

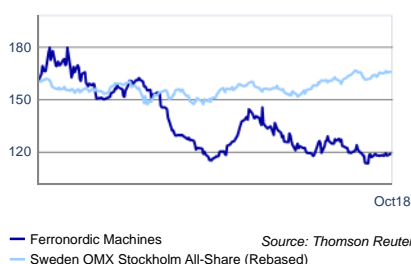
# Ferronordic Machines

Capital Goods  
Sweden

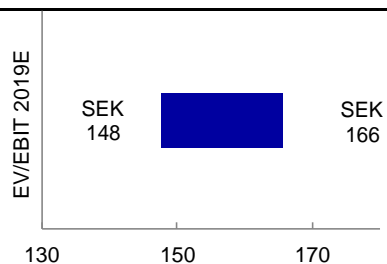
## KEY DATA

|                     |                    |
|---------------------|--------------------|
| Stock country       | Sweden             |
| Bloomberg           | FNM SS             |
| Reuters             | FNMA.ST            |
| Share price (close) | SEK 120.0          |
| Free Float          | 84%                |
| Market cap. (bn)    | EUR 0.17/SEK 1.74  |
| Website             | www.ferronordic.ru |
| Next report date    | 09 Nov 2018        |

## PERFORMANCE



## VALUATION APPROACH



## ESTIMATE CHANGES

| Year       | 2018E | 2019E | 2020E |
|------------|-------|-------|-------|
| Sales      | n.a.  | n.a.  | n.a.  |
| EBIT (adj) | n.a.  | n.a.  | n.a.  |

Source: Nordea estimates

### Nordea Markets - Analysts

Carl Ragnerstam  
Analyst

Agnieszka Vilela  
Senior Analyst

## Paving the road to success

Ferronordic is a premium construction equipment dealer with a focus on the Russian market. With strong brands including Volvo CE, Ferronordic has historically realised strong top-line and EBIT growth, which we expect to continue. We estimate 2017-20 sales and EBIT CAGRs of 11.3% and 15.6%, respectively. In addition, the company has a solid net cash position, which we believe will be used to expand the business geographically and distribute a healthy dividend.

### Russian infrastructure will drive market growth

Russia's infrastructure has been heavily underinvested, which should leave the door open for solid demand in construction equipment machinery in the years ahead. As stated in budgets and the latest decree by the Russian parliament, infrastructure will be prioritised over the next four years. In addition, the recent recession created pent-up demand for new equipment – the company calculates at least 60,000 units – which could be released over the next couple of years. We estimate that the market will have 13,000 machines in 2020, corresponding to a CAGR of 15% (2017-20). We believe that Ferronordic will retain its market shares and enjoy a couple of years of strong organic growth.

### Strong balance sheet making room for allocation

Ferronordic has an asset-light business model, which helps to keep its strong cash flows and create a net cash position of over SEK 300m in 2018E. We believe it is essential for a company to be well-capitalised when operating in a fluctuating industry, although capital allocation cannot be neglected. Given Ferronordic's history of strong growth, we believe management is actively working to expand the business, either geographically or via new products, while still distributing a solid dividend.

### Substantial discount to peers and attractive FCF yield

Ferronordic trades at an adjusted EV/EBIT of 6.3x for 2018E and 5.0x for 2019E, corresponding to a discount of 43% and 45%, respectively, compared with a weighted average peer group median of 11.1x and 9.0x. We believe the discount is a function of various factors, including the somewhat higher risk of Ferronordic's business model and its exposure to the Russian market, ie higher market risk. On the other hand, we expect Ferronordic to grow substantially faster than the peer group average, with a solid balance sheet and ~500 bp higher FCF yield. We base our fair value on a relative valuation approach where we use a weighted 2019E EV/EBIT multiple between our two peer groups. Based on this relative valuation approach, we estimate a fair value range of SEK 148-166.

## SUMMARY TABLE - KEY FIGURES

| SEKm                     | 2014  | 2015  | 2016     | 2017  | 2018E | 2019E | 2020E |
|--------------------------|-------|-------|----------|-------|-------|-------|-------|
| Total revenue            | 2,335 | 1,469 | 1,658    | 2,567 | 2,972 | 3,263 | 3,537 |
| EBITDA (adj)             | 172   | 130   | 153      | 214   | 259   | 291   | 321   |
| EBIT (adj)               | 102   | 87    | 132      | 187   | 227   | 260   | 290   |
| EBIT (adj) margin        | 4.4%  | 5.9%  | 7.9%     | 7.3%  | 7.6%  | 8.0%  | 8.2%  |
| EPS (adj)                | -0.53 | -0.10 | 5.16     | 8.06  | 11.86 | 13.68 | 15.33 |
| EPS (adj) growth         | 92.9% | 81.9% | 5,511.9% | 56.1% | 47.1% | 15.4% | 12.0% |
| DPS (ord)                | 0.00  | 0.00  | 0.00     | 1.73  | 3.50  | 4.00  | 4.50  |
| EV/Sales                 | n.a.  | n.a.  | n.a.     | 0.5   | 0.5   | 0.4   | 0.3   |
| EV/EBIT (adj)            | n.a.  | n.a.  | n.a.     | 7.0   | 6.3   | 5.0   | 3.9   |
| P/E (adj)                | n.a.  | n.a.  | n.a.     | 18.7  | 10.1  | 8.8   | 7.8   |
| P/BV                     | n.a.  | n.a.  | n.a.     | 2.6   | 2.6   | 2.1   | 1.8   |
| Dividend yield (ord)     | n.a.  | n.a.  | n.a.     | 1.1%  | 2.9%  | 3.3%  | 3.8%  |
| FCF Yield bef acq & disp | n.a.  | n.a.  | n.a.     | 8.8%  | 5.9%  | 10.9% | 12.2% |
| Net debt                 | 109   | -81   | -173     | -312  | -313  | -451  | -606  |
| Net debt/EBITDA          | 0.6   | -0.6  | -1.1     | -1.5  | -1.2  | -1.6  | -1.9  |
| ROIC after tax           | 14.2% | 18.3% | 39.2%    | 49.2% | 50.6% | 51.6% | 55.9% |

Source: Company data and Nordea estimates

# Factors to consider when investing in Ferronordic Machines

Russia's infrastructure is heavily underinvested, which should create solid demand for construction equipment machinery in the years ahead. As stated in budgets and the latest decree dictated by the Russian parliament, infrastructure will be prioritised over the next four years. In addition, the recent recession created pent-up demand for new equipment, amounting to at least 60,000 units, which could be released over the next couple of years. In addition to these market dynamics, Ferronordic Machines has a high and fast-growing proportion of aftermarket sales, limiting the downside risk and supporting the gross margin. We estimate 2017-20E revenue and EBIT CAGRs of 11.3% and 15.6%, respectively, well above the average for the key peer group. We see further upside to our estimates from geographical expansion, which would mitigate the market risk and create further growth potential.

The heavy underinvestment in infrastructure should be a market growth driver going forward, with support from the recent May decree

Large infrastructure projects under construction include:

- 1) A central ring road around Moscow
- 2) A 700 km railway across Siberia
- 3) Rebuilding of 7,900 apartments in central Moscow
- 4) A high-speed railway with 700 km track length

## Underinvestment in Russian infrastructure set to drive market growth

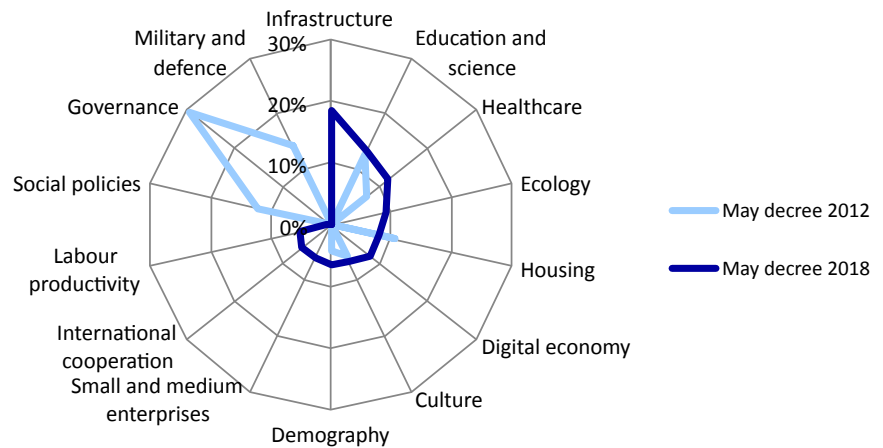
Russia's infrastructure is heavily underinvested and dates back to the Soviet era. According to a study by the World Economic Forum, the country ranks no. 75 based on the quality of its infrastructure. This is comparable with countries such as Egypt, Iran and Botswana. When examining the country's current infrastructure projects, we note several major projects currently ongoing:

- A central ring road around Moscow, 520 km in length, with a budget of over USD 7bn. The project was started in 2014 and is scheduled for completion in 2020.
- The 'Northern Latitudinal Railway', which spans 700 km across Siberia. It is planned to be completed in 2020.
- Demolition and rebuilding of 7,900 apartments in Moscow, an investment of USD 5bn. The project, which was initiated in 2017, is set for completion in 2030.
- A high-speed railway between Moscow and Kazan, 700 km long, at an investment of USD 21bn. The project will take place between 2016 and 2020.

In addition, as the graph below indicates, the most recent May decree in 2018 was positive in that it demonstrated a shift in focus away from governance, social policies and the military towards infrastructure, healthcare and education. In the previous May decree, in 2012, infrastructure was given a 0% weighting, but in 2018 this leapt to 19%.

We do not take account of the May decree targets in our estimates for Ferronordic Machines, due to uncertainty over the financing of some projects, although we believe they offer additional upside potential.

**THE NEW MAY DECREE PUTS ALL FOCUS ON INFRASTRUCTURE, A NEW DIRECTION FOR THE RUSSIAN GOVERNMENT**



Source: Nordea estimates

**Changing customer behaviour and ageing machine fleet to spur demand**

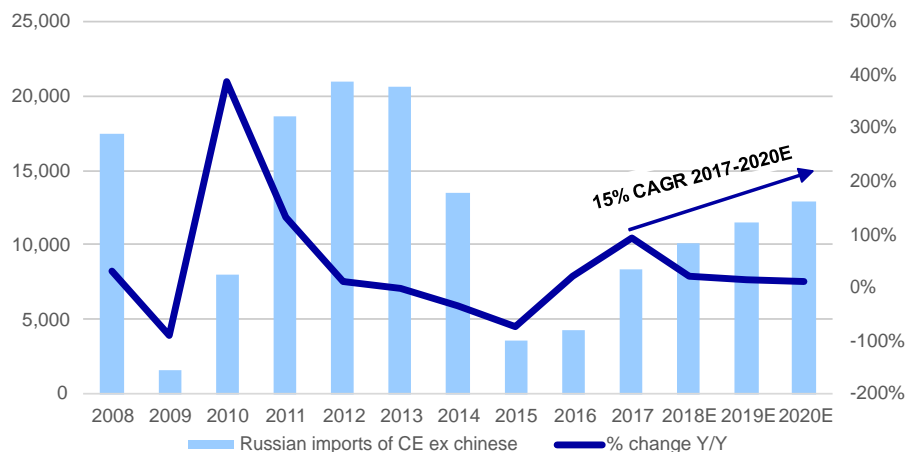
Changing customer behaviour in terms of more focus on lifecycle costs and pent-up demand for some 60,000 machines, representing seven years of demand, should push underlying equipment market demand

Customer behaviour in Russia differs from that in various mature markets, in the sense that customers do not take into account machine lifecycle costs when purchasing new construction equipment, but instead focus primarily on the face value. Historically, this behaviour has created entry barriers for manufacturers and made it difficult to convince customers to invest in premium machines. However, for a few years now, we have seen signs that this customer behaviour is changing, with increasing attention being paid to full ownership costs. This trend could partly be the result of years of customer education by the premium manufacturers.

This will play out positively for Ferronordic in several ways. Since the company is an approved supplier of Volvo Certified Rebuild, the trend in customer behaviour should create a used unit market. In mature markets, used machine sales amount to approximately 50% of the total market (new plus used), while in Russia second-hand sales represent 20% of the market on average.

Another upshot of the ongoing change in customer behaviour is continuous replacement of new machines. Since the recession in 2008, numerous customers have neglected to renew their machine fleets, in order to save money. This has led to substantial pent-up demand, which Ferronordic estimates to be at least 60,000 machines, representing more than seven years of demand based on 2017 market levels. We estimate that the market (excluding Chinese) will reach around 13,000 machines in 2020, corresponding to a CAGR of 15%. With a slightly declining market share of 56 bp, reaching 7.5% in 2020E, we estimate Ferronordic's sales CAGR to be a robust 11.3%. A substantially stronger growth rate compared with the peer group.

**UNDERINVESTMENT IN RUSSIAN INFRASTRUCTURE HAS CREATED PENT-UP DEMAND IN THE CONSTRUCTION EQUIPMENT MARKET**



Source: Company data and Nordea estimates

Focus on aftermarket sales has stabilised cash flow and limits the downside risk, as it covers Ferronordic's fixed-cost base

**High aftermarket share limits the downside risk and stabilises cash flow**

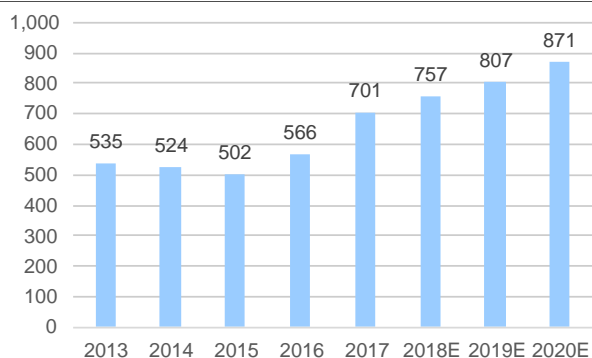
Ferronordic's aftermarket sales as a share of total sales increased from 11% in 2011 to 27% in 2017, corresponding to a CAGR of 18%. A high aftermarket share is positive in several respects, mainly as it entails less cyclicality and high profitability. Spare parts are a particularly profitable business, accounting for approximately 75% of aftermarket sales.

In 2014-15, when the market plummeted, Ferronordic managed to improve margins and report an expansion of 156 bp. We believe that a factor behind this was aftermarket sales, which rose from 22% to 34% of total sales. Management has stated that the current aftermarket level covers fixed costs. We consider this an important point and believe it limits the downside risk.

In addition to serving as a cushion when the market collapses, a high aftermarket share also makes the business less cyclical with more stable cash flow. When the market dropped in 2014-15, the segment reported organic growth of 12% and 24% for these two years, respectively. One reason for the counter-cyclical growth might be that customers tend to use their machines for a longer period in a recession.

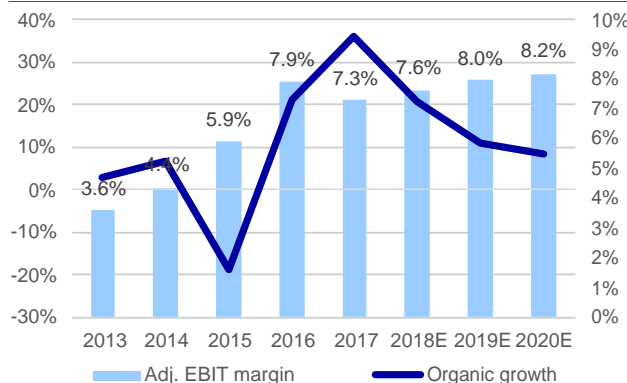
For the aftermarket business we estimate organic growth of 13% for 2018 and a CAGR of 8% for the period 2017-20E. We expect an EBIT CAGR of 17% and margin expansion of 105 bp for the same period.

**AFTERMARKET SALES IN 2013-20E, SEKm**



Source: Company data and Nordea estimates

**ADJUSTED EBIT MARGIN VS ORGANIC GROWTH 2013-20E, (%)**



Source: Company data and Nordea estimates

Experienced management with large insider ownership that provides a natural incentive to create long-term shareholder value

**Experienced management with large insider ownership and Swedish corporate governance**

Ferronordic's management appears to have vast experience both from the construction equipment industry and of conducting business in Russia. We also believe that one reason for the company's good relationship with Volvo is that several members of the board and executive management have a background from the company. In addition, we find it positive that founders and larger stakeholders are still invested in the company and are active either operationally or via the board. Executive management holds 13% of the total outstanding shares, while the board of directors holds 24%.

Management's experience from working in the volatile Russian market might have been a factor behind the company's strong margin development in 2014-15, when the market fell by >50%, as it acted quickly to close units and push aftermarket sales.

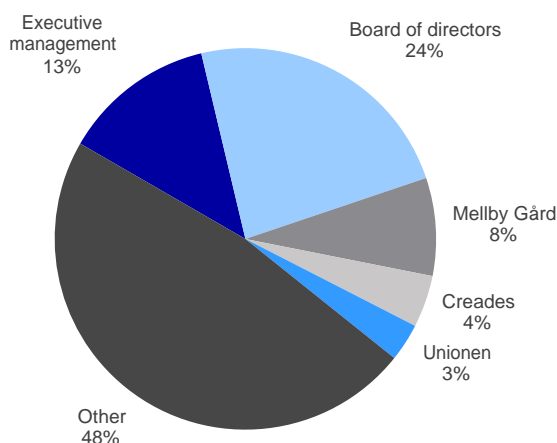
A Swedish company with operations in Russia, following a strict zero-tolerance policy in terms of bribery and corruption

Ferronordic defines itself as a Swedish company with operations in Russia, meaning that a majority of the shareholders and board are from the Nordic countries with a strong focus on corporate governance, including zero tolerance of bribery and corruption. Apart from the above, the company follows international accounting standards.

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**BOTH THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT HAVE LONG-TERM INSIDER OWNERSHIP, WHILE INSTITUTIONAL OWNERSHIP IS FAIRLY LOW**

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Source: Holdings database

Strong balance sheet opens up for a capital allocation decision – we believe the way forward is through geographical and product expansion

**Net cash position with strong cash flow – two possibilities for capital allocation**

Ferronordic has a strong balance sheet with a net cash position of SEK 204m (as of Q2 2018). We expect the net cash position to increase to SEK 313m at the end of Q4 2018. We believe it is essential for a company to be well-capitalised when operating in a fluctuating industry, although capital allocation cannot be neglected. Given Ferronordic's strong growth since its inception, we believe management is actively working with expanding the business either via new products or geographically. The board's dividend proposal later this year will reveal the company's future strategic path.

We estimate that management will raise the dividend by >100% from SEK 1.73 per share to SEK 3.50, implying a pay-out ratio of some 30%. This would still leave room for acquisitions.

# Risk factors

Below, we list the main risk factors that we find relevant for Ferronordic. The purpose of this is not to provide a comprehensive picture of all of the risks that the company may face, but instead to highlight those that we find most relevant. Being present in an emerging market, particularly Russia, brings certain risks including further sanctions from the EU and US, sometimes followed by countermeasures from Russia (eg more protectionism), which could hurt the import of construction equipment machines. Another risk that one should consider is the supplier risk towards Volvo, where the supplier agreement can be terminated with 180 days' notice.

|   |  |
|---|--|
| More risk factors will be assessed in this report   | <p><b>Most risks are macroeconomic</b></p> <p>Investing in Ferronordic comes with several risks. We estimate that the majority of these are macroeconomic, but a few are company-specific. On a macroeconomic level, we consider further sanctions against Russia, protectionism, FX volatility and commodity prices as the main risks. These risks could, in a worst-case scenario, hurt the Russian construction equipment market and thereby Ferronordic's financial situation.</p>   |
| Further sanctions could hurt the underlying market demand and the overall Russian economy       | <p><b>A history of sanctions</b></p> <p>Sanctions have been a part of the Russian economy for several decades. The first were implemented as early as in 1948 by the allied powers and first lifted about 50 years later. The most well-known sanctions were implemented in 2014 by the US and EU as a reaction to Russia annexing Crimea. The sanctions were implemented in three stages, exacerbated by a sharply falling oil price that slowed the economy and caused GDP to plunge. Sanctions limited Russia's access to finance, forcing it to use up part of its FX reserves. The central bank raised interest rates in order to defend the value of the rouble, resulting in a 30% total construction equipment import decline y/y in 2014 and an additional 74% in 2015.</p> <p>Further sanctions have been implemented by both the EU and US in 2018, with a risk of escalation. We therefore believe that one of the main risks for Ferronordic is in expanded sanctions against Russia, which could negatively affect both customers and suppliers.</p> |
| Domestic reaction to the sanctions is often to increase protectionism                           | <p><b>Protectionism</b></p> <p>A further risk related to sanctions could be the domestic reaction, which often means increased protectionism. In 2014, the Russian government implemented a regulation where municipalities or districts were prohibited from purchasing foreign-based construction equipment as long as a Russian alternative was available. Increased protectionism could also hurt Volvo as a foreign brand, as well as Ferronordic. We have not yet seen any increased protectionism as a countermeasure to the recent sanctions.</p>  |
| A termination of the contract with Volvo would have a negative impact on Ferronordic's business | <p><b>Supplier risk</b></p> <p>A large part of Ferronordic's revenue is derived from new equipment sales, mainly to Volvo CE; as such, Ferronordic is dependent on a good relationship with Volvo CE. A worsening relationship could have an impact on Ferronordic's business. The agreement between Volvo CE and Ferronordic is based on a contract that either party could terminate with 180 days' notice. Furthermore, any change in the controlling interest in Ferronordic needs Volvo CE's approval (above 30% of the votes).</p>   |

# Financial objectives

In connection with its IPO, Ferronordic raised its financial objectives for both the top and bottom lines. We estimate that Ferronordic will reach or be in line with three out of four of its financial objectives, including an EBIT margin of 7-9%, net debt/EBITDA of 0-2x and a payout ratio exceeding 25% of net profit. According to our estimates, reaching the top-line target will be tough and our estimate is 19% below the company's target.

## FERRONORDIC'S FINANCIAL OBJECTIVES: SUMMARY

| Financial objectives  | Previous financial objectives   | New financial objectives   | Nordea estimates |
|---|---|--|------------------|
| <ul style="list-style-type: none"> <li>Top-line growth</li> </ul> | <ul style="list-style-type: none"> <li>Double-digit growth measured in SEK over a five-year period</li> </ul> | <ul style="list-style-type: none"> <li>Tripling of revenue from 2016-2021</li> </ul>       |                  |
| <ul style="list-style-type: none"> <li>EBIT margin (%)</li> </ul> | <ul style="list-style-type: none"> <li>EBIT margin of 6-8%</li> </ul>   | <ul style="list-style-type: none"> <li>EBIT margin of 7-9%</li> </ul>                      | ✓                |
| <ul style="list-style-type: none"> <li>Leverage</li> </ul>        | <ul style="list-style-type: none"> <li>ND/EBITDA of 0-2x</li> </ul>   | <ul style="list-style-type: none"> <li>ND/EBITDA of 0-2x</li> </ul>                        | ✓                |
| <ul style="list-style-type: none"> <li>Dividend</li> </ul>        | <ul style="list-style-type: none"> <li>n.a</li> </ul>   | <ul style="list-style-type: none"> <li>Payout ratio exceeding 25% of net profit</li> </ul> | ✓                |

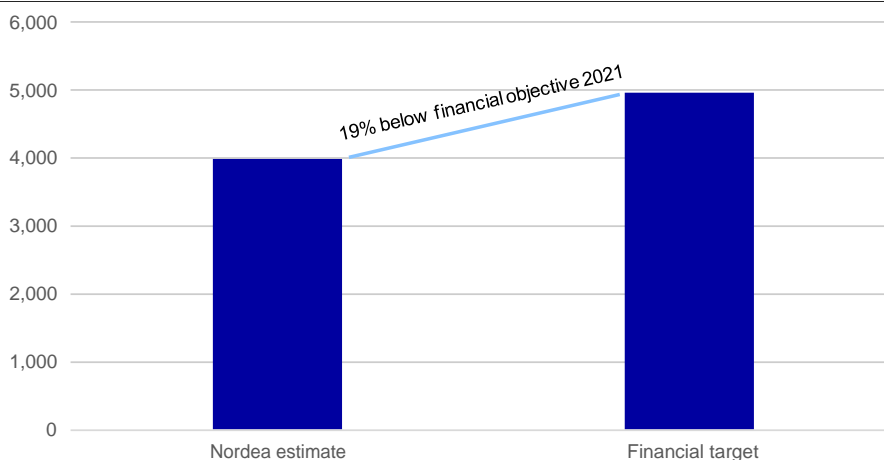
Source: Company data and Nordea estimates

### Financial objectives upwardly revised

Two financial objectives upwardly revised and a payout ratio target has been defined

Ferronordic has previously defined four financial objectives related to growth, profitability and leverage, and in 2017 the targets were upwardly revised. The new financial objectives include a tripling of revenue (previously double-digit growth in SEK over a five-year period) between 2016 and 2021 for the current business (ie excluding acquisitions and geographical or product expansion). According to the targets, the EBIT margin should now range between 7% and 9% (previously 6-8%) over a cycle, with a leverage ratio of 0-2x EBITDA. The payout ratio should also exceed 25% of net profit.

### TOP LINE: 2021 COMPANY TARGET VS OUR ESTIMATE, SEKm



We believe that the company's top-line target will be difficult to reach, despite the strong estimated growth

Source: Company data and Nordea estimates

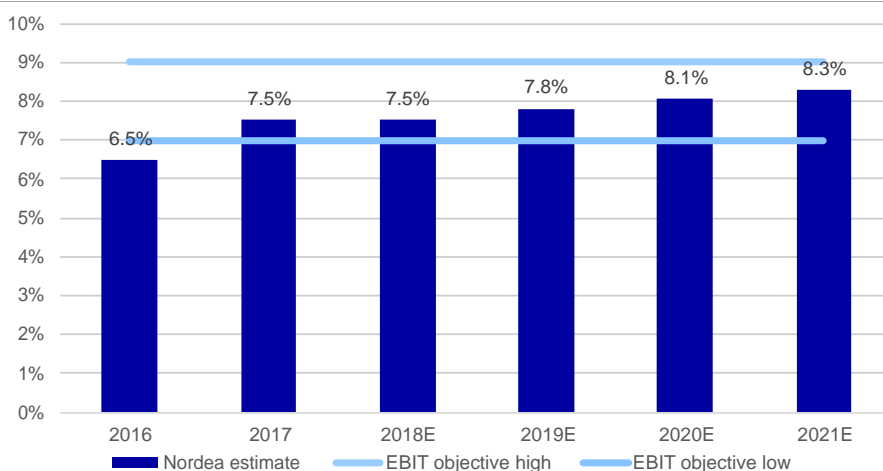
Top-line target is a tripling of revenue between 2016 and 2021, which we consider unachievable; it might be revised over time

**Top-line target is unachievable, in our view**

According to Ferronordic's top-line financial target, revenue should grow from SEK 1,658m in 2016 to SEK 4,975m in 2021, corresponding to a CAGR of 24.5%. We believe that the financial target will be tough to reach, and we estimate a CAGR of 19.3%, implying revenue of SEK 4,013m in 2021E. Our forecast is thus ~19% below Ferronordic's financial objective, which we believe is likely to be lowered over time. It is worth mentioning the pent-up demand and upcoming infrastructure investments, which we have not fully pencilled in and which could bring some upside to our base-case estimates.

