



## Company Presentation

February 2020



# Introduction to Ferronordic

## Overview

### Russia

- Dealer of Volvo Construction Equipment
- Dealer of Terex, Dressta, Rottne and Mecalac
- Aftermarket dealer for Volvo Trucks and Renault Trucks in parts of Russia. Dealer for Volvo Penta in parts of Russia
- Sales of new and used construction equipment
- Sales of used trucks

### Kazakhstan

- Dealer of Volvo Construction Equipment
- Dealer of Mecalac
- Sales of new and used construction equipment

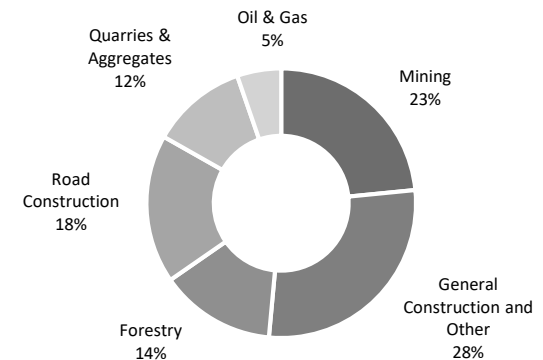
### Germany

- Dealer of Volvo Trucks and Renault Trucks in parts of Germany
- Sales of new and used trucks
- Sales of spare parts, engines, gearboxes and other components.
- Sales of service and technical support
- Growing contracting services business
- Listed on Nasdaq Stockholm

## Development

	2010 (start)	2019
Employees	~160	1,239
Revenue (SEKm) <sup>1)</sup>	1,184	3,747
Outlets	6	92

## New machine revenue per customer type (2019)

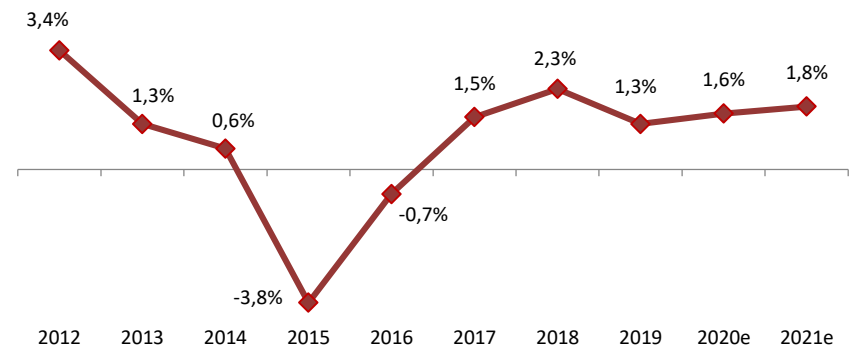


# Huge market at the edge of recovery

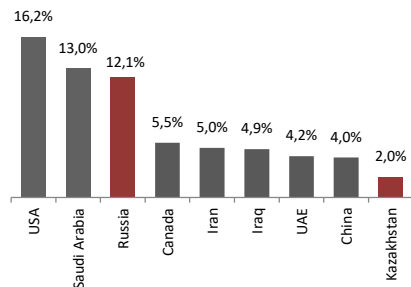
## Russia at a glance

- Population: ~144 million<sup>1)</sup>
- Area: 16.4 million sq. km<sup>1)</sup>
- Rich in oil and minerals
- World's largest forest land
- A significant portion of the Federal Government income relates to oil and gas
- Strong balance sheet and approx. USD 554 billion<sup>2)</sup> in international currency reserves plus USD 110 billion in gold<sup>2)</sup>
- 11.8% government debt/GDP ratio (nominal 2018)

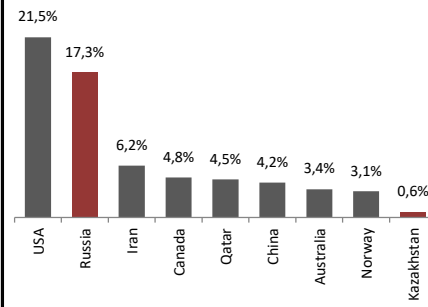
## Russia's GDP development<sup>5)</sup>



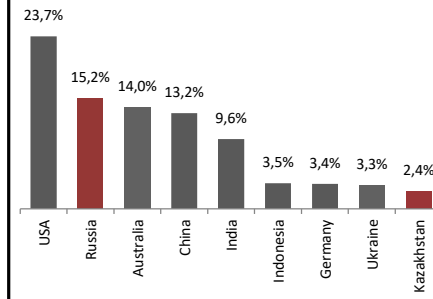
### Oil production (% of total)<sup>3)</sup>



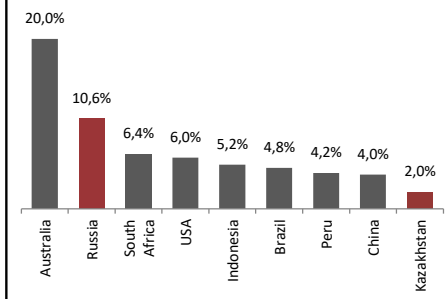
### Natural gas production (% of total)<sup>3)</sup>



### Coal reserves (% of total)<sup>3)</sup>



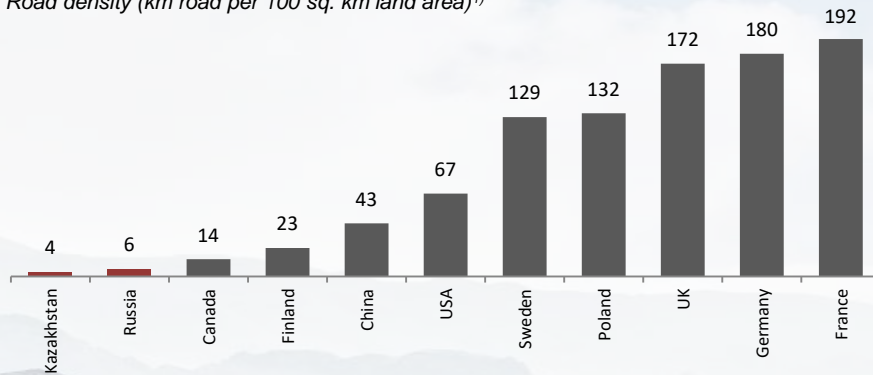
### Gold reserves (% of total)<sup>4)</sup>



# Significant need to improve infrastructure

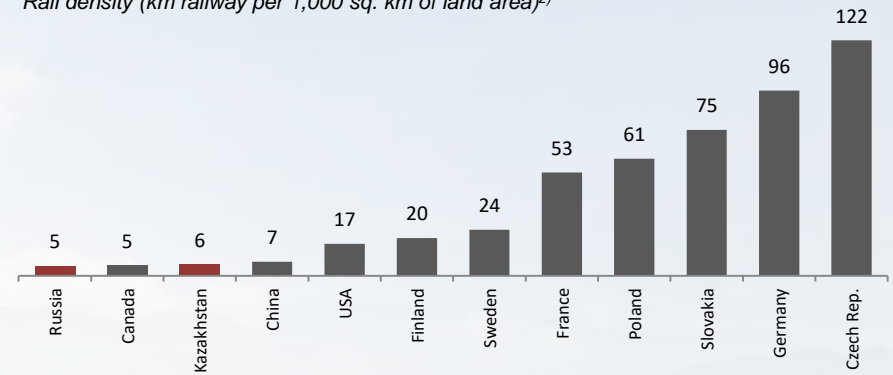
## Road density in Russia and Kazakhstan is low

