FERRONORDIC

Q3 2019

22 November 2019

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

Best Q3 to-date

- Revenue of SEK 964m
  - Best Q3 to-date and 22% higher than Q3 2018
  - Equipment sales up 10%
  - Aftermarket up 13%
  - Other revenue up 224% (mainly contracting services)
- Operating profit increased 36% and net income 22%
  - Record operating profit, up 36% on Q3 2018
  - SG&A expenses to revenue of 10.0% vs. 9.9% in Q3 2018
  - Operating margin 11.3%

SEK 964m (+22%)
Revenue

SEK 109m (+36%)
operating profit

11.3%
operating margin

Growing aftermarket and contracting services

- Continued aftermarket growth driven by:
  - Digital sales support
  - Volvo and Renault Trucks

13%
increase in aftermarket sales

- Growth in contracting services
  - Other revenue driven by contracting services
  - Ramp-up of our biggest project in H1 2019 delivers results
  - Further investments in machines for contracting services

224%
growth in other revenue
(mainly contracting services)

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Business development

- Roll-out in Kazakhstan continues as planned
  - 7 locations established
  - Continued expansion of local sales and service organization

Continued roll-out in Kazakhstan

- Investment in component rebuild center proceeding
  - On track for opening Q1 2020
  - Rebuild of engines and gearboxes

Investment in component rebuild center

- Continued investment into contracting services

Intention to expand into Germany

- Intention to become dealer for Volvo Trucks and Renault Trucks in Germany
- Ferronordic to take over operations at 11 locations in Germany through two transactions[1)]
- Sales area covering approx. 20% of 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 objectives to expand geographically and to expand into related business areas

1) For more details, please refer to press-releases on 12 September and 7 October 2019 at https://ferronordic.com/investors/

Economic development in Russia and Kazakhstan

- Russia's economy continued to recover, albeit at a modest pace
  - 1.1% GDP growth expected in 2019[1)]
  - 1.9% GDP growth expected in 2020[1)]
- Inflation at 4.0% in September, down from 4.3% in August and 5.3% in March
- Central bank cut key rate from 7.25% to 6.50%
- RUB strengthened 8% vs SEK in Q3 2019 (on average rate)
- Some progress on "National Projects"
- Kazakhstan's economy continues to grow
  - September YTD GDP growth of 4.3%
  - 3.5% GDP growth expected 2019[2)]

Russian September inflation down to 4.0%

Key Rate decreased from 7.25% to 6.50%[3)]

1) https://www.imf.org/en/Countries/RUS
2) https://www.imf.org/en/Countries/KAZ
3) https://www.cbr.ru/eng/hd_base/KeyRate/

Q3 Profit and loss

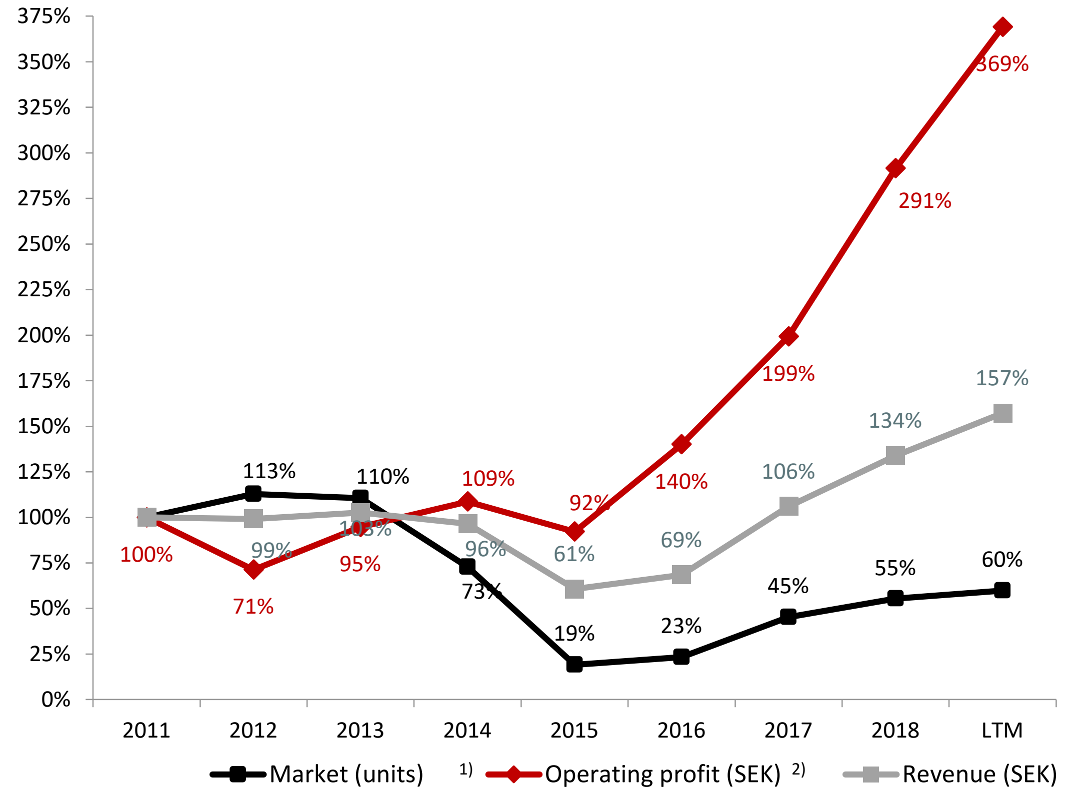
SEK MM	Q3 2019	Q3 2018	% Change SEK	% Change RUB
New units sold	242	238		
Revenue	**964**	**791**	**22%**	**12%**
Gross Profit	**206**	**160**	**29%**	**18%**
% Margin	*21.4%*	*20.3%*		
Operating profit	**109**	**80**	**36%**	**25%**
% Margin	*11.3%*	*10.1%*		
Result	**74**	**61**	**22%**	**12%**
EPS	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%

