



Company presentation
August 2019



Introduction to Ferronordic

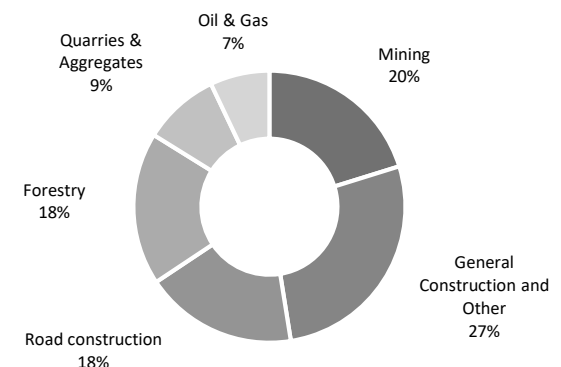
Overview

- Dealer of Volvo Construction Equipment in all of Russia and Kazakhstan
- Core focus on Volvo CE brand, a high-quality construction equipment manufacturer and No. 1 brand in Russia
- Dealer of Terex Trucks (2014), Dressta (2016), Rottne (2016) in all of Russia
- Dealer of Mecalac in all of Russia and Kazakhstan
- 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 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

	Start	LTM Q2 2019
Employees	~160	1,146
Revenue (SEKm) ¹⁾	1,184	3,633
Outlets	6	82

New machine revenue per customer type (2018)

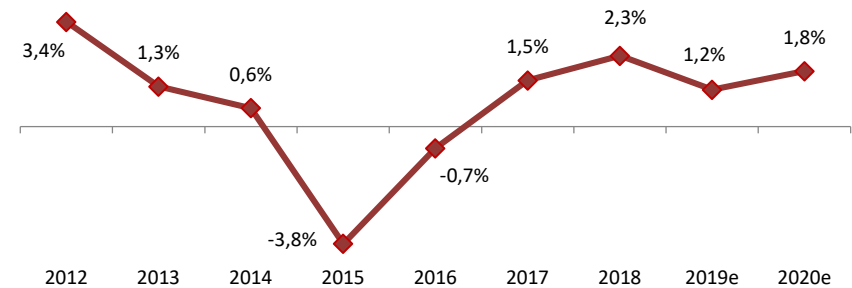


Huge market in recovery

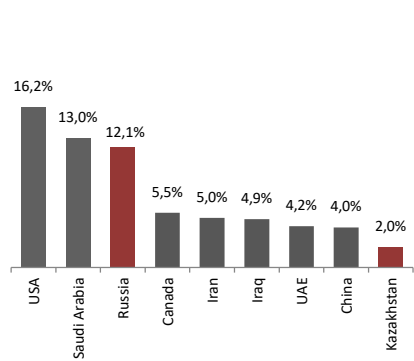
Russia at a glance

- Population: ~144 million¹⁾
- Area: 16.4 million sq. km¹⁾
- 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 518 billion²⁾ in international currency reserves plus USD 100 billion in gold²⁾
- 11.8% government debt/GDP ratio (nominal 2018)²⁾