We believe that Ferronordic should reach the upper end of its EBIT-margin target in 2020

**EBIT MARGIN: COMPANY TARGET VS OUR ESTIMATES, %**

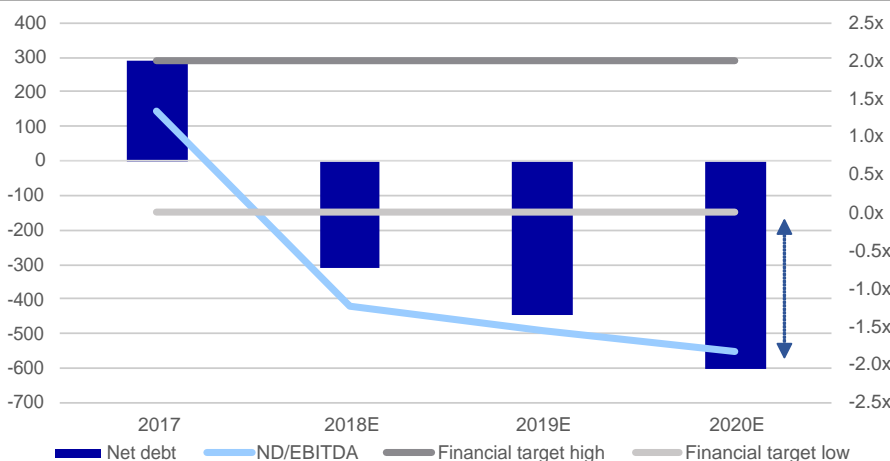


Source: Company data and Nordea estimates

We project that Ferronordic will reach the upper range of its revised EBIT margin target of 7-9% by 2020.

Strong balance sheet creates interesting opportunities, in our view

**NET DEBT AND NET/EBITDA: COMPANY TARGET VS OUR ESTIMATES, SEKm AND x**



Source: Company data and Nordea estimates

**2018 dividend distribution will define the path ahead**

Management is actively working on expanding the operations and we consider this as our main strategic growth scenario

We find that Ferronordic has a strong net cash position, which we estimate will amount to more than SEK 300m at year-end 2018. It is somewhat overcapitalised, but we believe a strong balance sheet is essential when operating in a volatile market. Moreover, Ferronordic is well capitalised compared with its financial objectives stated above. We do not believe that it is a sustainable long-term path to maximise capital allocation and create shareholder value, and we argue that there are two main alternative scenarios: 1) acquisitions/entering a new market; or 2) distributing cash via dividends or buybacks (the latter could be an interesting approach given our valuation assumptions). Given the strong top-line growth, we believe management is actively working on expanding the operations and we consider this as our main strategic growth scenario.

# Valuation

We base our fair value range on a relative valuation approach. We use a weighted 2019 EV/ EBIT multiple between our two peer groups, where one group represents the implied Russian market discount. Based on our relative valuation approach, we derive a fair value range of SEK 148-166 per share.

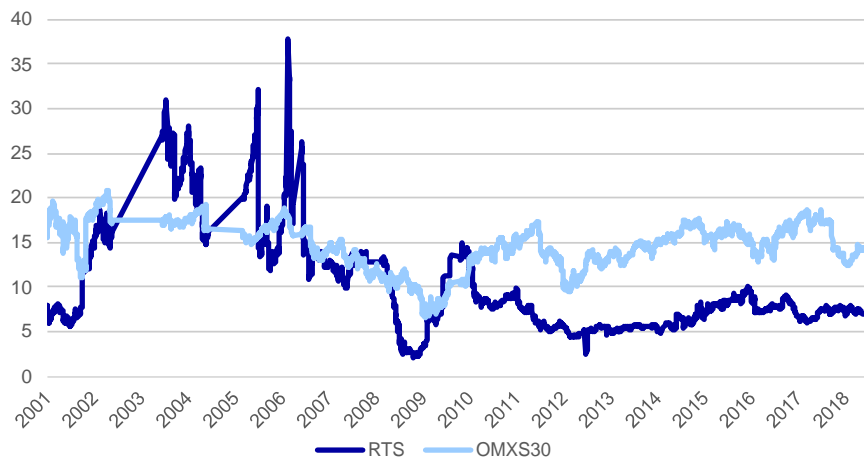
We compare forward-looking P/E multiples for the RTS and the OMXS30

## OMX vs RTS – a persistent Russian discount

In order to examine the general discount between Russian-listed and Swedish-listed companies, we compare forward-looking P/E multiples for the Moscow stock exchange (RTS) and OMXS30. RTS is a Russian index of the top 50 companies with the highest liquidity on the Moscow Stock Exchange, which we argue is generally a good indicator of valuation. Given that the majority of Ferronordic's revenues are generated in Russia, we believe it makes the comparison a fair valuation proxy.

In 2009, RTS companies traded at an average forward-looking P/E of 6.9x, a significant discount to 14.0x for the OMXS30

**FORWARD P/E 2001-18, RTS VS OMXS30**



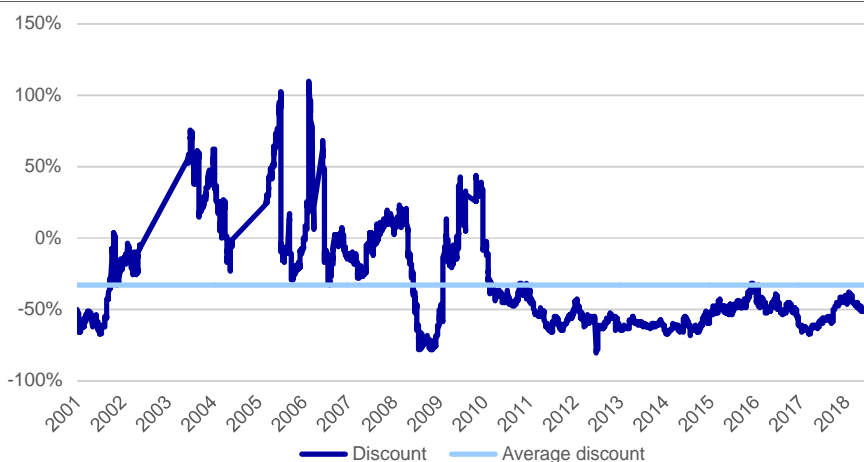
Source: Company data and Nordea estimates

## Valuation spread elevated in 2010

Between 2001 and 2008, the RTS traded at a premium to the OMXS30. Since the global financial crisis in 2008-09, RTS has traded at a significant discount of >50%, with an average P/E of 6.9x versus the OMXS30 at 14.0x. The average discount for 2001-18 was 33%. Since 2011, the spread has increased, and could be explained to some extent by the many US/EU sanctions, as well as the plunges in the RUB and the wider stock market during the past four years.

Since 2011, the spread has increased; this could be explained by the US/EU sanctions to some extent

**RTS: HISTORICAL DISCOUNT VS OMXS30**



Source: Company data and Nordea estimates

## Peer groups

We have chosen two relevant peer groups for Ferronordic: 1) Nordic companies with Russian exposure; and 2) global construction equipment manufacturers/dealers. Similar to our comparison of indices between the OMXS30 and the RTS, we believe that the first peer group provides an indication of how Russian market risk is priced into Nordic shares. The construction equipment peers consist of equipment manufacturers and equipment dealers with global exposure. The companies vary in terms of market capitalisation and exposure towards construction equipment machines; regardless, we examine them as a group as we believe they build a relevant comparable valuation proxy. There are brief descriptions of the peers in a separate chapter towards the end of this report.

## Key peers

In addition to our two main peer groups, we regard Finning, Barloworld, Cervus Equipment, H&E Equipment Services and Toromont as the most appropriate company-specific peers for Ferronordic, as all of these have their main operations in new and used equipment sales, often combined with a solid aftermarket offering. These companies are mainly associated with Caterpillar, a key peer to Volvo CE. The majority of this group have widespread operations with several of outlets and in mature markets. When further examining the peers, we consider Barloworld, with its high exposure to an emerging market (South Africa), an interesting peer.

## Substantial EV/EBIT discount vs Nordic peers with Russian exposure

Ferronordic is trading at a 2018E EV/EBIT of 6.3x and 2019E EV/EBIT of 5.0x, corresponding to respective discounts of 43% and 44%, compared with the weighted peer group median of 11.1x and 9.0x. We believe the discount is a function of various factors, including a business model with somewhat higher risk and higher exposure to the Russian market resulting in higher market risk and volatility. On the other hand, even with what we regard as somewhat conservative estimates, we expect Ferronordic to grow substantially above the peer group average, with a solid balance sheet and a 2019E FCF yield that is around 500 bp higher than peers.

### PEER TABLE RUSSIAN EXPOSURE, VALUATION

| Peer Group Russian Exposed     | Country | Market cap Price |            | P/E (x)     |            |            | EV/EBIT (x) |            |            | EV/EBITDA (x) |            |            |
|--------------------------------|---------|------------------|------------|-------------|------------|------------|-------------|------------|------------|---------------|------------|------------|
|                                |         | EURm             | (Local)    | 2018E       | 2019E      | 2020E      | 2018E       | 2019E      | 2020E      | 2018E         | 2019E      | 2020E      |
| Oriflame                       | Sweden  | 1,205            | 229        | 12.4        | 11.0       | 9.4        | 9.4         | 8.5        | 7.4        | 8.0           | 7.4        | 6.7        |
| Nokian Tyres                   | Finland | 4,831            | 35         | 15.6        | 14.7       | 14.0       | 12.1        | 11.6       | 10.8       | 9.6           | 9.1        | 8.5        |
| Systemair                      | Sweden  | 596              | 118        | 23.2        | 17.2       | 14.4       | 17.6        | 14.1       | 11.7       | 11.9          | 10.1       | 8.6        |
| Inchcape                       | UK      | 3,130            | 670        | 10.3        | 10.0       | 9.8        | 7.5         | 7.0        | 6.7        | 6.5           | 6.1        | 5.7        |
| Carlsberg                      | Denmark | 15,609           | 766        | 22.2        | 20.6       | 18.8       | 14.3        | 13.3       | 13.4       | 9.6           | 9.1        | 9.3        |
| YIT                            | Finland | 1,275            | 6          | 16.9        | 8.7        | 9.0        | 15.2        | 8.4        | 8.7        | 10.4          | 6.7        | 6.9        |
| <b>Ferronordic (Nordea)</b>    |         | <b>1,744</b>     | <b>120</b> | <b>10.1</b> | <b>8.8</b> | <b>7.8</b> | <b>6.3</b>  | <b>5.0</b> | <b>3.9</b> | <b>5.5</b>    | <b>4.5</b> | <b>3.6</b> |
| Median                         |         | 2,203            |            | 16.3        | 12.9       | 11.9       | 13.2        | 10.1       | 9.8        | 9.6           | 8.2        | 7.7        |
| Average                        |         | 4,441            |            | 16.8        | 13.7       | 12.6       | 12.7        | 10.5       | 9.8        | 9.3           | 8.1        | 7.6        |
| Discount(-)/Premium(+) Median  |         |                  |            | -38%        | -32%       | -34%       | -52%        | -50%       | -60%       | -43%          | -46%       | -54%       |
| Discount(-)/Premium(+) Average |         |                  |            | -40%        | -36%       | -38%       | -50%        | -53%       | -60%       | -41%          | -45%       | -53%       |

Source: Thomson Reuters and Nordea estimates

### PEER TABLE RUSSIAN EXPOSURE, OPERATIONAL

| Peer Group Russian Exposed     | Sales growth |             |             | EBIT margin |             |             | DivYield    |             | FCF Yield   |             |              | ND/EBITDA    |             |
|--------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|
|                                | 2018E        | 2019E       | 2020E       | 2018E       | 2019E       | 2020E       | 2018E       | 2019E       | 2018E       | 2019E       | 2020E        | 2018E        | 2019E       |
| Oriflame                       | 5.5%         | 6.2%        | 11.1%       | 11.9%       | 12.6%       | 13.1%       | 0.8%        | 0.9%        | 1.0%        | 0.7%        | 0.8%         | 0.9%         | 0.3         |
| Nokian Tyres                   | 6.5%         | 7.1%        | 23.0%       | 23.6%       | 23.6%       | 23.5%       | 4.7%        | 4.8%        | 5.0%        | 3.9%        | 3.1%         | 4.8%         | -0.4        |
| Systemair                      | 8.0%         | 4.4%        | 7.0%        | 5.6%        | 6.7%        | 7.5%        | 1.8%        | 2.1%        | 2.5%        | -0.4%       | 1.9%         | 4.8%         | 2.5         |
| Inchcape                       | 1.4%         | 1.3%        | 4.6%        | 4.4%        | 4.5%        | 4.5%        | 0.0%        | 0.0%        | 0.0%        | 8.0%        | 9.7%         | 9.7%         | 0.0         |
| Carlsberg                      | 2.9%         | 3.2%        | 14.2%       | 15.0%       | 15.3%       | 15.8%       | 2.2%        | 2.4%        | 2.6%        | 5.5%        | 6.0%         | 6.5%         | 1.3         |
| YIT                            | 4.1%         | -0.9%       | 5.8%        | 3.2%        | 5.3%        | 5.3%        | 4.5%        | 5.0%        | 5.3%        | 8.2%        | 10.3%        | 13.2%        | 3.8         |
| <b>Ferronordic (Nordea)</b>    | <b>15.7%</b> | <b>9.8%</b> | <b>8.4%</b> | <b>7.6%</b> | <b>8.0%</b> | <b>8.2%</b> | <b>2.9%</b> | <b>3.4%</b> | <b>3.8%</b> | <b>6.0%</b> | <b>10.9%</b> | <b>12.3%</b> | <b>-1.2</b> |
| Median                         | 4.8%         | 3.8%        | 9.1%        | 8.7%        | 9.6%        | 10.3%       | 2.0%        | 2.3%        | 2.6%        | 4.7%        | 4.6%         | 5.6%         | 0.8         |
| Average                        | 4.7%         | 3.6%        | 10.9%       | 10.6%       | 11.3%       | 11.6%       | 2.4%        | 2.6%        | 2.7%        | 4.3%        | 5.3%         | 6.6%         | 1.2         |
| Discount(-)/Premium(+) Median  | 11.0pp       | 6.0pp       | -0.7pp      | -1.1pp      | -1.7pp      | -2.1pp      | 0.9pp       | 1.1pp       | 1.2pp       | 1.2pp       | 6.4pp        | 6.7pp        | n.a         |
| Discount(-)/Premium(+) Average | 11.0pp       | 6.3pp       | -2.5pp      | -3.0pp      | -3.4pp      | -3.4pp      | 0.6pp       | 0.8pp       | 1.0pp       | 1.6pp       | 5.6pp        | 5.7pp        | n.a         |

Source: Thomson Reuters and Nordea estimates

### Also a significant discount to the global construction peer group

Here, Ferronordic is trading at a 2018E EV/EBIT of 6.3x and 2019E EV/EBIT of 4.9x, corresponding to a discount of 30% and 37% respectively, compared with the peer group medians of 9.0x and 8.0x. The multiples vary in this peer group, with Finning, Toromont, H&E and Deere & Company trading at a significant premium, but Volvo, Barloworld and Doosan trading at lower multiples. As mentioned previously, we believe that Barloworld is the most relevant peer considering its emerging market exposure and similar business model. Compared with Barloworld, Ferronordic is trading at a discount of 11% on current year and 21% on next year's earnings (EBIT).

#### PEER GROUP CONSTRUCTION EQUIPMENT, VALUATION

| Peer group CE                  | Country       | Market cap Price |            | P/E (x)     |            |            | EV/EBIT (x) |            |            | EV/EBITDA (x) |            |            |
|--------------------------------|---------------|------------------|------------|-------------|------------|------------|-------------|------------|------------|---------------|------------|------------|
|                                |               | EURm             | (Local)    | 2018E       | 2019E      | 2020E      | 2018E       | 2019E      | 2020E      | 2018E         | 2019E      | 2020E      |
| Volvo                          | Sweden        | 32,576           | 158        | 11.8        | 11.5       | 11.6       | 7.8         | 7.3        | 7.4        | 5.6           | 5.3        | 5.3        |
| Caterpillar                    | US            | 78,183           | 152        | 13.1        | 11.8       | 10.8       | 10.8        | 9.3        | 8.4        | 8.3           | 7.3        | 6.7        |
| Komatsu                        | Japan         | 25,282           | 3422       | 16.8        | 12.8       | 11.6       | 0.0         | 0.0        | 0.0        | 11.2          | 7.3        | 6.6        |
| Hitachi                        | Japan         | 28,135           | 3830       | 11.0        | 9.0        | 8.7        | 6.5         | 5.2        | 4.8        | 4.1           | 3.5        | 3.2        |
| Deere & Company                | US            | 41,921           | 151        | 15.9        | 12.9       | 11.4       | 16.1        | 13.6       | 12.2       | 12.0          | 10.6       | 10.1       |
| Finning Int                    | Canada        | 3,621            | 32         | 17.7        | 14.5       | 13.0       | 12.8        | 10.9       | 9.8        | 9.2           | 8.0        | 7.6        |
| Barloworld                     | South Afric   | 1,579            | 12151      | 11.0        | 9.7        | 9.1        | 7.0         | 6.2        | 5.6        | 4.5           | 4.0        | 3.7        |
| Cervus                         | Canada        | 141              | 13         | 8.6         | 7.6        | 7.8        | 0.0         | 0.0        | 0.0        | 0.0           | 0.0        | 0.0        |
| H&E Equipment Services         | US            | 1,131            | 37         | 18.0        | 16.1       | 15.5       | 14.5        | 13.2       | 11.5       | 5.9           | 5.5        | 4.8        |
| Toromont                       | Canada        | 3,677            | 67         | 21.9        | 19.1       | 17.5       | 13.9        | 12.3       | 11.4       | 10.6          | 9.5        | 8.5        |
| Doosan                         | South Kore    | 1,368            | 15000      | 15.5        | 10.2       | 7.7        | 9.0         | 8.0        | 6.6        | 6.1           | 5.5        | 4.6        |
| <b>Ferronordic (Nordea)</b>    | <b>Sweden</b> | <b>1744</b>      | <b>120</b> | <b>10.1</b> | <b>8.8</b> | <b>7.8</b> | <b>6.3</b>  | <b>5.0</b> | <b>3.9</b> | <b>5.5</b>    | <b>4.5</b> | <b>3.6</b> |
| Median                         |               | 3,677            |            | 15.5        | 11.8       | 11.4       | 9.0         | 8.0        | 7.4        | 6.1           | 5.5        | 5.3        |
| Average                        |               | 19,783           |            | 14.7        | 12.3       | 11.3       | 8.9         | 7.8        | 7.1        | 7.1           | 6.0        | 5.5        |
| Discount(-)/Premium(+) Median  |               |                  |            | -35%        | -26%       | -31%       | -30%        | -37%       | -47%       | -10%          | -19%       | -32%       |
| Discount(-)/Premium(+) Average |               |                  |            | -31%        | -29%       | -31%       | -30%        | -36%       | -44%       | -22%          | -26%       | -36%       |

Source: Thomson Reuters and Nordea estimates

#### PEER GROUP CONSTRUCTION EQUIPMENT, OPERATIONAL

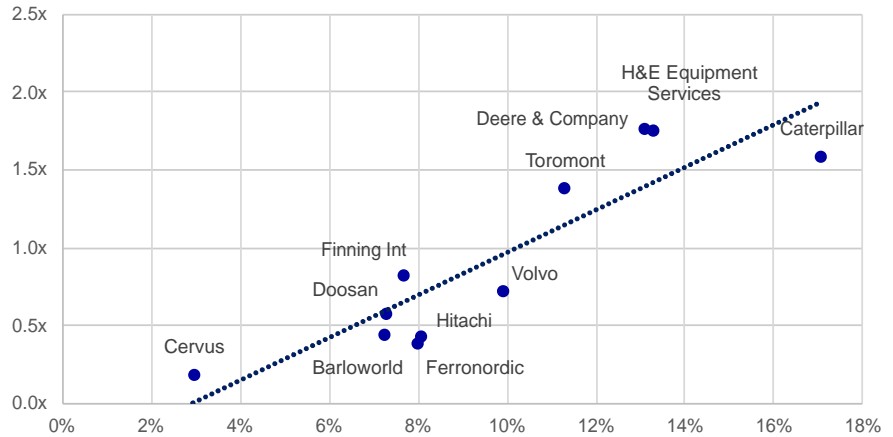
| Peer group CE                  | Sales growth |             |             | EBIT margin |             |             | DivYield    |             |             | FCF Yield   |              |              | ND/EBITDA   |             |
|--------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|
|                                | 2018E        | 2019E       | 2020E       | 2018E       | 2019E       | 2020E       | 2018E       | 2019E       | 2020E       | 2018E       | 2019E        | 2020E        | 2018E       | 2019E       |
| Volvo                          | 15.1%        | 2.1%        | -0.6%       | 10.0%       | 9.9%        | 9.6%        | 3.2%        | 3.4%        | 3.7%        | 6.7%        | 8.3%         | 8.7%         | -0.6        | -0.7        |
| Caterpillar                    | 21.8%        | 8.0%        | 5.2%        | 16.4%       | 17.0%       | 17.1%       | 2.1%        | 2.3%        | 2.4%        | 6.1%        | 8.0%         | 8.9%         | 2.3         | 1.8         |
| Komatsu                        | 47.5%        | 7.8%        | 6.6%        | n.a         | n.a         | n.a         | 2.2%        | 3.0%        | 3.4%        | -2.8%       | 5.8%         | 6.4%         | 1.7         | 1.2         |
| Hitachi                        | 3.3%         | 1.5%        | 2.3%        | 6.9%        | 8.0%        | 8.2%        | 2.0%        | 2.2%        | 2.5%        | 8.1%        | 9.5%         | 10.2%        | 0.7         | 0.3         |
| Deere & Company                | 30.8%        | 7.3%        | 3.4%        | 12.0%       | 13.0%       | 13.9%       | 1.7%        | 1.8%        | 2.0%        | 5.1%        | 6.8%         | 7.7%         | 6.8         | 5.9         |
| Finning Int                    | 14.2%        | 7.4%        | 5.0%        | 7.0%        | 7.7%        | 8.0%        | 2.5%        | 2.6%        | n.a         | 1.4%        | 4.7%         | 5.1%         | 1.4         | 1.3         |
| Barloworld                     | -6.1%        | 5.3%        | 7.9%        | 7.0%        | 7.2%        | 7.3%        | 0.0%        | 0.0%        | 0.0%        | n.a         | n.a          | n.a          | 0.6         | 0.4         |
| Cervus                         | 7.2%         | 1.6%        | 4.0%        | 3.0%        | 3.0%        | n/a         | 2.7%        | 2.7%        | n.a         | 17.2%       | 17.7%        | n/a          | -1.2        | -1.4        |
| H&E Equipment Services         | 21.4%        | 6.5%        | 4.4%        | 13.0%       | 13.3%       | 13.4%       | 3.1%        | 3.1%        | 3.0%        | -4.2%       | 7.6%         | n/a          | 2.8         | 2.7         |
| Toromont                       | 59.4%        | 7.2%        | 7.5%        | 10.8%       | 11.3%       | 11.0%       | 1.4%        | 1.4%        | n.a         | 4.2%        | 3.7%         | 4.0%         | 1.0         | 0.7         |
| Doosan                         | 3.1%         | 7.8%        | 6.6%        | 7.4%        | 7.3%        | 7.4%        | 0.0%        | 3.6%        | 4.0%        | 6.7%        | 9.6%         | 24.4%        | 4.8         | 4.3         |
| <b>Ferronordic (Nordea)</b>    | <b>15.7%</b> | <b>9.8%</b> | <b>8.4%</b> | <b>7.6%</b> | <b>8.0%</b> | <b>8.2%</b> | <b>2.9%</b> | <b>3.4%</b> | <b>3.8%</b> | <b>6.0%</b> | <b>10.9%</b> | <b>12.3%</b> | <b>-1.2</b> | <b>-1.6</b> |
| Median                         | 15.1%        | 7.2%        | 5.0%        | 8.7%        | 9.0%        | 9.6%        | 2.1%        | 2.6%        | 2.7%        | 5.6%        | 7.8%         | 8.2%         | 1.4         | 1.2         |
| Average                        | 19.8%        | 5.7%        | 4.8%        | 9.4%        | 9.8%        | 10.7%       | 1.9%        | 2.4%        | 2.6%        | 4.8%        | 8.2%         | 9.4%         | 1.8         | 1.5         |
| Discount(-)/Premium(+) Median  | 0.6pp        | 2.6pp       | 3.3pp       | -1.0pp      | -1.0pp      | -1.4pp      | 0.8pp       | 0.7pp       | 1.0pp       | 0.3pp       | 3.1pp        | 4.1pp        | n.a         | n.a         |
| Discount(-)/Premium(+) Average | -4.0pp       | 4.1pp       | 3.6pp       | -1.7pp      | -1.8pp      | -2.5pp      | 1.0pp       | 1.0pp       | 1.1pp       | 1.1pp       | 2.8pp        | 2.9pp        | n.a         | n.a         |

Source: Thomson Reuters and Nordea estimates

**Attractive position in valuation scatter plot**

In the following scatter plot, we compare 2019E EV/sales with the EBIT margin for the construction equipment peer group and we see a correlation between a high EBIT margin and a larger EV/sales multiple. Of what we consider to be Ferronordic's key peer group, we see the majority trading above or in line with the trend line. Ferronordic trades at an EV/sales of 0.4x with an EBIT margin of 7.9%, which we argue gives it an attractive position in the chart, below the trend line. We note that Barloworld, which we find has a similar risk profile to Ferronordic, is trading below the trend line.

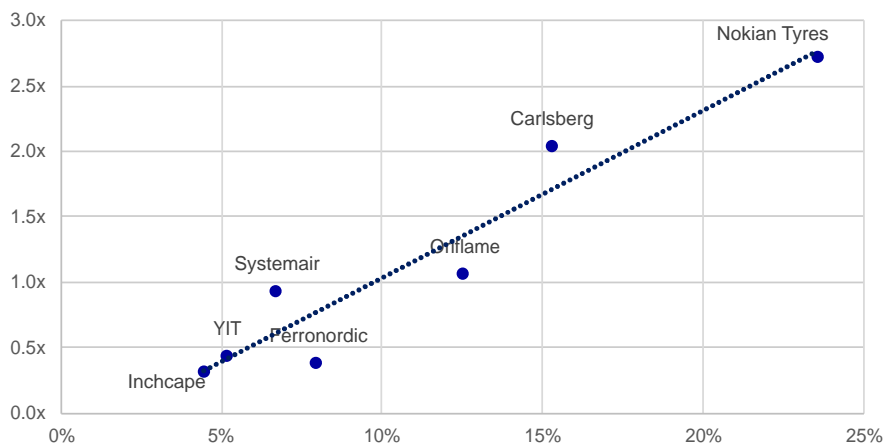
**CONSTRUCTION EQUIPMENT PEERS FOR 2019E: EV/SALES (x) VS EBIT MARGIN, %**



Source: Thomson Reuters and Nordea estimates

The same pattern can be observed for the peer group of Nordic companies with Russian exposure. High profitability (measured by the EBIT margin) is positively correlated with a greater EV/sales multiple. These peers vary substantially by sector and the only similarity is the degree of Russian market exposure, which we believe can potentially affect valuation. Ferronordic is again attractively positioned below the trend line, in our view.

**NORDIC PEERS WITH RUSSIAN EXPOSURE FOR 2019E: EV/SALES (x) VS EBIT MARGIN, %**



Source: Thomson Reuters and Nordea estimates

## DCF model

A discounted cash flow (DCF) model is one of the most common ways to evaluate the intrinsic value of a business and so we also use it to estimate the value of Ferronordic. A DCF model discounts the value of all future cash flows to their present value using the weighted cost of capital (WACC). The WACC takes into account the expected return for both equity and bondholders of a company. A DCF valuation can be described by the following steps:

1. Discount a company's free cash flows at WACC to derive the total company's enterprise value (EV).
2. Identify which parts of the total enterprise value are related to debtholders and non-equity claims.
3. Deduct all components that are not related to the equity holders' claim to derive the equity value for the company. The equity value is then divided by the number of outstanding shares to achieve DCF-based share price.

