



## Company presentation

November 2019



# Introduction to Ferronordic

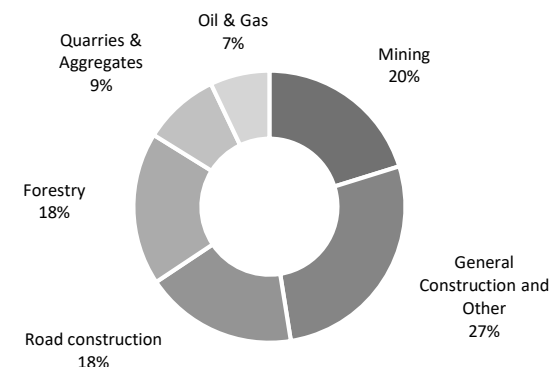
## Overview

- 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 (2014), Dressta (2016) and 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
- Intention to become dealer for Volvo Trucks and Renault Trucks in Germany
- Listed on Nasdaq Stockholm

## Development

	Start	LTM Q3 2019
Employees	~160	1,151
Revenue (SEKm) <sup>1)</sup>	1,184	3,806
Outlets	6	90

## New machine revenue per customer type (2018)

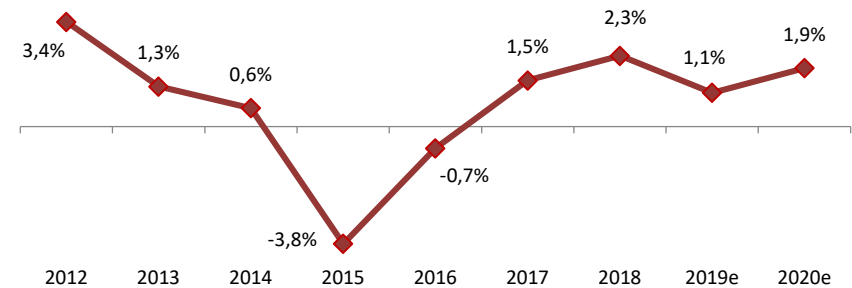


# Huge market at the edge of recovery

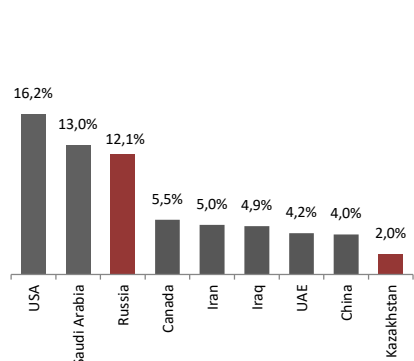
## Russia at a glance

- 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 541 billion<sup>2)</sup> in international currency reserves plus USD 108 billion in gold<sup>2)</sup>
- 11.8% government debt/GDP ratio (nominal 2018)

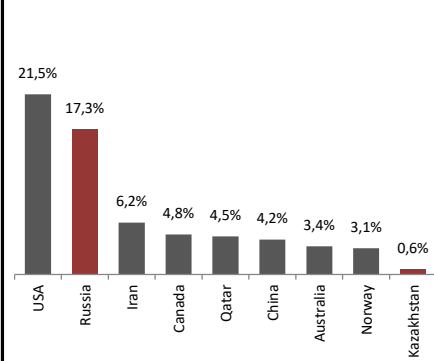
## Russia's GDP development<sup>5)</sup>



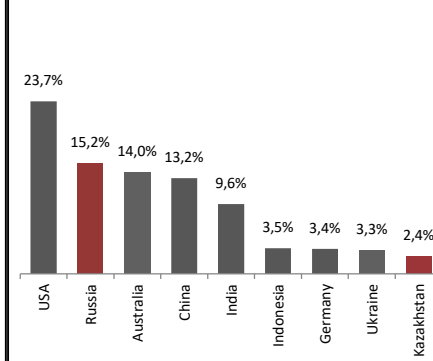
### Oil production (% of total)<sup>3)</sup>



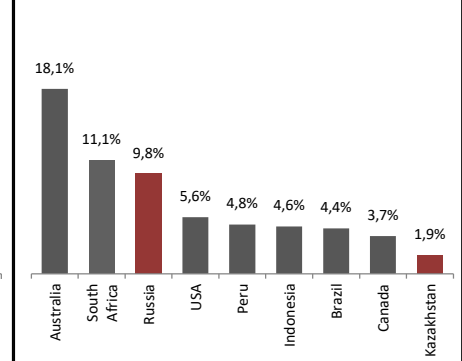
### Natural gas production (% of total)<sup>3)</sup>



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



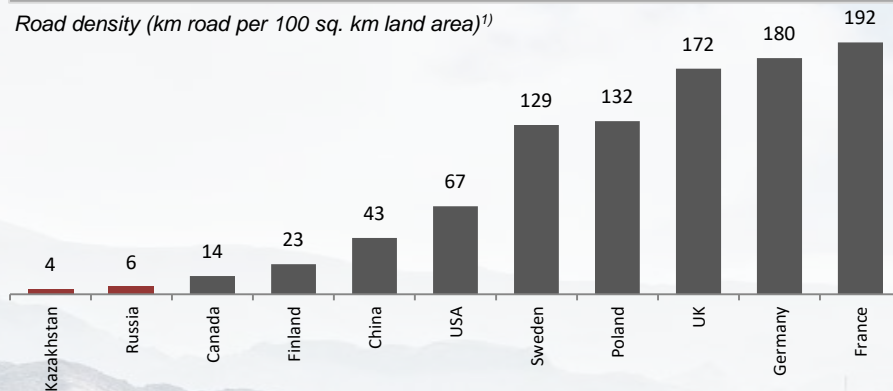
### Gold reserves (% of total)<sup>4)</sup>