Road density (km road per 100 sq. km land area)<sup>1)</sup>



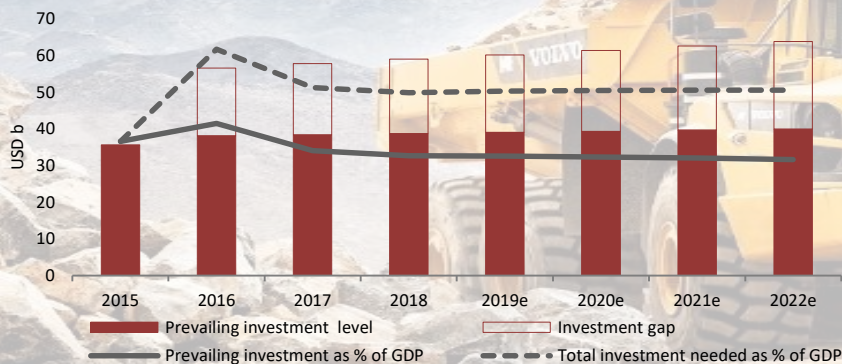
## Rail density is low too

Rail density (km railway per 1,000 sq. km of land area)<sup>2)</sup>



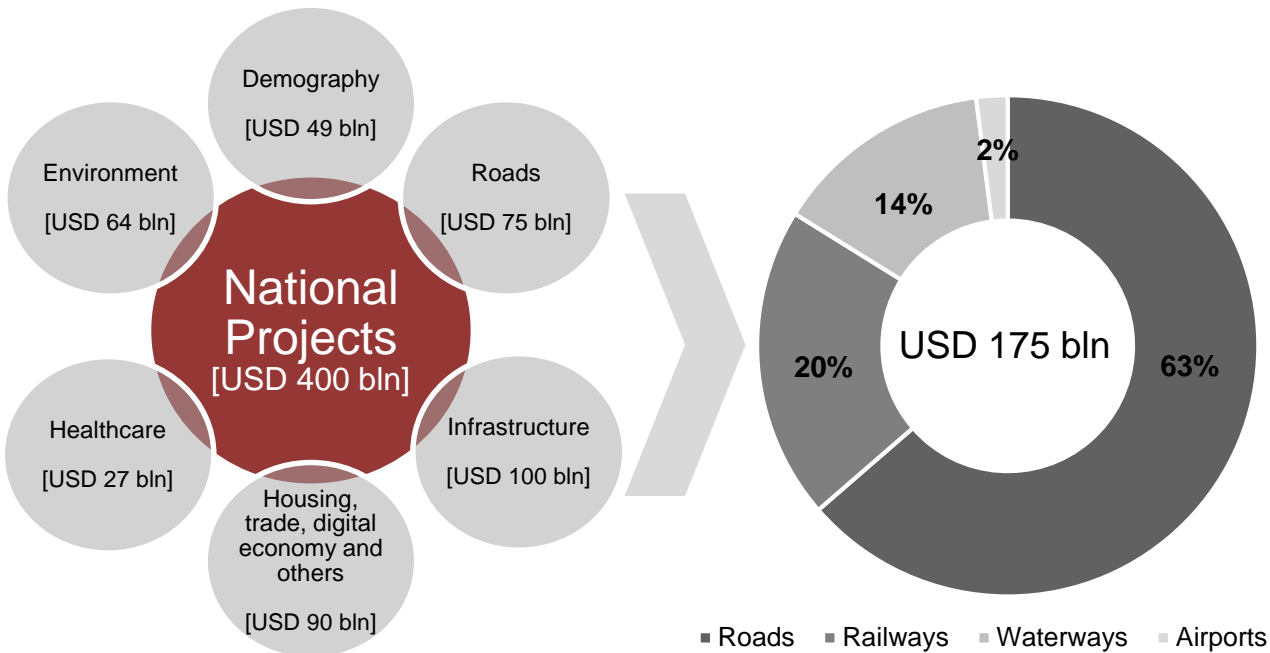
## High need for increased infrastructure investment

Infrastructure spending levels in relation to GDP<sup>3)</sup>



- Construction equipment market is expected to capitalize on the long-term growth in Russia and Kazakhstan
- An important driver will be the need to improve aging infrastructure, the bulk of which was built in the Soviet era and needs to be upgraded
  - Russia is ranked 99 out of 141 countries in terms of road quality<sup>2)</sup>
  - Kazakhstan is ranked 93 out of 141 in terms of road quality<sup>2)</sup>
- Signs that the government intends to create economic growth by increased infrastructure spending