We find DCF to be a good valuation method because it takes into account the fundamental drivers of a company, such as the cost of capital, growth rates, reinvestments rates etc. The main appeal of a DCF model is that it only takes into account a company's cash flows instead of accounting-based earnings. A disadvantage is that it is relatively sensitive to changes in input values.

## DCF valuation of Ferronordic is SEK 207-278 per share

In our DCF model, we value Ferronordic based on the current business, assuming no additional value-accretive acquisitions and that sales will grow on average by 11% until 2023 and subsequently at a 1% pace to perpetuity, meaning organic growth roughly at average inflation. We also assume Ferronordic to have some margin pressure over time, reaching 1.3% in our fifth period. We use a cost of debt of 5.0% in our DCF. We also assume that average debt will rise somewhat in the future, so we assign the company a long-term equity weight of 90% in our DCF model.

| DCF VALUATION                    |              |            |
|----------------------------------|--------------|------------|
| DCF value                        | Value        | Per share  |
| NPV FCFF                         | 2,905        | 199.9      |
| (Net debt)                       | 312          | 21.5       |
| Market value of associates       | 0            | 0.0        |
| (Market value of minorities)     | 0            | 0.0        |
| Surplus values                   | 0            | 0.0        |
| (Market value preference shares) | 0            | 0.0        |
| Share based adjustments          | 0            | 0.0        |
| Other adjustments                | 0            | 0.0        |
| Time value                       | 239          | 16.5       |
| <b>DCF Value</b>                 | <b>3,456</b> | <b>238</b> |

Source: Nordea estimates

| WACC COMPONENTS             |              |
|-----------------------------|--------------|
| Risk-free interest rate     | 1.5%         |
| Market risk premium         | 5.5%         |
| Forward looking asset beta  | nm           |
| Beta debt                   | 0.20         |
| Forward looking equity beta | 1.60         |
| Cost of equity              | 10.30%       |
| Cost of debt                | 5.0%         |
| Tax-rate used in WACC       | 22.0%        |
| Equity weight               | 90.0%        |
| <b>WACC</b>                 | <b>9.66%</b> |

Source: Nordea estimates

## DCF ASSUMPTIONS

| Averages and assumptions          | 2018-23 | 2024-28 | 2029-33 | 2034-38 | 2039-43 | 2044-48 | Sust. |
|-----------------------------------|---------|---------|---------|---------|---------|---------|-------|
| Sales growth, CAGR                | 9.70%   | 3.5%    | 3.5%    | 3.0%    | 2.5%    | 1.0%    |       |
| EBIT-margin, excluding associates | 8.2%    | 8.0%    | 6.5%    | 6.0%    | 5.5%    | 1.3%    |       |
| Capex/depreciation, x             | 1.1     | 1.10    | 1.00    | 1.00    | 1.00    | 1.00    |       |
| Capex/sales                       | 1.0%    | 1.5%    | 1.5%    | 1.5%    | 1.5%    | 1.5%    |       |
| NWC/sales                         | 6.4%    | 8.0%    | 8.0%    | 8.0%    | 8.0%    | 8.0%    |       |
| FCFF, CAGR                        | 22.1%   | 13.0%   | -1.0%   | 1.6%    | 1.0%    | -29.4%  | 2.5%  |

Source: Nordea estimates

### DCF valuation sensitivity

To highlight the sensitivity of our DCF valuation, we also provide sensitivity matrices modelling variations in revenue growth, margin assumptions and cost of capital. The sensitivities in our WACC are outlined in the following tables. When we use sensitivities of  $\pm 0.5$  pp for WACC,  $\pm 0.5$  pp for sales growth and  $\pm 0.5$  pp for EBIT margin changes, our DCF model gives us a value range of EUR 207-278 per share.

#### SENSITIVITY ANALYSIS: WACC VS EBIT MARGIN

|                      |        | WACC |      |      |       |       |
|----------------------|--------|------|------|------|-------|-------|
|                      |        | 8.7% | 9.2% | 9.7% | 10.2% | 10.7% |
| EBIT marg.<br>change | +1.0pp | 312  | 278  | 263  | 250   | 238   |
|                      | +0.5pp | 278  | 264  | 251  | 239   | 228   |
|                      | 0.0pp  | 263  | 250  | 238  | 227   | 218   |
|                      | -0.5pp | 248  | 236  | 226  | 216   | 207   |
|                      | -1.0pp | 232  | 222  | 213  | 205   | 197   |

Source: Nordea estimates

#### SENSITIVITY ANALYSIS: WACC VS SALES GROWTH

|                     |        | WACC |      |      |       |       |
|---------------------|--------|------|------|------|-------|-------|
|                     |        | 8.7% | 9.2% | 9.7% | 10.2% | 10.7% |
| Sales gr.<br>change | +1.0pp | 274  | 260  | 247  | 236   | 225   |
|                     | +0.5pp | 269  | 255  | 243  | 231   | 221   |
|                     | 0.0pp  | 263  | 250  | 238  | 227   | 218   |
|                     | -0.5pp | 258  | 245  | 234  | 224   | 214   |
|                     | -1.0pp | 253  | 241  | 230  | 220   | 211   |

Source: Nordea estimates

#### SENSITIVITY ANALYSIS: SALES GROWTH VS EBIT MARGIN

|                       |        | Sales growth change |        |       |        |        |
|-----------------------|--------|---------------------|--------|-------|--------|--------|
|                       |        | -1.0pp              | -0.5pp | 0.0pp | +0.5pp | +1.0pp |
| EBIT margin<br>change | +1.0pp | 252                 | 257    | 263   | 269    | 275    |
|                       | +0.5pp | 241                 | 246    | 251   | 256    | 261    |
|                       | 0.0pp  | 230                 | 234    | 238   | 243    | 247    |
|                       | -0.5pp | 219                 | 222    | 226   | 230    | 233    |
|                       | -1.0pp | 208                 | 211    | 213   | 216    | 219    |

Source: Nordea estimates

### Valuation conclusion

We base our fair value on a relative valuation approach where we use a weighted EV/EBIT multiple between our two peer group on 2019 estimates. We apply an equal weight of 50% to both peer groups as we believe that both exposures are important to consider. The average EV/EBIT valuation spread between the two peer groups is narrow at 17%, with Nordic companies with Russian exposure trading at 10.1x EBIT for 2019E and construction equipment peers trading at 8.0x EBIT for 2019E. This implies a weighted average EV/EBIT multiple of 9.0x.

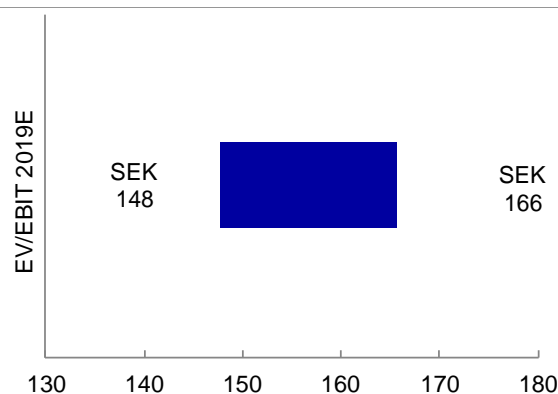
As can be seen below, our fair value range is based on an implied EV/EBIT multiple of 6.5-7.5x for 2019E, corresponding to a discount to peers of -28 to -17% and a fair value per share of SEK 148-166. We believe that Ferronordic should trade at a significant discount to both peer groups, mainly driven by high exposure to Russia, a volatile market with a certain level of political instability together with a somewhat more risky business model as a dealer. Nevertheless, we estimate that Ferronordic should realise a significantly higher top line as well as EBIT growth until 2020, with strong cash flows and a solid, unleveraged balance sheet. We underscore that Ferronordic is a Swedish company with Swedish corporate governance but operations in Russia.

#### EV MULTIPLE, SENSITIVITY ANALYSIS

| EV/EBIT - multiple                        | 5.0x        | 5.5x        | 6.0x        | 6.5x        | 7.0x        | 7.5x        | 8.0x        | 8.5x       |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Implied EV                                | 1,298       | 1,428       | 1,557       | 1,687       | 1,817       | 1,947       | 2,077       | 2,206      |
| ND  | -451        | -451        | -451        | -451        | -451        | -451        | -451        | -451       |
| Implied Mcap                              | 1,749       | 1,879       | 2,009       | 2,138       | 2,268       | 2,398       | 2,528       | 2,658      |
| Number of shares outstanding              | 14.5        | 14.5        | 14.5        | 14.5        | 14.5        | 14.5        | 14.5        | 14.5       |
| <b>Implied share price</b>                | <b>121</b>  | <b>130</b>  | <b>139</b>  | <b>147</b>  | <b>156</b>  | <b>165</b>  | <b>174</b>  | <b>183</b> |
| Implied P/E                               | 8.8         | 9.5         | 10.1        | 10.8        | 11.4        | 12.1        | 12.8        | 13.4       |
| Implied FCF yield                         | 10.8%       | 10.1%       | 9.4%        | 8.8%        | 8.3%        | 7.9%        | 7.5%        | 7.1%       |
| Implied discount to Russian peers         | -50%        | -45%        | -40%        | -35%        | -30%        | -25%        | -20%        | -15%       |
| Implied discount to CE peers              | -37%        | -31%        | -25%        | -18%        | -12%        | -6%         | 1%          | 7%         |
| <b>Implied discount to weighted peers</b> | <b>-44%</b> | <b>-39%</b> | <b>-33%</b> | <b>-28%</b> | <b>-22%</b> | <b>-17%</b> | <b>-11%</b> | <b>-6%</b> |

Source: Nordea estimates

#### VALUE RANGE BASED ON 2019E EV/EBIT, SEK

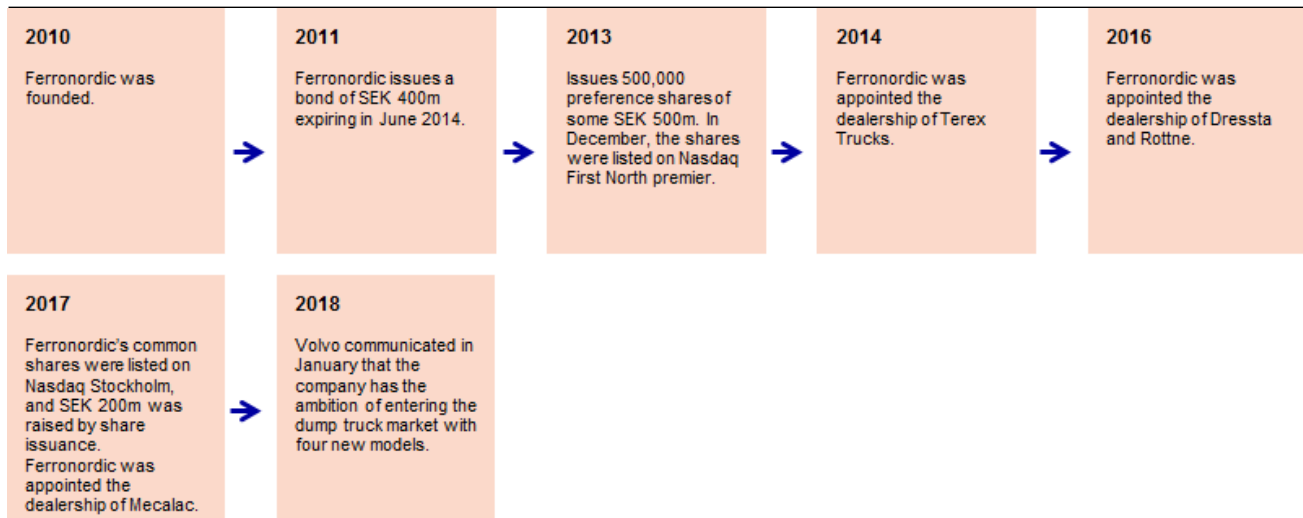


Source: Nordea estimates

# Company overview

Ferronordic was founded in 2010 by Anders Blomqvist and Erik Eberhardson when they acquired Volvo's construction equipment (Volvo CE) dealership in Russia. Ferronordic's vision was to expand Volvo's dealership throughout Russia and increase the volumes, driven by the substantial market potential. Since 2010, the company has reported strong growth in revenue and units sold. Between 2011 and 2014, the number of new units sold increased from 765 to 1,335. According to the company's strategy, the number of brands has increased from one single brand, Volvo CE, in 2010 to seven strong brands, including one private label.

## FERRONORDIC: 2010-18 TIMELINE



Source: Company data and Nordea estimates

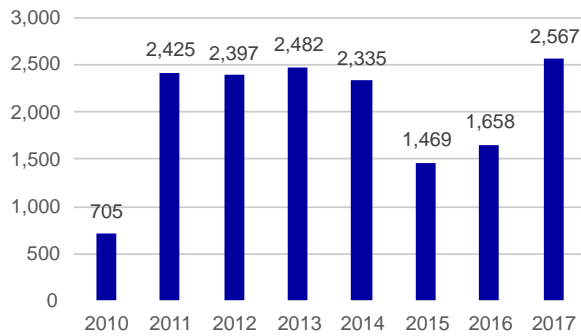
Vision is to expand Volvo's dealership throughout Russia and increase the volumes, driven by the substantial market potential

### History of strong growth

Volvo Group is a large investor in Russia and has been for the past couple of decades. Volvo's first truck delivered to Russia was in 1973, and in 2003 Volvo became the first western truck manufacturer to set up a production facility in the Russian city of Zelenograd. Further expansion continued in 2009 with the opening of an assembly plant in Kaluga, with a capacity of 15,000 trucks. Volvo Construction Equipment (VCE) was first established in Russia in 2002 and has since created a strong footprint. According to Volvo, the group is one of the strongest brands, with a solid market share in the premium segment.

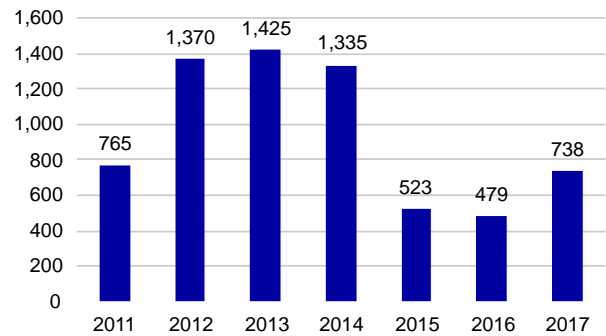
Ferronordic was founded in 2010 by Anders Blomqvist and Erik Eberhardson when they acquired Volvo's construction equipment dealership in Russia. Ferronordic's vision is to be regarded as the leading service and sales company in the CIS, driven by the substantial market potential. Ferronordic had strong growth between 2010 and 2013, and the number of outlets increased from the six acquired from Volvo to 75, while the number of employees increased from approximately 160 to 731. During the same period, revenue doubled and the EBIT margin rose from -7.6% to 2.1%.

**FERRONORDIC: REVENUE 2010-17, SEKm**



Source: Company data

**FERRONORDIC; NEW UNITS SOLD 2011-17**



Source: Company data

Strong market development in 2017, a rebound from the weak 2015-16

In 2014, the market was hurt by the political turbulence resulting from the Russian invasion of Crimea, which led to firm sanctions from both the EU and the US. The sanctions had a severe impact; moreover, the oil price fell sharply from USD 110 to USD 55 per barrel. As the Russian economy is correlated with the oil price, the drop led to a downturn in the economy and indirectly to a decrease in demand for construction equipment machinery. In 2014 and 2015, the construction equipment market (excluding Russian and Chinese manufacturers, bulldozers, rigid dump trucks and forestry machines) fell by approximately 30% and 70% y/y, respectively. Management acted quickly and closed 11 (net) less profitable outlets, laying off approximately 80 employees (net). The company also divested its rental fleet and increased its focus on the less volatile aftermarket. Despite the weak market, Ferronordic continued its long-term strategy by adding complimentary premium brands.

Ferronordic was appointed the dealership for Terex Trucks in 2014, Dressta and Rottne in 2016 and Mecalac in 2017. The newly-appointed brands diversified the operation towards the forestry and mining sector. In 2017, approximately 80% of the revenue came from Volvo CE, 16% from the other brands and 4% from a new business area: contracting services. Ferronordic was appointed the dealership for Mecalac in Q3 2017, so it has not yet provided any significant volume contribution.

### A brief introduction to the brands

Strong market position in Russia and a wide product range

Approximately 80% of Ferronordic's revenue is related to Volvo CE, which gives the company a high brand concentration. 16% of revenue comes from the other six authorized brands, and 4% from the new segment, reported as other sales or contracting services. We estimate that the group will continue to have a high concentration towards the Volvo CE brand, mainly due to its strong market position in Russia and wide product range.

**FERRONORDIC: BRANDS AND PRODUCTS**

| Brand              | Volvo CE            | Volvo Trucks and Renault Trucks | FERRONORDIC Gensets            | TEREX                         | DRESSTA                    | ROTTNE                    | MECALAC         |
|--------------------|---------------------|---------------------------------|--------------------------------|-------------------------------|----------------------------|---------------------------|-----------------|
| Example of product |                     |                                 |                                |                               |                            |                           |                 |
| Year               | 2010                | 2012                            | 2014                           | 2014                          | 2016                       | 2016                      | 2017            |
| Product            | Full VCE range      | Aftermarket                     | Own labelled diesel generators | Dump trucks and rigid haulers | Bulldozers and pipe layers | Forwarders and harvesters | Backhoe loaders |
| Area               | All of Russia       | Approx 10 locations             | All of Russia                  | All of Russia                 | All of Russia              | All of Russia             | All of Russia   |
|                    | 80% of revenue 2017 |                                 |                                | 16% of revenue 2017           |                            |                           |                 |

Source: Company data

Sole authorised dealer for Volvo Construction Equipment in Russia since 2010

### **Volvo CE**

Ferronordic has been the sole authorised dealer for Volvo Construction Equipment in Russia since 2010. Volvo is one of the leading premium construction equipment manufacturers in Russia, with a solid footprint dating back to the 1990s. Volvo has a wide product offering, including excavators, wheel loaders, articulated haulers and road construction machines. The number of new Volvo construction equipment machines sold in Russia has increased from 446 in 2016 to 657 in 2017. The agreement between Volvo CE and Ferronordic is based on a contract that either party could terminate with 180 days' notice.

Terex Trucks is a Scottish manufacturer of articulated trucks for extreme applications; Ferronordic was appointed the official nationwide dealership for Terex Trucks in 2014

### **Terex Trucks**

Terex Trucks is a Scottish manufacturer of articulated trucks for extreme applications. The truck manufacturing is based in Motherwell, Scotland, where Terex Trucks produces dump trucks with a payload of 41 to 91 US tons, and since 2007 has sold around 200 trucks to Russia and the CIS. In 2014, Ferronordic was appointed the official nationwide dealership for Terex Trucks. Similar to the contract with VCE, the dealership with Terex Trucks is based on an agreement that can be terminated with 180 days' notice. In 2014, Terex Trucks was acquired by VCE and in Q2 2018 a new range of machines was launched under the Volvo brand, also manufactured in the Motherwell plant.

Offering includes mining & landfill dozers and oil & gas pipe layers manufactured in Stolowa, Poland

### **Dressta**

Dressta is a Polish-based global manufacturer of heavy construction equipment founded in 1937. Its machine offering includes mining & landfill dozers and oil & gas pipe layers manufactured in Stolowa, Poland. In mid-2016, Ferronordic was appointed the official dealership of Dressta in all of Russia. We believe that Dressta's product offering is a good complement to Ferronordic's product portfolio from VCE. It also enables a full product offering.

Ferronordic's own brand of diesel generators are commonly known as 'gensets'

### **Ferronordic diesel generators**

Ferronordic has its own brand of diesel generators, commonly known as 'gensets'. The diesel generators are based on a Volvo Penta engine, and its application area is for companies working in remote areas with a lack of electricity. In 2016 and 2017, Ferronordic sold 21 and 29 gensets respectively. Gensets are considerably less valuable compared with other product offerings.

Rottne's offering includes harvesters and forwarders; Ferronordic was appointed the nationwide dealership in 2016

### **Rottne**

Rottne was founded in the 1950s by Börje Karlsson with the mission of transporting timber through the forest of Löpanäs. Today, Rottne has production facilities in Lenhovda and Stensele. 50% of group sales are exported to Europe, Russia, North America and Australia. Rottne has a wide product offering in the forestry segment, including harvesters and forwarders. Ferronordic was appointed the nationwide dealership in 2016. In 2016 and 2017, Ferronordic sold one and five forestry machines, respectively, from Rottne.

In August 2017, Ferronordic was appointed the official nationwide dealership of Mecalac

### **Mecalac**










In August 2017, Ferronordic was appointed the official nationwide dealership of Mecalac, a function of Volvo's discontinued manufacturing of backhoe loaders. Mecalac is a French manufacturer of compact-class construction equipment and it acquired Terex's production facility in Coventry, England, where it manufactures backhoe loaders. We believe that Ferronordic sold fewer than ten Mecalac units in 2017.

Authorised service and spare parts dealer for Volvo and Renault Trucks in Russia

### **Volvo Trucks and Renault Trucks**

Ferronordic is also the authorised service and spare parts dealer for Volvo Trucks and Renault Trucks in selected locations in Russia. As of today, Ferronordic has about ten service stations in Russia, among others in Eastern Moscow, Krasnodar, Norilsk and Novyi Urengoy. We believe that the Volvo dealership will continue to be a focus area for Ferronordic ahead, due to its high profitability and solid synergies with other business areas.

**FERRONORDIC: SALES PER PRODUCT TYPE, 2017**

| Product type                       | New units sold in 2017 | Description  | Example   |
|------------------------------------|------------------------|--|---|
| <b>Excavators</b>                  | <b>320</b>             | Heavy construction equipment used in materials handling, forestry, demolition, digging foundations etc. Different sizes including compact excavators, wheeled excavators and crawler excavators.   |    |
| <b>Wheel loaders</b>               | <b>133</b>             | Wheel loaders are used when working in quarrying, block handling, material handling and building construction. The wheel loader digs and moves material. Size and price vary depending on model and configuration.   |    |
| <b>Articulated haulers</b>         | <b>97</b>              | An articulated hauler could be compared with a dump truck. It is a very large heavy duty type of dump truck used for quarrying, mining and tunnelling, as well as earthmoving. Payload capacity varies from 25,000 kg to 55,000 kg. Volvo's articulated hauler is the market leader. |    |
| <b>Road construction equipment</b> | <b>70</b>              | Asphalt paver, a machine used for road construction to lay asphalt at airports, roads, bridges, parking lots etc.  |   |
| <b>Backhoe loader</b>              | <b>57</b>              | Designed to be rugged, versatile and highly productive. Two main versions, centre mounted and sideshifted. Wide range of purposes; digging ditches, loading, lifting etc.  |  |
| <b>Rigid hauler</b>                | <b>11</b>              | Rigid hauler is a very large heavy duty truck used for quarrying and specially engineered for high production mining in challenging environments. Payload ranging from 41,000 kg to 91,000 kg.   |  |
| <b>Bulldozers</b>                  | <b>16</b>              | Used to move/push soil, sand and other materials equipped with a large metal blade.  |  |
| <b>Forestry machines</b>           | <b>5</b>               | Machinery mainly from the Swedish brand Rottne used for felling, delimiting and transporting trees. Two categories, harvesters and forwarders.   |  |
| <b>Forestry machines</b>           | <b>29</b>              | Diesel generator based on a Volvo Penta engine. used mainly by companies working in remote areas with a lack of electricity.   |  |

Source: Company data

Strategy to focus on larger and more complex machines

As illustrated in the table above, Ferronordic has a wide product portfolio ranging from bulldozers to forestry machines and its own brand of gensets. As of 2017, excavators represented 40% of the total new machine sales measured in units, while wheel loaders and articulated haulers represented 18% and 13% respectively. If we compare these machines as a percentage of sales with five years ago, we identify solid growth. We believe this is due to Ferronordic's strategy to focus on larger and more complex machines.

Three main machine categories:

Ferronordic reports under three different machine categories, where it consolidates the above-mentioned machine types into GPPE, Utilities and Road. In our estimates, we have also added a category named 'Other machines'.

1) GPPE – complex and larger machines

- GPPE comprises large and complex machines, including large excavators, wheel loaders and articulated haulers. The average selling price is the highest in this category, and the competition from both Russian and Chinese machines is limited.







2) Utilities – smaller and simpler machines

- The Utilities category comprises smaller and simpler machines, such as backhoe loaders and smaller excavators. The category is primarily dominated by high competition from both local and Chinese manufacturers and is therefore not one of Ferronordic's main focus areas.

3) Road – equipment used for road construction

- The Road category comprises equipment specifically used for road construction, including pavers and compactors.

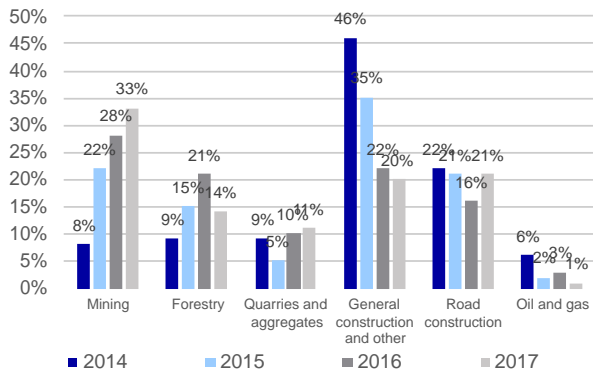
#### FERRONORDIC: SALES PER INDUSTRY, 2017

| Industry                       | Share of Ferronordic's sales 2017 | Main areas of use  | Description  |   |
|--------------------------------|-----------------------------------|--|--|---|
| Mining                         | 33%                               | - Urals<br>- Siberia<br>- Far East                           | Machines used in harsh and demanding environments where the customers focus on productivity and complete solutions. This drives continuous aftermarket demand both for service and spare parts.  |   |
| Road construction              | 21%                               | - Whole Russia   | Due to frost in the ground, road maintenance can only take place during a limited time of the year. This leads to a high focus on productivity and a demand for high-quality machines with aftermarket service and spare parts.  |  |
| General construction and other | 20%                               | - Whole Russia   | The machines are used for maintenance of buildings, infrastructure, industrial facilities etc.   |  |
| Forestry                       | 14%                               | - North west<br>- Siberia<br>- Volga<br>- Far East           | Logging is on a higher technological level than simple transportation of logs. Customer purchasing strategies differ for different parts of the value chain. The machines are mainly used in construction of infrastructure, logging, transportation and handling of logs. |  |
| Quarries and aggregates        | 11%                               | - North west<br>- Siberia<br>- South<br>- Central<br>- Urals | Targeting medium and large companies with focus on productivity and demand for high-quality machines. With a high utilisation rate comes a high service focus. The machines are often used in extraction and production of raw materials for the construction industry.    |  |
| Oil and gas                    | 1%                                | - Urals<br>- Siberia<br>- Volga                              | High focus on productivity and complete customer solutions, which gives Ferronordic a solid aftermarket offering. The machines are often used in construction and maintenance of pipelines, refineries etc.  |  |

Source: Company data

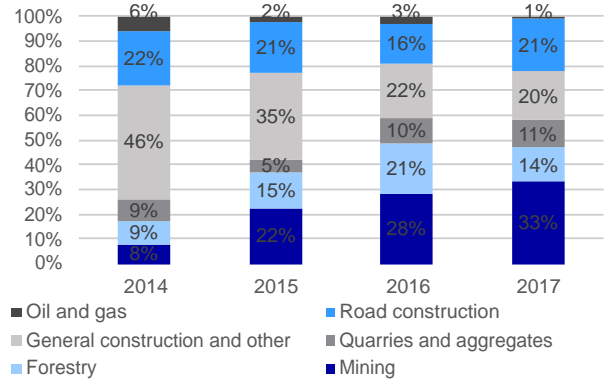
Ferronordic's exposure per end market has diversified in the last five years mainly due to adding new brands, such as Rottne in the forestry industry and Terex Trucks in the mining industry.