# Significant need to improve infrastructure

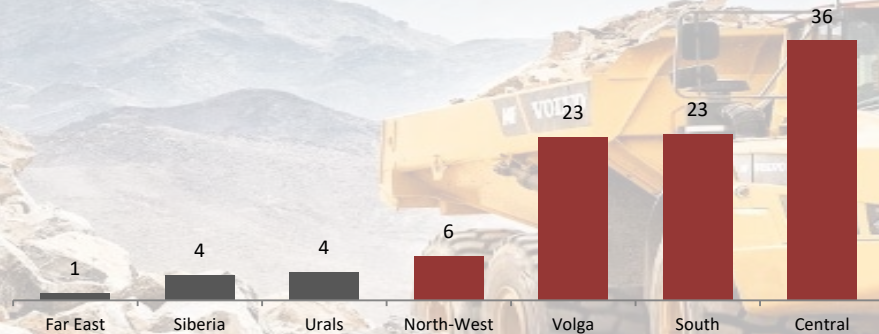
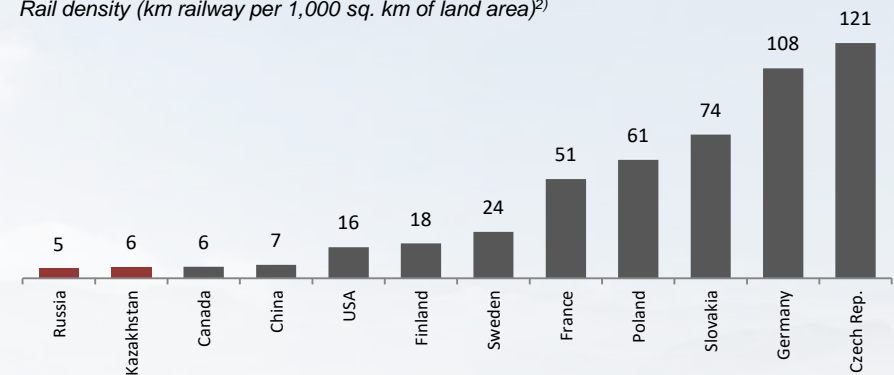
## Road density in Russia and Kazakhstan is low

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>

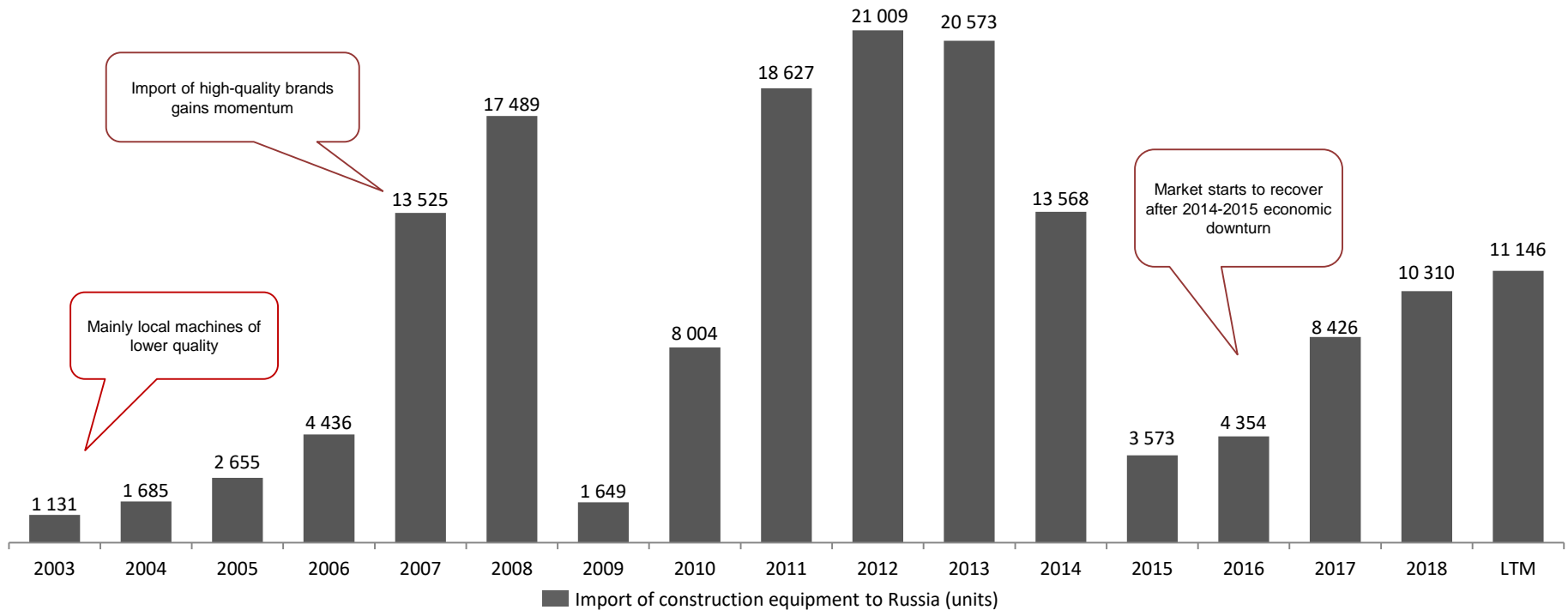


- Construction equipment market is expected to capitalize on the long-term growth in Russia and Kazakhstan
- An important driver will be the need to improve aging infrastructure, the bulk of which was built in the Soviet era and needs to be upgraded
- Russia is ranked 104 out of 140 countries in terms of road quality<sup>3)</sup>
- Kazakhstan is ranked 106 out of 140 in terms of road quality<sup>3)</sup>
- 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 and trucks