# National Projects

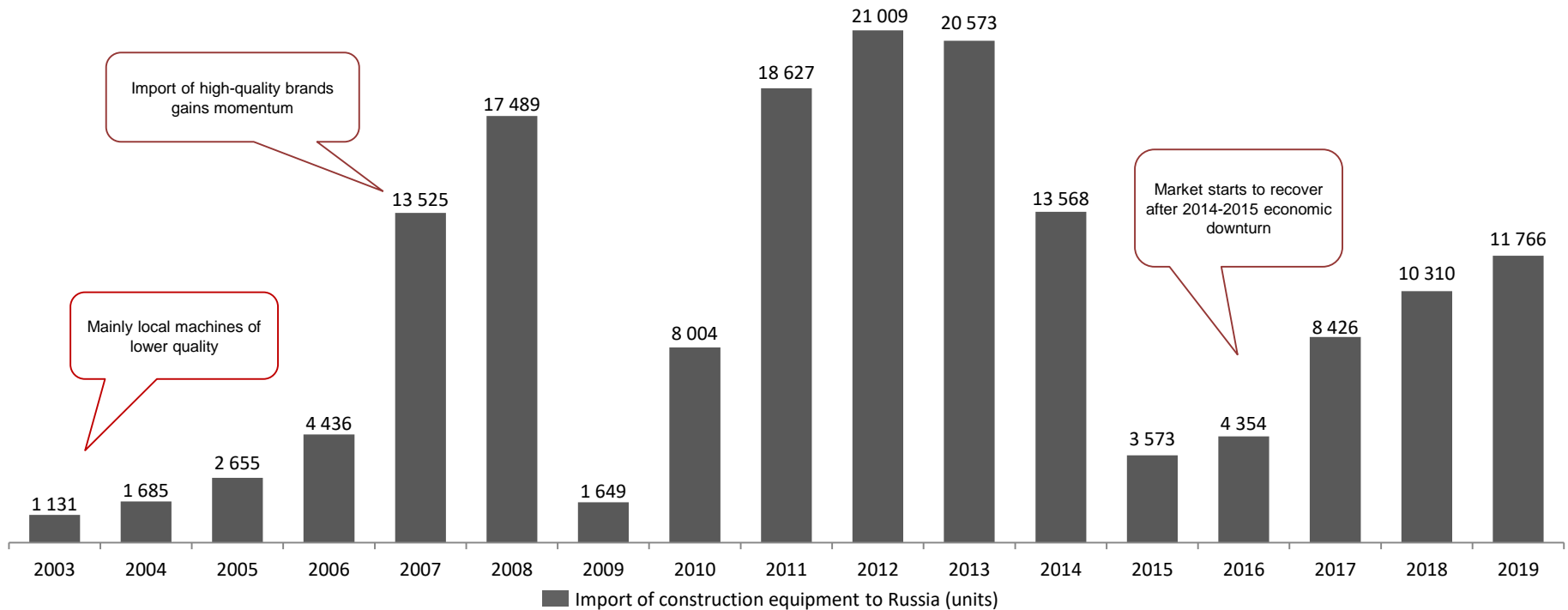


- Total budget of USD 400 bln
- Designed to transform the economy and promote economic growth
- Almost half of the budget earmarked for infrastructure, including the road network
- Planned investment into roads and infrastructure amounts to approx. 10% of GDP
- Aim to transform regional roads to improve links between Russian cities
- The railway program includes high-speed rail and increase of the freight capacity between key logistical hubs
- Waterways development plan aims at growing sea port capacity and developing the Northeast Passage

# Pent-up demand

## Import of construction equipment to Russia (units)

Young market – sales of high-quality construction equipment only took off 2006/2007



## Strategic objectives

Leadership within the market for construction equipment and trucks

Expansion into related business areas

Aftermarket absorption rate of at least 1.0 x

Geographic expansion

Further development of contracting services



## Strategic cornerstones

### CUSTOMER ORIENTATION

- Customer centricity
- Leading service and product availability
- Tailored customer solutions (including contracting services)
- Financial services offerings
- Developed trade-in system
- Fleet and residual value management

### BUILD ON STRONG BRAND – VOLVO

- World leading manufacturer of trucks and construction equipment
- Leading brand position in Russia
- Development through additional strong brands

### SUPERIOR INFRASTRUCTURE

- High density network – many points of presence
- Mobile workshops and service vans/trucks
- Well equipped, purpose-build facilities in select locations
- Infrastructure to be used for all brands and business areas

### OPERATIONAL EXCELLENCE

- Strong teams and high employee engagement
- Safety and sustainability
- Continuous improvement of practices and processes
- Business driven digitalisation solutions
- Close cooperation with manufacturers

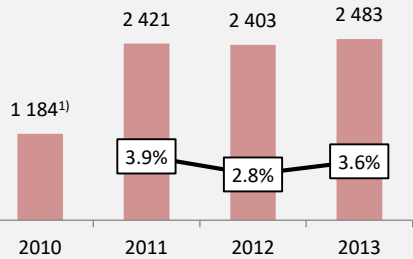


# Strategic development

2010-2013: Phase I – establishing platform

12 outlets  
326 FTEs

75 outlets  
731 FTEs



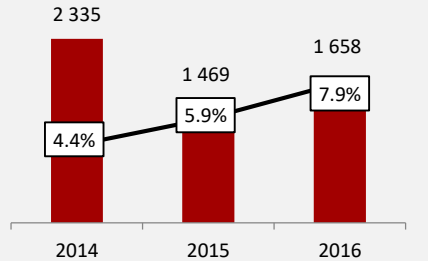
Revenue (SEKm) — Operating margin<sup>2)</sup>

- Processes and procedures established
- Establishment of countrywide platform
- Building market awareness and market share

2014-2016: Phase II – streamlining to handle market decline

75 outlets  
767 FTEs

73 outlets  
782 FTEs



Revenue (SEKm) — Operating margin<sup>2)</sup>

- Increased aftermarket focus
- Reduction of unprofitable outlets
- NWC efficiency focus
- Adding brands and services

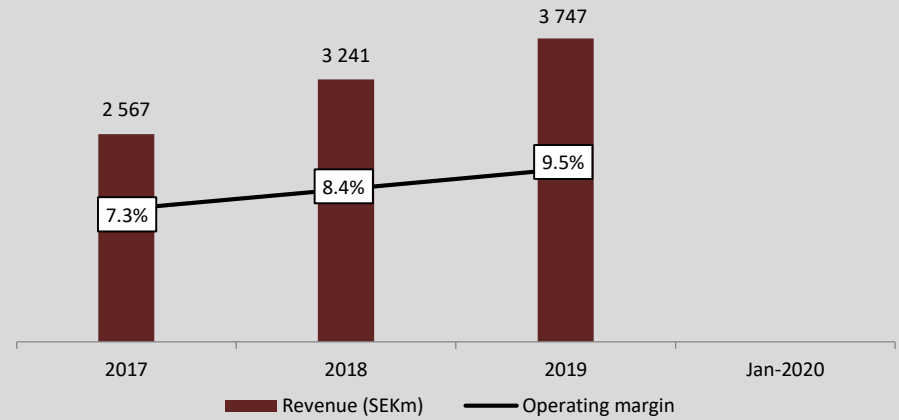
2017 and onwards: Phase III – leveraging market recovery and company maturity

74 outlets  
847 FTEs

79 outlets  
1,032 FTEs

92 outlets  
1,239 FTEs















101 outlets  
1,446 FTEs



Revenue (SEKm) — Operating margin

- ✓ Digitalisation focus
- ✓ Growing contracting services
- ✓ Continued aftermarket focus
- ✓ Leveraging existing organization
- ✓ High market potential
- ✓ Expansion of geography and customer offering

# Product offering

Brand							
	Volvo CE	Volvo & Renault Trucks	Volvo & Renault Trucks	Gensets	Dressta	Rottne	Mecalac
Example product							
Year	2010 (Russia) 2019 (Kazakhstan)	2020	2012	2014	2016	2016	2017 (Russia) 2019 (Kazakhstan)
Product	Full VCE range	Full Volvo & Renault Trucks range	Aftermarket	Own labelled diesel generators (gensets)	Bulldozers and pipe layers	Forwarders and harvesters	Backhoe loaders
Area	All of Russia & Kazakhstan	~20% of German market for heavy trucks	11 locations in Russia	All of Russia	All of Russia	All of Russia	All of Russia & Kazakhstan
	~76% of 2019 revenue			~14% of 2019 revenue			