**FERRONORDIC: SALES PER END INDUSTRY (%), 2014-17**



Source: Company data

**FERRONORDIC: NEW SALES PER INDUSTRY (%), 2014-17**



Source: Company data

Mining and forestry industries are less volatile and less affected by economic downturns

In Russia, both the mining and forestry industries are less volatile and less affected by economic downturns compared with the general construction and road category. This is mainly due to the mining and forestry industries' exposure to private rather than public investments, as well as trade in hard currency. Another factor affecting the impact of an economic downturn on a particular category is its geographical presence.

Given the size of Russia, it has historically had different economic cycles in the central regions compared with the far east regions. Both the mining and forestry industries are generally located in remote areas, and therefore come with less volatility.

Improvements and more willingness to outsource services and buy authorised spare parts, but Russia still has some way to go

As mentioned earlier, different industries have different maturities when it comes to the aftermarket and outsourcing. In the more mature industries, customers comply with service routines in a similar way to common car owners. However, in less mature industries, the customers often service their machines themselves, and often without using authorised spare parts produced by the machine manufacturer. In Russia, generally, we have noticed improvements and more willingness to outsource services and buy authorised spare parts. The trend is driven by more complex machines, which are tougher to service without using an authorised service provider, and by a higher productivity focus among its customers. In comparison with more mature markets, such as Western Europe, Russia still has some room to improve its outsourcing rate.

# Being close to the customer is key

Ferronordic has a strategically-placed nationwide network of outlets in Russia, with the main objective of being close to the customers. As transportation of machines, both new and used, is logistically complicated, the outlets play a key role in Ferronordic's business model. We believe that Ferronordic is currently satisfied with its number of outlets and geographical coverage. In addition, we believe that new outlets will mainly be opened in conjunction with new large customer projects, and hence new openings could serve as a leading indicator for new customer projects and potential top-line growth.

## FERRONORDIC OUTLETS, 2017



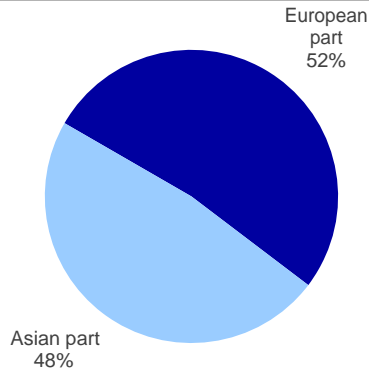
Source: Company data

### A nationwide network

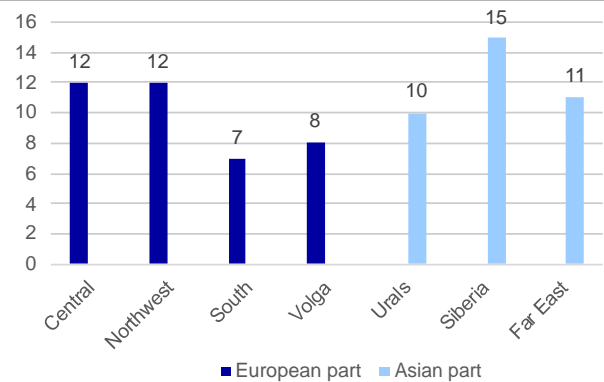
Ferronordic has a strategically-placed network of outlets, through which it offers both new equipment sales and services. As of Q2 2018, the company had 78 outlets throughout Russia, albeit slightly skewed towards the central and western regions. The outlets are usually placed in the vicinity of major cities, or at locations where management expects demand for new equipment to materialise. The latter are often mineral prospecting sites, mines under construction or oil production plants.

Russia is the world's largest country in terms of area. Nevertheless, it is increasingly important to be close to the customer, both in terms of both new equipment sales and aftermarket sales. Having aftermarket services close to the customer is especially important, as almost all service takes place at the customer's location. Proximity to the customer is also important given that transportation of machines is often a costly and quite complex operation, particularly in remote areas.

We believe that Ferronordic is currently satisfied with its number of outlets as well as its geographical coverage. In addition, we believe that new outlets will mainly be opened in conjunction with large new customer projects. As a consequence, we argue that any announcement of a new outlet being opened could be interpreted as a leading indicator for new customer projects, and hence potential top-line growth. Ferronordic announced in its Q2 2018 report that it is opening a new combined outlet in Rostov-on-Don, close to the Ukrainian border. The outlet is a service station for both Volvo and Renault trucks, but will also be used for service of construction equipment machines.

**RUSSIAN OUTLETS: SPLIT PER REGION, % 2017**

Source: Company data

**OUTLETS PER GEOGRAPHICAL REGION, 2017**

Source: Company data

As the graph above to the left shows, 52% of the outlets are located in the European part of Russia, while 48% are located in the Asian part. In 2010, approximately 80% of all units were sold in the Northwest and Central regions, and Ferronordic has actively increased its Asian exposure to minimise sales risk and volatility. We believe that the company will continue to increase its presence in regions such as Siberia and Far East, taking a project-based approach, most likely within the mining industry.

**Four different types of outlets as of the end of 2017**

To be efficient and to meet customer demand, Ferronordic has four types of facilities, depending on the location and the services provided. A majority of the outlets leased by Ferronordic has annually renewed leasing contracts (ie less than 12 months). This provides Ferronordic with a somewhat flexible cost structure, which became apparent during the market downturn of 2014-15 when management agilely net closed units in order to maintain high utilisation.

**1. Owned dealer facility**

Ferronordic only owns two facilities, one in eastern Moscow of 2,832 m<sup>2</sup> and one in Arkhangelsk of 2,620 m<sup>2</sup>. The facilities are used for repair workshops, warehousing and offices. Ferronordic is reluctant to own assets in Russia, and we therefore anticipate a limited number of new owned facilities ahead.

**2. Rented facility**

Ferronordic prefers rented facilities due to their reduced time to market and limited capital needs. Many of the rental contracts are less than 12 months, meaning a fairly flexible cost structure, which we believe is essential when operating in a historically volatile market. Ferronordic has approximately 60 rental facilities in operation, which vary from workshops to purpose-built facilities for both equipment and trucks.

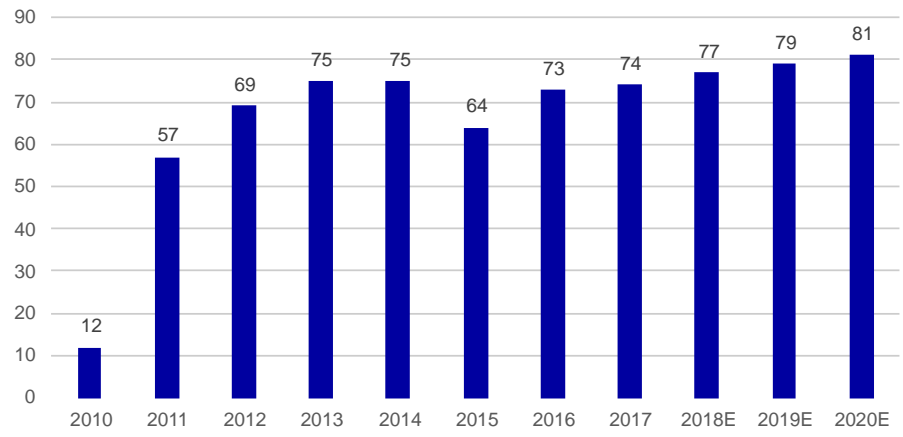
**3. Customer-based service depots**

This kind of outlet is often used for large fleets at customer sites. They provide an easy way to set up a service station at a remote location. Ferronordic has six such outlets.

**4. Home-based mechanics**

These are mechanics working from home, ie at the customer's location in remote areas. This setup is suitable for the period until a rental facility can be found. Ferronordic has five home-based mechanics.

**NUMBER OF OUTLETS, 2010-20**




Source: Company data and Nordea estimates

# Board of directors

Ferronordic's board of directors consists of six members having solid backgrounds, including experience with the Russian market and the Volvo group. Insider ownership among management is high, which we view as an indication of their commitment to Ferronordic.

## BOARD OF DIRECTORS









| Name   | Role   | Shares    | Background   |
|--|--|-----------|--|
|  Staffan Jufors       | Chairman of the board<br>Chairman of the remuneration committee<br>Member of the audit committee | 60,747    | Jufors, born 1951, holds a M.Sc in Business Administration and has previously been managing director of Volvo Trucks and managing director of Volvo Penta. Currently board member at ÅF and Uniflex.   |
|  Annette Brodin Rampe | Member of the board<br>Member of the audit committee   | 10,000    | Brodin Rampe, born in 1962, holds a M.Sc in Chemical Engineering and has previously been board member at PEAB and Ernströmgruppen. Currently CEO of Internationella Engelska Skolan and board member of Stillfront Group.  |
|  Magnus Brännström    | Member of the board<br>Member of the remuneration committee<br>Member of the audit committee     | 0         | Brännström, born in 1966, holds a M.Sc in Business Administration and has previously been managing director at Oriflame Russia. Currently CEO of Oriflame Cosmetics SA.  |
|  Lars Corneliusson   | Member of the board  | 935,749   | Corneliusson, born in 1967, holds a M.Sc in Business Administration and previously Head of Volvo Trucks Russia and managing director of CJSC Volvo Vostok. Currently CEO of Ferronordic.   |
|  Erik Eberhardson   | Member of the board and co-founder   | 1,082,205 | Eberhardson, born in 1970, holds a B.Sc in Business Administration and has previously been CEO of Ferronordic and head of Volvo CE Russia. Currently CEO of ScandSib Group.  |
|  Håkan Eriksson     | Member of the board<br>Chairman of the audit committee<br>Member of the remuneration committee   | 2,260,774 | Eriksson, born in 1962, holds a M.Sc in Business Administration and has previously been chairman of the board and CEO of Kapitalkredit and board member of ClearCar AB. Currently board member and CEO of Planch and board member of Skandinavskonsult i Stockholm AB. |

Source: Company data \*Note: Number of shares as of June 2018.

# Executive Management

Ferronordic's executive management consists of eight members, with some having been with the company since it was founded.

## EXECUTIVE MANAGEMENT

| Name  | Role                                   | Shares  | Background   |
|---|--|---------|--|
|  Lars Corneliusson   | Chief Executive Officer                | 935,749 | Corneliusson, born in 1967, holds a M.Sc in Business Administration and previously Head of Volvo Trucks Russia and managing director of CJSC Volvo Vostok. Currently CEO of Ferronordic. |
|  Nadezhda Arzumanova | Human Resources Director               | 1,649   | Arzumanova, born in 1979, studied organisational management and has been employed by Ferronordic since 2010.   |
|  Anders Blomqvist    | Chief Financial Officer and co-founder | 510,410 | Blomqvist, born in 1970, holds a M.Sc in Business Administration and has been employed by Ferronordic since 2010.  |
|  Henrik Carlborg    | General Counsel                        | 290,399 | Carlborg, born in 1975, holds a Masters of Law and has been employed by Ferronordic since 2013.  |
|  Onur Gucum        | Commercial Director                    | 139,780 | Gucum, born in 1973, holds a B.Sc in Economics and Mathematics and has been employed by Ferronordic since 2012.  |
|  Alexander Shmakov | Director Mining                        | 1,649   | Shmakov, born in 1978, studied management and has been employed by Ferronordic since 2010.   |
|  Jonathan Tubb     | Chief Financial Officer (Russia)       | 0       | Tubb, born in 1964, holds an ONC in Business and Finance and has been employed by Ferronordic since 2017.  |
|  Anton Zhelyapov   | Director Trucks                        | 1,649   | Zhelyapov, born in 1977, studied international relations and has been employed by Ferronordic since 2015.  |

Source: Company data \*Note: Number of shares as of June 2018.

# Owners

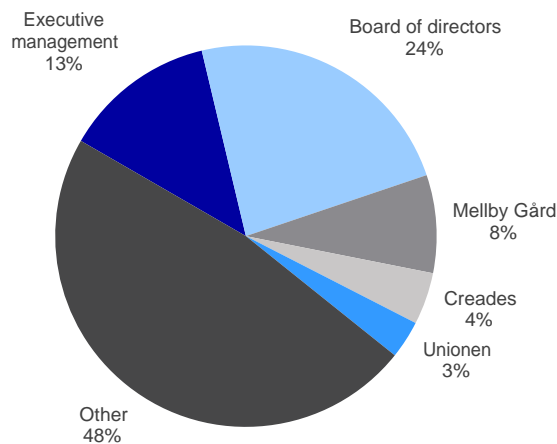
Executive management holds 13% of Ferronordic's capital and the board of directors holds 24%. The largest shareholder, Håkan Eriksson, holds 16% of the capital. The 13 largest shareholders represent 68% of the total outstanding shares in the company. We believe that high ownership from management could buoy sentiment regarding the direction of the company and could help to create long-term shareholder value; we argue that this is particularly important for high-growth companies operating in emerging markets.

| Nr | Shareholders                      | Number of shares | Votes | Capital | Date       |
|----|-----------------------------------|------------------|-------|---------|------------|
| 1  | Håkan Eriksson (Skandinavkonsult) | 2,260,774        | 16%   | 16%     | 31/05/2018 |
| 2  | Mellby Gård                       | 1,205,836        | 8%    | 8%      | 30/06/2018 |
| 3  | Erik Eberhardson                  | 1,082,205        | 7%    | 7%      | 31/05/2018 |
| 4  | Lars Corneliussen                 | 935,749          | 6%    | 6%      | 31/12/2017 |
| 5  | Avanza Pension                    | 649,172          | 4%    | 4%      | 30/06/2018 |
| 6  | Creades                           | 642,462          | 4%    | 4%      | 31/03/2018 |
| 7  | GLG Partners                      | 548,811          | 4%    | 4%      | 08/03/2018 |
| 8  | Swedbank Robur Fonder             | 521,053          | 4%    | 4%      | 31/07/2018 |
| 9  | Anders Blomqvist                  | 508,595          | 4%    | 4%      | 30/06/2018 |
| 10 | Unionen                           | 466,078          | 3%    | 3%      | 30/06/2018 |
| 11 | Svenska Handelsbanken for PB      | 426,903          | 3%    | 3%      | 30/06/2018 |
| 12 | Per Arwidsson                     | 387,292          | 3%    | 3%      | 30/06/2018 |
| 13 | Henrik Carlborg                   | 288,567          | 2%    | 2%      | 30/06/2018 |

Source: Holdings database

## SHAREHOLDER STRUCTURE

High insider ownership could buoy sentiment and create long-term shareholder value



Source: Holdings database

# Russia at a glance – investment potential

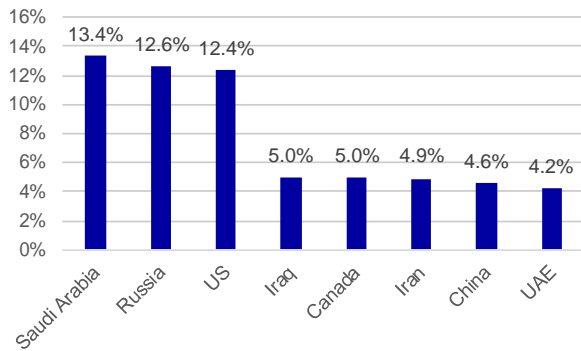
Russia is the world's largest country with a total area of 16.4 million km<sup>2</sup>, nearly twice the size of Canada (9.9 million km<sup>2</sup>) and covering 12.5% of the Earth's surface. Given that the country has the world's third-largest coal reserves and second-largest gold reserves, there is a healthy market for heavy construction equipment, as well as a need for infrastructure investments. Russian infrastructure is heavily underinvested, with most dating back to the Soviet era. According to the World Economic Forum, the quality of the country's infrastructure is comparable to that of Egypt, Iran or Botswana. This year, Russia's 'May decrees' shifted focus towards infrastructure, which could be positive for the underlying market demand.

## Large investment need in the world's biggest country

Russia has a unique position as the geographical link between Europe and Asia, with direct access to three out of four oceans and sharing borders with 17 countries

Russia is the world's largest country with a total area of 16.4 km<sup>2</sup>, nearly twice the size of Canada (9.9 km<sup>2</sup>) and covering 12.5% of the Earth's surface. In terms of population, Russia ranks as the world's ninth most populated country at 144 million inhabitants. Compared with European countries, Russia is 70% larger than Germany and more than twice the size of France (in population terms). We believe Russia has a unique position as the geographical link between Europe and Asia, with direct access to three out of four oceans and sharing borders with 17 countries.

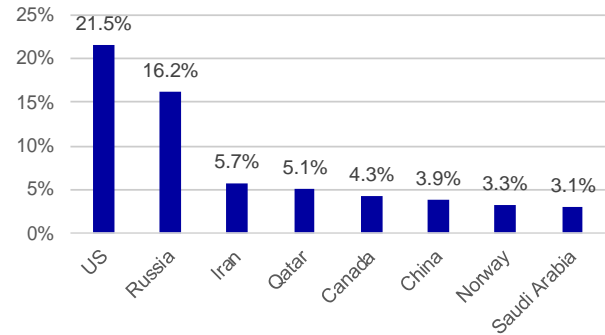
**OIL PRODUCTION AS % OF GLOBAL TOTAL, 2017**



Source: BP Statistical Review of World Energy

Oil production creates a solid base for the Russian economy

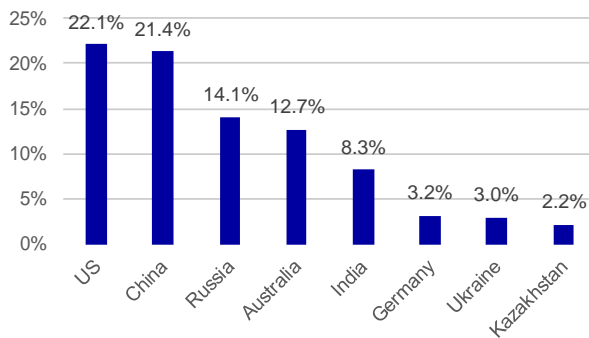
**NATURAL GAS PRODUCTION AS % OF GLOBAL TOTAL, 2017**



Source: Statistical Review of World Energy

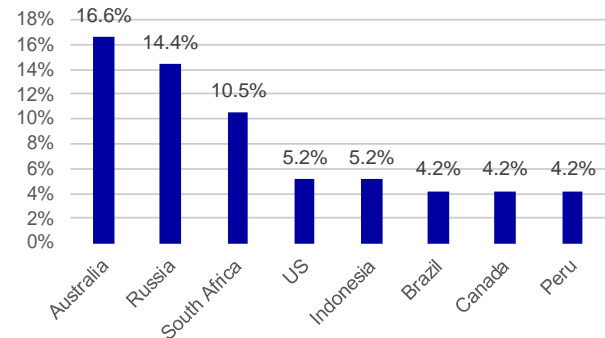
Russia is a rich country in terms of natural resources; it is a high-ranking producer of oil, natural gas, coal and gold globally. The country is the second-largest oil producer, with a market share of 12.6%, 80 bp behind Saudi Arabia. Oil production creates a solid base for the Russian economy, albeit a volatile one owing to global commodity price movements.

**COAL RESERVES AS % OF GLOBAL TOTAL**



Source: BP Statistical Review of World Energy

**GOLD RESERVES AS % OF GLOBAL TOTAL**



Source: BP Statistical Review of World Energy

Development of natural resources buoys ongoing demand for heavy construction equipment

Russia has the world's third-largest coal reserves and second-largest gold reserves. The high amount of natural resources buoys ongoing demand for heavy construction equipment and creates a need for infrastructure investments, which we believe act as solid market growth drivers for Ferronordic.

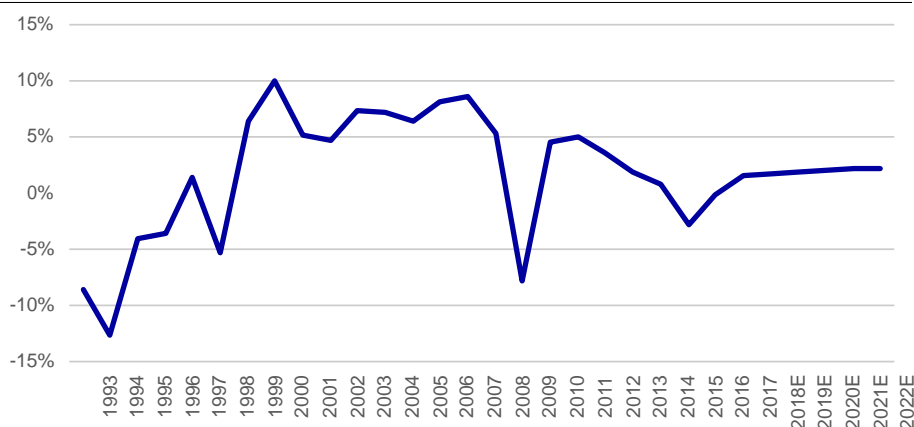
The RUB is highly correlated with the oil price

### Russian economy in a potential recovery

Measured in GDP, the Russian economy has been volatile, with strong growth between 1999 and 2008, at an average of 7%, but in 2008, the economy was hit hard by the global financial crisis, and GDP dropped by 8% in 2009. The economy recovered quickly and showed growth of 4.5% in 2010; it kept a solid growth rate until 2013 when GDP growth slowed to 1.8%, and then to 0.7% in 2014.

In 2014, the Russian economy was materially affected by EU sanctions. The sanctions resulted in negative growth in 2015 (-2.8%), followed by a weak 2016. In 2017, the economy picked up somewhat, driven by rising commodities, specifically the soaring oil price (rising from USD 36/barrel to USD 55/barrel). The Russian rouble is highly correlated with the oil price, as oil and gas account for around 60% of Russia's exports and >30% of the country's GDP. Between 2018 and 2022, the country's GDP growth is estimated at approximately 2.0% per year on average, according to consensus.

GDP GROWTH Y/Y FOR 1993-2022E, %



Source: Thomson Reuters

### ECONOMIC INDICATORS FOR RUSSIA – 2011-22E

| Indicator                  | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E | 2021E | 2022E |
|----------------------------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|
| GDP                        | 4.3  | 3.4  | 1.3  | 0.6  | -2.8 | -0.2 | 1.6  | 1.7   | 1.9   | 2.0   | 2.1   | 2.1   |
| Inflation                  | 6.1  | 6.6  | 6.5  | 11.4 | 12.9 | 5.4  | 2.5  | 4.1   | 4.3   | 4.4   | 4.4   | 4.6   |
| Budget balance (% of GDP)  | -0.2 | 0.0  | -0.5 | -0.5 | -3.5 | -3.7 | -2.2 | -1.7  | -2.2  | -1.8  | -2.3  | -2.7  |
| Current-account (% of GDP) | 4.9  | 3.6  | 1.6  | 2.7  | 5.0  | 2.0  | 2.8  | 3.0   | 2.6   | 1.9   | 2.0   | 1.5   |
| FX reserves (USD Bil.)     | 510  | 528  | 509  | 385  | 370  | 377  | 431  | 465   | 485   | 510   | 525   | 550   |
| Rouble/USD (year-end)      | 32.1 | 30.4 | 32.9 | 58.0 | 73.0 | 61.1 | 57.8 | 60.0  | 61.2  | 62.5  | 63.0  | 64.5  |
| Rouble/EUR (year-end)      | 41.5 | 40.1 | 45.1 | 72.0 | 78.0 | 64.0 | 67.0 | 70.0  | 73.0  | 73.4  | 74.5  | 75.5  |
| Retail sales               | 7.2  | 5.7  | 3.9  | 2.5  | -9.8 | -3.5 | 2.4  | 2.7   | 3.0   | 3.0   | 2.8   | 2.9   |
| Household spending         | 6.8  | 7.9  | 4.7  | 1.8  | -8.5 | -2.6 | 3.2  | 3.3   | 2.9   | 3.0   | 2.8   | 3.2   |
| Real wages                 | 4.9  | 8.2  | 5.2  | 1.9  | -9.5 | 1.5  | 3.4  | 3.0   | 2.9   | 3.0   | 2.9   | 3.0   |
| Disposable income          | 2.8  | 3.7  | 3.3  | 2.1  | -4.0 | -5.2 | 0.2  | 1.8   | 2.4   | 2.5   | 2.4   | 2.4   |
| Unemployment rate          | 6.5  | 5.3  | 5.5  | 5.3  | 5.4  | 5.8  | 5.2  | 5.0   | 5.1   | 5.2   | 5.1   | 5.1   |
| Gross fixed investment     | 9.8  | 6.0  | -0.3 | -4.8 | -7.6 | -2.7 | 4.0  | 3.4   | 3.0   | 3.4   | 3.2   | 3.1   |
| Industrial output          | 4.7  | 2.6  | 0.3  | 1.7  | -3.4 | 1.1  | 1.5  | 1.9   | 2.2   | 2.8   | 3.0   | 2.9   |

Source: RCIS and Thomson Reuters

As shown in the table above, the Russian economy is healthy, with a strong balance sheet and low leverage compared with the EU and the Americas. The country's gross government debt in relation to GDP amounts to 12%, compared with other large economies such as the US, the UK and the EU at 124%, 88% and 42%, respectively.

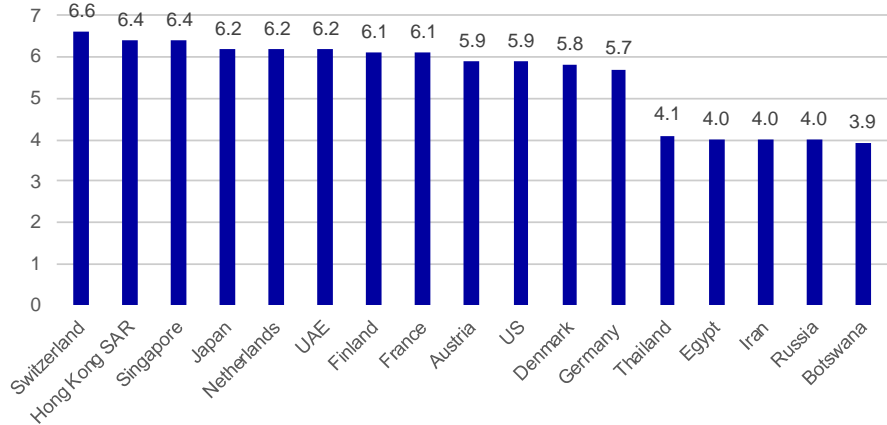
Russian infrastructure is heavily underinvested, with most dating back to the Soviet era...

**An underinvested economy**

Russian infrastructure is heavily underinvested, with most infrastructure dating back to the Soviet era. According to the World Economic Forum's ranking of countries based on the quality of their infrastructure, Russia was placed at number 75 with a score of four on a scale of seven (where one is underdeveloped and seven is extensive by international standards). The country's infrastructure quality, according to this data, is comparable to that of Egypt, Iran and Botswana.

...and the country's infrastructure quality is comparable to that of Egypt, Iran and Botswana

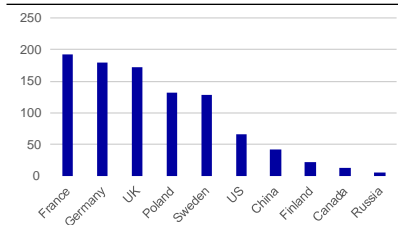
**INFRASTRUCTURE RANKING BY WORLD ECONOMIC FORUM, 2017**



Source: Company data and Nordea estimates

The areas with the highest rankings are Switzerland at 6.6 and Hong Kong SAR at 6.4. Among the Nordic countries, according to the World Economic Forum, Finland is the best placed at 6.1, with a global ranking of 7. We argue that the size of the countries should be taken into account when assessing their rankings/scores.