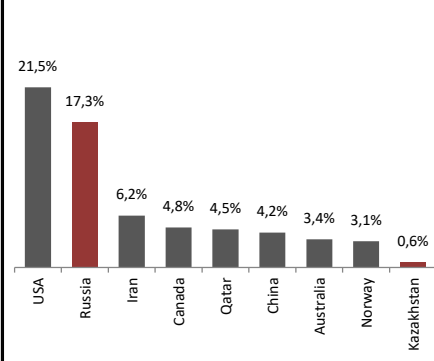
Russia's GDP development⁵⁾



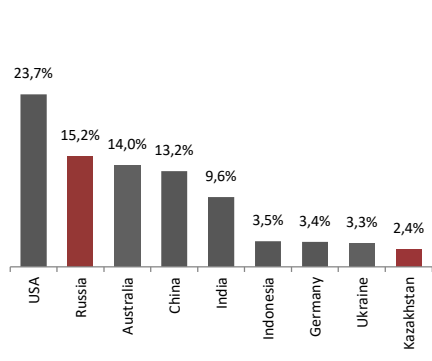
Oil production (% of total)³⁾



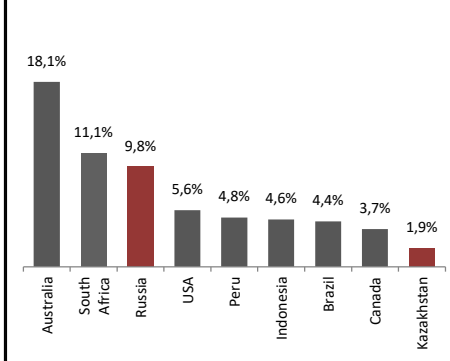
Natural gas production (% of total)³⁾



Coal reserves (% of total)³⁾



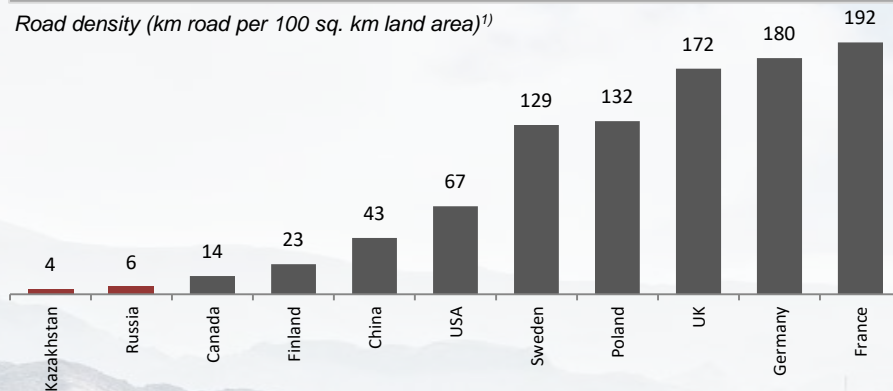
Gold reserves (% of total)⁴⁾



Significant need to improve infrastructure

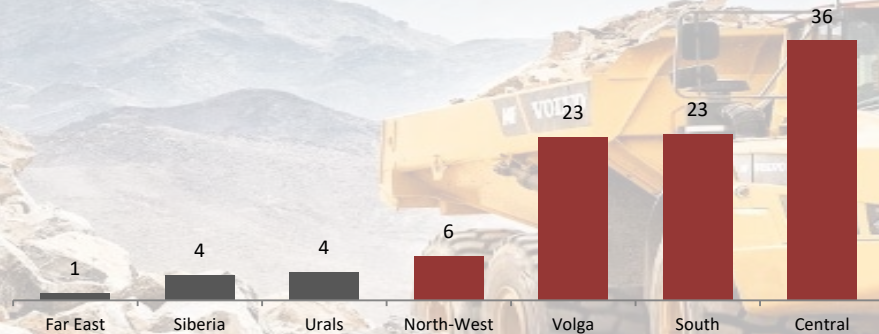
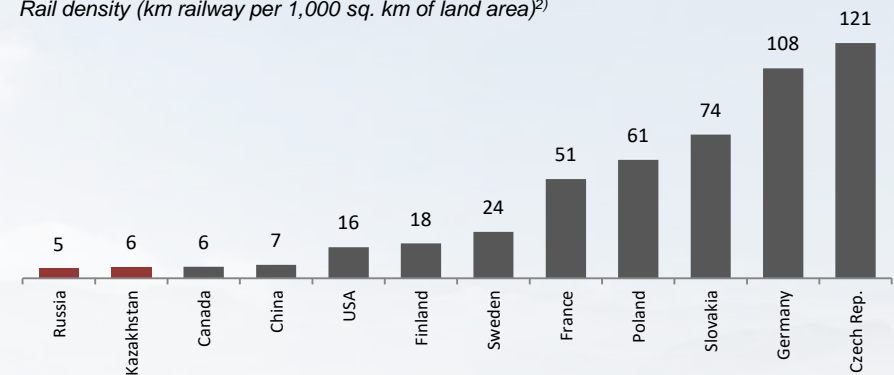
Road density in Russia and Kazakhstan is low

Road density (km road per 100 sq. km land area)¹⁾



Rail density is also low

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

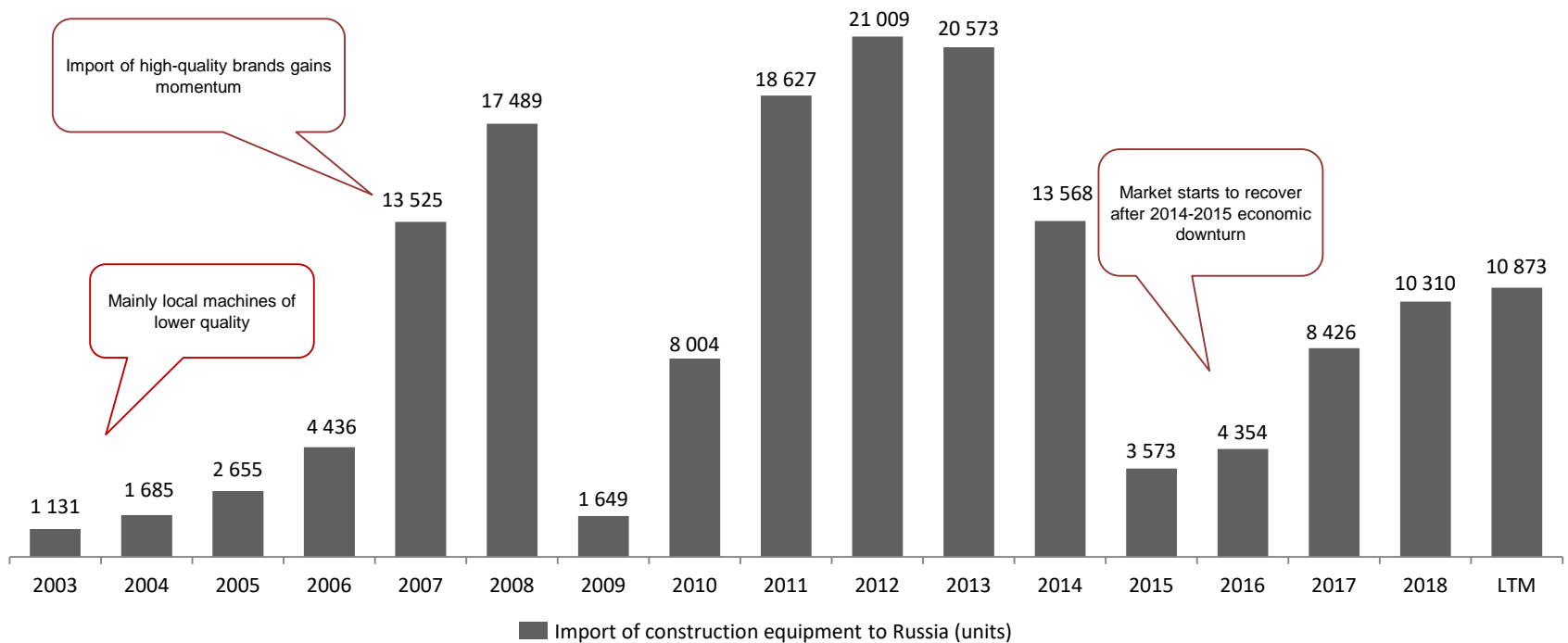


- Construction equipment market is expected to capitalize on the long-term growth in Russia and Kazakhstan
- An important driver will be the need to improve aging infrastructure, the bulk of which was built in the Soviet era and needs to be upgraded
- Russia is ranked 104 out of 140 countries in terms of road quality³⁾
- Kazakhstan is ranked 106 out of 140 in terms of road quality³⁾
- Signs that the government intends to create economic growth by increased infrastructure spending
- **Ministry of Economic Development finalized list of 200 infrastructure projects with an aggregate cost of approx. USD 100 billion**

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

Expansion into related business areas

Aftermarket absorption rate of at least 1.0 x

Geographic expansion

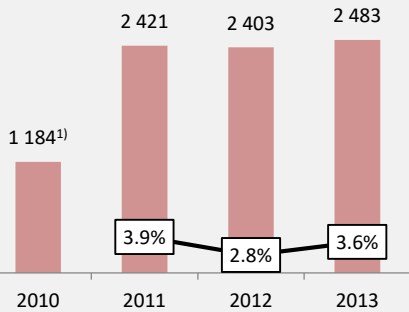
Further development of contracting services