Expansion into related business areas

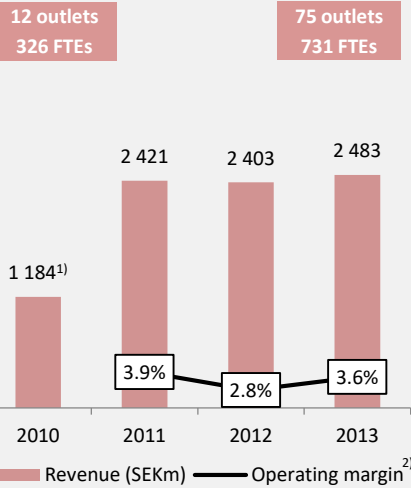
Aftermarket absorption rate of at least 1.0 x

Geographic expansion

Further development of contracting services

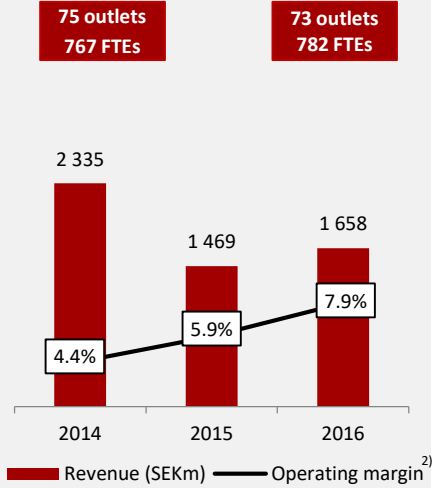
# Strategic development

2010-2013: Phase I – establishing platform



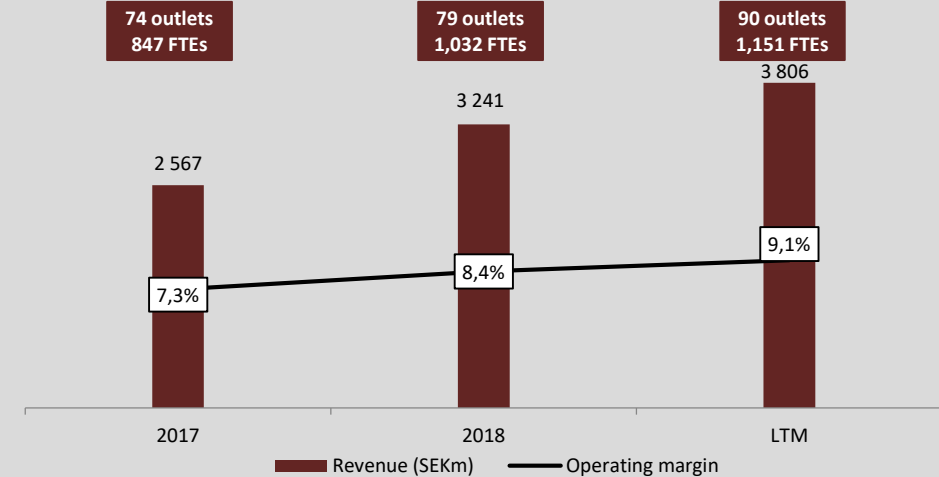
- Processes and procedures established
- Establishment of countrywide platform
- Building market awareness and market share

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







- 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



- ✓ 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)	Aftermarket	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% of 2018 revenue	~19% of 2018 revenue					