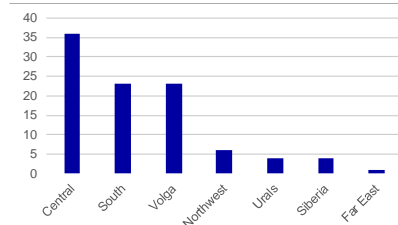
**RUSSIA: ROAD DENSITY, KM OF ROAD PER 100 SQUARE KM OF LAND AREA**



Source: Company data and World Bank

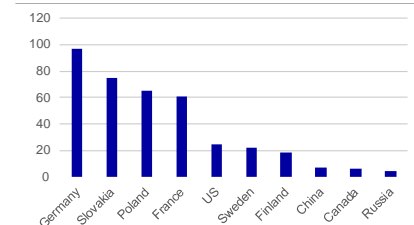
Russia is the country with the lowest road and rail density

**ROAD DENSITY PER REGION, KM OF ROAD PER 100 SQUARE KM LAND AREA**



Source: Company data and World Bank

**RUSSIA: RAIL DENSITY, KM OF RAILWAY PER 1,000 SQUARE KM OF LAND AREA**



Source: Company data and Rosstat

Examining some parameters that could be an indicator of the country's infrastructure quality, we believe that road and rail density is a relevant measure (measured in kilometre of road per 100 km<sup>2</sup> of land area and kilometre of railway per 1,000 km<sup>2</sup> of land area). Among the countries shown above, Russia is the one with the lowest ratio, at 6 km of road per 100 km<sup>2</sup> of land area and 5 km of railway per 1,000 km<sup>2</sup> of land area; significantly below the EU average of 132 kilometres for roads.

Given Russia's size, one could argue that it should have a lower ratio compared with a less sizeable country, such as the UK, Sweden or Slovakia. However, if we examine Russia's road density per region, we find that even the central areas are significantly below the EU average, although the Far East, Siberia and Urals dilute Russia's average.

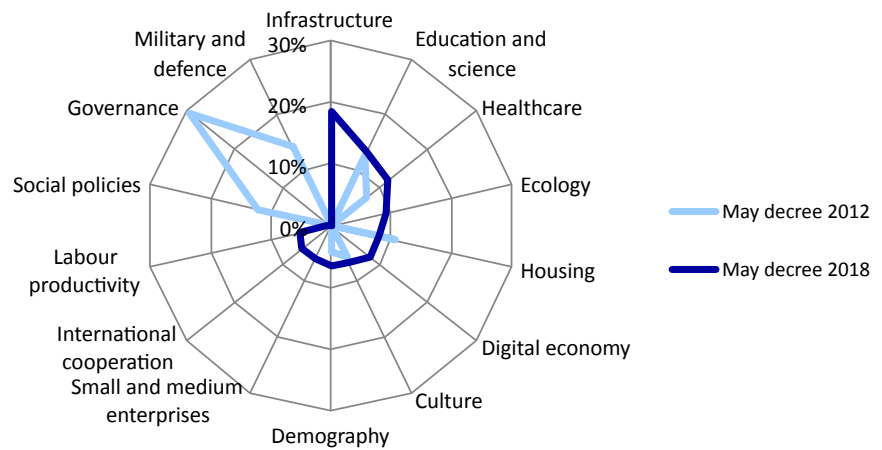
Russian politicians are shifting focus towards infrastructure

This year, Putin specified the priorities for his next presidential period, commonly known as the May decrees. Compared with the decrees from six years ago, Putin shifted his focus from social support towards infrastructure. From not being included six years ago, infrastructure accounted for almost 20% this year and when including education and health care, the weight was 44%. This weight equals a percentage of the total 150 goals and tasks. In October 2018, the Russian government will come up with a more detailed plan of the economic reform agenda.

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**MAY DECREE FOCUS AREAS, 2012 VS 2018**


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Source: Nordea

Below, we provide a more detailed summary of the 2018 May decree and what the Russian government communicated needs to be done to fulfil the objectives.

Target to increase annual housing construction volumes from 80 to 120 million m<sup>2</sup>

### 1. Housing and better urban environment

**Target:** Increase annual housing construction volumes to 120 million m<sup>2</sup> (currently 80 million m<sup>2</sup>) and ensure a 30% improvement in the urban life quality index.

To achieve these targets, the following tasks have to be fulfilled, according to the May decrees:

- create better financing instruments for construction, including development of the mortgage securities market; technological improvements in housing construction (encouraging use of new technologies in construction and engineering); and,
- legislative improvements to reduce administrative and reporting burdens for developers.

Target to ensure that no less than 50% of highways of regional importance meet regulatory standards

### 2. Better and safer roads

**Targets:** Ensure that no less than 50% of highways of regional importance correspond to regulatory standards; reduce the share of highways of federal and regional importance that are operating in overload mode by 10% (compared with 2017); reduce the number of places with frequent accidents by half (compared with 2017); and, reduce the death ratio due to road accidents by three-fifths (compared with 2017).

To achieve these targets, the following tasks have to be fulfilled, according to the May decrees:

- ensure that no less than 85% of highways in urban territories correspond to standards;
- enact a preference to use better technology and materials in road construction;
- use digital technology, robots in highway maintenance/exploitation extensively; and,
- exert control over the observance of traffic rules.

Target to develop the Northern Sea Route and increase of its cargo traffic

### 3. Modernisation and expansion of infrastructure

**Targets:** Develop transport corridors "West-East" and "North-South" for the carriage of goods, including construction and modernisation of Russian sections of highways related to the international transport route "Europe-Western China"; increase the capacity of the seaports of the Russian Federation, including the ports of the Far East, North western, Volga-Caspian and Azov-Black Sea basins.

Develop the Northern Sea Route and increase its cargo traffic up to 80 million tonnes; reduce the time for transportation of containers by rail, particularly from the Far East to the western border of the Russian Federation to seven days; quadruple the volumes of transit container traffic by rail; create nodal cargo multimodal transport and logistics centres; and increase the capacity of the Baikal-Amur and Trans-Siberian railways by 50% to 180 million tonnes.

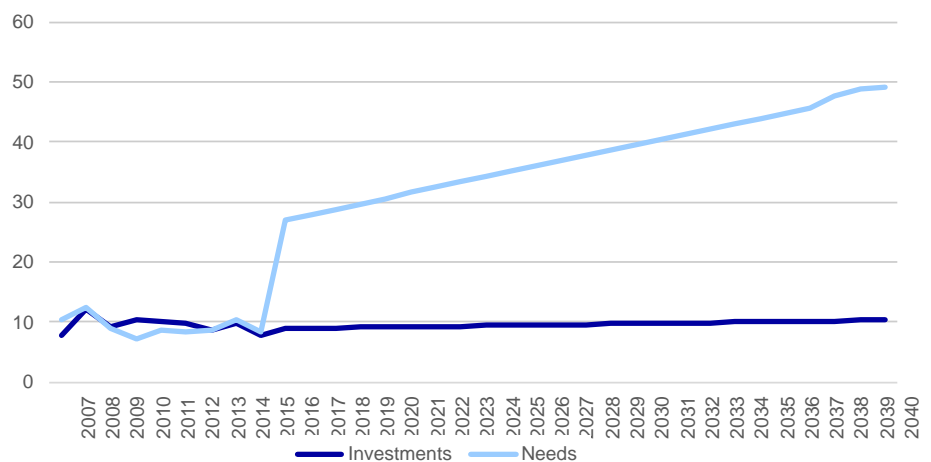
To achieve these targets, the following tasks have to be fulfilled, according to the May decrees:

- increase the level of economic coherence of the Russian Federation by expanding and modernising rail, air, road, sea and river infrastructure (ie step-by-step development of transport communications between the administrative centres of the constituent entities of the Russian Federation, other cities and economic centres, including the elimination of infrastructure restrictions on the development prospects adjacent to such transport areas);
- reconstruct the infrastructure of regional airports and expand the network of interregional regular passenger air routes, bypassing Moscow, up to 50% of the total number of domestic regular air routes;
- create a basis for the development of high-speed rail services between major cities; and,
- increase the capacity of inland waterways.

The following chart shows the demand for infrastructure investments, where the gap between current infrastructure investments and the need for investments is steadily increasing, although we find a solid pipeline of large infrastructure projects ahead:

- A central ring road around Moscow, with a total length of 520 km and a budget above USD 7bn; the project dates span 2014-20.
- A northern latitude railway with a length of 700 km across Siberia; planned completion is 2020.
- Demolition and rebuilding of 7,900 apartments in Moscow with an investment of USD 5bn; the project will occur between 2017 and 2030.
- High-speed railway between Moscow and Kazan, with 700 km of track length and investments of USD 21bn; the project will take place during 2016-20.

**RUSSIA: CURRENT ROAD INFRASTRUCTURE INVESTMENTS AND NEEDS, USD TRILLION**



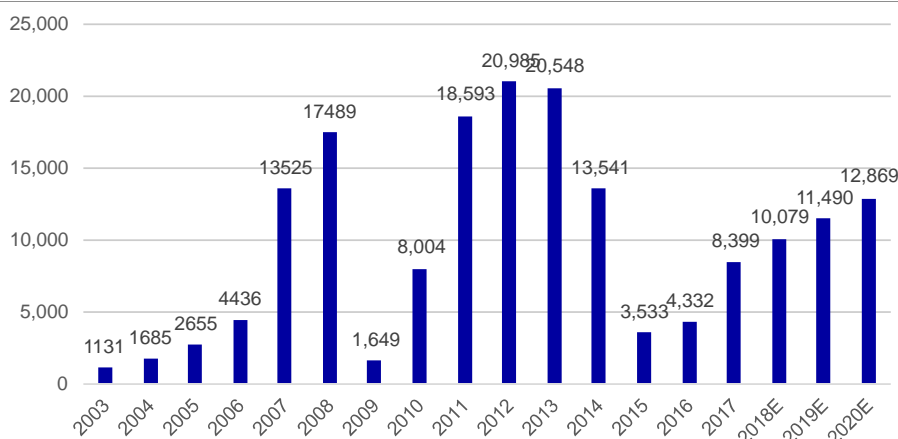
Source: Oxford Economics

Correcting the heavy underinvestment in infrastructure should drive market growth ahead, we believe, with support from the recent May decrees

## A market with pent-up demand

Imports of Russian equipment machines have, similar to the overall Russian economy, been highly volatile, with years of strong growth followed by sharp declines, often for macroeconomic reasons. Despite strong market growth in 2017, the market is still 60% below 2013 levels. Management believes that growth in 2017 was a result of pent-up demand, along with increased infrastructure investments, and we believe the market will continue to show strength in the coming years. We have not yet seen any impact from the sanctions implemented in 2018, however, or counteractions against foreign companies. Nevertheless, this risk cannot be eliminated and so we are cautiously optimistic for the coming years. We estimate imports of construction equipment (excluding Chinese machines) will reach 10,079 units for 2018E and 11,490 for 2019E, corresponding to respective y/y growth of 20% and 14%.

**IMPORTS OF CONSTRUCTION EQUIPMENT MACHINES TO RUSSIA, EXCLUDING CHINESE AND RUSSIAN MANUFACTURERS**



\* Excludes Russian and Chinese manufacturers, bulldozers, rigid dump trucks and forestry machines  
Source: Company data and Nordea estimates

In 2017, imports of high-quality machines to Russia doubled and reached 8,399 machines

Despite strong growth, the market is still 60% below 2013 levels

Management believes growth in 2017 was a result of pent-up demand and increased infrastructure investments

Imports of Russian equipment machines have, much like the overall Russian economy, been highly volatile. Machine imports were strong in 2007 and 2008, at 13,500 and 17,500 units respectively. In 2009, the market plummeted due to the global financial crisis and machine deliveries declined by 90%, down to 1,650 machines. It is worth mentioning that high-quality machines were first imported to Russia in 2005-06, and prior to that the majority of machines were manufactured in Russia and were often of lower quality. Despite a slow global economic recovery after the financial crisis, the Russian market regained momentum in 2010 and climbed to all-time highs, reaching more than 20,000 machine deliveries by 2012 with an average CAGR of 25% (2003-14). As a function of the sanctions against Russia, and owing to the significant drop in oil price and the rouble's depreciation, the market fell by 74%, and has slowly recovered since then.

In 2017, imports of high-quality machines to Russia almost doubled and reached 8,399 machines. Despite strong growth, the market is still 60% below the 2013 level. Management believes that growth in 2017 was a result of pent-up demand as well as increased infrastructure investments.

We identify the following market drivers for Russian construction equipment imports:

- Overall market conditions
- Commodity prices
- Infrastructure investments
- Pent-up demand for machines.

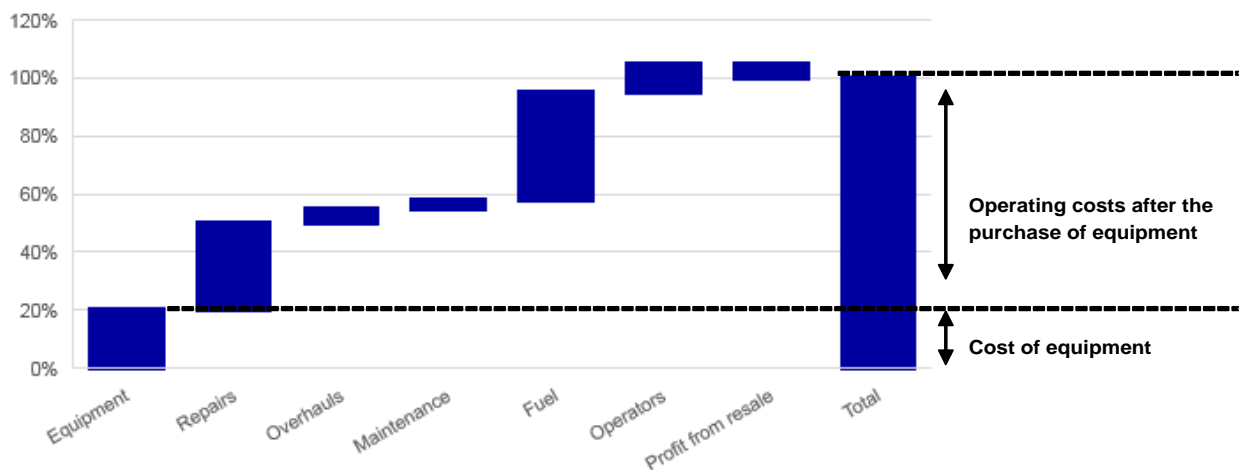
As previously mentioned, the Russian economy is reasonably strong right now, with a solid balance sheet. In May, the government decreed a greater focus on infrastructure investments. Commodity prices and FX are currently at good levels for mining companies, with exports in EUR, which should create steady demand. In addition, we note pent-up demand in the market, mainly driven by a low replacement of inefficient machines and low general imports of machines.

According to Ferronordic's numerical example presented in the annual report, the pent-up demand could amount to at least 60,000 units. It calculates this number by subtracting machine imports from the last ten years (120,000 units) from the total estimated need given prevailing investment levels between 2011 and 2014 (180,000 machines).

We are cautiously optimistic on 2018 and 2019; we estimate respective y/y growth of 20% and 14%

Despite a strong market development in 2017, with y/y growth of 97% excluding Chinese machines, we believe the market will continue showing strength. We have not seen any impact from the sanctions implemented during 2018 and no signs of counteractions against foreign companies, but we still cannot eliminate this risk. We can conclude, however, that market uncertainty is not positive for general sentiment and some potential investments might be postponed. We are therefore cautiously optimistic for 2018 and 2019; we estimate imports of construction equipment (excluding Chinese machines) will reach 10,079 units for 2018 and 11,490 for 2019, corresponding to y/y growth of 20% and 14%, respectively.

**EQUIPMENT LIFECYCLE COST**



Source: Nordea estimates and Minnesota Department of Transportation

**Steadily maturing customers**

Russian and other emerging market construction equipment customers – generally defined as less mature – have historically focused more on the initial purchase price rather than the full life-cycle ownership cost, which includes fuel, repairs, maintenance etc. This is a short-term view that could mislead customers and prevent them from making informed decisions. A focus on the initial purchase price leads customers to choose cheaper and simpler machines, often of lower quality and with inadequate aftermarket offerings, that do not include adequate service and spare parts supply.

A trend of increased focus on full life-cycle costs is starting to emerge in certain industries, driven by premium equipment manufacturers' continuous efforts to educate customers

According to management, however, a focus on full life-cycle costs has started to increase for certain industries in recent years. This is a result of continuous efforts by premium equipment manufacturers, including Volvo and Caterpillar, to educate customers. In addition, there might also be growing cost awareness among customers due to failures, repairs, downtime costs and production losses.

Ferronordic has a strong sales team that, supported by software, can provide existing and potential customers with a complete life-cycle cost projection for the equipment, including the aforementioned factors as well as financial elements such as interest rates, depreciation, discount rates and present values.

The trend will benefit premium producers and thereby Ferronordic

We believe this trend will benefit premium producers and thereby Ferronordic. The growing focus on lifecycle costs will result in a more constant replacement flow of old Russian machines (conversion) as well as the replacement of older premium-brand machines. This will not only be positive for new machine sales, but also for used machine sales and the aftermarket segment.

We believe Russian customers still have a long way to go before reaching the same maturity as European customers, but this will surely be a long-term underlying growth driver.

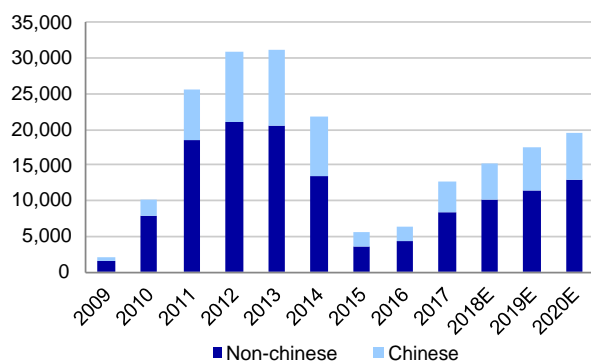
As the graph above illustrates, the initial price of a construction equipment machine is around 20% of the total lifecycle cost, while fuel and repairs represent approximately 30% and 37%, respectively. We believe it is important for Ferronordic to make its customers aware of this cost split. If it succeeds, this should result in lower focus on the initial price.

#### MARKET IMPORT DATA

| Russian imports of CE by origin         | 2013   | 2014   | 2015  | 2016  | 2017   | 2018E  | 2019E  | 2020E  |
|---|--------|--------|-------|-------|--------|--------|--------|--------|
| Non-Chinese                             | 20,548 | 13,541 | 3,533 | 4,332 | 8,399  | 10,079 | 11,490 | 12,869 |
| Chinese                                 | 10,646 | 8,280  | 2,107 | 2,097 | 4,377  | 5,252  | 6,040  | 6,644  |
| Total                                   | 31,194 | 21,821 | 5,640 | 6,429 | 12,776 | 15,331 | 17,530 | 19,513 |
| <b>Growth y/y (%)</b>                   |        |        |       |       |        |        |        |        |
| Non-Chinese                             | -2%    | -34%   | -74%  | 23%   | 94%    | 20%    | 14%    | 12%    |
| Chinese                                 | 7%     | -22%   | -75%  | 0%    | 109%   | 20%    | 15%    | 10%    |
| Total                                   | 1%     | -30%   | -74%  | 14%   | 99%    | 20%    | 14%    | 11%    |
| <b>As % of total</b>                    |        |        |       |       |        |        |        |        |
| Non-Chinese                             | 66%    | 62%    | 63%   | 67%   | 66%    | 66%    | 66%    | 66%    |
| Chinese                                 | 34%    | 38%    | 37%   | 33%   | 34%    | 34%    | 34%    | 34%    |
| Total                                   | 100%   | 100%   | 100%  | 100%  | 100%   | 100%   | 100%   | 100%   |
| <b>Russian imports of CE by segment</b> |        |        |       |       |        |        |        |        |
| GPPE                                    | 7,154  | 5,202  | 1,376 | 1,728 | 3,871  | 4,435  | 5,056  | 5,405  |
| Utilities                               | 11,243 | 6,654  | 1,642 | 1,755 | 3,271  | 4,132  | 4,711  | 5,534  |
| Road                                    | 2,151  | 1,685  | 515   | 849   | 1,257  | 1,512  | 1,723  | 1,930  |
| Total                                   | 20,548 | 13,541 | 3,533 | 4,332 | 8,399  | 10,079 | 11,490 | 12,869 |
| <b>As % of total</b>                    |        |        |       |       |        |        |        |        |
| GPPE                                    | 35%    | 38%    | 39%   | 40%   | 46%    | 44%    | 44%    | 42%    |
| Utilities                               | 55%    | 49%    | 46%   | 41%   | 39%    | 41%    | 41%    | 43%    |
| Road                                    | 10%    | 12%    | 15%   | 20%   | 15%    | 15%    | 15%    | 15%    |
| Total                                   | 100%   | 100%   | 100%  | 100%  | 100%   | 100%   | 100%   | 100%   |

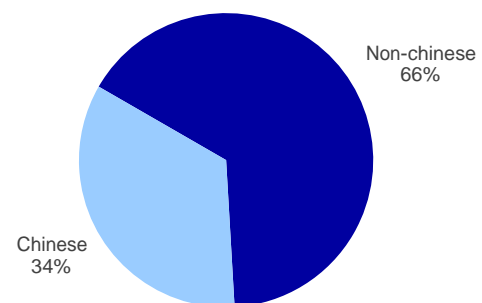
Source: Company data and Nordea estimates

#### RUSSIAN IMPORTS OF CE MACHINES, CHINESE VS NON-CHINESE IN 2009-20E, NUMBER OF UNITS



Source: Company data and Nordea estimates

#### CHINESE MACHINES VS NON-CHINESE MACHINES IN 2017



Source: Company data

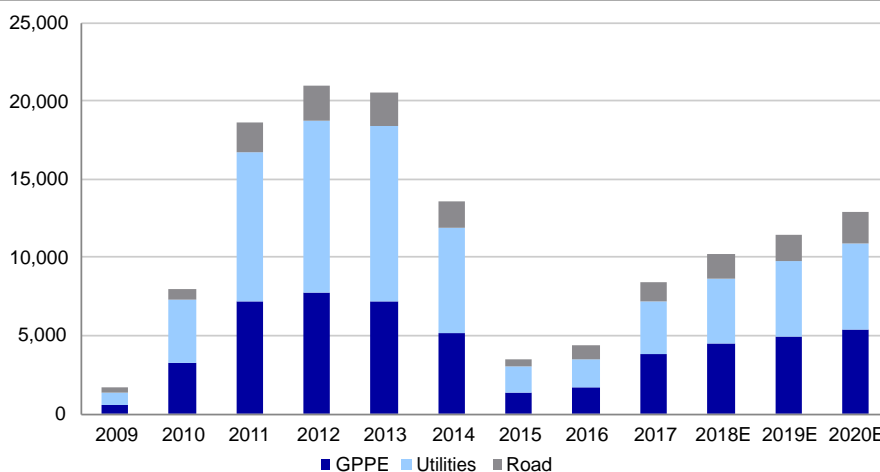
We estimate that Chinese manufacturers will maintain a strong position within wheel loaders, while the structural trend towards more complex premium machines will persist

The market for construction equipment machines could reasonably be divided into non-Chinese and Chinese machines. The non-Chinese machine segment generally consists of premium machines with brands such as Volvo, Caterpillar, Komatsu and Hitachi. The Chinese segment often consists of cheaper, lower-quality brands that lack aftermarket support. The Chinese machines are also often smaller and simpler wheel-loaders; these represented 90% of Chinese imports in 2017. Ferronordic considers the non-Chinese brands its most relevant competitors.

The number of Chinese machines imported to Russia has increased from 22% in 2009 to 34% in 2017, ie a slight decrease from the peak of 38% in 2014. One should take into account the significantly lower selling price per Chinese machine compared with non-Chinese machines. If the Chinese market share is examined in terms of value instead of the total number of units, it would lower the Chinese market share significantly.

We estimate that Chinese manufacturers will maintain a strong position in smaller excavators and wheel loaders, while the structural trend towards more complex premium machines will persist. This means Chinese manufacturers will lose market share in Ferronordic's niche areas of GPPE and Road (excluding smaller excavators).

**RUSSIAN MACHINE IMPORT BY MACHINE TYPE IN 2009-20E**



Source: Company data and Nordea estimates

GPPE comprises large and complex machines such as large excavators, wheel loaders and articulated haulers

Dividing the non-Chinese imports by segment, we can conclude that GPPE was the largest in 2017 with a share of 46%, while Utilities and Road represented 39% and 15%, respectively. Ferronordic's focus is on GPPE and Road comprises large and complex machines such as large excavators, wheel loaders and articulated haulers, while Road comprises equipment specifically used for road construction, eg pavers and compactors.

Due to its target end markets, we conclude that Utilities should be considered the most volatile segment. Between 2009 and 2013, Utilities was the fastest-growing category with a CAGR of 96%, albeit from low levels. Between 2013 and 2015, however, Utilities was also the category that reported the most substantial decline (-62%).

We estimate the Utility segment will gain slight market shares (200 bp), while Road will keep its 15% share. We expect GPPE, on the other hand, to lose 200 bp in market share. This implies 2017-20E volume CAGRs of 19%, 12% and 15% respectively.

# Competitors

The heavy construction equipment market is dominated by major firms such as Caterpillar, Hitachi, Volvo Construction Equipment, JCB, Komatsu, Komatsu, Deere & Company and more. Based on their considerable expertise and experience over the years, these market leaders have optimised their processes and practices to become even more efficient. The companies mentioned above represent the premium manufacturer segment and all are represented in the Russian market. Below we feature a few notable companies:



## Caterpillar

Caterpillar is a US-based manufacturer of construction and mining equipment engines and machines. Its segments include Construction Industries, Resource Industries, Energy & Transportation, Financial Products and All Other operating segments. As of 2016, the company's machines were distributed primarily through a dealer network, with 49 dealers located in the US and 123 outside the US, serving a total of 190 countries.

Similar to Volvo, Caterpillar has a longstanding relationship with Russia, first entering the market in 1913. Caterpillar has five offices in Eurasia, four of which are located in Russia. Caterpillar has 20 dealers in Eurasia, nine of them in Russia, serving the entire country. As of today, there are ~27,000 Caterpillar units in Russia.



## Komatsu

Komatsu is a Japanese manufacturer of industrial products and services. The company is engaged in construction and mining equipment, industrial machinery and vehicles, logistics, electronics and other solutions. Its products include forest machines, forklift trucks, diesel engine generators, large press systems, small and medium-sized presses, sheet-metal machinery, machine tools, excimer lasers and thermoelectric modules.

The company has a wide product offering including different types of excavators, crawler dozers, dump trucks, wheel loaders and backhoe loaders. Similar to a majority of the other manufacturers, Komatsu sells via a dealer network.



## Hitachi Construction Machinery (HCM)

Hitachi is a solution provider across a range of sectors, including power and energy, industry and urban development. Since its establishment in 1970 as a subsidiary of Hitachi Ltd, HCM has become the third-largest construction machinery manufacturer in the world. Based in Japan, the company has production plants in Asia, Europe, North and South America. It employs more than 17,000 people worldwide.

Over the past few decades, HCM has developed a full line of industry-leading construction equipment machinery and other machinery including plants, elevators, escalators and equipment for the semiconductors. The construction equipment offering includes excavators (one to 800 tonnes), wheel loaders, dump trucks, crawler cranes and light compaction equipment.

## Other Asian and Russian manufacturers

Among the Chinese construction equipment manufacturers active in the Russian market, we note: Hyundai, Doosan, Kobelco, Sdlg, Sany, Taiyuan Heavy, Heli, Kubota, LiuGong and XCMG. These companies are both premium manufacturers as well as budget alternatives with different product offerings, ranging from smaller excavators to dump trucks.

