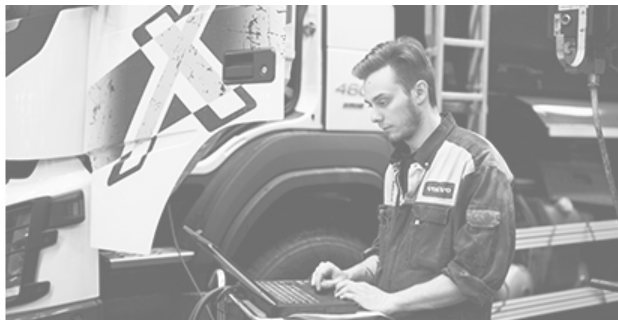




First Quarter 2020

13 May 2020



## Growth in Russia/CIS Start of operations in Germany

*Revenue and operating profit growth in Russia/CIS*

*Negative earnings impact from Germany in line with our expectations*

*Strong cash flows from operating activities*

*Disruption from COVID-19 seen in March expected to increase going forward*

*Measures taken to reduce costs and strengthen liquidity*

**55%**

revenue increase

**9%**

operating profit  
decline

**4.6%**

operating margin

**-56%**

EPS decrease

## Q1 2020 Group financial highlights



- Revenue of SEK 1,118m
  - Group revenue up 55% on 17% organic growth in Russia/CIS and 38% from consolidation of operations in Germany
  - Russia/CIS growth driven by equipment sales (14%), aftermarket (6%) and contracting services (69%)
  - Revenue in Germany of SEK 275m, with 69% from truck sales, 25% aftermarket and 6% other
- Operating profit decreased 9% to SEK 51m
  - Russia/CIS operating profit grew 8%. Group declined on negative contribution from Germany, in line with expectations
  - Group operating margin declined to 4.6%
- Lower working capital and net debt

**SEK 1,118m**  
**(55%)**  
revenue

**SEK 51m**  
**(-9%)**  
operating profit

**4.6%**  
operating margin

## Q1 2020 Group operational highlights



- Russia/CIS
  - Strong quarter despite increasing uncertainty related to COVID-19
  - Growth in equipment unit sales of 17% to 229 units in largely flat market with market share gains in several product groups
  - Contracting services sales up 69% as H1 2019 ramp-up continues to deliver results
- Germany
  - Successful launch of operations
  - Truck registrations down 26%
  - Aftermarket demand decline from mid-March
- Risks of supply, demand and service disruption
- Focus on customer and employee health and safety, costs and cash flows
- Dividend cancelled

**56%**  
growth in  
equipment sales

**39%**  
increase in  
aftermarket sales

**69%**  
growth in  
contracting  
services

## COVID-19 response



- Strict health and safety protocols
- Protective equipment for customer facing employees

- Work from home initiatives when possible

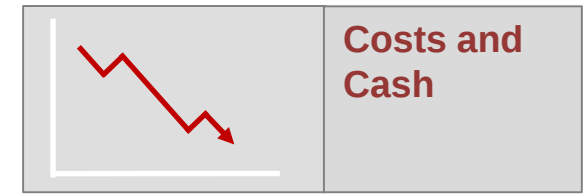
- Split team shifts for mechanics to reduce staff overlap and manage risks



- All workshops operational
- 24/7 coverage
- Remote and virtual support

- Longer rotations for operators in contracting services
- Good on-site facilities

- Focus on customer uptime



- Reduced headcount and working hours

- Temporary and voluntary salary cuts, including Executive Management

- Minimized capex
- Improved liquidity position

## Business development



- Germany
  - Integration into Group business systems and processes ongoing
  - Planned changes slowed by COVID-19
- Component rebuild Center in Ekaterinburg: First components produced and sold.
- Center to become integral part of Ferronordic business system
- Contracting services: Continued development
- Kazakhstan: One year on – expansion checked by COVID-19 restrictions but will continue