Strategic development

2010-2013: Phase I – establishing the platform

12 outlets
326 FTEs

75 outlets
731 FTEs



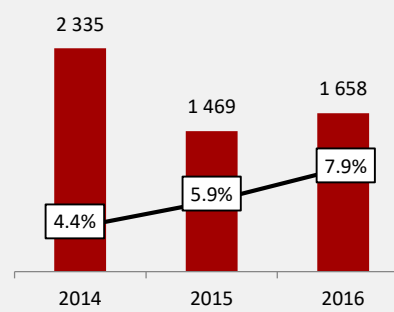
Revenue (SEKm) — Operating margin²⁾

- Processes and procedures established
- Establishment of a 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 margin²⁾

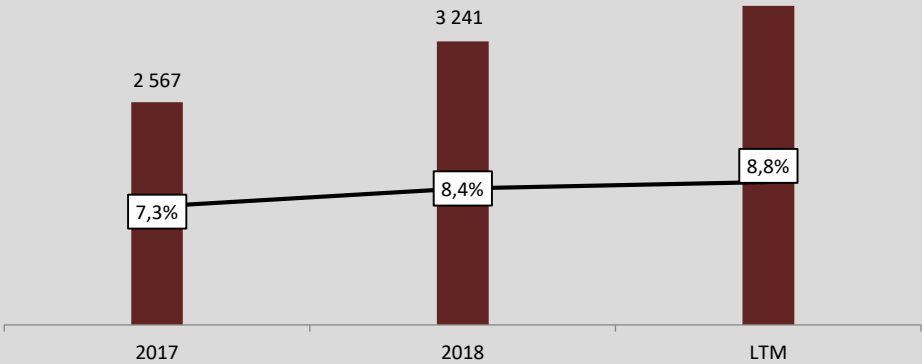
- Increased aftermarket focus
- Reduction of unprofitable outlets
- NWC efficiency focus
- Adding brands and services

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

74 outlets
847 FTEs

79 outlets
1,032 FTEs

82 outlets
1,146 FTEs



Revenue (SEKm) — Operating margin

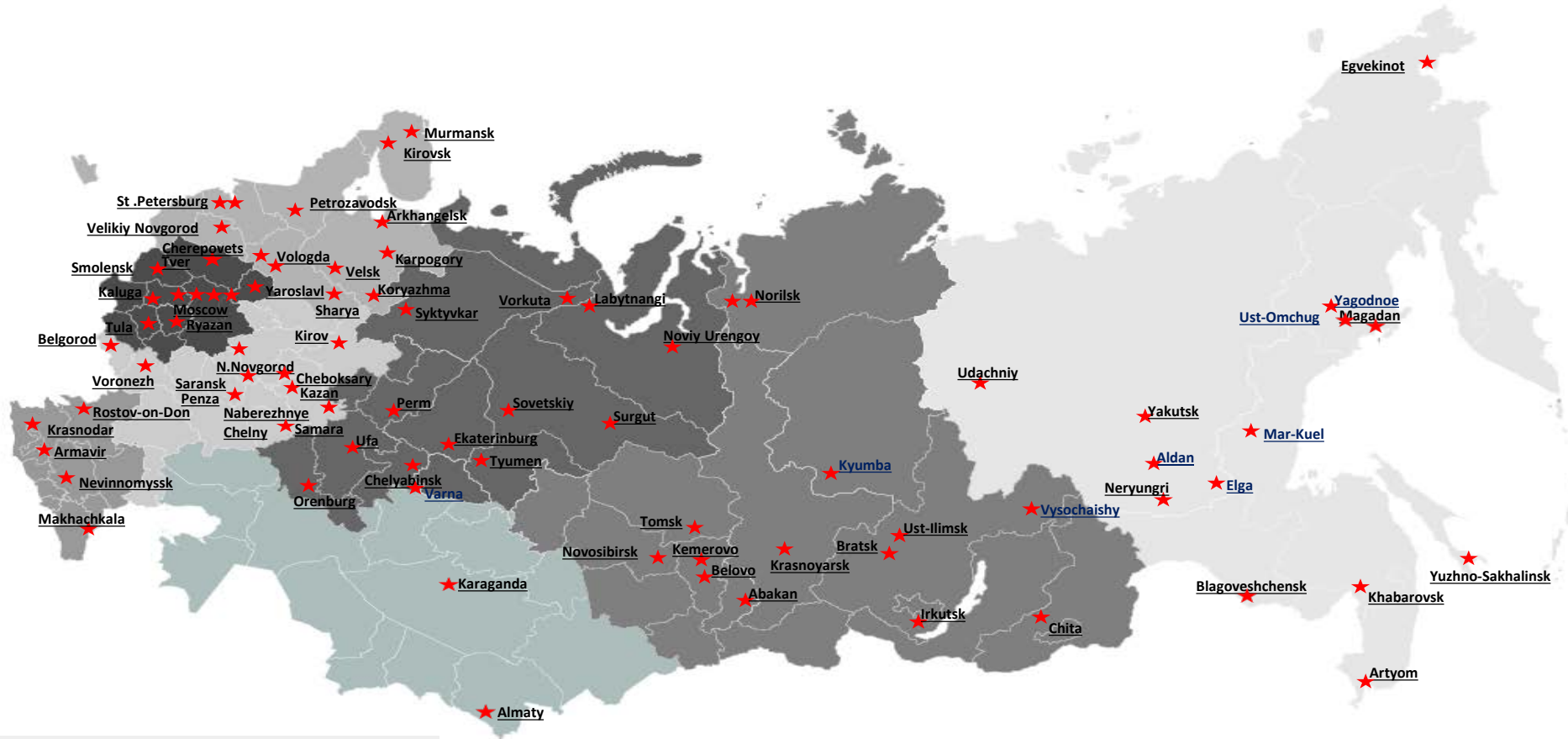
- ✓ Digitalisation focus
- ✓ Growing contracting services
- ✓ Continued aftermarket focus
- ✓ Leveraging existing organization
- ✓ High market potential
- ✓ Expansion of geography and customer offering

Product offering

Brand							
Example product							
Year	2010 (Russia) 2019 (Kazakhstan)	2012	2014	2014	2016	2016	2017 (Russia) 2019 (Kazakhstan)
Product	Full VCE range	Aftermarket	Own labelled diesel generators (gensets)	Dump trucks and rigid haulers	Bulldozers and pipe layers	Forwarders and harvesters	Backhoe loaders
Area	All of Russia & Kazakhstan	10 locations	All of Russia	All of Russia	All Russia	All of Russia	All of Russia & Kazakhstan
	~76%	~19% of 2018 revenue					