# Russia and Kazakhstan coverage



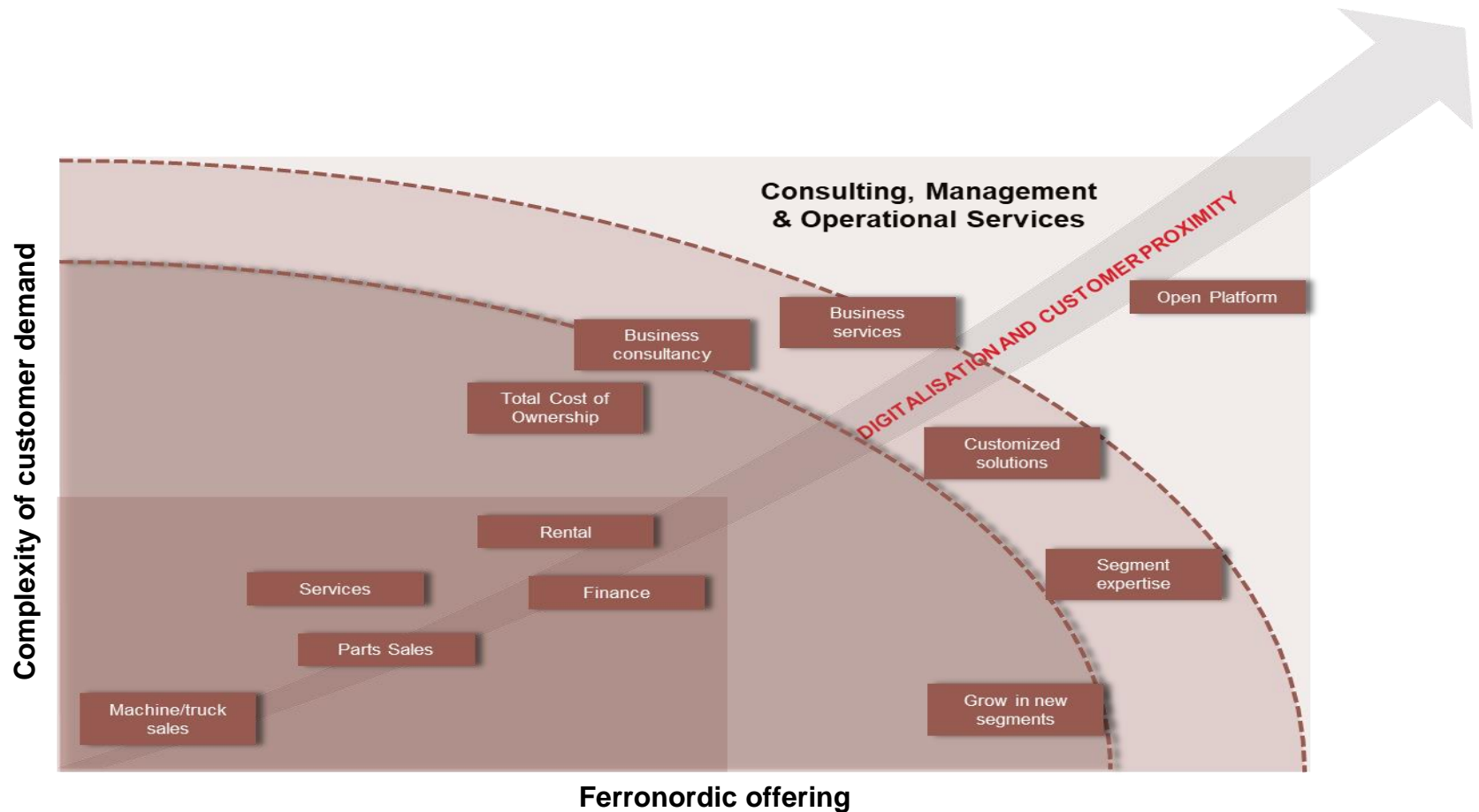
★ (90) Ferronordic outlets in Russia and Kazakhstan as of January, 2020

## Germany coverage

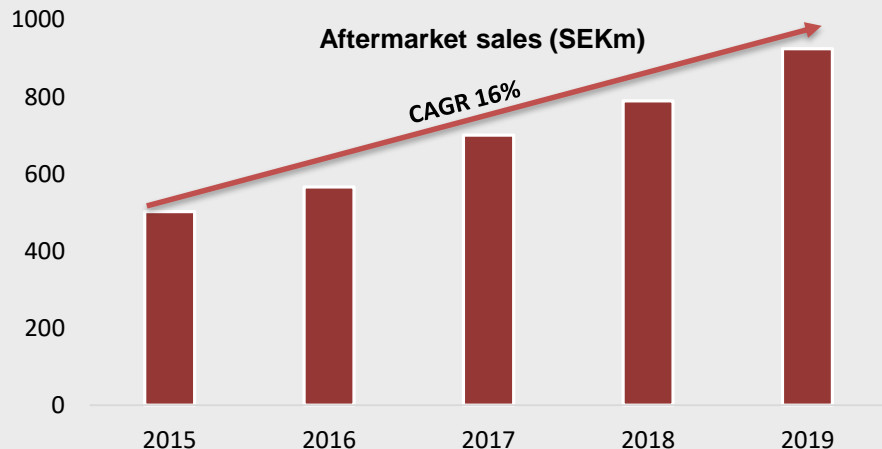
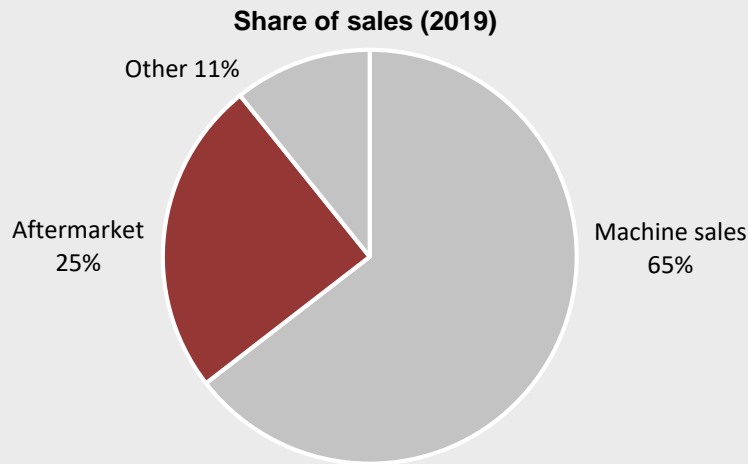


- Ferronordic expanded to become dealer for Volvo and Renault Trucks in Germany in January 2020
- Germany is Europe's largest trucks market with 70,000 registrations in 2019
- Ferronordic's sales area covers approx. 20% of the German market for heavy trucks
- The area includes some of the busiest and most developed parts of Germany, like Hannover and Frankfurt Rhine-Main, the second largest metropolitan region in the country
- It also includes a large part of Eastern Germany with fast growing cities, like Leipzig and Dresden