Operations launched in Germany

Component rebuild center started production

Continued development of contracting services

## Economic development



- Economies slow on COVID-19 and oil price
- Russia Q1 2020 GDP growth at 1.8%.
  - -5.5% decline expected in 2020<sup>1)</sup>
  - +3.5% GDP growth expected in 2021<sup>1)</sup>
- March inflation at 2.5%. 2020 forecast is for 4.3% from 4.5% in 2019<sup>2)</sup>
- Central bank cut key rate by 25bps in February and 50bps in April 2020 to 5.50%<sup>3)</sup>
- RUB weakened by 18% against SEK to 7.83 at end of Q1 2020
- Kazakhstan Q1 2020 GDP growth at 2.7%.
  - -2.5% decline expected in 2020<sup>1)</sup>
  - 4.1% GDP growth expected 2021<sup>1)</sup>
- German Q1 2020 GDP growth at 0.9%.
  - -7.0% decline expected in 2020<sup>1)</sup>
  - +5.2% GDP growth expected in 2021<sup>1)</sup>

Russia key rate decreased to 5.50% in April 2020

RUB weakened 18% against SEK in Q1 2020

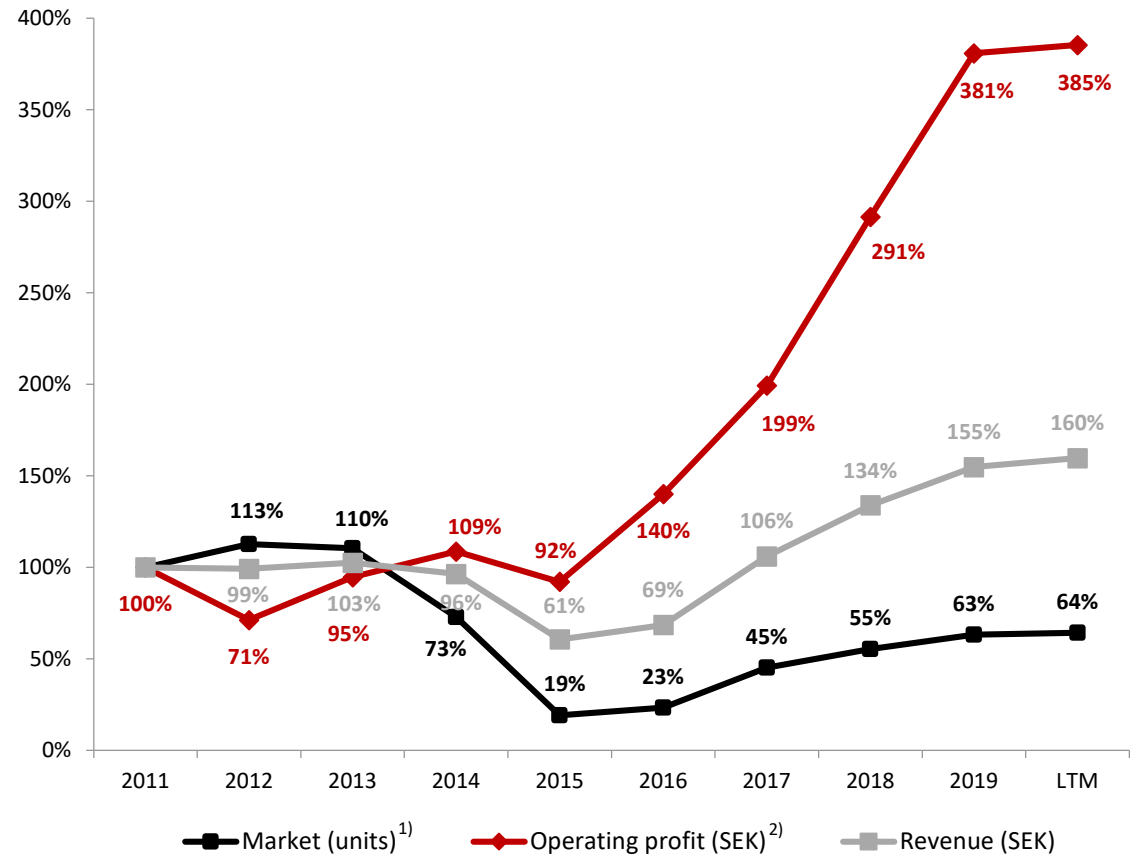
Kazakhstan's economy grew 2.7% in Q1 2020