It was difficult to find appropriate Russian manufacturers in the premium segment that are comparable to Volvo and Caterpillar, although we did find some smaller players, presumably within the budget segment: Chelyabinsk Tractor Plant and BelAZ.

# Market opportunities from pent-up demand

The Equipment sales segment consists of two parts: sales of new units and of used units. The first represents some 84% of total units (trailing 12 months) and used units the remainder. The split between new and used units has varied over time, with used units sales being higher when markets are weaker. The segment has reported strong growth since the company was established in 2010 but it was hit hard by the sanctions against Russia in 2014, when new unit sales fell by 60%-plus. These have since recovered steadily thanks to underlying pent-up demand for new machines. We estimate a 2017-20 sales CAGR of 12.8% driven by volumes and a favourable price/mix, as we demonstrate below.

Sales of new units represent 84% of total units in Equipment sales, with Volvo CE representing the majority

The Equipment sales segment represented 70% of group sales in 2017 but presumably a lower share of profitability. The segment consists of two parts: sales of new units and of used units. The first represents approximately 84% of total units (trailing 12 months). The split between new and used units has varied over time though, with a higher level of used units sold when markets are weaker.

Ferronordic is the authorised dealer in Russia for Volvo CE, Terex Trucks, Dressta, Mecalac, and Rottne. It is also the authorised dealer for Volvo Trucks and Renault Trucks in selected locations in Russia. Its largest brand is Volvo, accounting for 89% of new machine sales in 2017, including machines such as articulated haulers, wheel loaders, excavators and pavers.

Used machines are either from Ferronordic's rental fleet, from the contracting services business or are traded-in machines from customers. Used machines sales in 2015 were inflated by the sell-off of the rental fleet.

Volvo Certified Rebuilt extends a machine's lifecycle by two or three times

## Volvo Certified Rebuilt

In June 2017, Ferronordic became a supplier of Volvo Certified Rebuilt for articulated haulers, excavators and wheel loaders. The programme rebuilds used equipment in accordance with Volvo CE's standards, extending their lifecycle by two or three times. Rebuilt machines receive a new warranty from Volvo. According to Volvo, the programme was launched with three packages for customers to choose between, all of them providing an opportunity to restore a machine at a clearly lower cost than for a new unit. The process starts with a complete machine inspection and thorough testing of its components.

**Package 1.** Certified Powertrain Rebuild uses the latest technology to restore fuel consumption to as-new levels and offers a range of Volvo Reman components to ensure higher uptime.

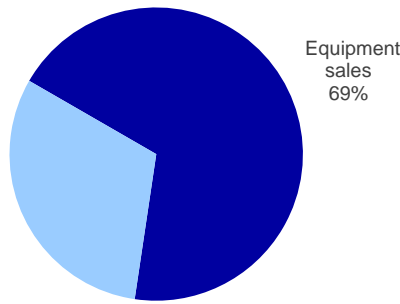
**Package 2.** Certified Hydraulics Rebuild, generally for crawler and wheeled excavators > 12 tonnes, restores the hydraulic system to original performance, durability and reliability, for greater machine productivity and fast cycle times.

**Package 3.** Complete Machine Rebuild is designed for customers who want their older Volvo machines to look and perform like new. This includes a complete rebuild of the machine, both inside and out, including hydraulics and powertrain, finished off with a fresh coat of paint.

One of the first Volvo dealers appointed to the certified rebuilt programme and the first in Europe for excavators

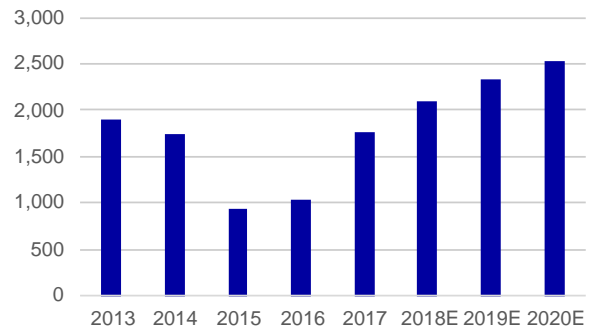
Ferronordic was one of the first Volvo dealers to be appointed to the programme and the first in Europe for excavators. Its management believes that being awarded the Volvo Certified Rebuilt programme creates new business opportunities in Russia by extending the life of used Volvo CE machines. This allows it to distribute used machines with a new supplier warranty.

**EQUIPMENT SALES AS A % OF GROUP REVENUE IN 2017**



Source: Company data and Nordea estimates

**SEGMENT SALES DEVELOPMENT 2013-2020, SEKm**



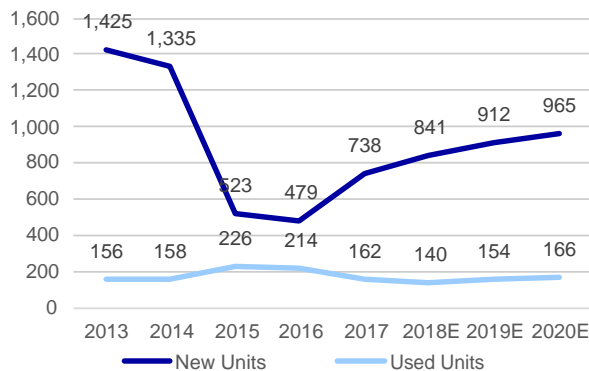
Source: Company data and Nordea estimates

We estimate a 2017-20 sales CAGR of 12.8% through a combination of volumes and price/mix

Equipment sales has historically accounted for 75% of group revenue. Since then, the segment has steadily deteriorated as a percentage of sales owing to management's focus on the less volatile aftermarket and contracting services areas.

Nevertheless, it has reported a strong development in both sales and units. In 2010-17, Equipment sales reported a sales CAGR of more than 14% and net sales of SEK 1,765m, corresponding to growth of 71% (30% volumes, 20% price/mix and 21% FX. We estimate a 2017-20 sales CAGR of 12.8%, driven by a combination of volumes and price/mix.

**VOLUMES HAVE BOUNCED BACK SINCE SANCTIONS IN 2014**

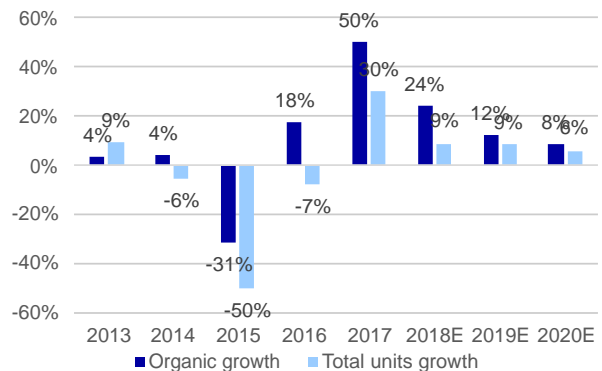


Source: Company data and Nordea estimates

Comparing segment organic growth with growth in total units indicates a continuous positive improvement in price/mix

Ferronordic entered a booming market in 2010, giving it a healthy start. In 2011 the number of total sold machines amounted to 805 units (95% were new units). In tandem with the overall Russian economy, the number of new units sold skyrocketed, until 2014 when the sanctions punctuated the market. At its peak, the number of new units sold amounted to 1,425 machines, 95% above the levels in 2017.

**...AND ORGANIC GROWTH HAS OUTPERFORMED VOLUMES**

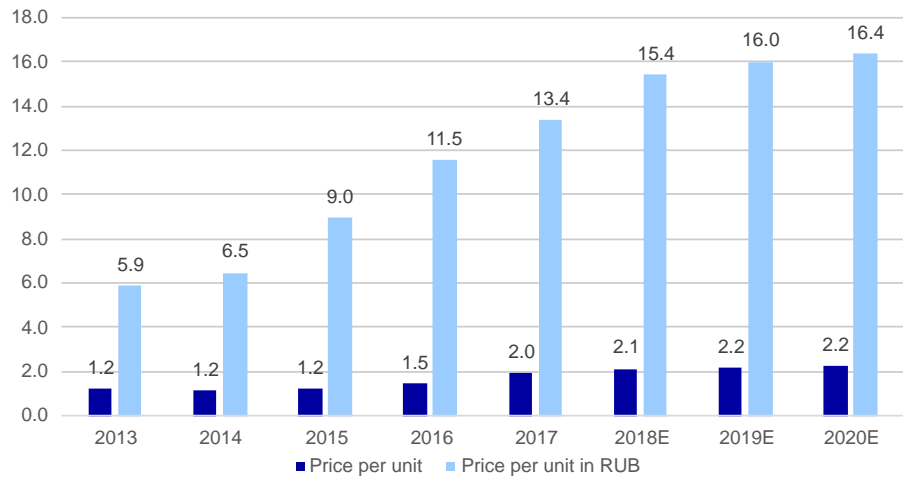


Source: Company data and Nordea estimates

We find the high levels of used units sold in 2015 and 2016 worth mentioning, since this stemmed from Ferronordic's divestment of its rental fleet, which inflated the numbers.

Comparing Equipment sales' organic growth with the growth in total units for the segment since 2011, we find that the organic growth has been substantially higher, indicating a continuous positive improvement in price/mix.

**PRICE/MIX INCREASE SHOULD CONTINUE, SEKm and RUBm**

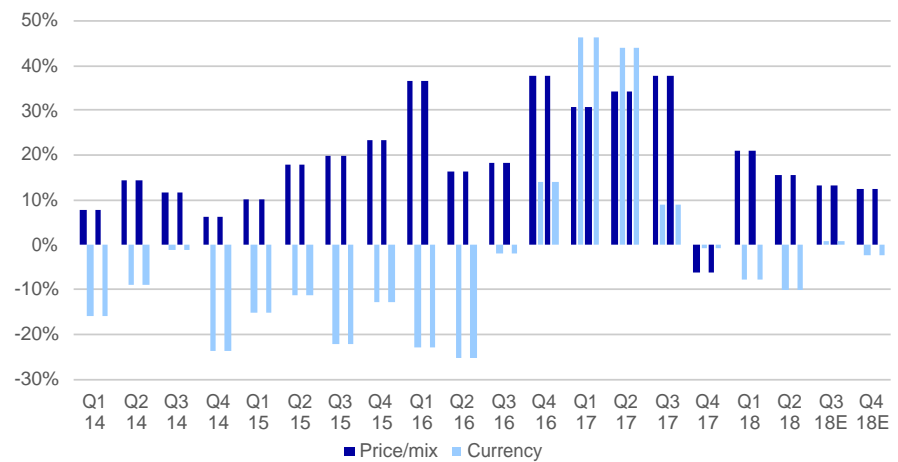


Source: Company data and Nordea estimates

We expect the ASPs in SEK and RUB to continue to increase by respective CAGRs of 5% and 7% from 2017 to 2020

As the chart above shows, ASPs have increased measured in both SEK and RUB. The 2013-17 CAGRs were 13% and 23%, respectively, and we expect this pattern of solid growth to continue, with ASPs reaching SEK 2.2m and RUB 15.4m in 2018E. We estimate that the price/mix development is a function of Ferronordic's well-communicated strategy of selling larger and more complex machines for a higher initial price, and owing to the weak FX development. A factor behind the recent strong price development is Volvo's discontinued production of backhoe loaders, which has led to a sharp decrease in sales of that specific unit for Ferronordic. As the initial price of a backhoe loader is approximately one-fifth of a dumper price, this has affected overall ASPs to some extent. We expect ASPs in SEK and RUB to continue to increase at respective CAGRs of 5% and 7% 2017-20. Our estimates do not take into account a pickup in the Mecalas backhoe loader sales, which would have a certain negative impact on rates.

**PERCENTAGE CHANGE Y/Y PRICE/MIX VS CURRENCY**



Source: Company data and Nordea estimates

When FX depreciates, volumes suffer and the negative growth is, to some extent, offset by price increases

The Russian construction equipment industry is a hard currency market, meaning Ferronordic buys and sells machines in RUB, with prices adjusted for currency fluctuations. Due to a depreciating rouble, Ferronordic has continuously implemented price increases, as seen in the graph above. What we mean is, when FX depreciates, volumes suffer and the negative growth is, to some extent, offset by price increases.

**SALES OF GPPE AND ROAD EQUIPMENT WILL CONTINUE TO GROW, SEKm**

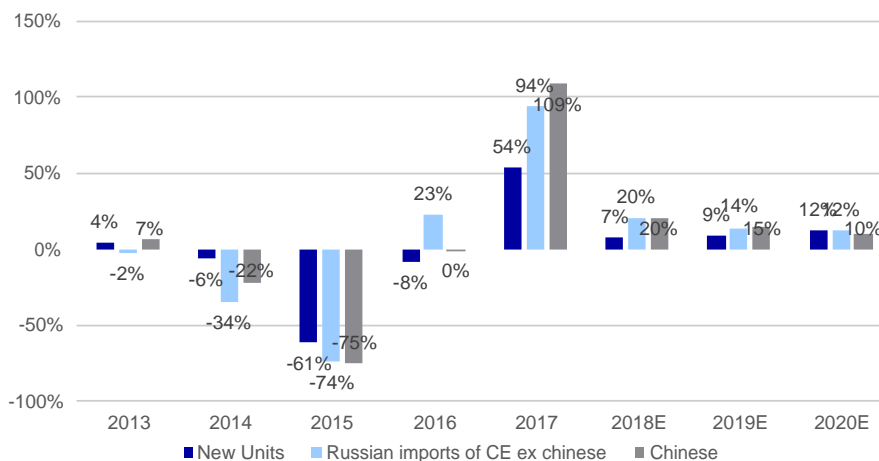
| Sales per machine   | 2013        | 2014        | 2015       | 2016       | 2017       | 2018E      | 2019E      | 2020E      |
|---------------------|-------------|-------------|------------|------------|------------|------------|------------|------------|
| Excavators          | 462         | 448         | 189        | 163        | 320        | 342        | 371        | 415        |
| Wheel loaders       | 104         | 91          | 57         | 81         | 133        | 135        | 146        | 164        |
| Articulated haulers | 112         | 112         | 56         | 59         | 97         | 103        | 112        | 125        |
| Road CE             | 125         | 151         | 64         | 24         | 70         | 111        | 121        | 135        |
| Backhoe loader      | 553         | 432         | 101        | 114        | 57         | 24         | 26         | 29         |
| Rigid haulers       | 0           | 0           | 0          | 10         | 11         | 20         | 22         | 24         |
| Bulldozers          | 0           | 0           | 0          | 1          | 16         | 16         | 17         | 19         |
| Forestry machines   | 0           | 8           | 5          | 1          | 5          | 24         | 26         | 29         |
| Skid steer loaders  | 59          | 78          | 46         | 4          | 0          | 0          | 0          | 0          |
| Pipelayers          | 0           | 4           | 3          | 1          | 0          | 0          | 0          | 0          |
| Gensets             | 0           | 11          | 2          | 21         | 29         | 20         | 22         | 24         |
| <b>Total</b>        | <b>1415</b> | <b>1335</b> | <b>523</b> | <b>479</b> | <b>738</b> | <b>794</b> | <b>862</b> | <b>965</b> |
| GPPE                | 678         | 651         | 302        | 303        | 550        | 580        | 629        | 705        |
| Utilities           | 553         | 436         | 104        | 115        | 57         | 24         | 26         | 29         |
| Road                | 125         | 151         | 64         | 24         | 70         | 111        | 121        | 135        |
| Other machines      | 0           | 23          | 10         | 34         | 61         | 79         | 86         | 97         |
| <b>Total</b>        | <b>1356</b> | <b>1261</b> | <b>480</b> | <b>476</b> | <b>738</b> | <b>794</b> | <b>862</b> | <b>965</b> |

Source: Company data and Nordea estimates

In 2017, Ferronordic reported growth from almost all machine types excluding backhoe loaders (still suffering from the transfer period)

Breaking down new unit sales per machine type and category (GPPE, Utilities and Road), we note that excavators is the largest machine type at 43% of sales in 2017, followed by wheel loaders and articulated haulers at 18% and 13%, respectively. These machines are in the prioritised GPPE and Road categories. In 2017, Ferronordic reported growth across almost all machine types excluding backhoe loaders, which are still suffering from the transfer period.

We do not expect any dramatic changes in any categories as a percentage of total machine delivery; we believe it will remain at GPPE 73%, Utilities 3%, Road 14% and Other machines 10%.

**FERRONORDIC'S DIVERSIFIED END-MARKETS CREATE LESS VOLATILITY THAN THE MARKET**

Source: Company data and Nordea estimates

Larger and more complex machines are less affected by market downturns than lighter machines are

As it operates in a well-diversified end-market, with 47% exposure to the less volatile mining and forestry industries, Ferronordic's volumes of new units were less impacted by the sanctions compared with the effect on overall Russian imports of construction equipment machines. One consideration is that larger and more complex machines are less affected by market downturns than lighter machines are (smaller excavators and backhoe loaders, for example). However, the larger machines miss some upside.

# Aftermarket sales limit the downside risk

Since the company's establishment, the Aftermarket sales segment has been a focus area and it has steadily grown as a share of group sales. We find it important for Ferronordic to maintain its focus on this area because it limits the downside risk to some extent when operating in a fluctuating market. Currently, Aftermarket sales cover Ferronordic's fixed costs. This was shown to be true in 2015 when the market fell by >60% and Ferronordic managed to increase its operating margin by 156 bp.

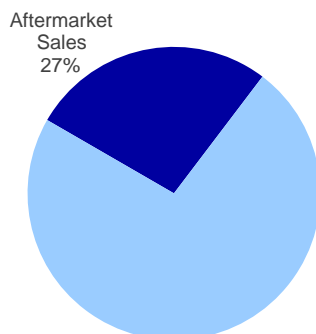
## Aftermarket in focus

The aftermarket offering consists of two parts: service (15-20%) and spare parts (80-85%)

More management focus has been allocated to the Aftermarket sales segment in recent years, as shown by Aftermarket sales accounting for 27% of group revenue in 2017, more than double the level in 2011, representing a sales CAGR of 18% for 2011-17. Following peak levels in 2015-16, the share of Aftermarket sales has decreased by around 700 bp as a percentage of group revenue. This decrease as a percentage of group revenue is solely due to dilution caused by high Equipment sales growth. In fact, Aftermarket sales rose by 24% in 2017, of which 9 pp was organic.

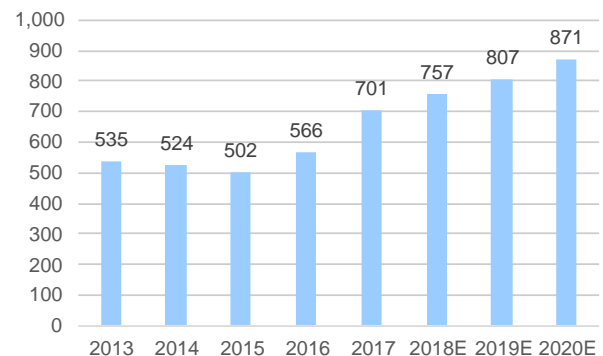
The Aftermarket sales offering consists of two parts: service (15-20%) and spare parts (80-85%). The offering includes spare parts delivery, operator training, preventative maintenance service, planned and unplanned repair, overhaul and diagnostics.

## AFTERMARKET REPRESENTS NEARLY ONE-THIRD OF GROUP SALES...



Source: Company data and Nordea estimates

## ...WITH SOLID GROWTH DESPITE THE SANCTIONS (NON-CYCLICAL)

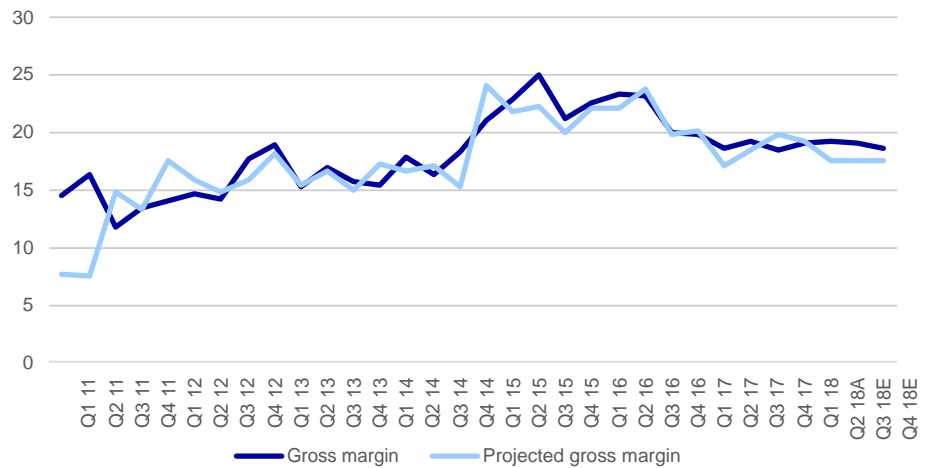


Source: Company data and Nordea estimates

Like most industrial companies, the aftermarket is of great importance to Ferronordic for several reasons.

1. The aftermarket often has robust profitability from both spare parts and services. In Ferronordic's case, the highest profitability is derived from spare parts rather than service, as service mainly occurs on site at remote locations where the mechanics must travel substantial distances.
2. Over time, the aftermarket segment tends to be less volatile, with non-cyclical characteristics. Ferronordic's Aftermarket sales cover its fixed costs, making the company less vulnerable when the market fluctuates. This was shown to hold true in 2015 when group sales fell by more than 30%, while the adjusted EBIT margin increased by 156 bp from 4.4% to 5.9%.

**AFTERMARKET SALES ARE HIGHLY PROFITABLE, AS SHOWN BY THE CORRELATION**

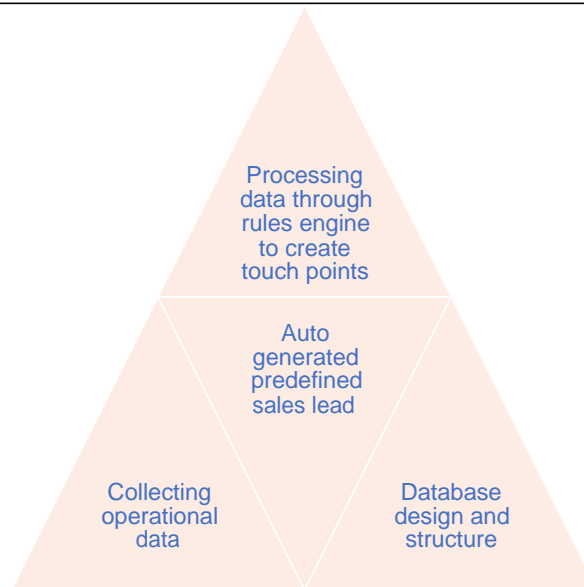


Source: Company data and Nordea estimates

As shown above, our regression analysis shows a high correlation between the gross margin and Aftermarket sales' share of total group revenue. In line with the growing Aftermarket sales share, the gross margin rose by 874 bp in 2011-15, going from 13.9% to 22.7%. Remember that the gross margin tailwind was driven by price/mix effects.

In 2017, the share of Aftermarket sales dropped by 682 bp, with the gross margin declining by 367 bp as a function of this. We believe the gross margin will stabilise at a slight decline, thanks to a base with larger and more complex machines and due to a dilutive effect from the high-growth Equipment sales segment.

**AUTOMATED LEAD GENERATIONS**



Source: Company data










# A new integrated way of selling

Contracting services further integrated Ferronordic with its customers; they created a stickiness and higher aftermarket penetration. When running at high utilisation, profitability is high, although so is the risk. Nevertheless, we find the risk/reward of the business model to be attractive when considering that this segment only accounts for around 4% of group revenue. Furthermore, we expect the historically high growth rate to continue throughout 2018; we forecast organic growth of 16% and a sales CAGR of 8% (2017-20).

Moving towards more customer integration

In recent years, Ferronordic has broadened its customer offering towards a more integrated solution rather than just being an equipment vendor. Enhanced integration with its customers offers substantial upside, in our view, when it comes to supply of spare parts and services; moreover, we find that it creates stickiness with customers and a competitive advantage.

NEW SALES MODEL WITH HIGH CUSTOMER INTEGRATION

|           | Traditional method   | Outsourcing method:<br>Contracting services   |
|-----------|--|---|
| Machines  |                      |                   |
| Parts     | <br>or the customer |                  |
| Service   | <br>or the customer |                  |
| Operators | Provided by:<br>The customer   | Provided by:<br> |
| Payment   | Cost of machines, parts and services   | Volume based, per tonne, cubic metre etc  |

Source: Company data

## Outsourcing model stands to ensure full aftermarket penetration

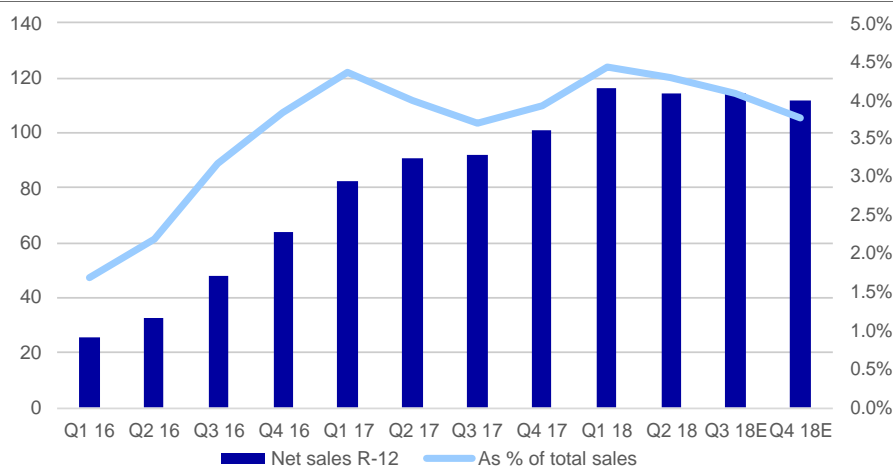
Compared with a traditional business model (see image above), the outsourcing model differs when it comes to spare parts, services, operators and payment. The traditional method would involve Ferronordic providing the customer with machines, and in some cases with services and spare parts. In Russia, it is not unusual for services to be undertaken by the customers themselves and, as a consequence, the spare parts that are used are not genuine Volvo parts, for example. Operators are regularly hired separately by the customer and payment is essentially for the cost of machines, parts, etc. The new outsourcing-based model differs in the sense that Ferronordic provides not only the machine but also the operators and it carries out specific tasks, usually for customers in the mining industry. Tasks performed by Ferronordic usually include moving and transporting earth and ore at mining sites, with volume-based fees.

The integrated model includes services performed by Ferronordic...

...such as moving and transporting earth and ore at the mining site, with volume-based fees

This type of outsourcing model is a new phenomenon in Russia, although it is more frequently used in other parts of the world where the mining industry is mature, especially in Australia and South Africa.

#### OTHER SALES: NET SALES, ROLLING 12 MONTHS Q1 2016-Q4 2018, SEKm



Source: Company data and Nordea estimates

High growth despite being a small percentage of group sales

#### Attractive risk/reward

Profitability in the segment is high, although so is the risk; nevertheless, we find an attractive risk/reward profile

As of Q2 2018, Other sales is Ferronordic's smallest segment, representing 4% of group sales. The segment has reported strong y/y and sequential growth since 2016, driven by new contracts and a continuous ramp-up of existing contracts. We expect the solid growth to continue in 2018 (our estimate: 16% y/y), mainly driven by new contracts and a 2017-20 sales CAGR of 8%.

We estimate that the profitability in the segment is high, as is the risk. However, as it only represents ~4% of group sales, we find the risk/reward attractive. The downside with the business model, in our view, is its high capital intensity and financial risk when operating with a volume-based payment model. The financial risks are both internal (eg miscalculation of specific projects) and external (eg customer-specific financial situations).