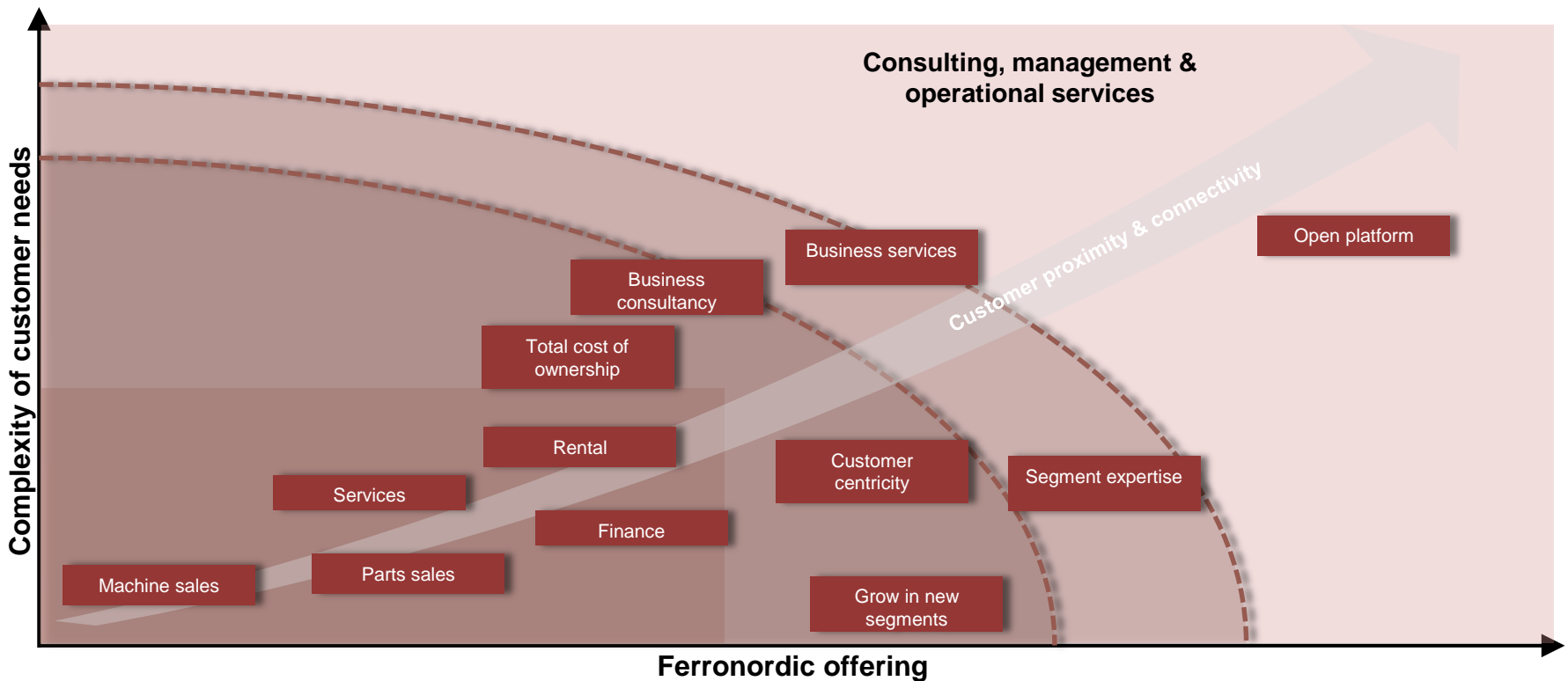
Wide range of construction equipment, leveraging Ferronordic's countrywide network

Nationwide coverage



★ (82) Ferronordic outlets as of June 30, 2019

Moving towards stronger customer integration



As customers mature, their needs grow more complex. Ferronordic is well-positioned to satisfy these needs and lead this development within construction equipment and related business areas

Aftermarket focus

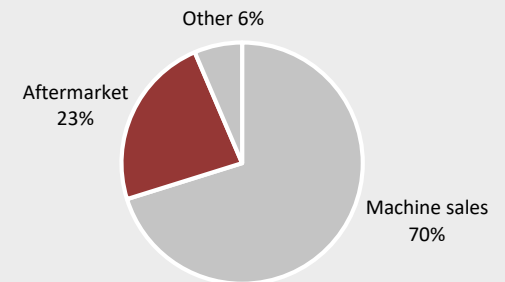
Aftermarket sales

- Proactive and competitive offering of customer service and spare parts supply, based on real-time data from the existing machine population and long experience in the industry
- Proprietary system in place where signals from the machines' telematics systems (e.g. VCE's CareTrack) are transformed into proposed sales actions (for both machine and aftermarket sales) that are automatically uploaded to the mobile phones of sales and service staff
- Ferronordic's presence in all Russian regions allows for fast delivery of parts and excellent customer support