Sharp contraction expected in Germany

1) <https://www.imf.org/~media/Files/Publications/WEO/2020/April/English/text.ashx?la=en>  
 2) [https://www.cbr.ru/Collection/Collection/File/27834/forecast\\_200424\\_e.pdf](https://www.cbr.ru/Collection/Collection/File/27834/forecast_200424_e.pdf), IMF forecasts Annual inflation of 3.1% in 2020  
 3) [https://www.cbr.ru/hd\\_base/KeyRate/](https://www.cbr.ru/hd_base/KeyRate/)

## Russian market has upside potential

- Number of machines imported to Russia at 64% of 2011 level and 57% of 2012 level
- Revenue 60% higher than 2011
- Operating profit 285% higher than 2011
- Risk of supply and demand disruption in the rest of 2020 from manufacturer and customer temporary production stops and lower oil price



1) LTM refers to last twelve months as of end of February 2020.

2) 2011-2016 refer to adjusted EBIT, i.e. operating profit excluding amortisation of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

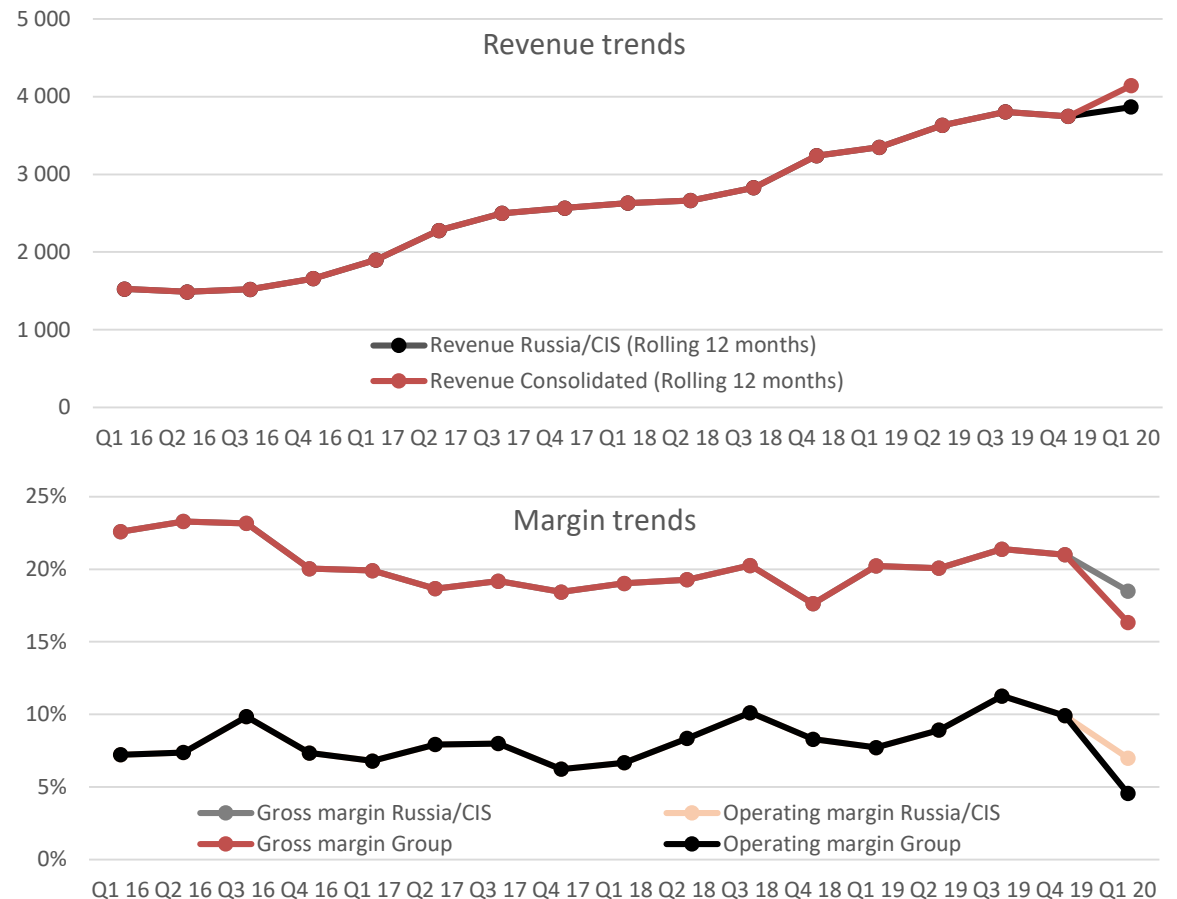
## Q1 2020 Income statement

| SEK MM                  | Q1 2019<br>Group | Q1 2020<br>Russia /<br>CIS | Q1 2020<br>Germany | Q1 2020<br>Group | %<br>change<br>Group |
|-------------------------|------------------|----------------------------|--------------------|------------------|----------------------|
| New units sold          | 196              | 229                        | 172                | 401              | 105%                 |
| <b>Revenue</b>          | <b>723</b>       | <b>843</b>                 | <b>275</b>         | <b>1,118</b>     | <b>55%</b>           |
| <b>Gross Profit</b>     | <b>146</b>       | <b>156</b>                 | <b>27</b>          | <b>183</b>       | <b>25%</b>           |