# Moving towards further customer integration



# Aftermarket focus



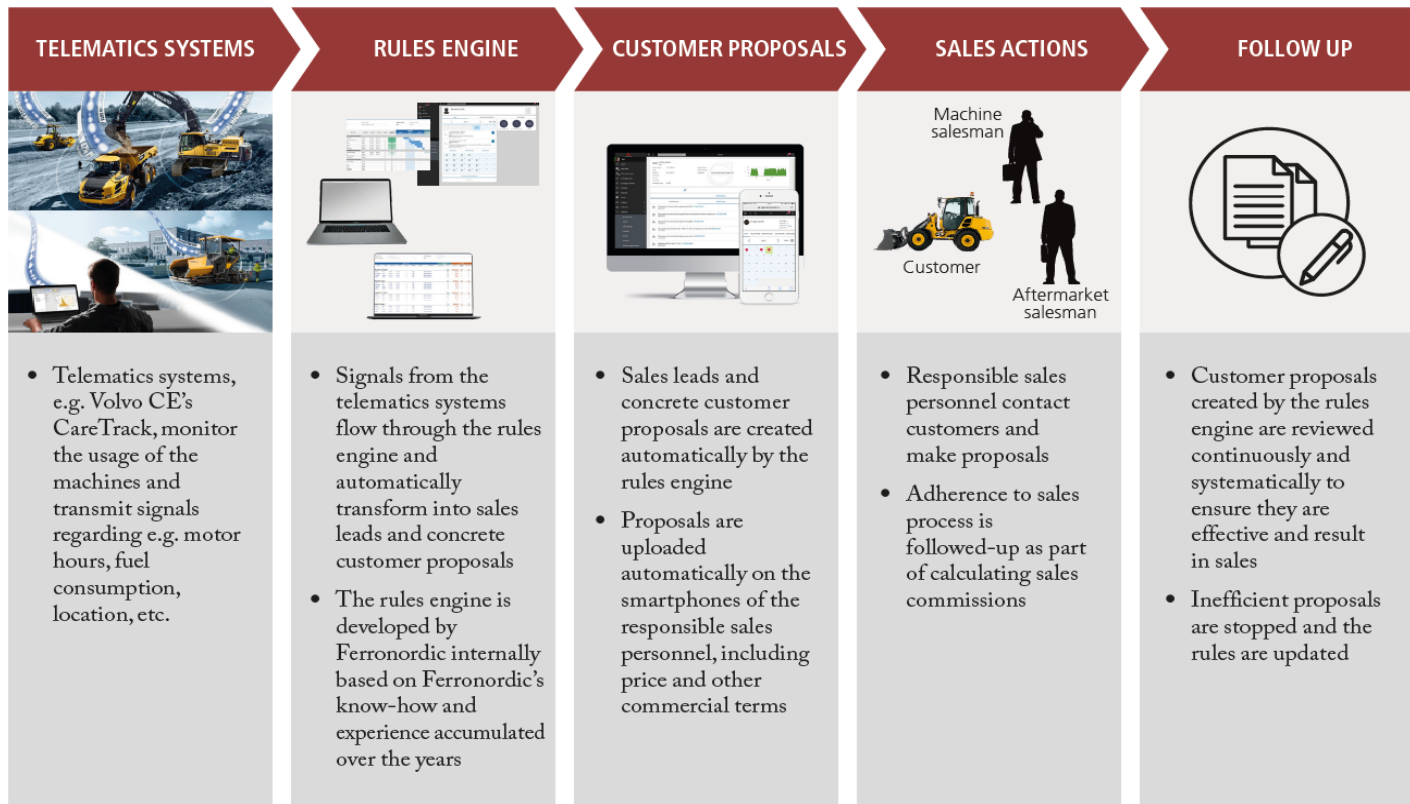
## Aftermarket sales

- Proactive customer coverage based on real-time data from the existing machine population
- Proprietary system transforms machine telematic signals (e.g. VCE's CareTrack) into sales leads on the mobile devices of sales and service staff
- Ferronordic's presence in all Russian regions allows for fast delivery of parts and timely customer support

## Offering

- Spare parts delivery
- Telematics - through Care-Track; fuel efficiency control, operator efficiency, fleet management
- Operator training
- Preventive maintenance service
- Planned and unplanned repair
- Overhaul
- Providing new life to older machines
- Diagnostics of machines
- Remanufacturing of vital parts

# Focus on connectivity and digitalisation to grow sales










*We are in the forefront of using a system that utilizes telematics systems to maximize sales and increase customer satisfaction and fleet efficiency*



# Contracting services

## Integrating with our customers

	Traditional method	Outsourcing method: Contracting services
Machine	 FERRONORDIC	 FERRONORDIC
Parts	 FERRONORDIC or the customer	 FERRONORDIC
Service	 FERRONORDIC or the customer	 FERRONORDIC
Operators	Provided by: The customer	 Provided by: FERRONORDIC
Payments	Cost of machine, parts and service	Volume based (per tonne, cubic meter, etc.)

- Part of strategy of becoming increasingly integrated in the business of our customers
- In addition to supplying and maintaining machines, we provide customers with operators to carry out specific works
- Current projects cover excavation and transportation of earth and rock for mining customers
- Payment is based on volume of earth and rock transported
- Common in other parts of the world but relatively undeveloped in our markets. We believe demand may grow
- Machines used by Contracting services are on Ferronordic's balance sheet (PP&E)
- Contracting service projects should be ROIC accretive to Ferronordic

## Contracting services - case study



**Client:** GV Gold, top 10 gold mining company in Russia

**Location:** Irkutsk region, Golets Vysochaishy, Vysochaishy mine

**Project staff:** 143 people (as at end of December 2019)

**Fleet size:** 34 units (26 haulers, 1 grader, 7 excavators)



## Component rebuild centre



- Ferronordic's component rebuild centre for engines and gearboxes opened in Ekaterinburg in Q4 2019
- Rebuild of engines and gearboxes for Volvo CE and Volvo and Renault Trucks
- Chop off and rebuild of machines planned
- Components to be resold to customers with a warranty from Ferronordic or installed in used machines in "Volvo Certified Rebuild" program
- Some negative impact on profitability and cash flows expected in 2019 and 2020
- Positive contribution from 2021
- Expected to contribute 3-5% of total sales over time
- First component produced in Q1 2020

## Volvo and Renault Trucks Russia



- Authorised aftermarket dealer for Volvo and Renault Trucks in parts of Russia
  - Currently operating in 11 locations
  - Platform capacity utilization
  - Cross-selling and customer service
- Used trucks business launched in 2019
  - Purchasing, restoring and selling used trucks
  - Mainly Volvo and Renault Trucks
  - Small scale but with potential to grow
  - Potential synergies with Germany