Market remains at low levels

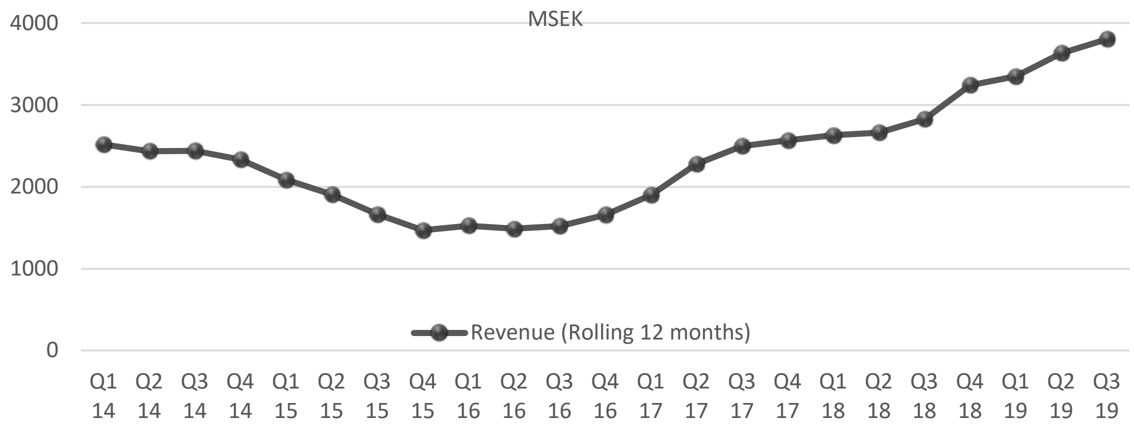
- Number of imported machines to Russia 60% of 2011 level and 53% of 2012 level
- Revenue 57% higher than 2011
- Operating profit 269% higher than 2011
- Growth in aftermarket and other revenue share
- Contracting services boost other revenue

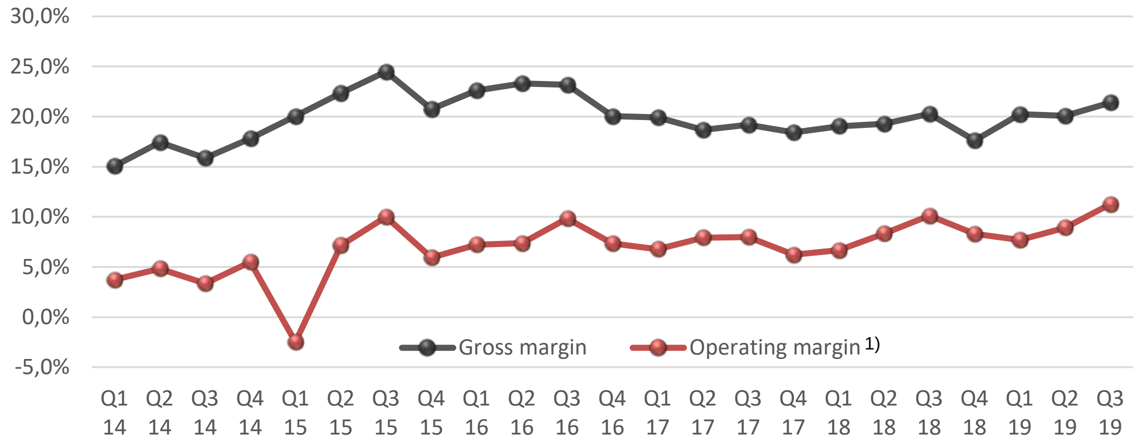


1) LTM refers to last twelve months as of end of September 2019.
2) 2011-2016 refer to adjusted EBIT, i.e. operating profit excluding amortisation of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