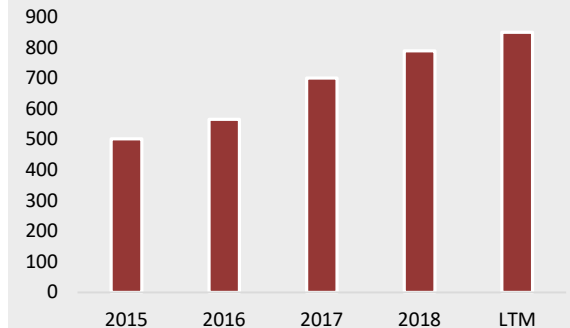
Offering

- 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

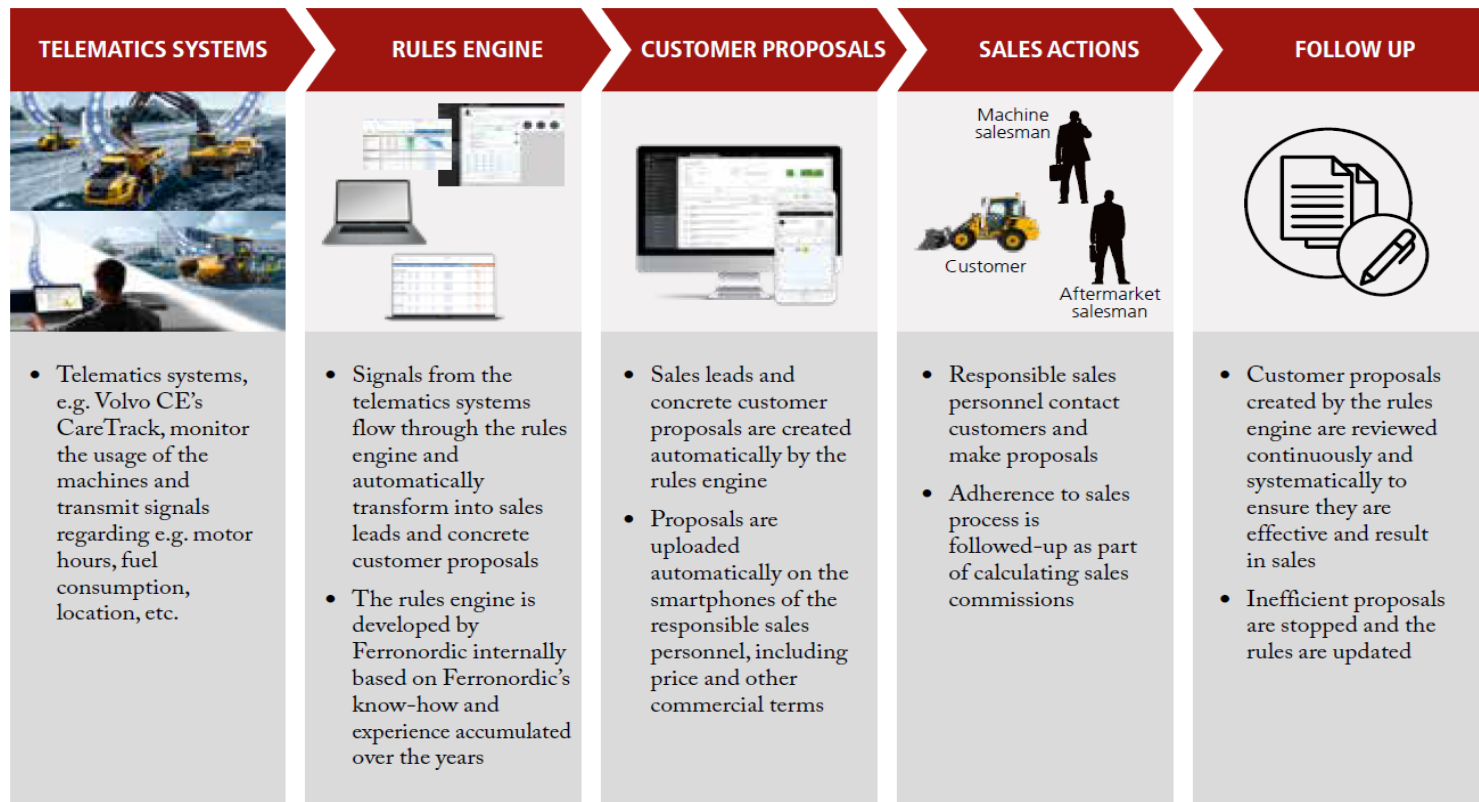
Share of sales (2018)



Aftermarket sales (SEKm)










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	 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 will grow
- Largest project to-date initiated in Q4 2018 – excavation and transportation at a gold mine in Irkutsk region, Siberia

Contracting services - case study



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

Location: Irkutsk region, Golets Vysochaishy, Vysochaishy mine

Project staff: 114 people (as at end of July 2019)

Fleet size: 25 units (19 haulers, 1 grader, 5 excavators)



Component remanufacturing



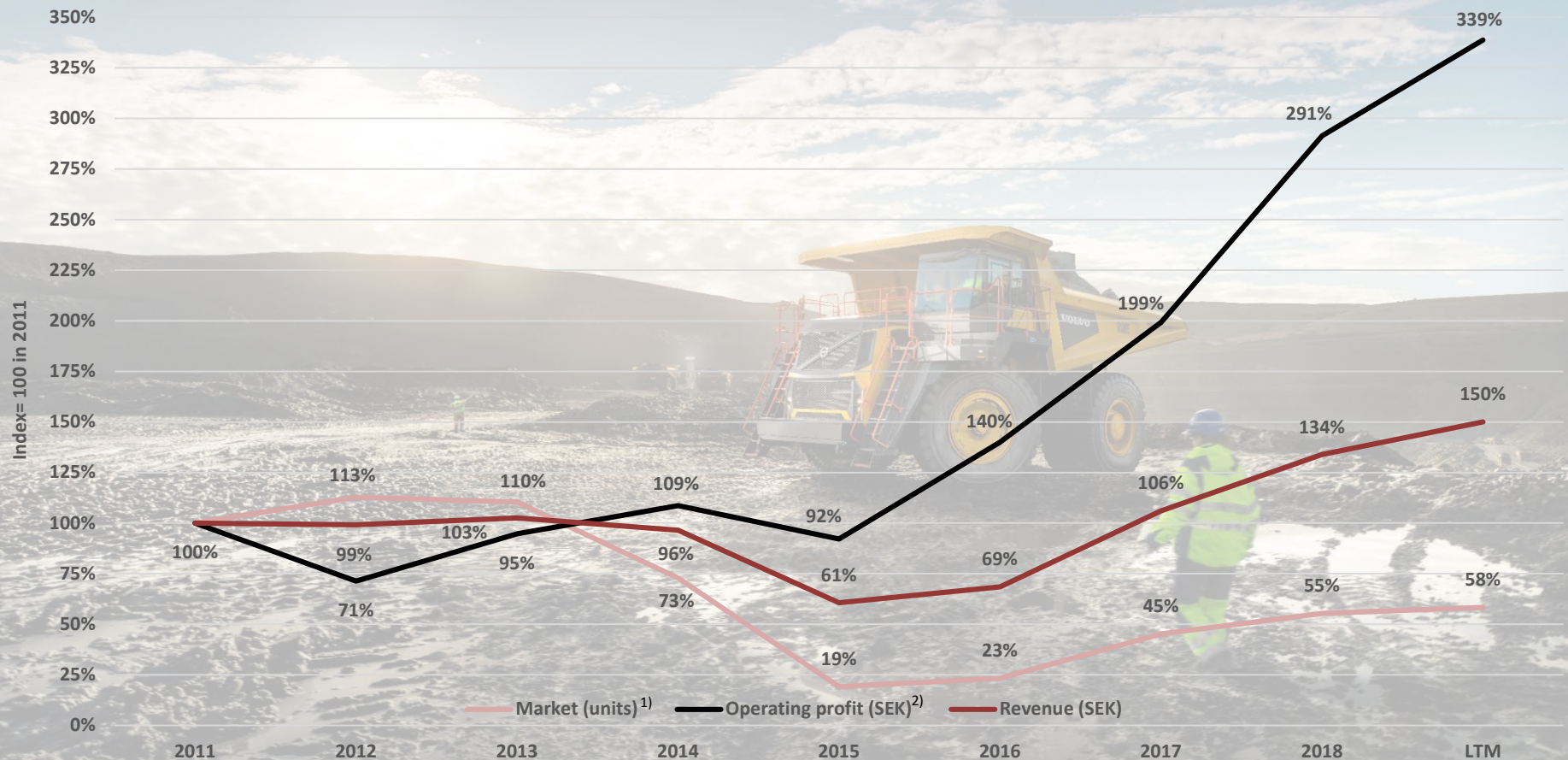
- Investment in remanufacturing centre for engines and gearboxes
 - Remanufacturing of engines and gearboxes for Volvo CE and Volvo and Renault Trucks
 - Components will be sold to customers with a warranty from Ferronordic or be installed in used machines in “Volvo Certified Rebuild” program
 - Some negative impact on profitability and cash flows expected in 2019 and 2020, with positive contribution from 2021
 - Total investment estimated at SEK 35m
 - Expected to contribute 3-5% of total sales over time
 - Opening expected by end of Q1 2020