In its Q2 report, management stated that profitability has increased after a startup period to find the right utilisation rate. We believe that the new established utilisation rate is a reason behind the Q2 2018 gross margin expansion of 60 bp y/y. We estimate that this indicates the potential profitability when operations run at high utilisation.

#### OTHER SALES FIGURES, 2014-20E

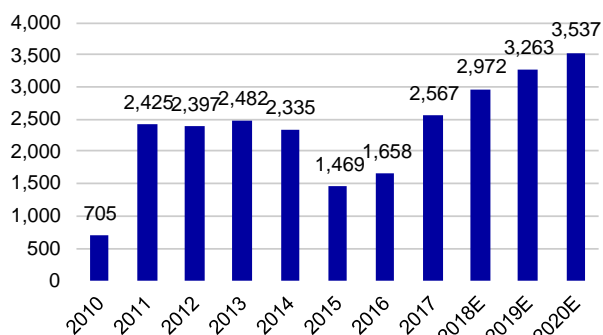
|            | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|------------|------|------|------|------|-------|-------|-------|
| Volumes    | 55%  | -20% | 106% | 49%  | 16%   | 8%    | 8%    |
| Price/mix  | 0%   | 0%   | 0%   | 0%   | 0%    | 0%    | 0%    |
| Structural | 0%   | 0%   | 0%   | 0%   | 0%    | 0%    | 0%    |
| Currency   | -13% | -28% | -10% | 10%  | -5%   | -2%   | 0%    |
| Other      | 0%   | 0%   | 0%   | 0%   | 0%    | 0%    | 0%    |
| Sales      | 64   | 33   | 64   | 101  | 112   | 118   | 127   |

Source: Company data and Nordea estimates

# P&L walkthrough

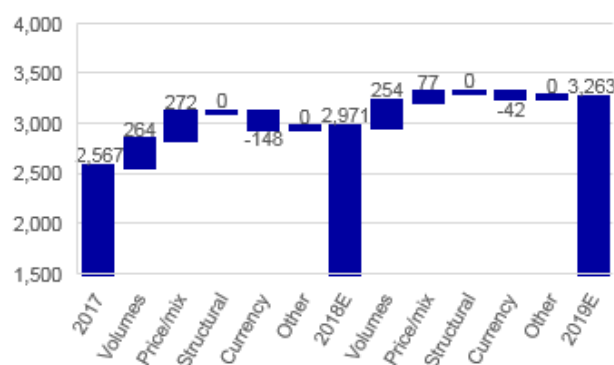
2017 was a strong year for Ferronordic, both in terms of the number of units sold and the average selling price. Net sales grew by 55%, reaching SEK 2,567m, albeit from fairly easy comparisons. We estimate a 2017-20 sales CAGR of 11.3%, mainly owing to volumes and price/mix, although we expect that FX will continue to act as a headwind given that the RUB has continued to decline against the SEK. Due to solid SG&A scalability, we estimate the incremental margin to rebound from the low levels in 2017, reaching above 10% in the near term. We forecast a 2017-20 EBIT CAGR of 15.6%, primarily driven by operational leverage, albeit somewhat negatively affected by a 40 bp gross margin contraction, reflecting product mix effects. We believe Ferronordic will reach the upper range of its EBIT margin target of 7-9% over a business cycle.

**FERRONORDIC: REVENUES 2013-20E, SEKm**



Source: Company data and Nordea estimates

**FERRONORDIC: REVENUE BRIDGE 2017-19E, SEKm**

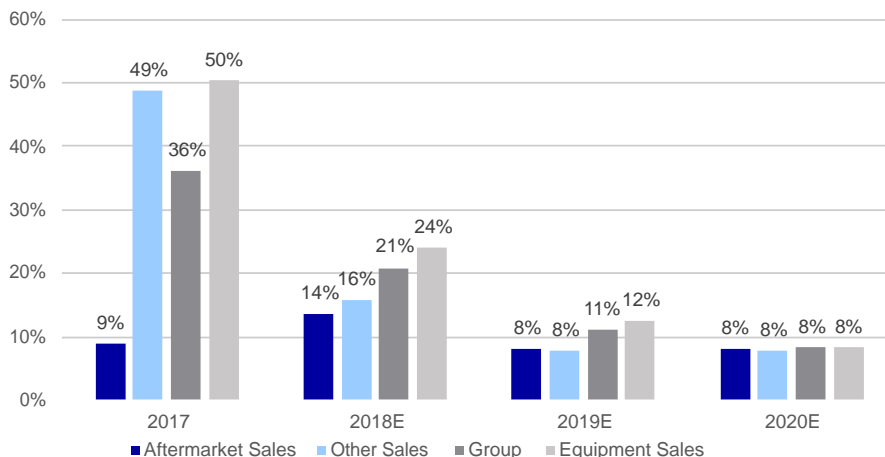


Source: Company data and Nordea estimates

2017-20E sales CAGR of 11.3% mainly driven by volumes and price/mix

2017 was a strong year for the number of units sold and the average selling price. Net sales grew by 55%, reaching SEK 2,567m, albeit from easy comparisons. We estimate a 2017-20 sales CAGR of 11.3%, mainly owing to volumes and price/mix, although we expect FX to continue to provide a headwind, as the RUB has continued to decline against the SEK. As the 2017-19E revenue bridge demonstrates, the volume contribution will be somewhat flat from SEK 264m in 2018E to SEK 254m in 2019E, whereas we expect the price/mix effect to decline somewhat as a function of a flattened RUB and the mix impact from fewer backhoe loaders having materialised in 2018E (although we expect a slight effect in 2019 too). We have not incorporated any future acquisitions into our estimates, although we believe they are possible given that the company has stated a willingness to expand the business geographically, mainly within the CIS countries. We will further examine this topic later in the report.

**STRONG ORGANIC GROWTH FROM ALL SEGMENTS, %**

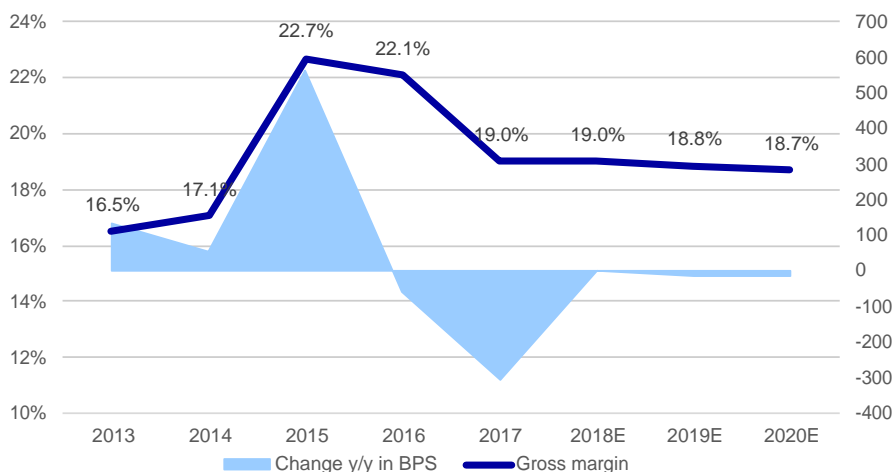


Source: Company data and Nordea estimates

Solid organic growth from all segments, with the highest growth rate being in Equipment sales

As the graph above indicates, we expect solid organic growth from all of the segments, with the highest growth rate from Equipment sales of 24% in 2018E, of which 9 pp is related to volumes and 15 pp to price/mix. We highlight the tough comparisons in the segment, as new units grew by 54% y/y in 2017. The strong growth in Equipment sales should increase its proportion of total group sales from 69% to 72% in 2020E, thereby diluting the proportion of total sales from the Aftermarket and Other segments.

**GROSS MARGIN DECLINE OWING TO AFTERMARKET DILUTION, % and BP**

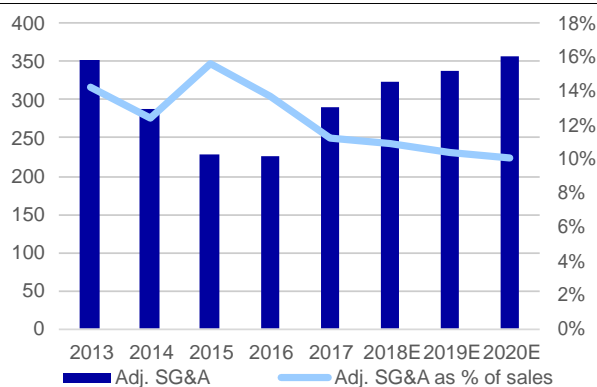


Source: Company data and Nordea estimates

We expect the gross margin to contract ahead, mainly owing to a diluted share of sales from the Aftermarket segment

The company's gross margin is highly dependent on the sales mix, where we believe that sales in the Aftermarket and Other segments have above-group margins. In 2015, the gross margin rose by 562 bp to 22.7%, driven by the Aftermarket segment, as its percentage of sales rose by 11.7 pp. We expect the gross margin to contract ahead, mainly owing to a diluted Aftermarket share, but partly compensated by higher profitability in Other sales, as indicated by management in the Q2 interim report. Nevertheless, we estimate a 2018 gross margin of 18.9%, a contraction of 10 bp y/y. Between 2017 and 2020, we estimate a gross margin contraction of 20 bp.

**SG&A AS PERCENTAGE OF SALES SET TO DECLINE AS REVENUES INCREASE, SEKm and %**

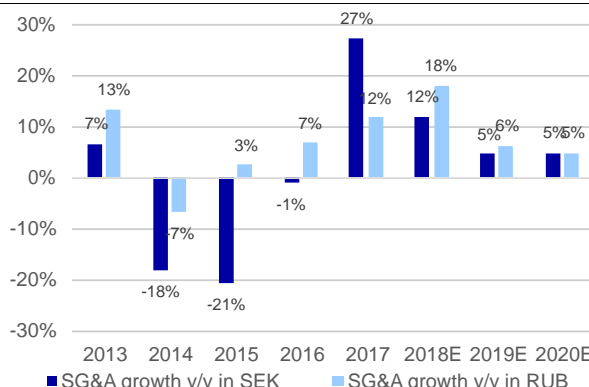


Source: Company data and Nordea estimates

We expect SG&A as percentage of sales to drop by 128 bp

When further breaking down Ferronordic's cost base, it is clear that COGS is the largest contributor followed by selling and administrative expenses accounting for 6.4% and 4.9% respectively (2017), implying an SG&A-to-sales ratio of 11.3% in 2017. SG&A/sales has dropped significantly from the peak in 2015 of 16%, or SEK 255m in absolute terms. When examining the SG&A costs, we believe it is important to convert it to RUB in order to evaluate the underlying cost growth in local currency. It also reflects the higher inflation rate in Russia, which affects wages and other costs related to the workforce.

**HIGH SG&A GROWTH SET TO GROW AT A LOWER PACE, MEASURED BOTH IN RUB AND SEK**

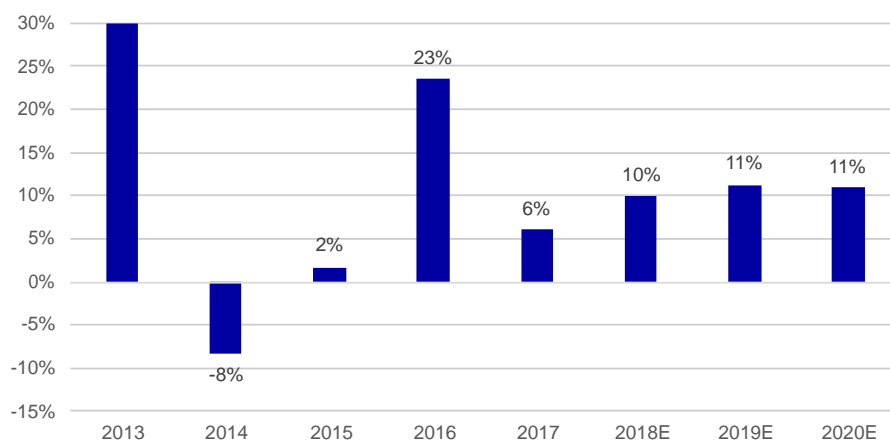


Source: Company data and Nordea estimates

Given that Ferronordic does not report operating profit per segment, it is tough to evaluate the operational leverage per segment. However, we assume that operational leverage is higher for Equipment compared with the Aftermarket, particularly within service, as it requires new mechanics in order to grow.

Owing to solid operational leverage, we expect SG&A costs as percentage of sales to drop by 121 bp, reaching 10% in 2020. Still, we expect an SG&A CAGR of 7.1% 2017-20 in SEK and 9.6% in RUB.

**INCREMENTAL MARGIN TO REBOUND IN 2018E-20E AFTER A WEAK 2017, %**

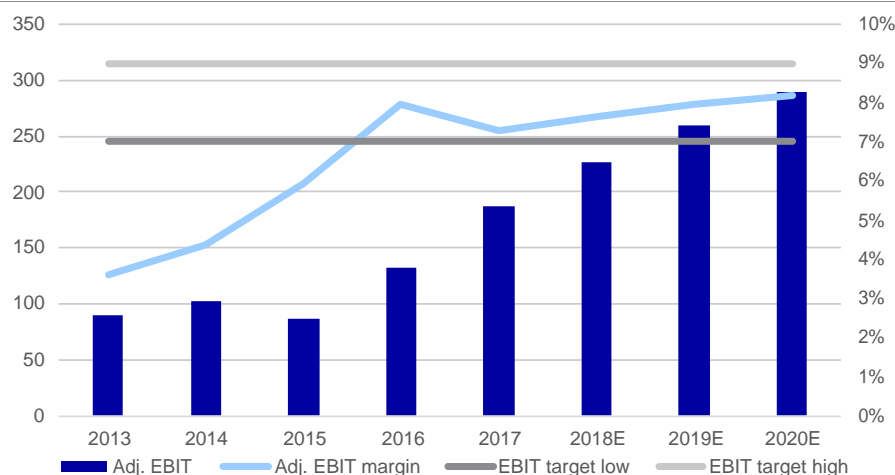


Source: Company data and Nordea estimates

Incremental margin to rebound from low levels in 2017, we expect

Driven by solid SG&A scalability, we expect the incremental margin to bounce back from the low levels in 2017, reaching 11% in the near term. The operating profit in 2017 was burdened by recruitment of mechanics; we believe this should lower the recruitment needs in 2018, thereby buoying operational leverage.

**ADJUSTED EBIT AND ADJUSTED EBIT MARGIN VS COMPANY TARGETS 2013-20E, SEKm and %**



Source: Company data and Nordea estimates

We expect strong EBIT owing to operational leverage, with results reaching the upper range of the company's EBIT targets

Ferronordic has realised strong expansion in its adjusted EBIT margin, from 3.6% in 2013 to 7.3% in 2017. We note the positive margin trend in 2014-15, whereas net sales declined by 6% and 37% respectively in those two years. The margin expansion in the weak market could partly be explained by a higher share of Aftermarket sales that have a substantially higher gross margin and less volatility. Management has communicated that the gross profit from the Aftermarket segment should cover the company's fixed costs. In our view, this reflects clear downside risk protection and has proved to offset declines in new equipment sales effectively, leaving the company profitable even in tough market conditions.

We expect a 2017-20 EBIT CAGR of 15.6%, primarily driven by operational leverage, but somewhat negatively affected by a 40 bp gross margin contraction due to product mix effects. We believe Ferronordic will reach the upper range of its EBIT margin target of 7-9% over a business cycle.

# Solid balance sheet and strong cash flows

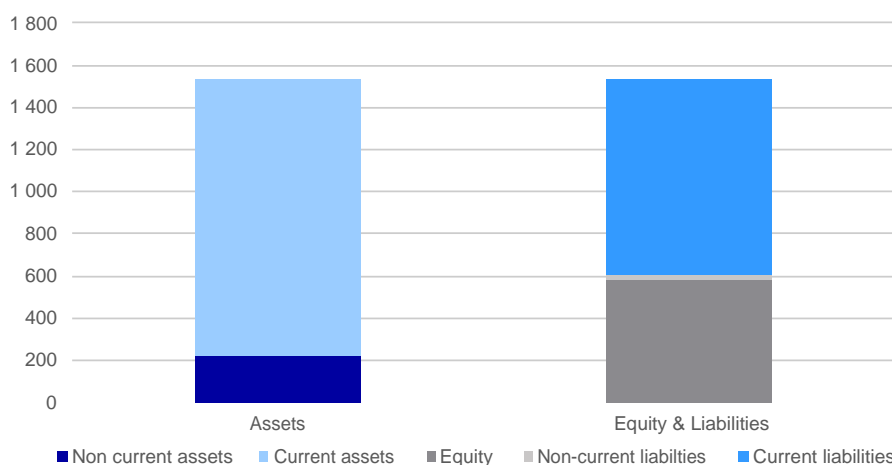
Ferronordic has a strong balance sheet despite redemption of its preference shares. It has an asset-light business model, which gives the company strong cash flows; in our view, this creates a solid opportunity for a decent dividend payout, repurchases or acquisitions. Our base case assumes a proposed dividend of SEK 3.5 for 2018, implying a dividend yield of 3% and a payout ratio of 30%. We believe management would prefer to use its balance sheet for acquisitions to expand into new geographical markets or products, which could increase the NWC needs.

Clean balance sheet with a noticeably low portion of fixed assets

## An asset-light business model

Ferronordic has a clean balance sheet, with a noticeably low portion of fixed assets that amounted to SEK 176m as of Q2 2017. As a consequence, the majority of the company's total assets is related to current assets (ie inventories and trade and other receivables). The asset-light business model could to some extent be explained by management's strict policy of not owning a substantial amount of fixed assets in Russia unless no other options are available. Out of the 77 outlets operated by Ferronordic, only two facilities are owned, meaning that the lion's share is leased. In addition, the majority of the service vans and other machinery is leased. The outlets are on fixed-term leases and are often annually renewed, implying a length of less than 12 months. This creates a somewhat flexible cost structure, which was apparent in 2014-15 when the market plunged and management net closed outlets in order to maintain a solid utilisation rate.

FERRONORDIC: BALANCE SHEET STRUCTURE Q2 2018, SEKm



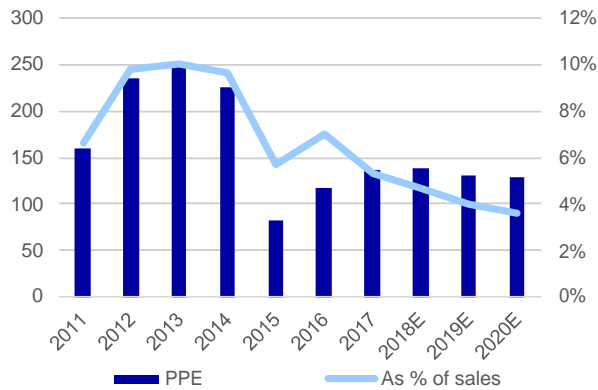
Source: Company data and Nordea estimates

In Ferronordic's case, we estimate that IFRS 16 will affect its balance sheet as a function of the high number of leases for outlets

## Balance sheet might be burdened by the implementation of IFRS 16

The short leasing contracts may cause some discussions when the current version of IAS 17 will be replaced with IFRS 16, related to reporting of leases. According to the new standard, IFRS 16 (to be implemented in 2019), both operating leases and financial leases will not be used in accounting; they will be replaced by a "right to use asset" that will be booked on the asset side, while a lease liability will be booked against it. This will lead to several companies' balance sheets being burdened by off-balance sheet rights. In Ferronordic's case, we estimate that IFRS 16 should affect its EBITDA positively, whereas both lease assets and financial liabilities will increase and thereby negatively impact its net debt/EBITDA ratio. Given the short leasing terms, with most on leases of less than 12 months, the company could theoretically be an exception to the rule. Nevertheless, we await further communication from management before making adjustments to our estimates in this regard.

**LOW CAPITAL INTENSITY**

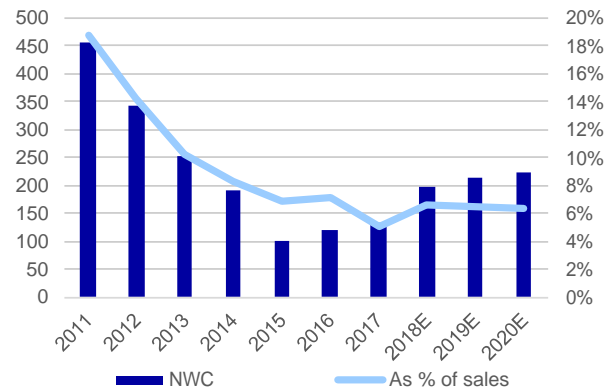


Source: Company data and Nordea estimates

Sharp drop in PPE driven by a divestment of the rental fleet

As indicated above, the capital intensity measured in PPE/sales is low (around 5% in 2018E). The sharp drop between 2014 and 2015 was driven by a divestment of the rental fleet.

**GOOD CAPITAL EFFICIENCY**



Source: Company data and Nordea estimates

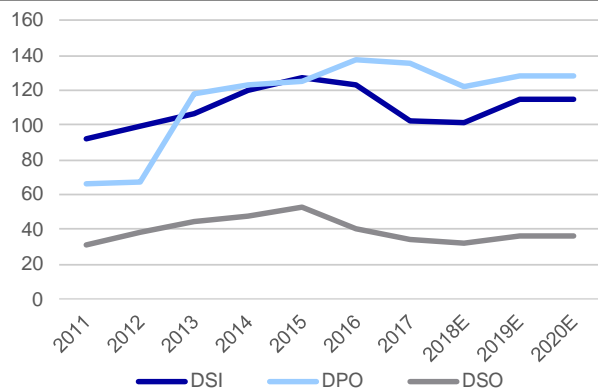
NWC tailwind from all parameters except days in inventory

**Capital management**

Operating in a vast country with customers in remote areas, capital efficiency is vital and inventory management should be in focus. In addition, the visibility for long-term orders is normally low, making it difficult for management to ensure that the right machines/equipment are in stock and available at the right time. At the same time, Ferronordic needs to place orders with Volvo and other suppliers months in advance to ensure production slots, thereby resulting in large inventory fluctuations.

As shown above, Ferronordic continuously improved its net working capital from 18% in 2011 to around 6% in 2018; we find this to be a solid performance given the strong net sales growth and increased machine offering. When examining NWC, we identify a tailwind from days payable and days sales outstanding (DSO), but a headwind from days in inventory, which we believe increased owing to a focus on larger and more complex machines.

**NWC PARAMETER TAILWIND...**



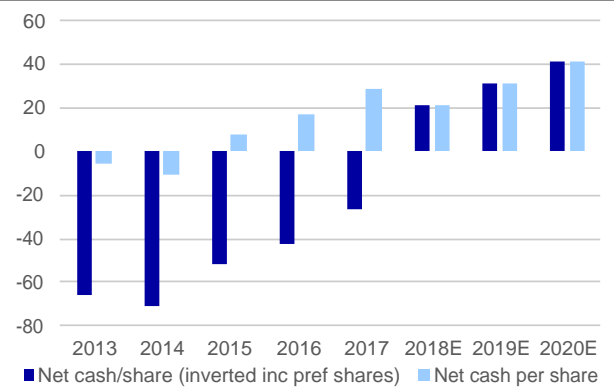
Source: Company data and Nordea estimates

Well-organised inventory management procedure based on bottom-up and top-down processes

**Inventory management process**

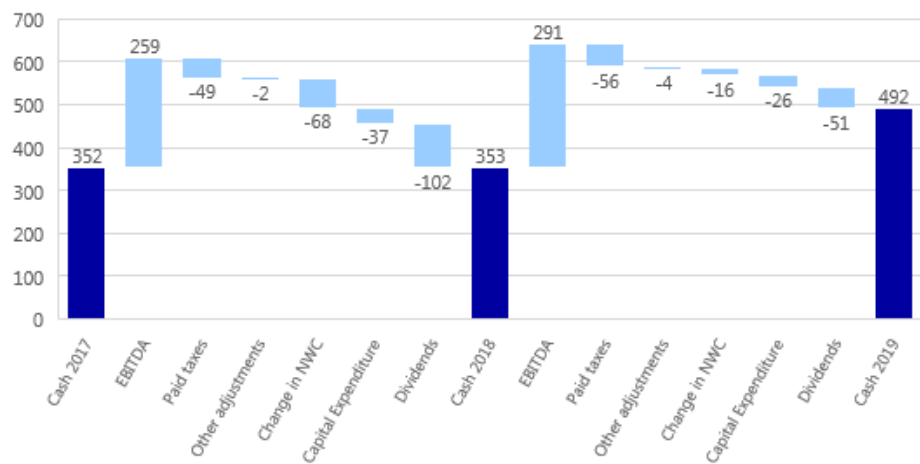
Ferronordic has a well-organised inventory management procedure based on bottom-up and top-down processes. The bottom-up process is a quantitative model based on, among other things, leads and closing per lead, which results in a sales estimate. The second method, top-down, is based on its suppliers' sales estimates. Furthermore, orders can only be placed by management at the head office in Moscow, which has its pros and cons. The pros are solid inventory control, with the flipside being a risk of bottlenecks.

**...HAS LED TO A NET CASH POSITION**



Source: Company data and Nordea estimates

**FERRONORDIC: CASH FLOW BRIDGE 2017-19E**



Source: Company data and Nordea estimates

**Strong cash flows despite a slight uptick in NWC**

Cash buildup driven by strong cash flows, even though we estimate an uptick in NWC and a capex one-off in 2018

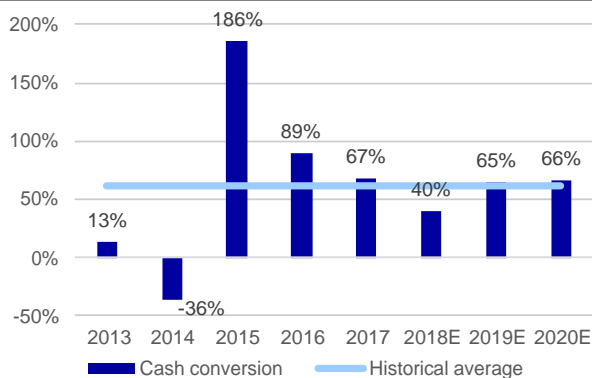
We estimate a cash buildup driven by strong cash flows, even though we estimate an uptick in NWC as a function of the strong projected top-line growth and slightly higher inventory owing to the Mecalac backhoe loaders.

The business model is capex-light, where capex-to-sales over the last three years has been approximately 0.7%, corresponding to SEK 17m annually. The higher capex spending in 2018 is related to a management decision to purchase service cars and other equipment instead of leasing; as a result, we view it as a one-time effect. Looking ahead, we estimate capex-to-sales of 0.7% in 2019 and 0.8% in 2020.

We expect cash conversion to rebound to historical levels of around 65% in 2019-20

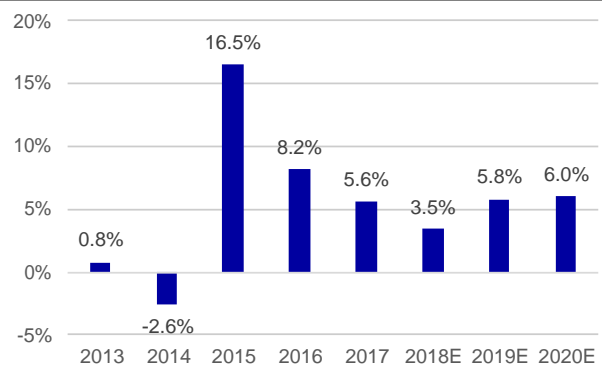
Higher capex and increasing NWC/sales will put pressure on cash conversion in 2018E, slowing from 67% to 40%. However, we estimate cash conversion to rebound to historical levels of around 65% in 2019E, driven by a limited projected capex need as well as a flattened NWC growth.