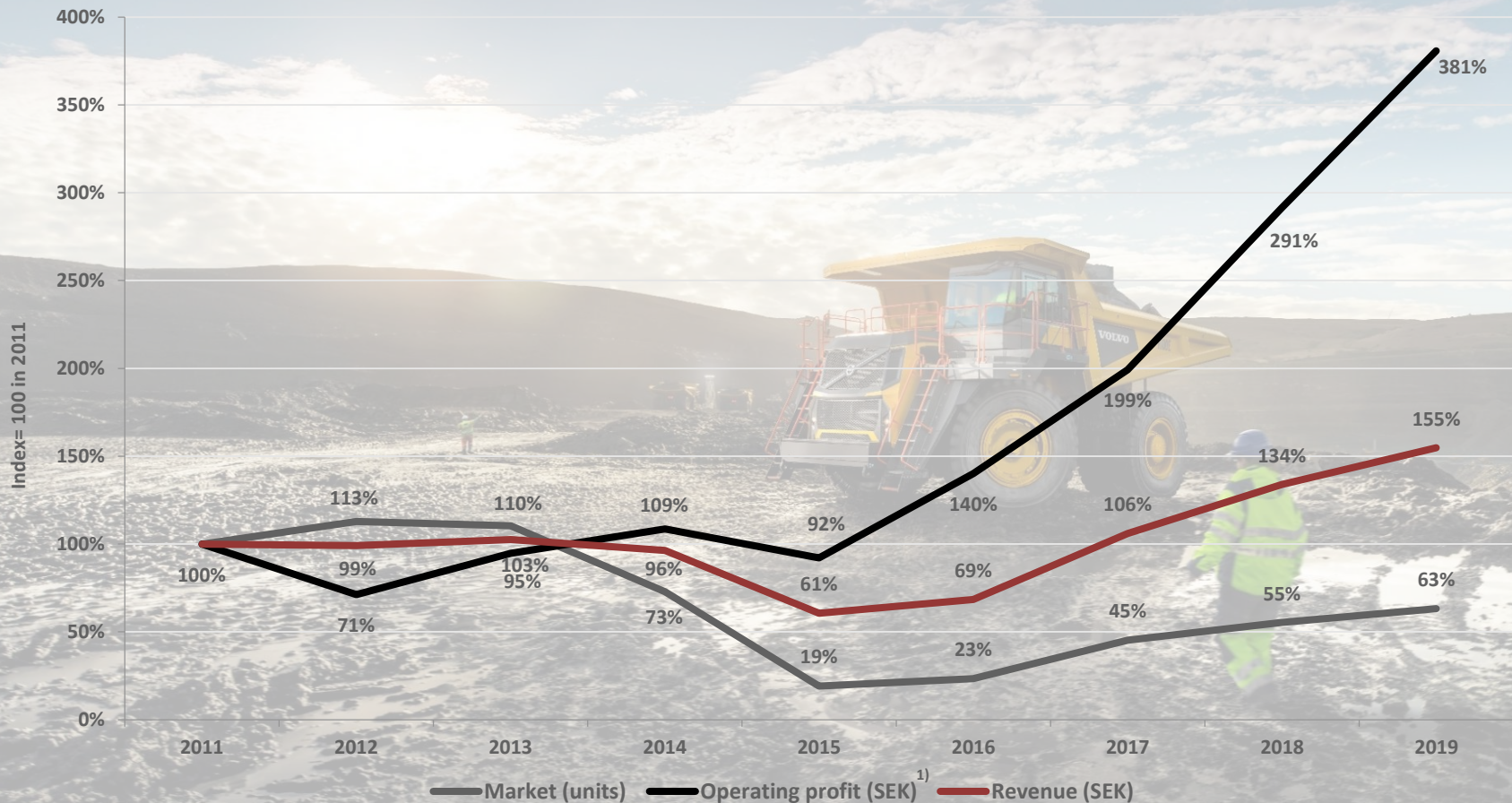


## Volvo and Renault Trucks Germany



- Authorised dealer for Volvo Trucks and Renault Trucks in parts of Germany
- Ferronordic sells and services Volvo and Renault trucks, trades and restores used trucks and manages a trucks rental business
- Ferronordic will invest to grow and improve network in area
- Plan to apply Ferronordic's business model to grow revenue and profitability
- Opportunities to grow Volvo and Renault Trucks market shares and increase share of aftermarket sales and improve profitability
- Around 230 employees in Ferronordic Germany; mostly sales representatives and mechanics

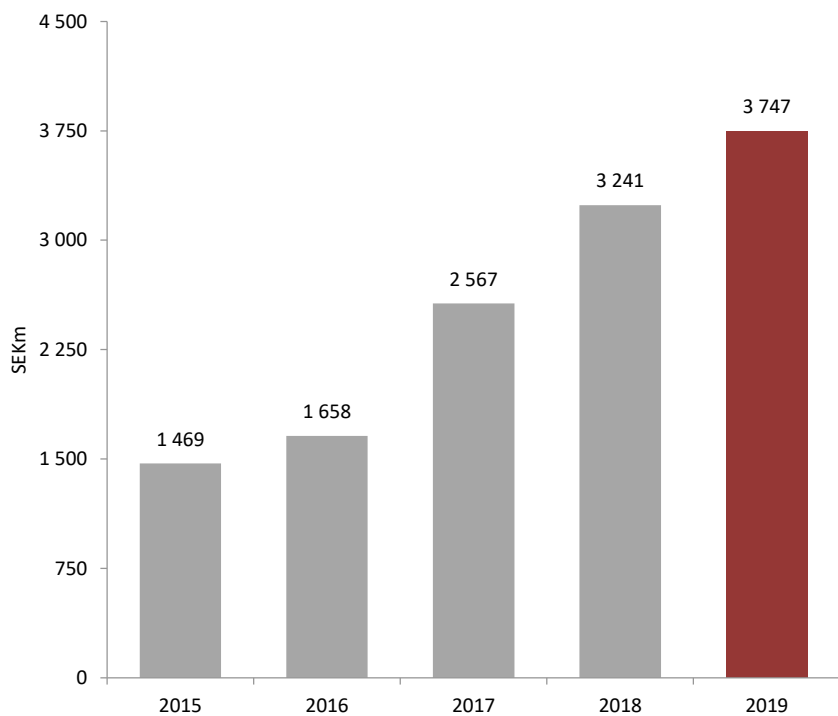
## Strong development despite low-level market



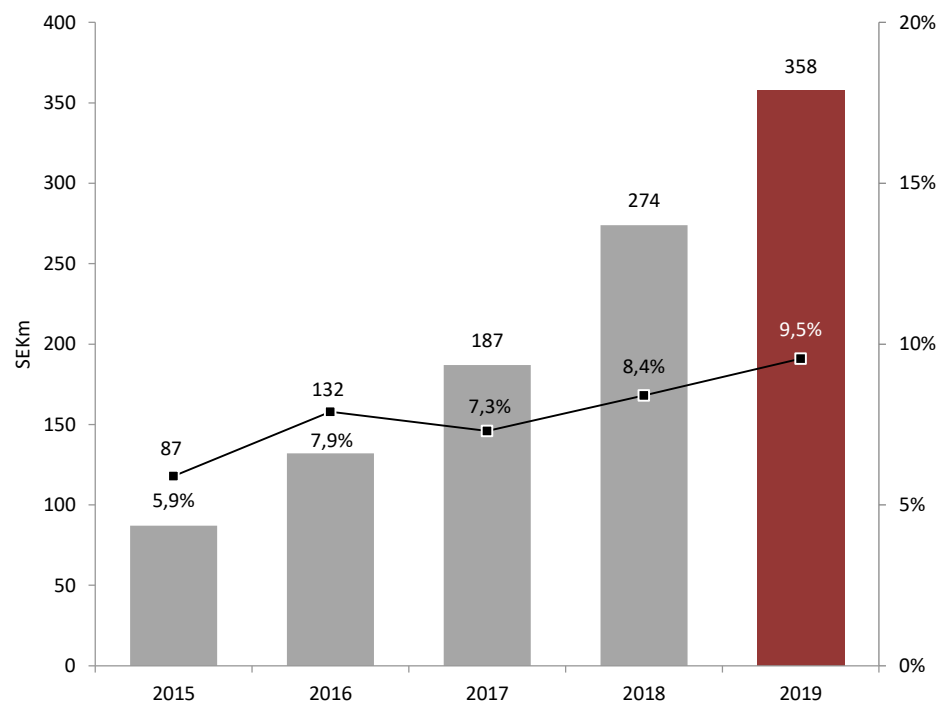
<sup>1)</sup> 2011-2016 refer to adjusted EBIT, i.e. operating profit excluding (i) amortization of transaction-related intangible assets and (ii) write-downs of non-current assets in Q4 2016.