Volvo and Renault trucks



- Authorised aftermarket dealer for Volvo and Renault trucks in parts of Russia
 - Currently operating in 10 locations
 - Platform capacity utilization
 - Scalability
 - Cross-selling and customer service
- New business launched in Q1 2019
 - Purchasing, restoring and selling used trucks
 - Mainly Volvo and Renault Trucks
 - Still small scale but with potential to grow to leverage current platform

Strong development despite low-level market

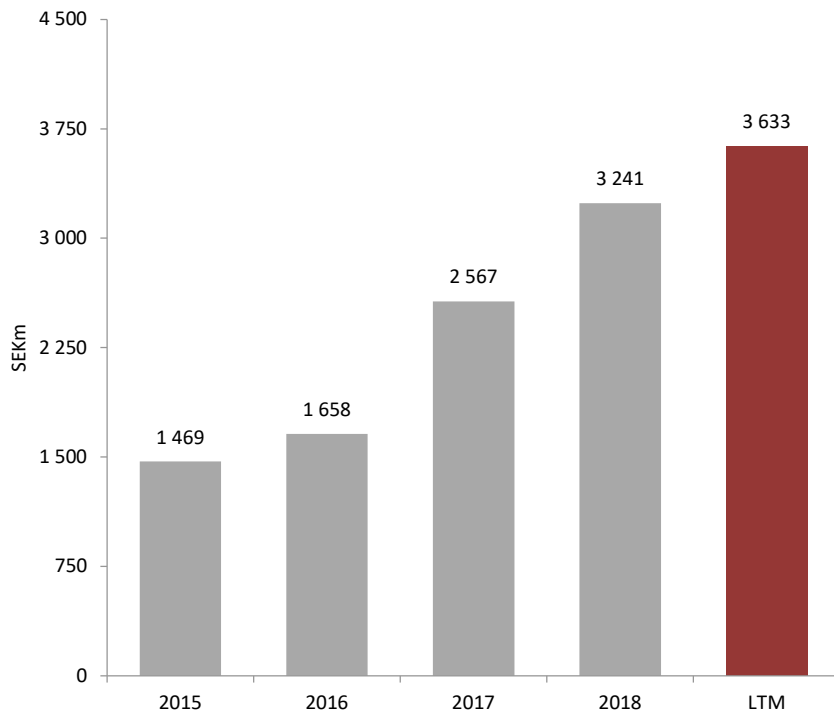


1) LTM refers to last twelve months as of end of May 2019.

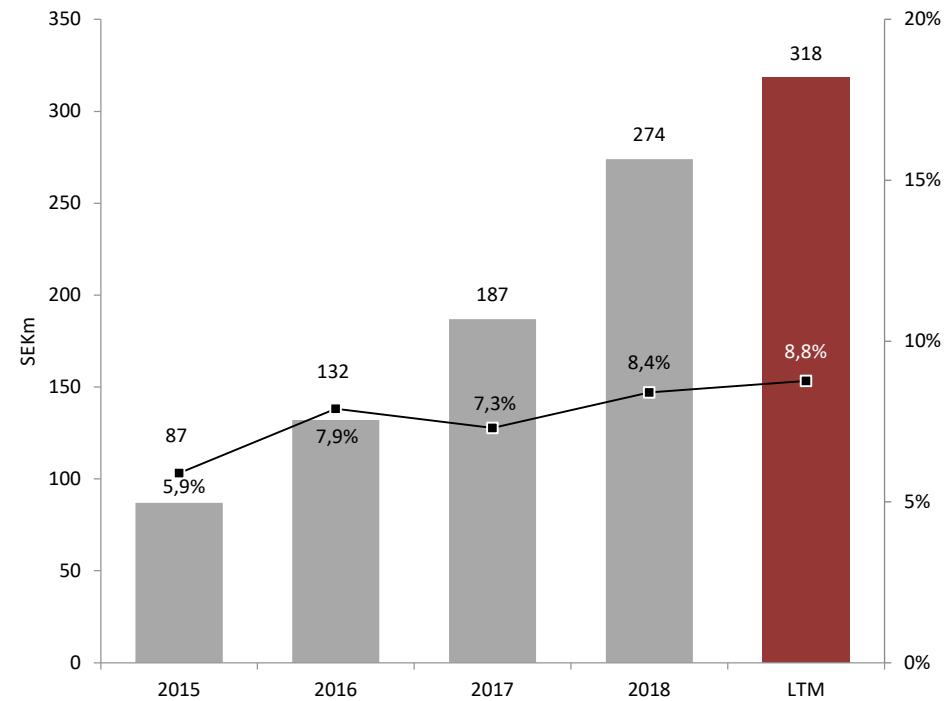
2) 2011-2016 refer to adjusted EBIT, i.e. operating profit excluding (i) amortization of transaction-related intangible assets and (ii) write-downs of non-current assets in Q4 2016.