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

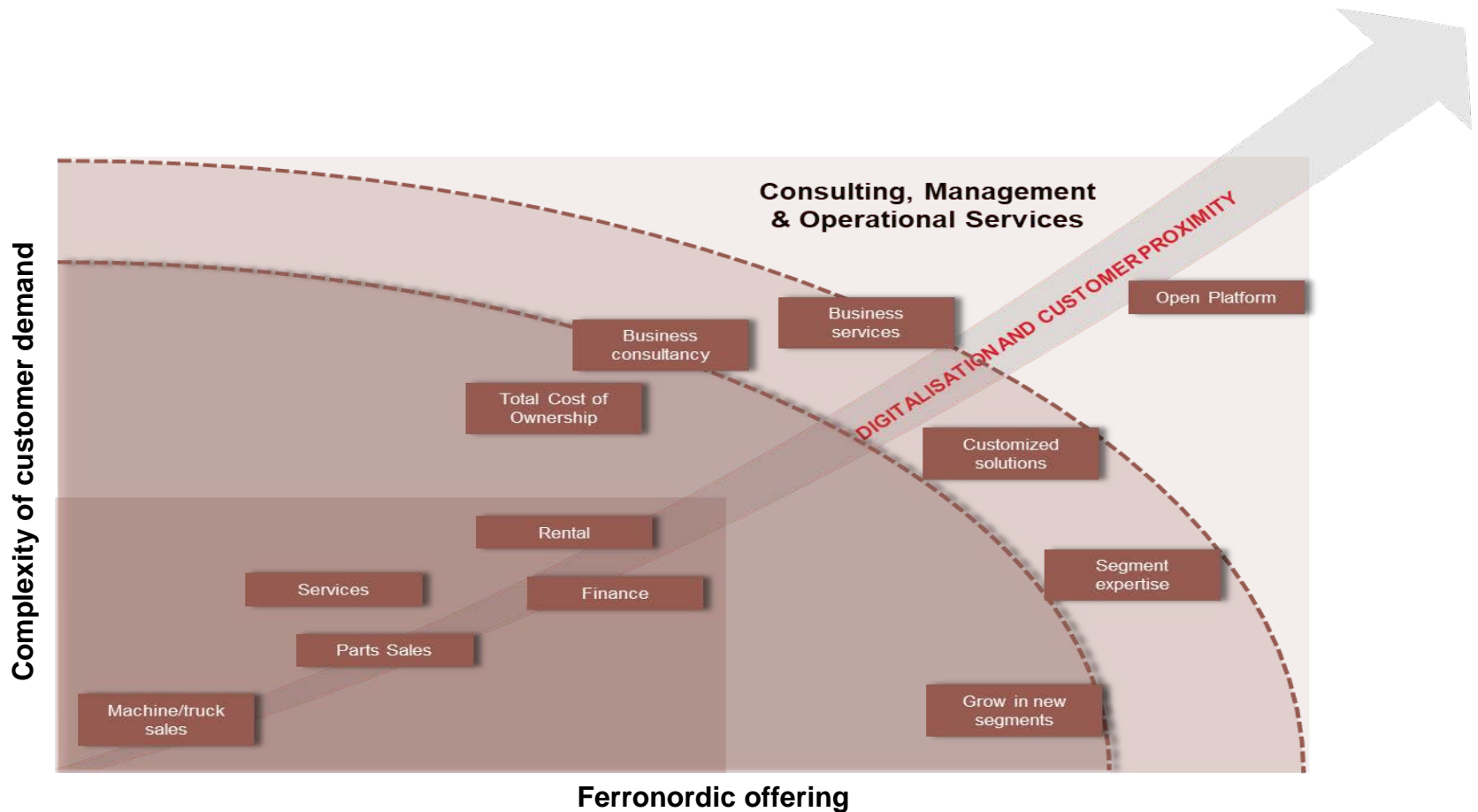


# Nationwide coverage



★ (90) Ferronordic outlets in Russia and Kazakhstan as of November, 2019

# Moving towards further customer integration



# Aftermarket focus

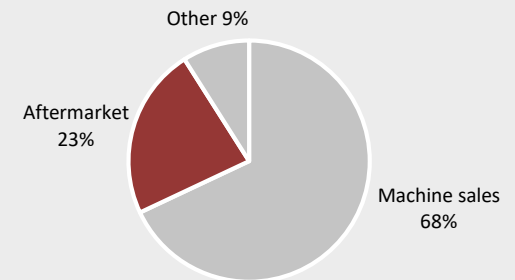
## Aftermarket sales

- 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 the sales staff
- Ferronordic's presence in all Russian regions allows for fast delivery of parts and excellent customer support

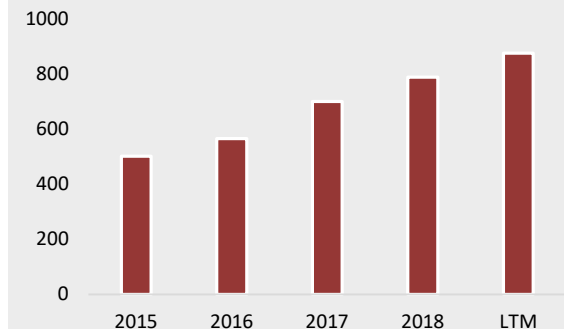
## Offering

- 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

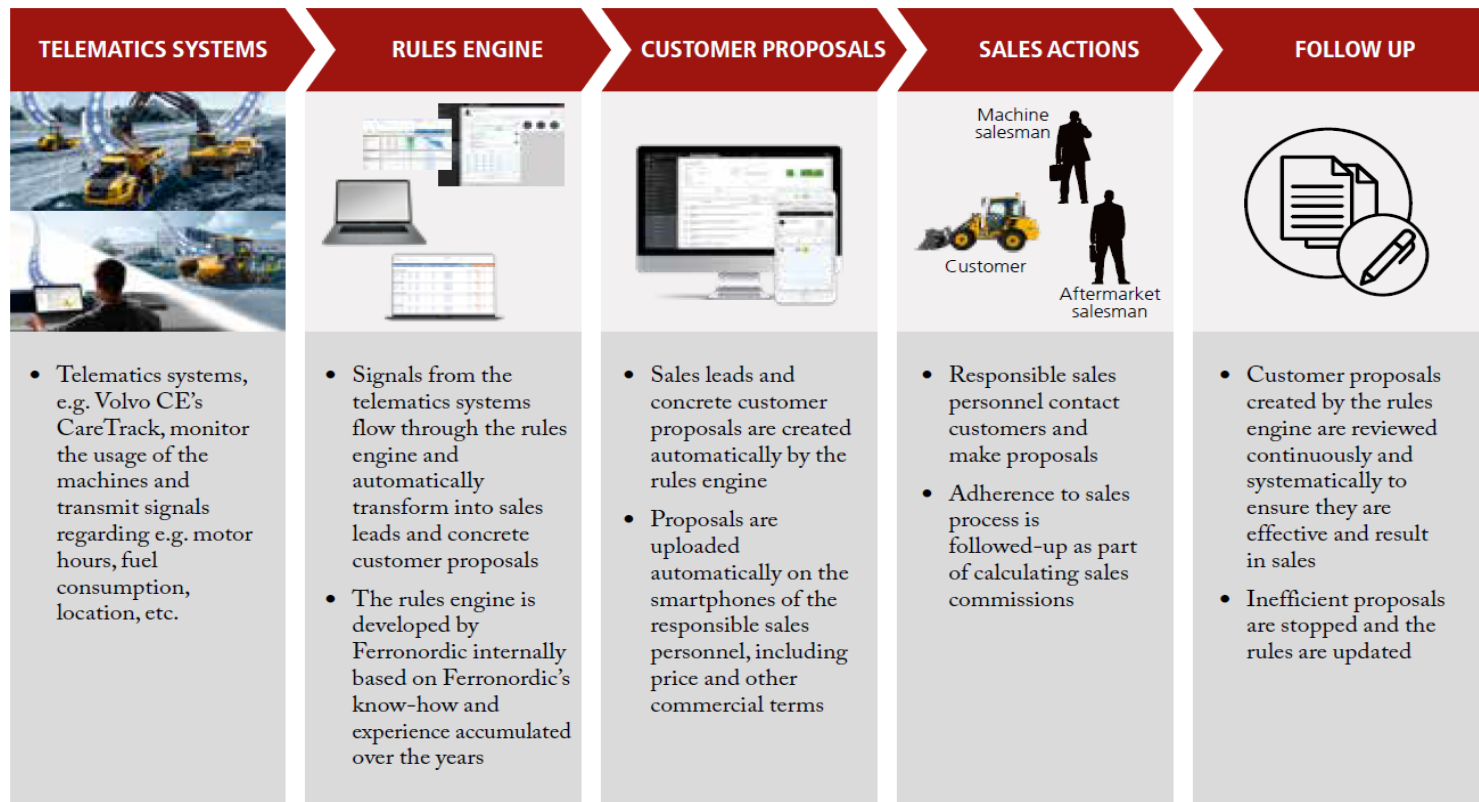
## Share of sales (LTM)