Revenue and margin development

- 13th consecutive quarter with YoY revenue growth
  - Record revenue in Q3 2019
  - All-time high operating profit and net income
  - Strong performance across business areas
- Q3 2019 gross margin improvement supported by growth in contracting services
- Q3 2019 operating margin up 1.1pp to 11.3%

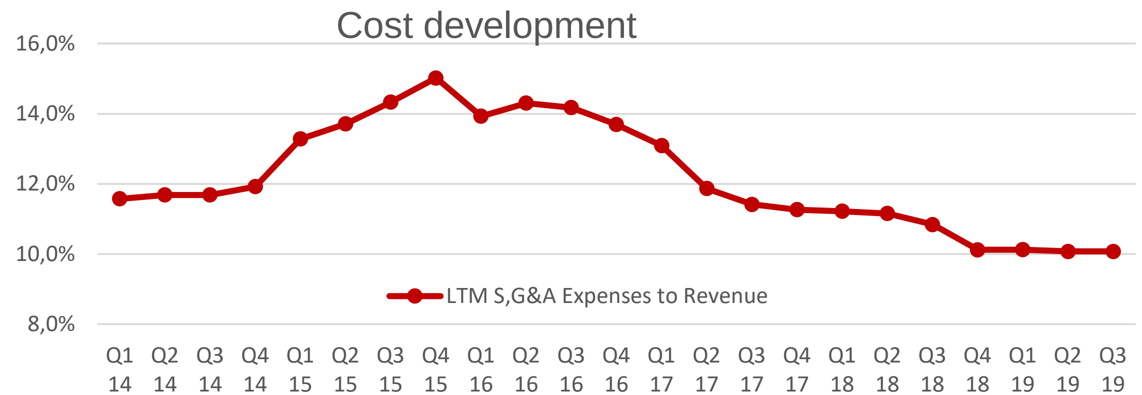




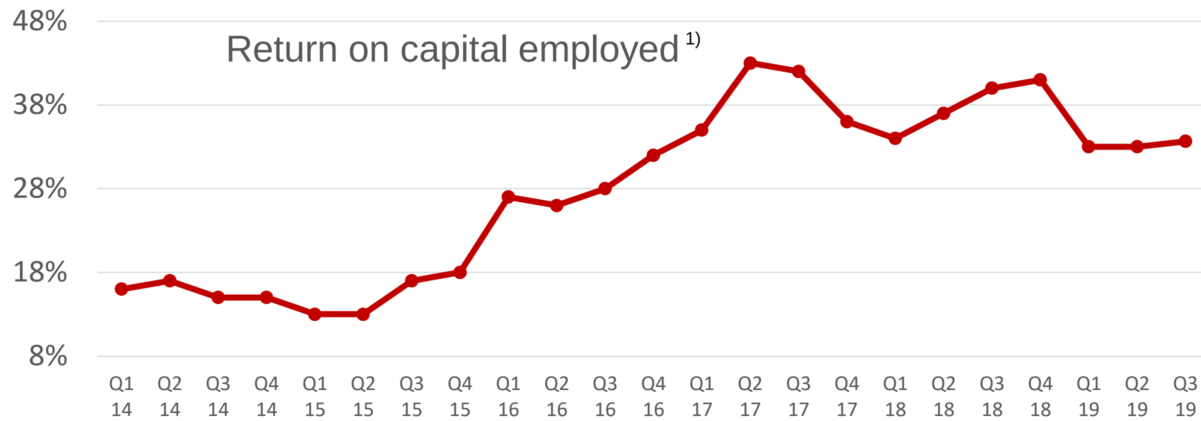
1) 2014-2016 refer to adjusted EBIT, i.e. operating profit excluding amortization of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

Development of cost and return on capital employed

- Efficient use of organisation
  - LTM SG&A expenses to revenue down by 0.7pp YoY to 10.1%



- ROCE of 34% in 3Q 2019
- Decrease in ROCE[1)] in 9m 2019 mainly related to working capital build-up and IFRS 16



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 amortisation of transaction-related intangible assets and write-downs of non-current assets in Q4 2016.

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Cash flows

SEK MM	Q3 2019	Q3 2018
Cash flows from:		
Cash flows from operating activities before changes in working capital	152	90
Change in working capital	(6)	36
Interest & Income tax paid	(51)	(23)
Net cash from operating activities	95	104
Investing Activities	(21)	(5)
Cash Flow before Financing Activities	74	99
Financing Activities	(51)	(6)
Cash Flow (before FX fluctuations)	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
Net Debt / (Cash)	**411**	**446**	**(298)**
Working capital	675	655	64
% of Revenue	*18%*	*18%*	*2%*
Shareholders Equity	837	741	614
Total Assets	**2,343**	**2,611**	**1,619**
Equity / Assets	*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

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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	• 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		

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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.”

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Q & A