| % Margin                | 20.2%            | 18.5%                      | 9.7%               | 16.3%            | -3.9pp               |
| <b>Operating profit</b> | <b>56</b>        | <b>60</b>                  | <b>-10</b>         | <b>51</b>        | <b>-9%</b>           |
| % Margin                | 7.7%             | 7.2%                       | -3.5%              | 4.6%             | -3.2pp               |
| <b>Result</b>           | <b>46</b>        |                            |                    | <b>20</b>        | <b>-56%</b>          |
| EPS                     | 3.19             |                            |                    | 1.39             | -56%                 |
|                         |                  |                            |                    |                  |                      |
| EBITDA*                 | 82               | 100                        | -1                 | 99               | 21%                  |

- Ferronordic to report Russia/CIS and German operating segments and disaggregate contracting services revenue
- Total revenue of SEK 1,118m
  - 75% Russia/CIS and 25% Germany
  - 63% Equipment and trucks, 26% aftermarket and 9% contracting services
- Gross margin declined 3.9pp to 16.3% on lower margins in equipment sales in Russia/CIS, lower share of aftermarket and consolidation of Germany
- SG&A expenses as share of revenue was 11.5% in Q1 2020 vs. 11.9% in Q1 2019
- Operating margin declined to 4.6% and operating profit declined 9% to SEK 51m on negative contribution from Germany
- Result lower on higher net finance costs and forex losses in Russia/CIS