## 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	 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 – but we believe demand will grow
- Largest project to-date initiated in Q4 2018 – excavation and transportation at 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:** 132 people (as at end of September 2019)

**Fleet size:** 26 units (20 haulers, 1 grader, 5 excavators)



## Component rebuild centre



- Investment in component rebuild centre for engines and gearboxes
  - Rebuild 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
  - Cross-selling and customer service
- 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

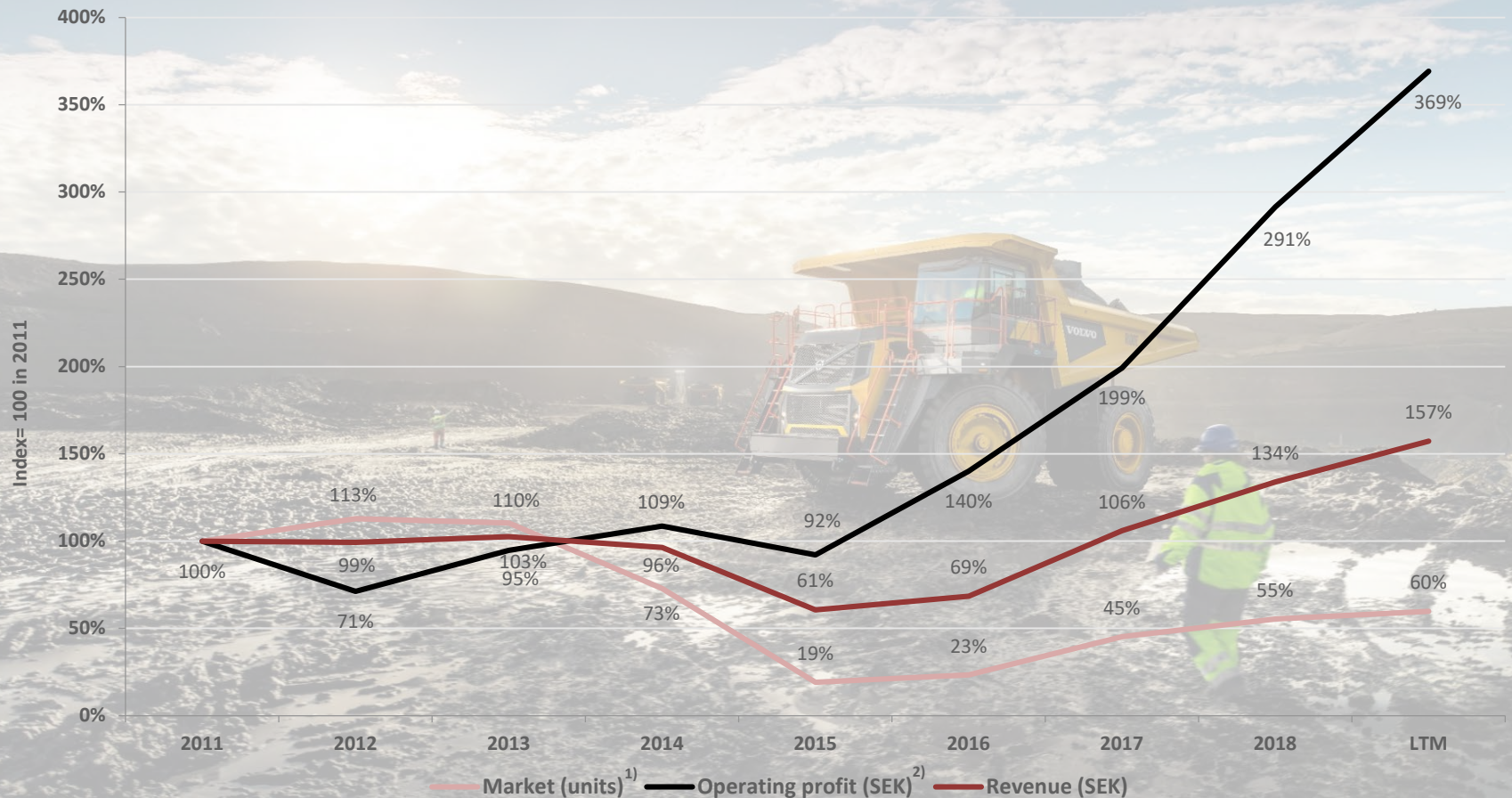


## Intention to expand into Germany



- Intention to become dealer for Volvo Trucks and Renault Trucks in Germany
- Ferronordic would take over operations at eleven locations in Germany through two transactions<sup>1)</sup>
- Sales area covering approx. 20% of the German market for heavy trucks
- Ferronordic to grow and improve network in area
- Potential to apply Ferronordic's business model to grow revenue and profitability
- Expansion is part of Ferronordic's strategic objective to grow into new markets and business areas