# Development of revenue and operating profit

## Revenue



## Operating profit and operating margin<sup>1)</sup>

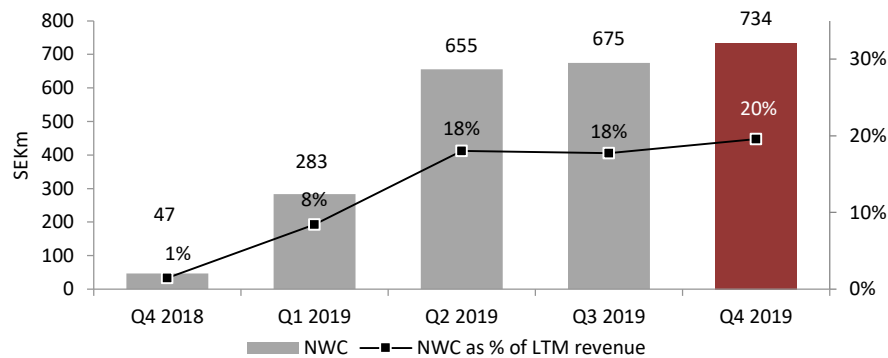


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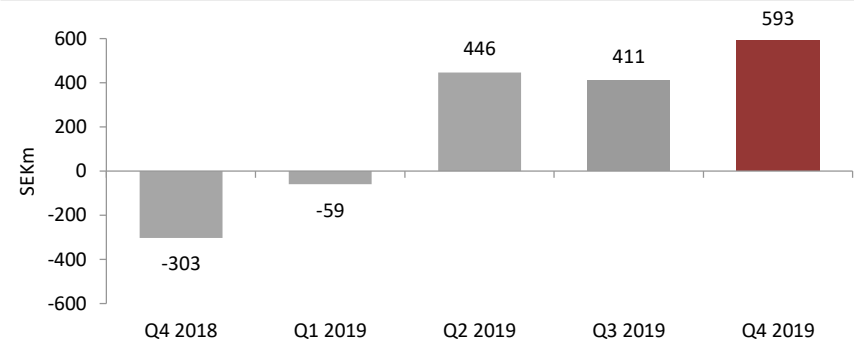


# Cash flow and capital allocation

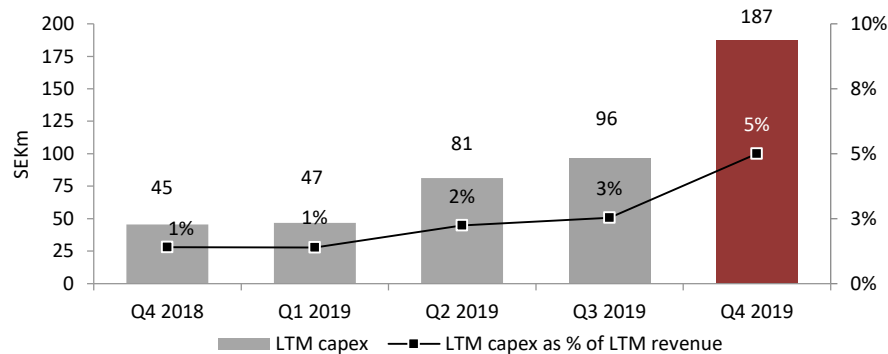
## Working capital development



## Net debt/(cash) development



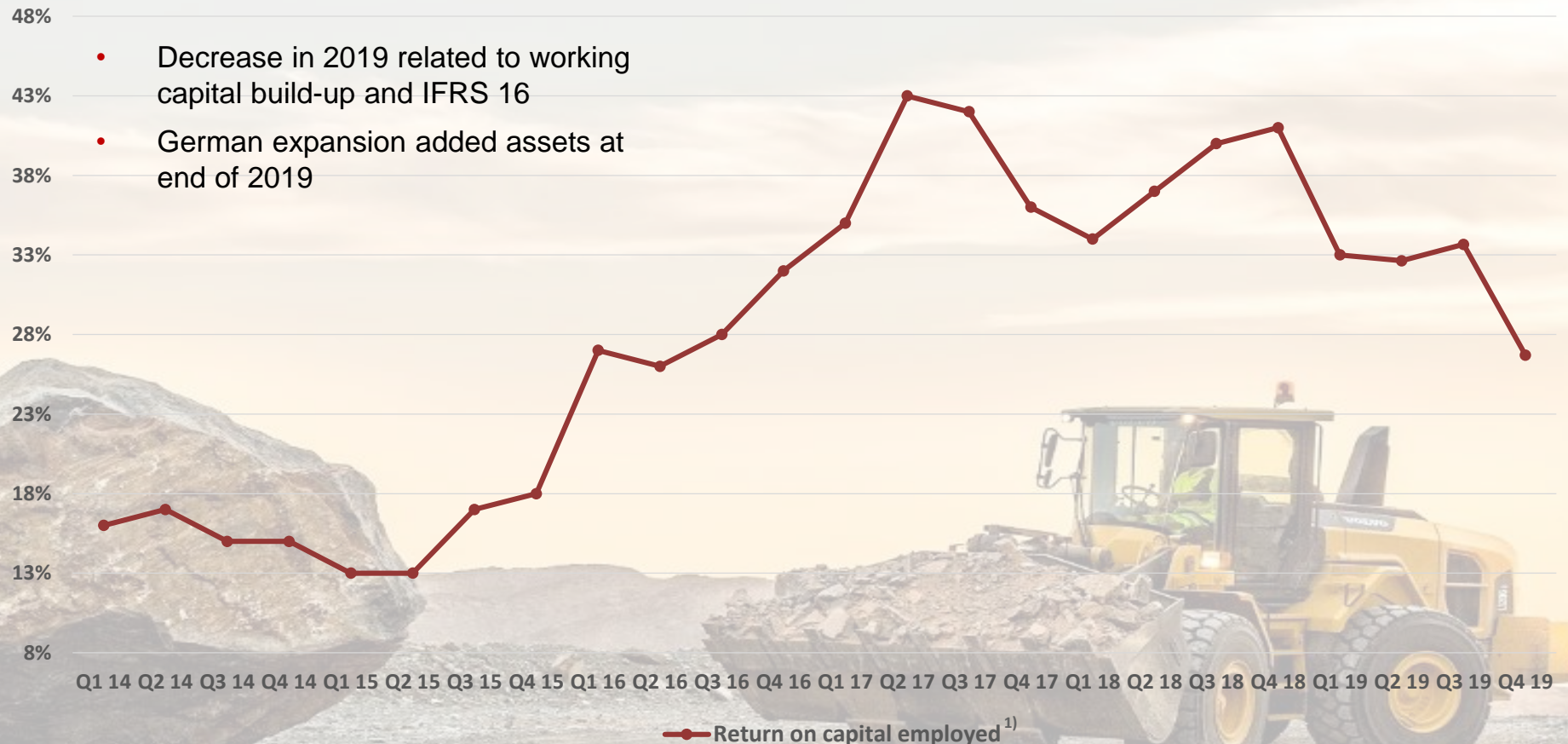
## Capital expenditure development



## Comments

- Focus on working capital efficiency and return on invested capital
- Asset light core business. Contracting services more capital intense
- Increased working capital in 2019 mainly due to inventory build-up, partly due to transition to take over importation from Volvo
- Capex increase in 2019 mainly driven by investment in machines for contracting services, and expansion to Germany in Q4 2019
- Ordinary and extraordinary dividend of SEK 109m paid in May 2019
- IFRS 16 increased lease liabilities by SEK 95m
- Net debt/EBITDA at 1.2 x as at Q4 2019

