the audiocast. No preregistration is needed.

To participate via phone, please dial-in no later than five minutes prior to the announced time.

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The presentation can also be viewed live at

<https://tv.streamfabriken.com/2019-09-12-ferronordic-press-conference>

Afterwards, a recording of the presentation will be available at the same page.

About Ferronordic

Ferronordic is the authorized dealer of Volvo Construction Equipment, Terex Trucks, Dressta, Mecalac and Rottne in Russia, and for Volvo Construction Equipment and Mecalac in Kazakhstan. In parts of Russia, Ferronordic has also been appointed aftermarket dealer for Volvo and Renault Trucks and dealer for Volvo Penta. The company began its operations in 2010. It is established in all federal districts of Russia with over 80 outlets and over 1,100 employees. Ferronordic's vision is to be regarded as the leading service and sales company in its markets. The shares in Ferronordic are listed on Nasdaq Stockholm.

www.ferronordic.com

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This information is information that Ferronordic AB (publ) is obliged to disclose pursuant to the EU Market Abuse Regulation. The information was submitted for publication on 12 September 2019, 13:05 CET.

Forward-looking statements

This press release contains forward-looking statements which reflect Ferronordic's current view on future events and financial and operational development. Words such as "intend", "will", "expect", "anticipate", "may", "plan", "estimate" and other expressions than historical facts, which imply indications or predictions of future development or trends, constitute forward-looking statements. Forward-looking statements inherently involve both known and unknown risks and uncertainties as they depend on future events and circumstances. Forward-looking statements do not guarantee future results or development and the actual outcome could differ materially from the forward-looking statements. The information, opinions and forward-looking statements concluded in this announcement speak only as of its date and are subject to change without notice.