## Strong development despite low-level market

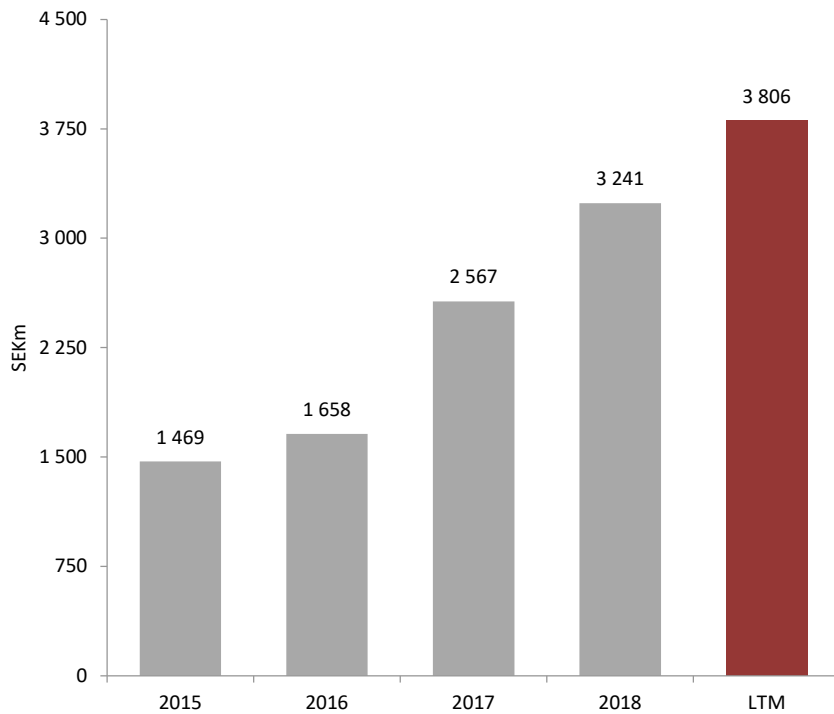


1) LTM refers to last twelve months as of end of September 2019.

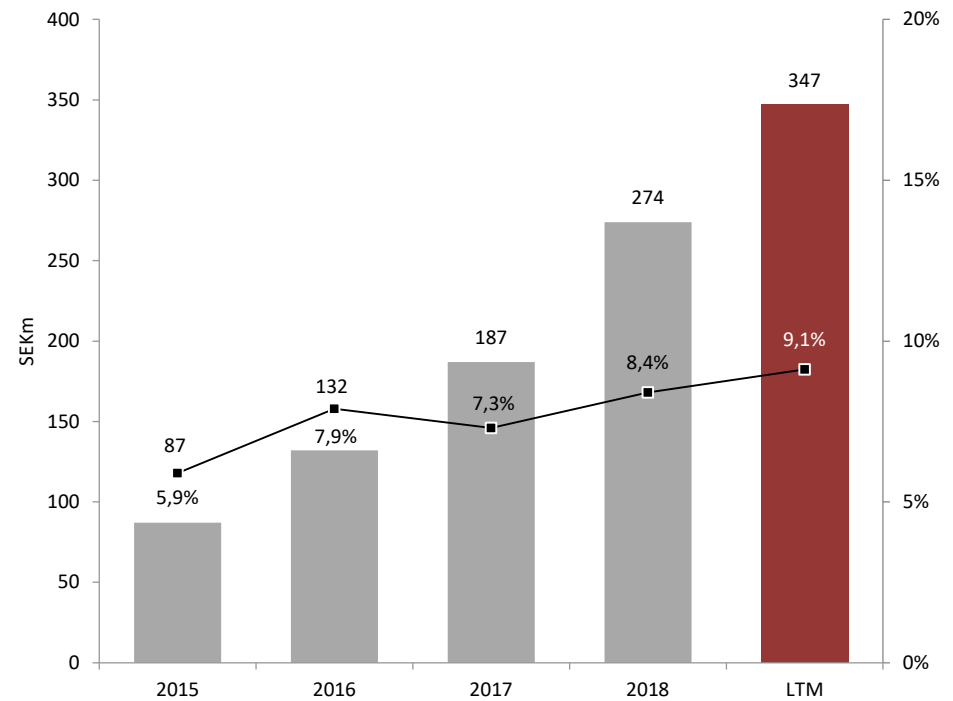
2) 2011-2016 refer to adjusted EBIT, i.e. operating profit excluding (i) amortization of transaction-related intangible assets and (ii) write-downs of non-current assets in Q4 2016.

# Development of revenue and operating profit

**Revenue**



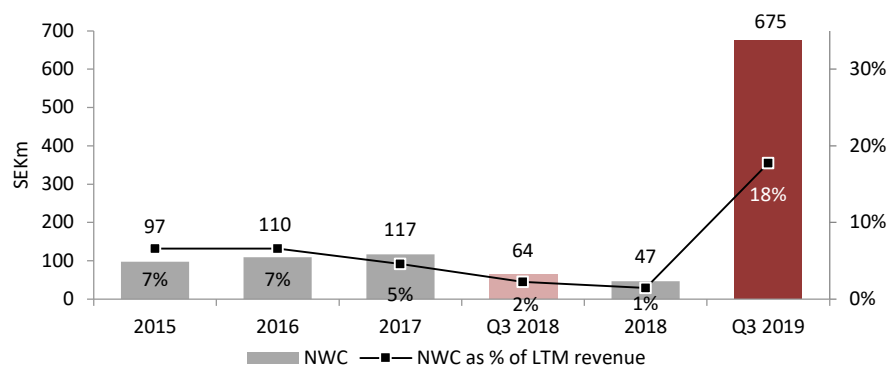
**Operating profit and operating margin<sup>1)</sup>**