Development of revenue and operating profit

Revenue



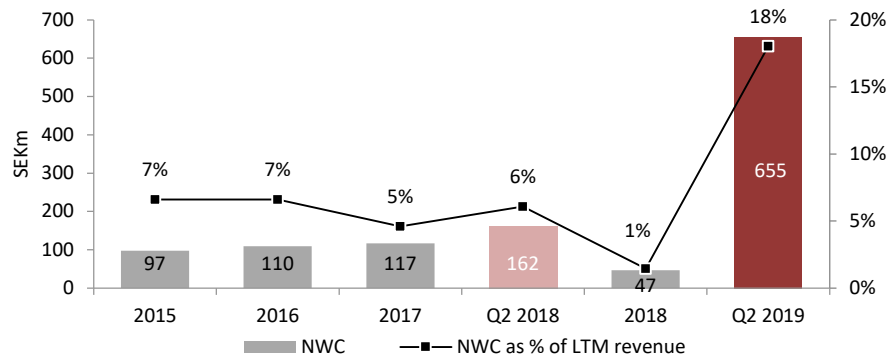
Operating profit and operating margin¹⁾



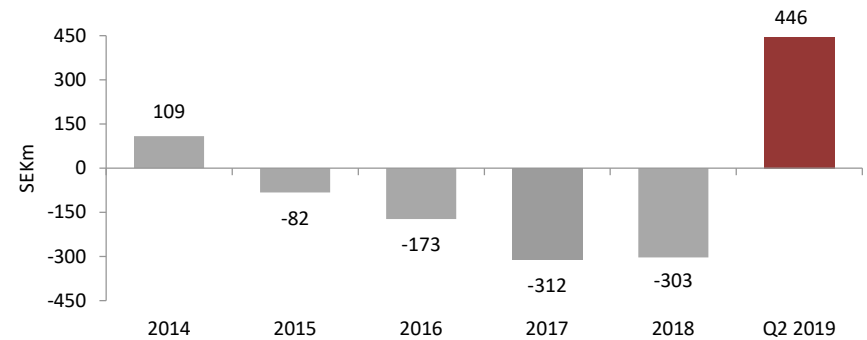
¹⁾ 2015-2016 refer to adjusted EBIT, i.e. operating profit excluding amortization of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