# Revenue and margin development

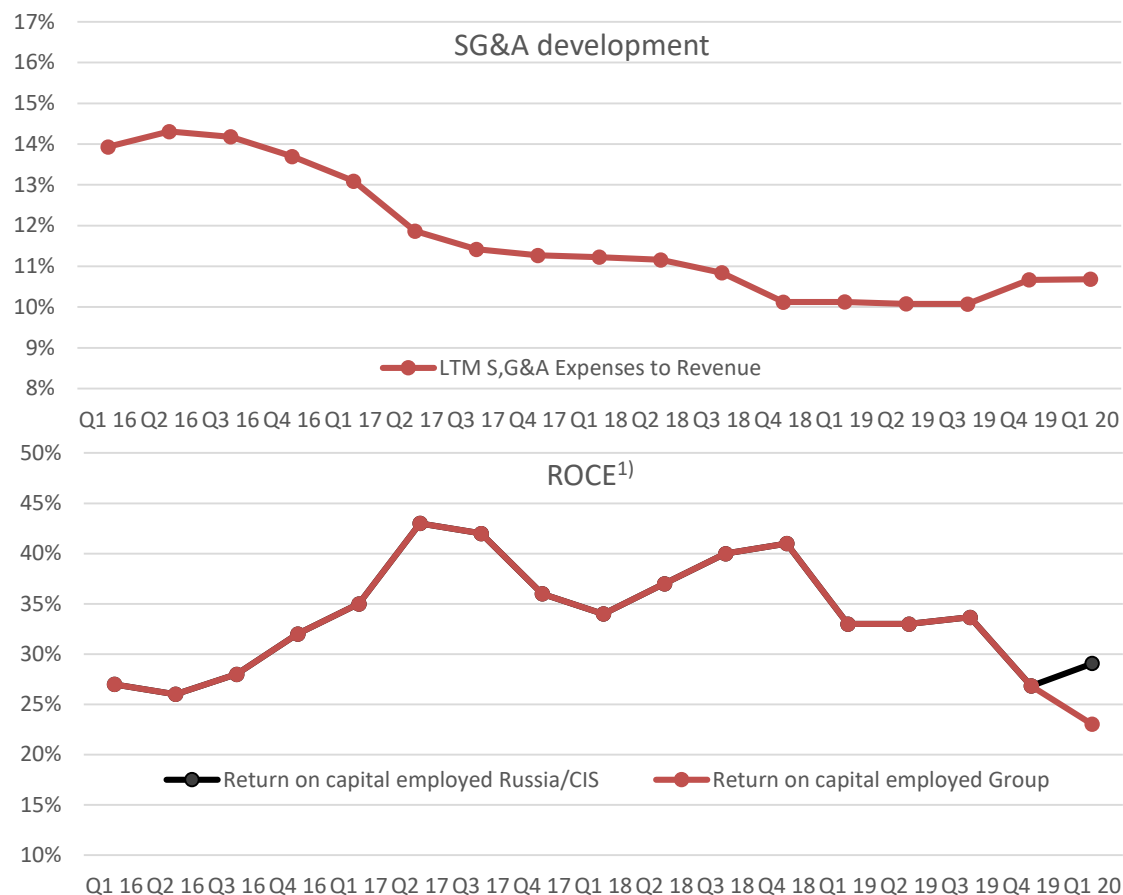
- LTM revenue in Russia/CIS reached highest ever point of SEK 3.9b
- Revenue from German operations contributed incremental SEK 275m
- Q1 2020 consolidated gross margin declined by 3.9pp YoY to 16.3%
- Q1 2020 consolidated operating margin<sup>1)</sup> decreased by 3.2pp to 4.6%, mainly due to negative margin contribution from Germany



1) 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.

## Development of cost and return on capital employed

- LTM SG&A expenses to revenue were up by 0.6pp Y-o-Y to 10.7%
- ROCE<sup>1)</sup> of 23% in Q1 2020
- Decline in ROCE in Q1 2020 related to high working capital and operating loss generated in Germany



<sup>1)</sup> Operating profit plus financial income (LTM) in relation to capital employed (equity and interest-bearing liabilities) (average LTM)

Note: 2016 refer to adjusted EBIT, i.e. operating profit excluding amortisation of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