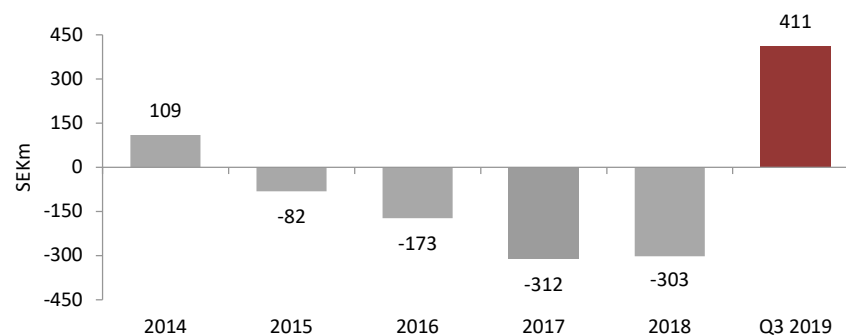
<sup>1)</sup> 2015-2016 refer to adjusted EBIT, i.e. operating profit excluding amortization of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

# Cash flow and capital allocation

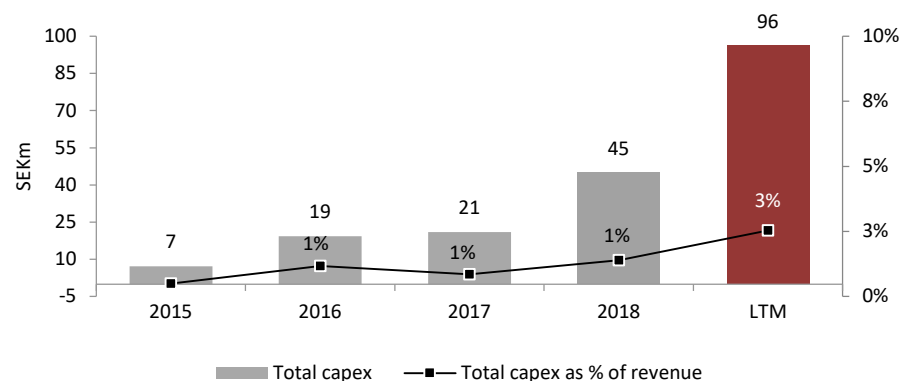
## Working capital development



## Net debt/(cash) development



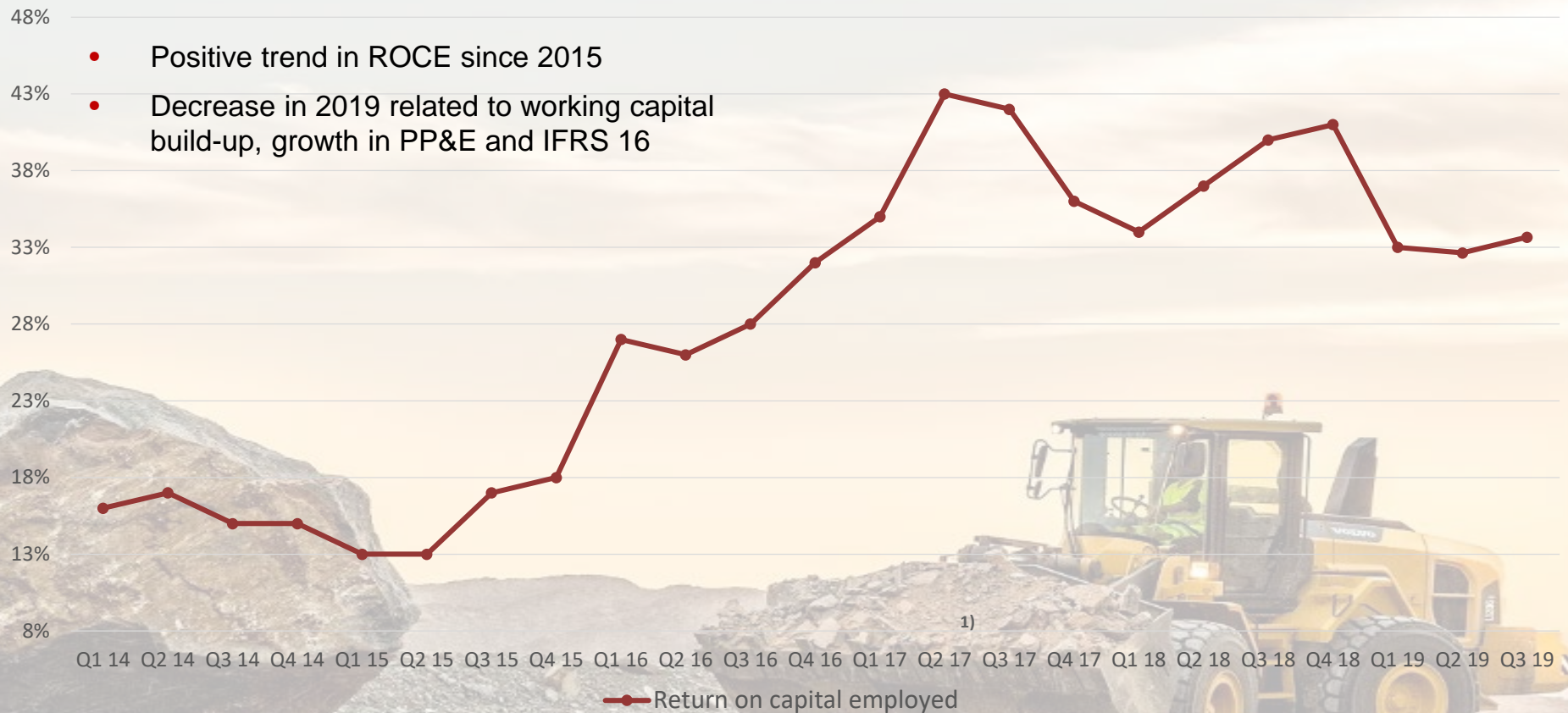
## Capital expenditure development



## Comments

- Focus on working capital efficiency and return on invested capital
- Asset light business model
- Increased working capital in 2019 mainly due to inventory build-up
- Capex increase in 2019 mainly driven by investment in machines for contracting services
- Ordinary and extraordinary dividend of SEK 109m paid in May 2019
- IFRS 16 increased lease liabilities by SEK 84m
- Net debt/EBITDA at 0.9x as at Q3 2019

