

# **Company conference call**

**Ferronordic expands to the US**

**16 November 2023**

# Ferronordic enters the United States

**Ferronordic has entered into an agreement to purchase 100% of the shares of Rudd Equipment Company, Inc. (“Rudd”), one of the largest dealers of Volvo Construction Equipment in the US**

- Geographic expansion was always a strategic objective for Ferronordic
- Following the sale of our Russian business at the end of 2022, we have been looking for opportunities to expand geographically in different regions, mainly in developed markets
- The US is the world’s second largest market for construction equipment with substantive infrastructure investment programs
- Rudd is a great strategic fit for Ferronordic that provides significant scale and a good platform in the US
- Acquisition of Rudd gives us a strong base in a dynamic market and also opens potential to expand further in North America
- The transaction is a first major step to rebuild Ferronordic as a leading service and sales company and further build on our strong partnership with Volvo Construction Equipment

# Strategic objectives

**Leadership in the market  
for construction  
equipment and trucks**

**Aftermarket absorption  
rate of at least 1.0 x**

**Expansion into related  
business areas**

**Expansion and  
development of  
contracting services**

**Industry leading digital  
service and sales platforms**

**Geographic expansion**

# Strategic cornerstones

## Customer Orientation

- Customer centricity
- Leading service and product availability
- Tailored customer solutions (including contracting and other business services)

## Build on Strong Brand - Volvo

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

## Superior Infrastructure

- Mobile workshops and service vans/trucks
- Well equipped, purpose-built facilities in select locations
- Infrastructure to be used for all brands and business areas
- Superior IT infrastructure for digital service and sales processes

## Operational Excellence

- Safety and sustainability
- Continuous improvement of practices and processes
- Business driven digital service and sales processes
- Close cooperation with manufacturers
- High employee engagement



## About Rudd

- Rudd Equipment Company was founded in 1952
- The Company is based in Louisville, Kentucky, has 13 outlets and approx. 360 full-time employees
- Rudd is one of the largest distributors of Volvo Construction Equipment in the US with operations in all or parts of nine states
- The company is also representing other strong brands such as Hitachi, Sandvik and Link-Belt Cranes
- In 2022, sales of equipment and parts relating to Volvo Construction Equipment made up approx. 70% of the total revenue
- In 2022, Rudd had sales of USD 308.3m with an adjusted IFRS EBIT of USD<sup>1</sup> 16.5m and earnings before tax of USD 16.4m
- In the first six months of 2023, Rudd had revenue of USD<sup>2</sup> 138.1m with EBIT of USD 9.7m and earnings before tax of USD 9.3m
- In the first six months of 2023, Ferronordic had revenue of USD<sup>3</sup> 124.6m with EBIT of USD -2.4m, earnings before tax of USD 8.4m and net income of USD 6.8m

1) Based on the company's audited statutory US GAAP accounts, as concerted to IFRS

2) Based on the company's unaudited and unadjusted management accounts

3) Converted at the average SEK/USD rate of the Swedish Riksbank of 10.47

# Financial history

USD m	*8M 2023	*6M 2023	2022	2021	2020	2019
Revenue	180.7	138.1	308.3	252.9	210.8	246.5
EBIT	13.3	9.7	16.5	0.5	1.7	12.7
EBT	12.7	9.3	16.4	7.9	0.3	9
EBIT margin	7.4%	7.0%	5.4%	0.2%	0.8%	5.2%

- Information on 2019-2022 are based on the company's audited US GAAP financial statements and adjusted for the main differences to IFRS
- Currently operated as a so-called S-corporation, Rudd is taxed at the shareholder level.
- As a subsidiary to Ferronordic, Rudd would pay corporate income tax
- Covid-19 had a significant negative effect on the company's earnings in 2020 and 2021 as costs were high in relation to revenue
- This was partly compensated in 2021 through the forgiveness of a Covid-related support loan received in 2020 to maintain employees
- The effect of the loan forgiveness was reported below operating profit (EBIT), explaining the difference between EBIT and earnings before tax (EBT)

# Transaction summary

- Ferronordic to purchase 100% of Rudd for a price of USD 95.0m
- In addition, Ferronordic will also acquire two real properties for USD 10m
- After the transaction, Rudd will own 8 of its 13 locations
- The total price for the stock in Rudd and the two properties amounts to USD 105m
- Out of this amount, USD 60m will be financed with own cash/equity and USD 45m with new bank debt
- Ferronordic has received a commitment letter from Nordea for a three-year USD 45m term loan facility for the acquisition, as well as a USD 35m working capital facility
- All consents and approvals for the transaction have been obtained, including the approval of Volvo CE
- The transaction is expected to close on 30 November 2023