## Q1 2020 Cash flows

| SEK MM                                                                 | Q1 2019<br>Group | Q1 2020<br>Russia / CIS | Q1 2020<br>Germany | Q1 2020<br>Group |
|------------------------------------------------------------------------|------------------|-------------------------|--------------------|------------------|
| <b>Cash flows from:</b>                                                |                  |                         |                    |                  |
| Cash flows from operating activities before changes in working capital | 87               | 102                     | (2)                | 101              |
| Change in working capital                                              | (197)            | 14                      | 23                 | 37               |
| Interest & Income tax paid                                             | (5)              | (35)                    | (4)                | (39)             |
| <b>Net cash from operating activities</b>                              | <b>(116)</b>     | <b>82</b>               | <b>18</b>          | <b>99</b>        |
| Investing activities                                                   | (19)             | (3)                     | (2)                | (5)              |
| <b>Cash flows before Financing Activities</b>                          | <b>(134)</b>     | <b>78</b>               | <b>16</b>          | <b>95</b>        |
| Financing activities                                                   | 196              | (66)                    | 77                 | 12               |
| <b>Cash Flow (before FX fluctuations)</b>                              | <b>61</b>        | <b>13</b>               | <b>94</b>          | <b>106</b>       |

- Net cash from operating activities increased
  - Operating profit growth and decline in working capital in Russia/CIS
  - Negative operating result and higher working capital in Germany
- Higher tax and interest payments negatively impacted cash flows
- Capex decreased
- Cash flows from financing activities reflect net debt repayment in Russia/CIS and net draw in Germany

## Q1 2020 Balance sheet

| SEK MM                      | 31<br>March<br>2019 | 31<br>December<br>2019 | 31<br>March<br>2020 |
|-----------------------------|---------------------|------------------------|---------------------|
| Property, plant & equipment | 371                 | 700                    | 606                 |
| Cash & cash equivalent      | 402                 | 519                    | 639                 |
| Debt                        | 215                 | 845                    | 935                 |
| Lease liabilities           | 127                 | 268                    | 234                 |
| <b>Net Debt / (Cash)</b>    | <b>-59</b>          | <b>593</b>             | <b>531</b>          |
| Working capital             | 283                 | 734                    | 660                 |
| <i>% of Revenue</i>         | <i>8%</i>           | <i>20%</i>             | <i>13%</i>          |
| Shareholder equity          | 758                 | 890                    | 783                 |
| <b>Total Assets</b>         | <b>2,494</b>        | <b>2,978</b>           | <b>3,211</b>        |
| <i>Equity / Assets</i>      | <i>30%</i>          | <i>30%</i>             | <i>24%</i>          |

- PP&E decreased QoQ on depreciation and translation
- Additions were mainly right-to-use assets in Germany in the amount of SEK 25m
- Net debt in Russia/CIS decreased from SEK 397m to SEK 193m QoQ on operating cash flows and lower working capital
- Working capital decreased from SEK 707m to SEK 525m QoQ on FX translation and higher payables
- Net debt in Germany increased from SEK 196m to SEK 340m QoQ mainly on higher working capital
- Working capital increased from SEK 27m to SEK 135m QoQ on higher inventories and receivables
- Working capital at 13% of LTM revenue (annualized for Germany)
- Net debt/EBITDA decreased to 1.0 x

## Financial objectives and dividend policy

| KPI               | Objective                                                                                                                                                                                                                                                                                     | Q1 2020 LTM           |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Revenue           | Triple 2016 revenue in Russia/CIS by 2021                                                                                                                                                                                                                                                     | 2.3 x<br>2016 revenue |
| Operating margin  | 6-8%                                                                                                                                                                                                                                                                                          | 8.5%                  |
| Net Debt / EBITDA | 0-2 x                                                                                                                                                                                                                                                                                         | 1.0 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

*“The outbreak and the measures to contain the spread of COVID-19 have caused extraordinary uncertainty across our markets. For the rest of 2020, we are likely to face various degrees of disruption in supply, demand and customer interfacing. To forecast the near-term development of our markets in this business environment is not meaningful. In response to COVID-19, we are taking measures to maintain the highest level of service to our customers, protect our employees, strengthen liquidity and cut costs. We are confident that our business model, which is built around a great team and a robust aftermarket business, will once again prove itself resilient. In a longer perspective, we remain positive as we believe that the underlying fundamentals and business opportunities in our markets are strong.”*



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# Q & A