## Return on capital employed



## Q3 Profit and loss

SEK MM	Q3 2019	Q3 2018	% Change SEK	% Change RUB
New units sold	242	238		
<b>Revenue</b>	<b>964</b>	<b>791</b>	<b>22%</b>	<b>12%</b>
<b>Gross Profit</b>	<b>206</b>	<b>160</b>	<b>29%</b>	<b>18%</b>
% Margin	21.4%	20.3%		
<b>Operating profit</b>	<b>109</b>	<b>80</b>	<b>36%</b>	<b>25%</b>
% Margin	11.3%	10.1%		
<b>Result</b>	<b>74</b>	<b>61</b>	<b>22%</b>	<b>12%</b>
EPS	5.09	4.17	22%	12%
EBITDA*	150	91	65%	52%

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

- Revenue up 22% (12% in RUB)
  - Equipment sales up 10%
  - Aftermarket sales up 13%
  - Other revenue up 224%
- Equipment sales: volume and average price
  - New units up 2%
  - Average new price up 8%
  - Market growth estimated at 5%
- Gross margin supported by growth in contracting services
- SG&A expenses as % of revenue at 10.0% in Q3 2019 vs. 9.9% in Q3 2018
- Operating margin grew to 11.3% and operating profit increased by 36%
- Higher interest cost against FX gain
- Net income up 22%

## Cash flows

SEK MM	Q3 2019	Q3 2018
<b>Cash flows from:</b>		
Cash flows from operating activities before changes in working capital	152	90
Change in working capital	(6)	36
Interest & Income tax paid	(51)	(23)
<b>Net cash from operating activities</b>	95	104
Investing Activities	(21)	(5)
<b>Cash Flow before Financing Activities</b>	74	99
Financing Activities	(51)	(6)
<b>Cash Flow (before FX fluctuations)</b>	23	93

- Cash flow from operations before working capital changes improved on higher revenue and margins
- Change in working capital had negative effect on cash flows despite lower inventory and receivables due to a decline in payables
- Higher tax and interest payments negatively impacted cash flows
- Capex increased mainly due to investments in contracting services and service vans for mechanics
- Cash flows from financing activities decreased due debt repayments

## Balance sheet

SEK MM	30 September 2019	30 June 2019	30 September 2018
Cash & Cash Equivalent	210	189	338
Debt	397	462	0
Lease liabilities	224	173	40
<b>Net Debt / (Cash)</b>	<b>411</b>	<b>446</b>	<b>(298)</b>
Working capital	675	655	64
<i>% of Revenue</i>	18%	18%	2%
Shareholders Equity	837	741	614
Total Assets	<b>2,343</b>	<b>2,611</b>	<b>1,619</b>
<i>Equity / Assets</i>	36%	28%	38%

- YoY net debt increased mainly as a result of higher working capital, capex and dividend payment
- Working capital grew on higher inventories, partly related to taking over importation from Volvo, and an increase in receivables, on higher sales
- Transition of importation was completed in 3Q 2019 with the purchase of the residual VCE parts inventory in Russia
- Increase in lease liabilities includes SEK 84m related to application of IFRS 16 from 1 Jan 2019
- QoQ debt declined as operational cash flows was used to repay borrowings. As a result, net debt decreased to SEK 411m
- Working capital at 18% of revenue.
- Working capital and net debt are expected to return to lower levels



## Financial objectives and dividend policy

KPI	Objective	Revised objective	LTM 3Q 2019
Revenue	Triple 2016 revenue by 2021	Triple 2016 revenue in Russia and CIS by 2021	More than 2 x 2016 revenue
Operating margin	7-9%	6-8%	9.1%
Net Debt / EBITDA	0-2 x	0-2 x	0.9 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 forward into the rest of 2019 and 2020, we believe that the market will continue to recover at about the same pace as previously in 2019, with potential for additional growth if the implementation of the so-called National Projects picks up speed. In a longer perspective, we remain optimistic as the long-term fundamentals in the machine markets in Russia and Kazakhstan are strong.”*



## Positive development continues

*Growth in contracting services boosts revenue and margins*

*Best operating result to-date for a single quarter*

*Improving cash flows and declining inventory*

*Intention to expand into Germany*

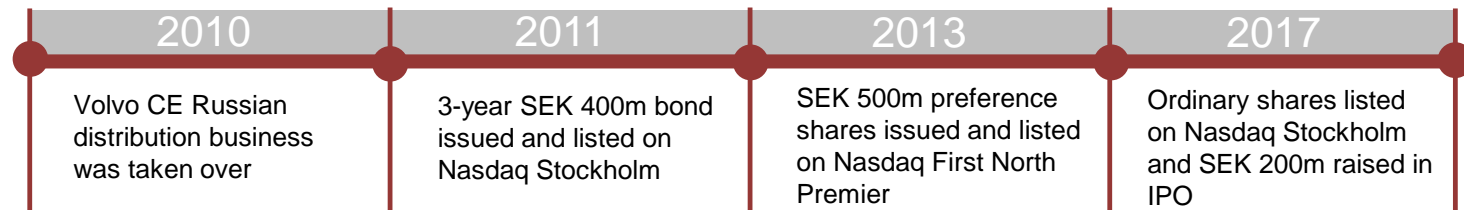
**22%**  
revenue growth

**36%**  
operating profit  
growth

**11.3%**  
operating margin

**22%**  
EPS growth

# Ferronordic in the Capital Market



## Ferronordic statistics

- Shares outstanding: 14,532,434
- Listing: Nasdaq Stockholm
- Market cap. as at 30 September 2019: SEK 1,933m
- Net debt as at 30 September 2019: SEK 411m
- Enterprise value: SEK 2,344m
- Estimated effective free float: 60%
- Dividend policy: 25% subject to capital allocation alternatives

## Analyst coverage

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