## Return on capital employed



1) Operating profit plus financial income (LTM) in relation to capital employed (equity and interest-bearing liabilities) (average LTM)  
 Note: 2014-2016 refer to adjusted EBIT, i.e. operating profit excluding amortization of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

## Q4 2019: Aftermarket and contracting services drive earnings

*Growth in aftermarket but lower equipment sales*

*Continued growth in contracting services*

*Ferronordic awarded dealer of the year by Volvo CE*

*Expansion to Germany completed*

*Proposed dividend of SEK 4.25 per share*

**-6%**  
revenue decrease

**13%**  
operating profit  
growth

**9.9%**  
operating margin

**-10%**  
EPS decrease

## Q4 2019 Profit and loss

SEK MM	Q4 2019	Q4 2018	% Change SEK	% Change Local currency
New units sold	247	324		
<b>Revenue</b>	<b>960</b>	<b>1 019</b>	<b>-6%</b>	<b>-15%</b>
<b>Gross Profit</b>	<b>202</b>	<b>180</b>	<b>12%</b>	<b>1%</b>
% Margin	21,0%	17,6%		
<b>Operating profit</b>	<b>95</b>	<b>84</b>	<b>13%</b>	<b>2%</b>
% Margin	9,9%	8,3%		
<b>Result</b>	<b>57</b>	<b>64</b>	<b>-10%</b>	<b>-20%</b>
EPS	3,95	4,40	-10%	-19%
EBITDA*	136	105	30%	17%

- Revenue down -6% (-15% in RUB)
  - Equipment sales down -22%
  - Aftermarket sales up 23%
  - Other revenue up 106%
- Volume and average price changes
  - New units down -24%
  - Average new price down -7%
  - Market estimated as flat
- Gross margin supported by growth in aftermarket and contracting services
- SG&A expenses as of revenue at 11.1% in Q4 2019 vs. 8.8% in Q4 2018, partly on approx. SEK 7m expenses related to Germany
- Operating profit increased by 13% to SEK 95m
- Higher interest cost together with FX loss negatively impacted net income
- Net income down 10% to SEK 57m

\* EBITDA positively impacted by IFRS 16 application from 1 January 2019

## Q4 2019 Cash flows

SEK MM	Q4 2019	Q4 2018
<b>Cash flows from:</b>		
Cash flows from operating activities before changes in working capital	135	108
Change in working capital	(90)	(74)
Interest & Income tax paid	(43)	(23)
<b>Net cash from operating activities</b>	<b>3</b>	<b>12</b>
Investing activities	(105)	(12)
<b>Cash flows before financing activities</b>	<b>(102)</b>	<b>0</b>
Financing activities	409	15
<b>Cash Flow (before FX fluctuations)</b>	<b>307</b>	<b>15</b>

- Cash flows from operations before working capital changes improved on higher margins
- Change in working capital had negative effect on cash flows due to increase in inventories and prepayments against a smaller increase in payables
- Inventories and prepayments partly increased as a result of the expansion to Germany
- Cash settlement of residual spare parts inventory reduced payables
- Higher tax and interest payments negatively impacted cash flows
- Capex increased mainly due to the acquisition of assets and business in Germany
- Cash flows from financing activities increased mainly due to loan to acquire assets and business in Germany

## Q4 2019 Balance sheet

SEK MM	31 December 2019	30 September 2019	31 December 2018
Property, plant & equipment	700	519	263
Cash & Cash Equivalent	519	210	357
Debt	845	397	0
Lease liabilities	268	224	54
<b>Net Debt / (Cash)</b>	<b>593</b>	<b>411</b>	<b>(303)</b>
Working capital	734	675	47
<i>% of Revenue</i>	<i>20%</i>	<i>18%</i>	<i>1%</i>
Shareholders Equity	890	837	656
Total Assets	<b>2,987</b>	<b>2,343</b>	<b>1,727</b>
<i>Equity / Assets</i>	<i>30%</i>	<i>36%</i>	<i>38%</i>

- PP&E grew YoY to SEK 700m mainly on machines for contracting services and rental, IFRS 16 and expansion to Germany
- Net debt increased YoY mainly as a result of higher working capital, capex, IFRS 16 and dividend payment
- Expansion to Germany contributed SEK 195m to net debt. Draw on facility draw increased cash position
- Working capital grew mainly on higher inventories, partly related to taking over importation from Volvo
- Expansion to Germany contributed SEK 27m in working capital
- Increase in lease liabilities includes SEK 95m related to application of IFRS 16 from 1 Jan 2019
- Working capital at 20% of revenue
- Net debt/EBITDA increased to 1.2 x

## Financial objectives and dividend policy

KPI	Objective	2019
Revenue	Triple 2016 revenue in Russia and CIS by 2021	More than 2 x 2016 revenue
Operating margin	6-8%	9.5%
Net Debt / EBITDA	0-2 x	1.2 x
Dividend Policy	<ul style="list-style-type: none"> <li>• Ambition to distribute at least 25% of the result to shareholders</li> <li>• Board takes several factors into consideration when proposing the dividend level, including expansion opportunities, financial position and investment needs</li> </ul>	

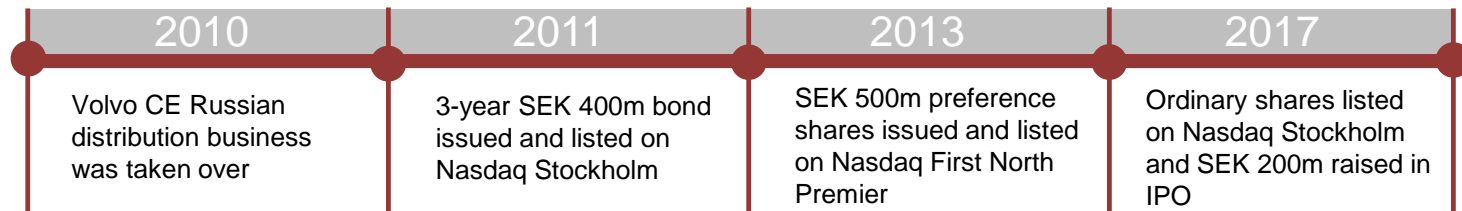


## Outlook CEO statement

*“Looking into 2020, we believe that the Russian market will grow at about the same pace as in 2019, with potential for additional growth if the National Projects pick up speed. In a longer perspective, we remain optimistic as the fundamentals in the machine markets in Russia and Kazakhstan are strong. As regards Germany, we believe that the demand for new trucks will remain high, although lower than in 2019.”*



# Ferronordic in the Capital Market



## Ferronordic statistics

- Shares outstanding: 14,532,434
- Listing: Nasdaq Stockholm
- Market cap. as at 31 December 2019: SEK 2,369m
- Net debt as at 31 December 2019: SEK 593m
- Enterprise value: SEK 2,962m
- Estimated effective free float: 60%
- Dividend policy: 25% subject to capital allocation alternatives

## Analyst coverage

Bank	Analyst	Telephone
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