## Purchase price

- The purchase price amounts to USD 95.0m, corresponding to 5.8 x 2022 IFRS-adjusted earnings before tax
- Based on the expected net debt at closing, the expected enterprise value amounts to USD 113.0m, being equal to 6.9 x 2022 IFRS-adjusted EBIT
- The price is based on an expected net asset value of Rudd at closing of USD 86.8m, based on US GAAP
- Based on this expected net asset value, the purchase price would imply a goodwill of USD 8.2m
- The purchase price will be trued up post-closing depending on whether the net asset value at closing is higher or lower than the targeted net asset value
- The final goodwill amount based on IFRS will be disclosed later, once the final purchase price has been determined and Rudd is consolidated into the Ferronordic Group
- Ferronordic will also acquire two real properties in Cincinnati (Ohio) and Louisville (Kentucky) currently rented by Rudd from its owner
- The price for the two properties is USD 10m
- In 2022, the base rent for the two properties, reported as operating expenses, amounted to USD 0.7m



# Background and rationale



- US is the world's second biggest market for construction equipment. Large infrastructure investment programs are likely to support strong demand going forward
- The company's sales area for Volvo Construction Equipment covers all or parts of nine states: Kentucky; West Virginia (partly); Ohio; Indiana (partly); Western Pennsylvania; Eastern Missouri; Southern Illinois and several counties in Tennessee and Maryland
- Rudd Equipment Company has long traditions, strong customer relationships and a solid business that showed almost 22% revenue growth 2021–2022
- In 2022, the market for Volvo Construction Equipment products (GPE) in Rudd's sales area amounted to approx. 4,000 machines
- During the last 4 years, the average market in the area amounted to approx. 3,700 units but with significant drops in 2020 and 2021 related to Covid-19

# Background and rationale

- Rudd has historically had a strong focus and presence in excavation and extractive industries, particularly in Kentucky and West Virginia
- In the last years, the company has focused more on general construction segment
- Ferronordic sees potential to increase the company's market share in the construction segment further, especially in certain larger cities in the sales area, such as St. Louis, Pittsburgh and Cleveland
- Ferronordic's ambition over time is to invest in improved facilities in some of the larger cities in the sales area
- The acquisition gives Ferronordic a strong base in a dynamic market that also opens potential to expand further in North America



# Effects on Ferronordic

- Ferronordic does not foresee any major changes to the current organization of Rudd and has committed to retain current employees at current terms and conditions for at least 12 months after closing
- Ferronordic has received a commitment letter from Nordea for a three-year USD 45m term loan facility for the acquisition, as well as a USD 35m working capital facility
- As a result of the transaction, Ferronordic's net debt is expected to increase by approx. SEK<sup>1</sup> 1,340m
- Based on Ferronordic's financial position at 30 September 2023, the transaction would change the SEK 378m net cash position to a net debt position of SEK 962m
- After closing, Rudd will be a wholly owned subsidiary of Ferronordic and will be integrated into Ferronordic's general corporate governance and internal controls
- Ferronordic expects Rudd to generate positive profit and cash flows immediately from closing

1) Converted at the average SEK/USD rate of the Swedish Riksbank as at 11 November 2023 of 10.89



## Management comments

Lars Corneliusson, Ferronordic's CEO, comments: *"This is a transformational transaction for us. We have been looking for opportunities to expand geographically in different regions, mainly in developed markets. The US is the world's second largest market for construction equipment with substantive infrastructure investment programs that are likely to support strong demand going forward."*

Comment from Scott Young, Head of Sales Region North America, Volvo CE: *"We are excited to welcome Ferronordic into the North American dealer network. Cultivating strategic partnerships is about creating shared value and driving mutual growth. There are incredible opportunities ahead as we continue to provide best-in-line equipment, solutions, and support to our customers."*

Lars Corneliusson continues: *"Rudd is a great strategic fit for Ferronordic and provides the platform and scale we have been looking for. The acquisition gives a strong base in a dynamic market that opens potential for further expansion in North America. This is a first major step to rebuild Ferronordic as a leading service and sales company, in addition to our businesses in Germany and Kazakhstan".*

# Financial objectives and dividend policy

- Ferronordic will review its financial objectives and dividend policy in due course following the transaction

# Contacts and communication

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