Cash flow and capital allocation

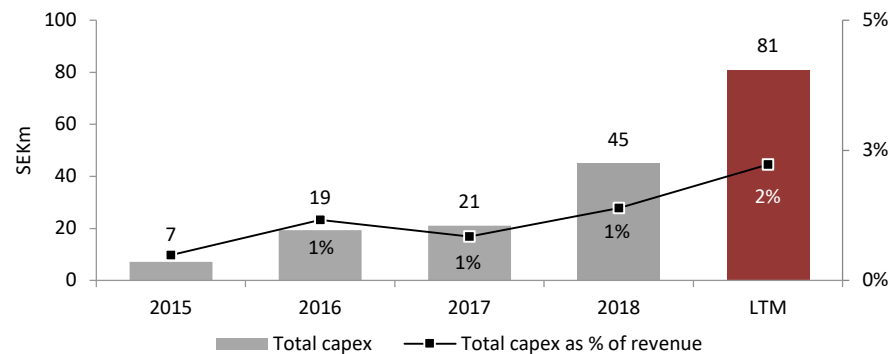
Working capital development



Net debt/(cash) development



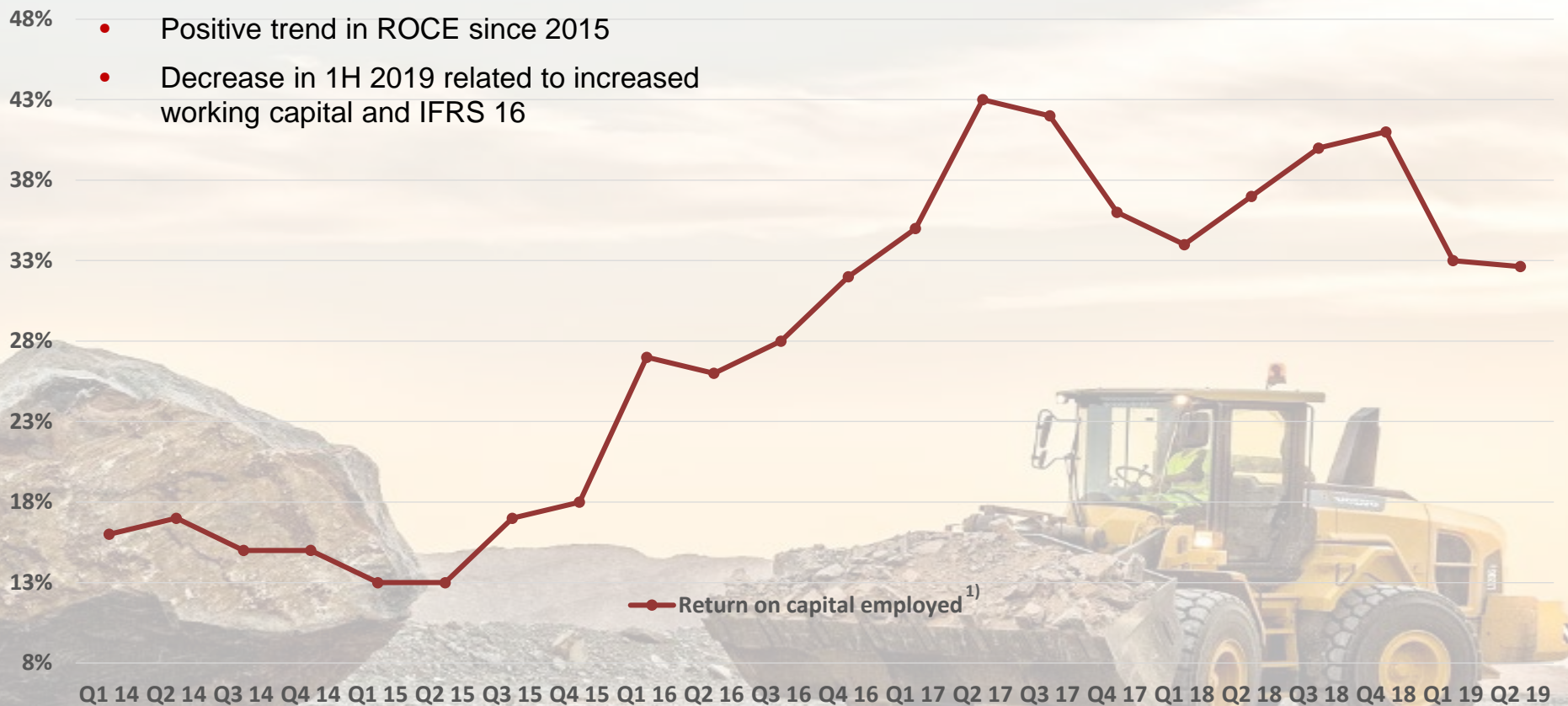
Capital expenditure development



Comments

- Focus on working capital efficiency and return on invested capital
- Asset light business model with limited capital expenditure
- Increased working capital in Q2 2019 due to inventory build-up, lower payables and increase in receivables
- Capex increase in 2019 mainly driven by investment in machines for contracting services
- Dividend of SEK 109m paid in May 2019
- IFRS 16 increased lease liabilities by SEK 76m
- Net debt/EBITDA at 1.1x as at Q2 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.

Financial objectives and dividend policy

KPI	Objective	LTM
Revenue	Triple 2016 revenue by 2021	More than 2 x 2016 revenue
Operating margin	7-9%	8.8%
Net Debt / EBITDA	0-2 x	1.1 x
Dividend Policy	<ul style="list-style-type: none"> • Ambition to distribute at least 25% of the result to shareholders • Board takes several factors into consideration when proposing the dividend level, including expansion opportunities, financial position and investment needs 	

Outlook CEO statement

We believe that the market will continue to expand somewhat during the rest of 2019, although not at the same pace as in 2017 and 2018. In a longer perspective, we remain optimistic that the long-term fundamentals in the machine markets in Russia and Kazakhstan are strong. Our optimism is supported by the so-called “national projects” that are being implemented, a program to boost Russia’s economy, inter alia through increased infrastructure investments.



Q2 2019 - another record-breaking quarter

- Highest revenue and best result in single quarter to-date
- Increased equipment sales amidst moderate market growth – continued market share gain
- Continued growth in aftermarket sales and contracting services

35%
revenue growth

44%
operating profit
growth

8.9%
operating margin

85%
EPS growth

Q2 Profit and loss

SEK MM	Q2 2019	Q2 2018	% Change SEK	% Change Local currency
New units sold	280	231		
Revenue	1,100	817	35%	29%
Gross Profit	221	158	40%	34%
<i>% Margin</i>	20.1%	19.3%		
Operating profit	98	68	44%	38%
<i>% Margin</i>	8.9%	8.3%		
Result	73	54	34%	28%
EPS	5.03	2.71	85%	77%
EBITDA	126	77	62%	56%

- Revenue up 35% (29% in RUB)
 - Equipment sales up 31%
 - Aftermarket sales up 13%
 - Other revenue up 322%
- Volume and average price growth
 - New units up 21%,
 - Average new price up 12%
 - Market growth estimated at 5%
- Gross margin supported by growth in contracting services
- SG&A up in SEK but lower as % of revenue (10.1% vs. 10.3% in Q2 2018)
- Operating margin grew to 8.9% and operating profit increased by 44%
- Higher interest cost against net FX gain
- Net income up 34%
- EBITDA positively impacted by IFRS 16

Cash flows

SEK MM	Q2 2019	Q2 2018
Cash flow before working capital	136	80
Cash flow from operating activities	(313)	58
<i>of which change in working capital</i>	<i>(404)</i>	<i>(17)</i>
Investing activities	(34)	1
Cash flows before Financing Activities	(346)	59
Financing activities	136	(112)
Cash Flow (before FX fluctuations)	(211)	(52)

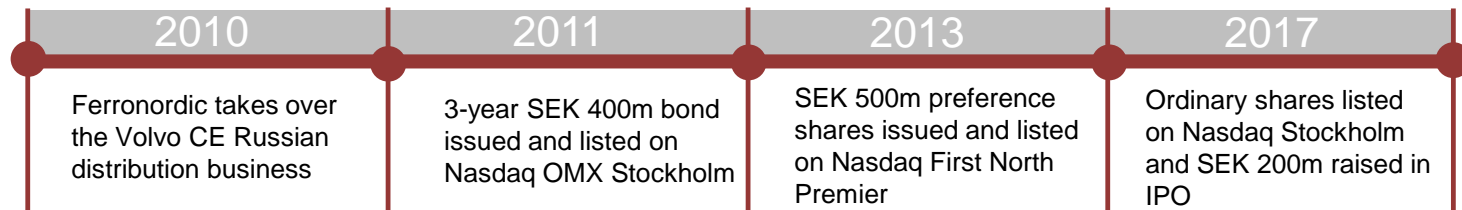
- Cash flows from operating activities decreased due to increased working capital
- Relatively high inventories partly due to seasonality, delayed disbursements in road construction, and ongoing transfer of importation
- Growth in sales contributed to higher receivables, while payables declined
- Capex increased mainly due to acquisition of machines for contracting services
- SEK 109m dividend paid in Q2 2019

Balance sheet

SEK MM	30 June 2019	30 June 2018
Cash & Cash Equivalent	189	250
Debt	462	-
Lease liabilities	173	46
Net Debt / (Cash)	446	(204)
Working capital	655	162
<i>% of LTM revenue</i>	<i>18%</i>	<i>6%</i>
Shareholders Equity	741	584
Total Assets	2,611	1,537
<i>Equity / Assets</i>	<i>28%</i>	<i>38%</i>

- Cash and equivalents declined to SEK 189m
- Debt increased mainly as a result of higher working capital, capex and dividend payment
- YoY increase in lease liabilities includes SEK 76m related to application of IFRS 16 from 1 Jan 2019
- Net debt increased to SEK 446m
- Working capital at 18% of revenue
- Working capital expected to return to lower levels as inventories decline

Ferronordic in the capital market



Ferronordic statistics

- Shares outstanding: 14,532,434
- Listing: Nasdaq Stockholm
- Market cap. as at 30 June 2019: SEK 2,144m
- Net debt as at 30 June 2019: SEK 446m
- Enterprise value: SEK 2,590m
- Estimated effective free float: 60%
- Dividend policy: 25% subject to Board consideration

Analyst coverage

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