**FERRONORDIC: CASH CONVERSION (%), 2013-20E**



Source: Company data and Nordea estimates

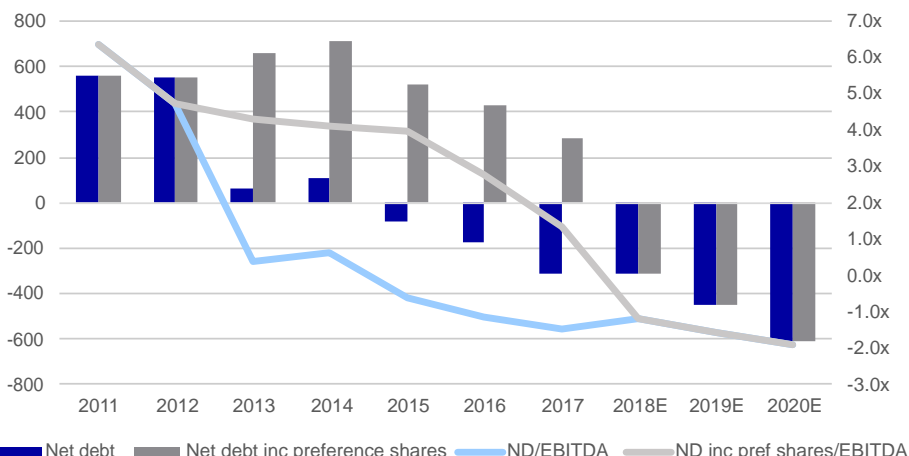
**FERRONORDIC: FCF/SALES (%), 2013-20E**



Source: Company data and Nordea estimates

**OVERCAPITALISED BALANCE SHEET IN NEED OF ALLOCATION**

Overcapitalised balance sheet despite preference shares redemption



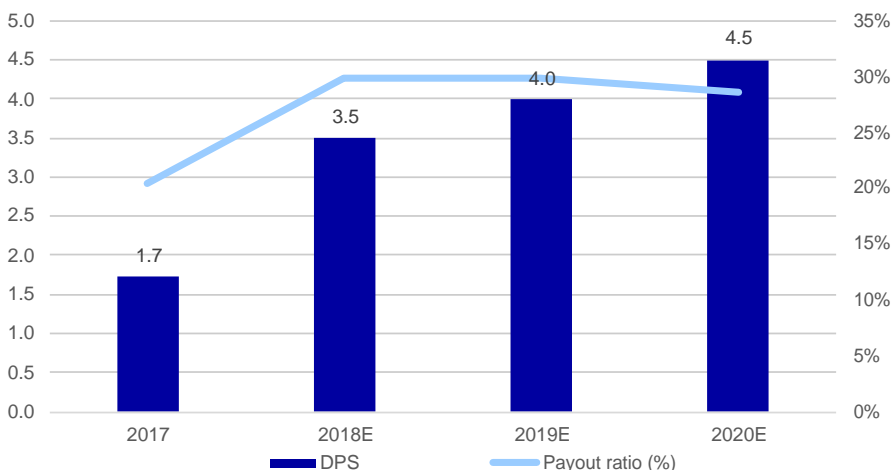
Source: Company data and Nordea estimates

We estimate a net cash position of SEK 313m at year-end 2018, corresponding to net cash/EBITDA of 1.2x

In December 2013, Ferronordic listed 500,000 preference shares on Nasdaq First North Premier at SEK 1,000 per share and with an annual dividend of SEK 100 per share. The preference shares provided Ferronordic with around SEK 500m in capital and strengthened its balance sheet. In connection with the IPO in November 2017, Ferronordic offered the preference shareholders to convert their shares to common shares. After the IPO, the board announced redemption of 66,728 preference shares and the rest in Q2 2018.

As the graph above indicates, Ferronordic's balance sheet excluding the preference shares has historically been stretched with net debt/EBITDA of 4x between 2011-15, on average. The balance sheet has strengthened significantly, and we estimate a net cash position of SEK 313m at year-end 2018, corresponding to net cash/EBITDA of 1.2x.

**EXPECTED DIVIDEND IN LINE WITH FINANCIAL OBJECTIVES**



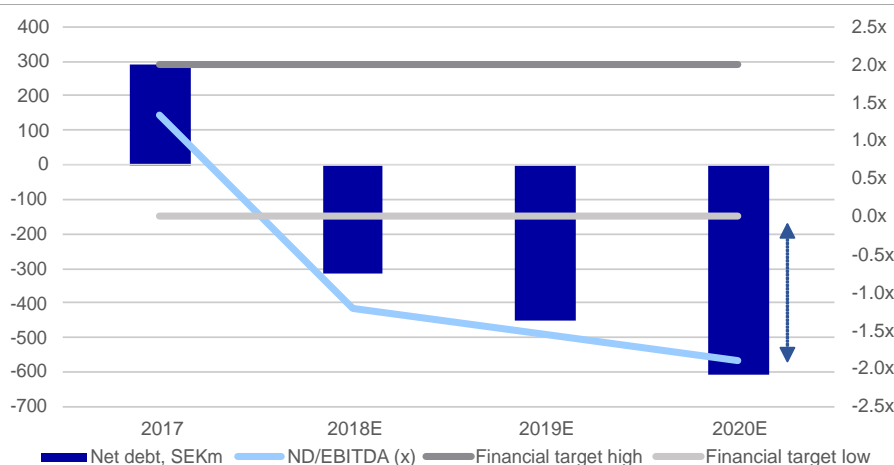
Source: Company data and Nordea estimates

Our base case for Ferronordic's capital allocation is a payout ratio of 30% for 2018E and 2019E, corresponding to a dividend of SEK 3.5 and SEK 4.0 per share, respectively. This implies a 2018E-19E dividend yield of 3.0% and 3.5%, respectively.

## Asset allocation is increasingly important

We see Ferronordic as in a solid financial situation, with a strong net cash position that we estimate will amount to approximately SEK 300m by year-end 2018 – in other words, overcapitalisation. We believe a strong balance sheet is essential, however, when operating in a volatile environment. Below we try to highlight some capital allocation alternatives via acquisitions, repurchases, or ordinary and extraordinary dividends. Given Ferronordic's strong top-line growth since its establishment, we believe management is actively working to expand the business and we consider this our main strategic growth scenario. In addition, our base case still includes the payout of a SEK 3.5 per share dividend in 2018E and SEK 4.0 per share in 2019E.

**CASH BUILDUP DESPITE REDEMPTION OF PREFERENCE SHARES, SEKm and x**



Source: Company data and Nordea estimates

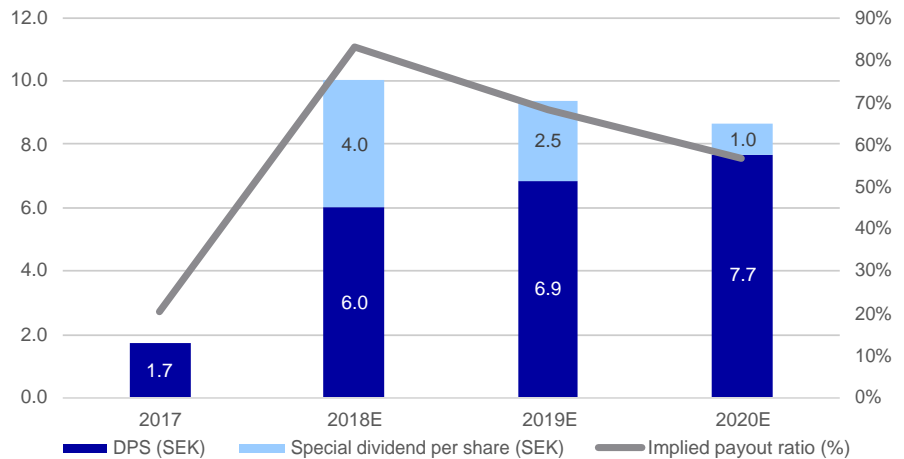
Ferronordic has a strong balance sheet and a solid net cash position. We could argue that the company is overcapitalised, but we view a healthy financial position as a requirement when operating in a volatile market.

As shown above, Ferronordic is far more capitalised than its financial objectives require it to be, with net debt/EBITDA of 0-2x. We do not consider this a sustainable, long-term way to maximise capital allocation and create shareholder value. Instead, we argue there are two main scenarios: an acquisition/entering a new market; or distributing cash via either dividends or buybacks. We see buybacks as an interesting approach given our valuation assumption. Given the strong top-line growth since the company's establishment, we believe management is actively working to expand the business. We consider this our main strategic growth scenario.

Below, we provide our dividend distribution scenario based on the product and geographical expansion we assume, neither of which are included in our actual estimates.

### Dividend distribution scenario

DPS AND SPECIAL DIVIDENDS IN A DIVIDEND DISTRIBUTION SCENARIO (NOT INCLUDED IN OUR BASE-CASE ESTIMATES)

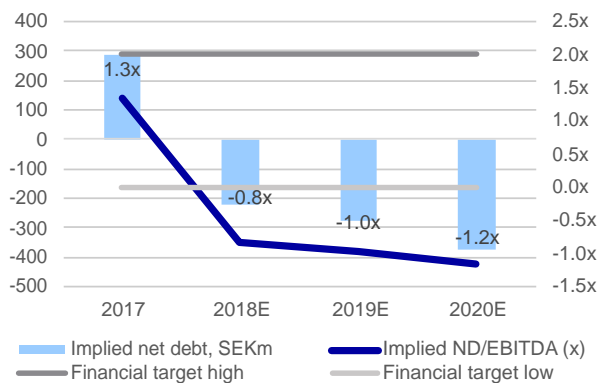


Source: Company data and Nordea estimates

Our dividend distribution scenario would imply limited acquisitions over the next three years and a payout ratio above our base-case estimates. The ordinary payout ratio of 50% we assume for 2018E-20E and the special dividends of SEK 4.00 for 2018E, SEK 2.50 for 2019E and SEK 1.00 for 2020E would imply total DPS of SEK 10.0, SEK 9.4 and SEK 8.7, respectively, or respective dividend yields of 8.4%, 7.8% and 7.3%.

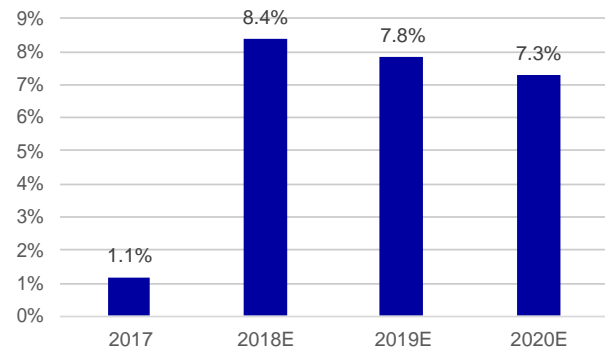
Even with total dividend growth of more than 450% for 2018E, Ferronordic would still have a net cash position of SEK -219m, corresponding to net debt/EBITDA of -0.9x – far below its financial leverage objectives of 0-2x.

#### DESPITE SPECIAL DIVIDEND AND RAISED PAYOUT RATIO, LEVERAGE IS STILL BELOW FINANCIAL OBJECTIVES...



Source: Company data and Nordea estimates

#### ...AND IMPLIED DIVIDEND YIELD (%) WOULD COME UP SIGNIFICANTLY



Source: Company data and Nordea estimates

### Geographical expansion: upside option to our estimates, in the future

We believe that Ferronordic has good growth opportunities in the Russian market, driven by infrastructure investments and general pent-up demand. Besides its existing markets there and a broadening of its product offering, geographical expansion could be an interesting option, given some of the synergies with Ferronordic's existing business.

We believe the most natural expansion path for Ferronordic is in other CIS countries (Azerbaijan, Belarus, Kazakhstan, Moldova, Uzbekistan) thanks to the common language, culture and, in certain parts, the customs union. Growing the dealership beyond Russia can be achieved in two ways, we believe:

1. Being awarded a distribution agreement by Volvo related to a specific geographical market. Volvo has a clear strategy that all construction equipment machinery sales should be outsourced to dealers. Currently, Volvo manages this business in Belarus, Finland and Poland. Over time, these markets could be awarded to a local dealer. This could pose an interesting expansion opportunity for Ferronordic.

2. Acquiring an existing Volvo CE dealer and thus gaining access to a specific market. Expansion in this manner requires approval from Volvo. As Ferronordic is a preferred Volvo dealer, we do not think it gaining approval will be an issue. Looking at similar M&A transactions in 2017, we find a certain lack of data on which to base an acquisition scenario. The acquisition scenario uses Ferronordic's financial objectives with leverage of 0-2x, whereas we use 1.0x in our base-case scenario. If we apply an average EBIT margin of 7% and EV/sales of 1.0x, we arrive at acquired top-line growth of 19% and EPS growth of 9%. Our scenario is based on a mature market acquisition. If we assume a less mature market target, we would likely see significantly higher EPS growth.

We see pros and cons to acquiring in either mature or less mature markets. A mature market acquisition would generally reduce the market risk and thus create value despite slightly lower EPS growth, while the reverse would generally be true with a less mature market acquisition.

#### ACQUISITION SCENARIO

| Ferronordic actuals 2018E, SEKm |       | Acquisition scenario, SEKm |       |
|---------------------------------|-------|----------------------------|-------|
| Revenue                         | 2,972 | Target leverage (0-2x)     | 1.9x  |
| EBITDA                          | 259   | Acquisition headroom       | 806   |
| EBIT                            | 227   |                            |       |
| Net profit                      | 174   | EV/S (x)                   | 1.7x  |
| Net debt                        | -313  | Implied EV/EBIT (x)        | 18.9x |
| ND/EBITDA (x)                   | -1.2x |                            |       |
| Adj EPS                         | 11.86 | Acquired sales             | 474   |
|                                 |       | Acquired EBITDA            | 50    |
|                                 |       | Acquired EBIT              | 43    |
|                                 |       | EBIT margin (%)            | 9.0%  |
|                                 |       | Finance rate               | 4%    |
|                                 |       | Interest                   | -32   |
|                                 |       | Acquired net profit        | 8     |
| Valuation multiples, (x)        |       | Consolidated, SEKm         |       |
| EV/S (x)                        | 0.5x  | Revenue                    | 3,446 |
| EV/EBITDA (x)                   | 5.5x  | Revenue growth (%)         | 16%   |
| EV/EBIT (x)                     | 6.3x  | EBITDA                     | 309   |
| P/E (x)                         | 10.1x | EBIT                       | 270   |
|                                 |       | Net profit                 | 182   |
|                                 |       | EPS                        | 12.58 |
|                                 |       | EPS growth                 | 6.1%  |
| Margins, (%)                    |       | Group margin impact in bp  |       |
| EBITDA margin                   | 8.7%  | EBITDA margin              | 24    |
| EBIT margin                     | 7.6%  | EBIT margin                | 19    |

Source: Company data and Nordea estimates

#### RECENT M&A ACTIVITY

| Acquisition date | Acquirer         | Target company  | Industry          | Country | Price | Net sales | EBIT | EBIT margin | EV/S | EV/EBIT |
|------------------|------------------|-----------------|-------------------|---------|-------|-----------|------|-------------|------|---------|
| 30/08/2017       | Toromont         | Hewitt Group    | CAT CE dealership | Canada  | 1,018 | 1,000     | 66   | 6.6%        | 1.0x | 15.4x   |
| 17/08/2017       | United Rentals   | Neff Rentals    | Equipment rentals | US      | 1,317 | 419       | 102  | 24.3%       | 3.1x | 12.9x   |
| 19/07/2017       | BlueLine Rentals | Capital Rentals | Equipment rentals | US      |       |           |      |             |      |         |

Source: Nordea estimates

#### Product expansion most likely scenario in the short term

Since its establishment, Ferronordic has actively been adding new products and brands and it has created a wide range of construction equipment. It has a countrywide network with more than 70 outlets. We believe the expertise that Ferronordic has gained over the past eight years has presented it with solid opportunities to add more products and to broaden its customer offering. Low-hanging fruits can still be picked in machinery targeting the agricultural sector. The Russian agricultural industry has changed considerably since the Kremlin banned the import of dairy, fruit, meat, seafood, among others, in response to the EU and US sanctions in 2014. The protectionist reaction has boosted the country's agricultural sector, which has responded with increased food production. The industry is mainly concentrated in the central "black earth" region, typically in south western Russia. We see this as a good match with Ferronordic's outlet locations.

We believe that Ferronordic will continue to work with European and US manufacturers possessing strong premium brands, such as John Deere, CLAAS and New Holland. The flipside of Ferronordic entering the agricultural market would be a higher inventory need and limited synergies with the mechanics' side, due to the new type of engine.

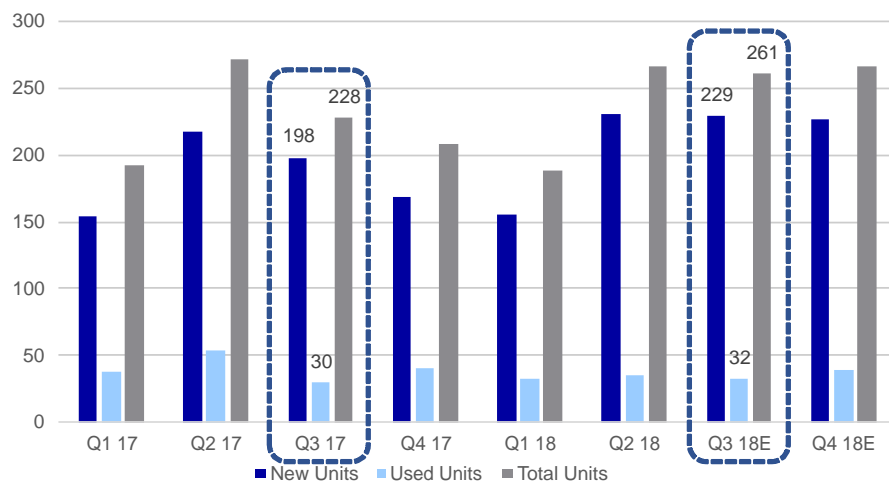
Another product vertical we find interesting and that offers certain customer synergies is mining equipment, with manufacturers including Atlas Copco and Sandvik.

## Q3 preview: Back to the historical pattern

We expect top-line growth to return in H2 2018 after tough comparables in H1 2018. We estimate volume growth of 14.1% y/y for Q3 2018, thanks to increased levels of new units, while the price/mix effect should continue to boost the top line by 9.0%, adding up to 23.5% organic growth. In addition, we forecast a slight gross margin decrease due to a contraction in aftermarket and services as a percentage of total group sales. The operational leverage should offset the dilution somewhat and drive y/y EBIT growth of 30%, corresponding to an EBIT margin of 8.4% (8.0). After an H1 with new sanctions imposed against Russia, we estimate that the market will focus on management's market guidance for this year and the next. We believe that management will be reaffirm its previous guidance and remain optimistic about the long term, seeing no material impact yet from the sanctions.

Flattish machine delivery growth in Q3 while Q4 will meet easier comparables

NUMBER OF UNITS SOLD IN 2017-18E,



Source: Company data and Nordea estimates

Q3 is a small quarter for Ferronordic and focus should be on the important Q4

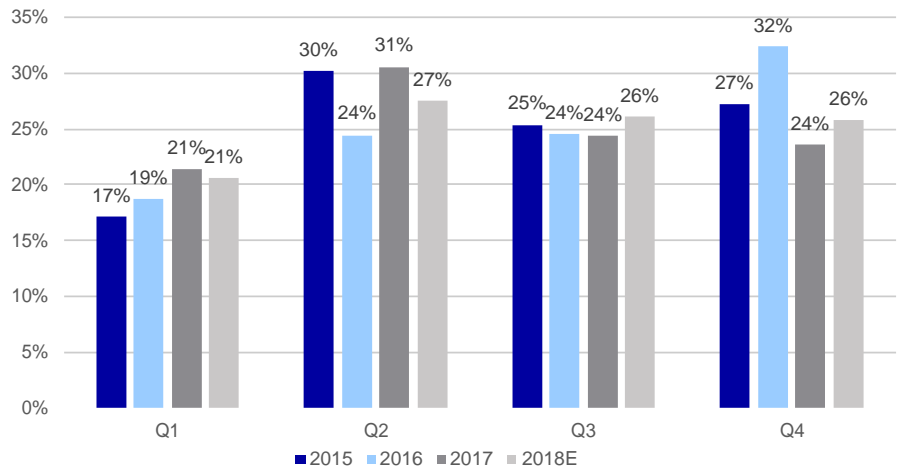
### Strong growth in both Q3 and Q4 driven by new equipment sales and ASP

As the graph above shows, we estimate solid y/y machine delivery growth of 14.5% in Q3, fuelled by a solid underlying market and a correction towards more normalised seasonal variations, with a stronger H2 than H1. We estimate new unit sales of 229 machines (198) and a slight uptick in used units to 32 machines (30). Our estimates implies that the sanctions will not have a material effect on short-term machines sales, although the company communicated in its Q2 report that one customer was included in the sanctions list. Given that Ferronordic's largest customer only represents a few percent of group sales and that Ferronordic has a supply shortage, we reason that it should be able to compensate for the loss of a customer.

**FERRONORDIC: SEASONAL VARIATIONS IN 2015-18E, %**

Seasonal variations back to normal in Q3 but will result in Q4 tailwind

Normalisation of seasonal variation should drive tailwind in H2

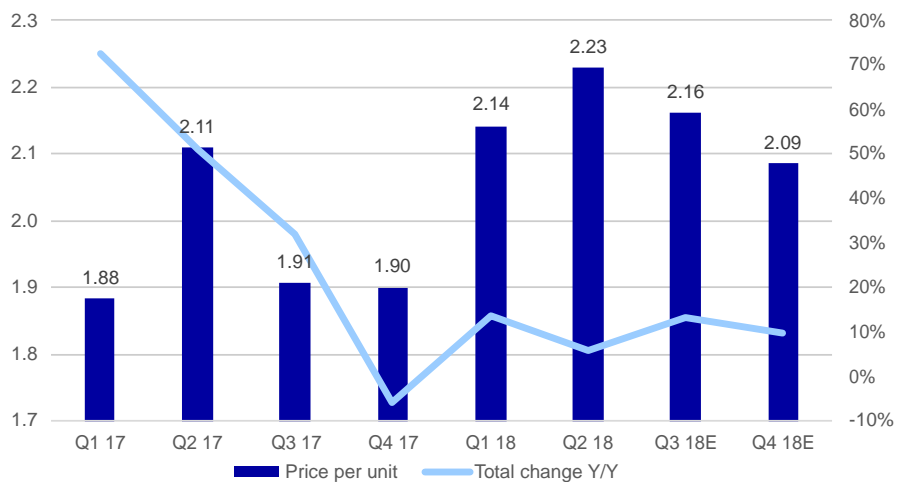


Source: Company data and Nordea estimates

As indicated in the chart above, Q2 and Q4 are typically the largest quarters in terms of revenues while Q1 is low owing to a long winter in many parts of Russia.

**FERRONORDIC: ASP AND TOTAL % CHANGE Y/Y – Q1 2017 TO Q4 2018E, SEKm AND %**

Average selling price continues long-term upwards trend, a combination of price/mix



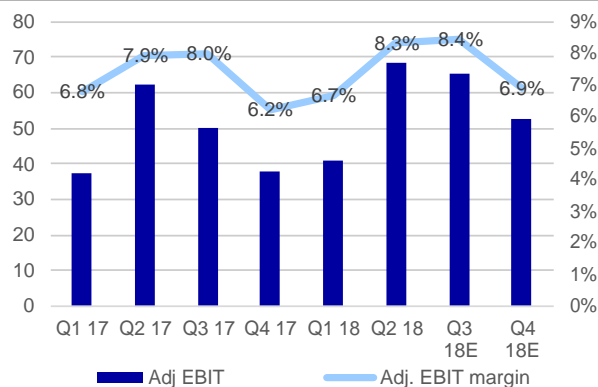
Source: Company data and Nordea estimates

**Price/mix tailwind will follow tough H2**

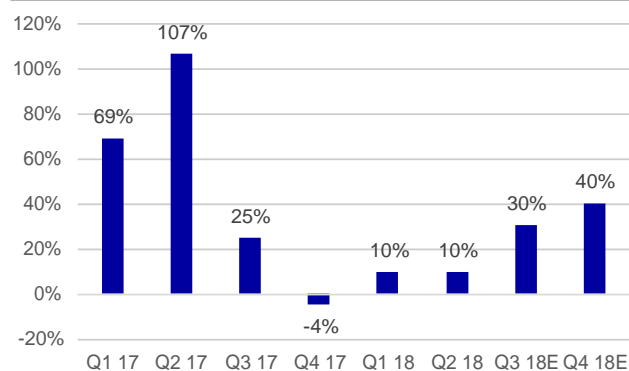
Continued ASP growth y/y of 13.3%; we do not expect a pickup in Mecalac to have a material effect on long-term ASP

We expect further y/y ASP growth despite a slight sequential slowdown, reaching SEK 2.16m in Q3 (13.3% growth). The long-term uptrend in ASP is a function of larger and more complex machinery sales, alongside price increases. Volvo's decision to discontinue the production of backhoe loaders with a lower face value is also a factor behind the price/mix effect. Sales volumes for the replacement machine, Mecalac, are still low. We pencil in a pickup in Mecalac volumes for 2019, but we do not expect this to have a material effect on ASP.

Driven by price/mix and volume growth, we estimate organic growth of 23.3% y/y in Q3 and 29.0% in Q4, reaching revenue of SEK 774m and SEK 767m, respectively.

**FERRONORDIC: EBIT MARGIN – Q1 2017 TO Q4 2018E, %**

Source: Company data and Nordea estimates

**FERRONORDIC: EBIT GROWTH Y/Y, %**

Source: Company data and Nordea estimates

We estimate an EBIT of SEK 65.3m (SEK 50.1m) for Q3, corresponding to y/y growth of 30% and margin expansion of 45 bp up to 8.4% (8.0). We estimate a slight gross margin decline of 10 bp, driven by a lower Aftermarket and Contracting Service share, but the improved profitability of the latter should offset this somewhat. The EBIT margin expansion should be solely due to operational leverage, as we estimate an incremental margin of 10% (5%).

**FERRONORDIC'S QUARTERLY SALES BRIDGE**

| (SEKm)              | Q1 17      | Q2 17      | Q3 17      | Q4 17      | Q1 18      | Q2 18      | Q3 18E     | Q4 18E     |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Sales</b>        |            |            |            |            |            |            |            |            |
| Equipment Sales     | 362        | 574        | 435        | 395        | 403        | 593        | 558        | 549        |
| Aftermarket Sales   | 167        | 187        | 168        | 179        | 174        | 201        | 191        | 190        |
| Other Sales         | 22         | 24         | 24         | 31         | 37         | 22         | 24         | 28         |
| <b>Total sales</b>  | <b>550</b> | <b>785</b> | <b>626</b> | <b>606</b> | <b>614</b> | <b>816</b> | <b>774</b> | <b>767</b> |
| <b>Sales bridge</b> |            |            |            |            |            |            |            |            |
| Volumes             | 15%        | 36%        | 26%        | 18%        | 5%         | 3%         | 14%        | 21%        |
| Price/mix           | 20%        | 21%        | 21%        | -4%        | 14%        | 11%        | 9%         | 8%         |
| Structural          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         |
| Currency            | 44%        | 37%        | 7%         | -1%        | -7%        | -10%       | -1%        | -4%        |
| Other               | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         |
| <b>Total growth</b> | <b>78%</b> | <b>94%</b> | <b>54%</b> | <b>13%</b> | <b>11%</b> | <b>4%</b>  | <b>23%</b> | <b>27%</b> |
| <b>Sales bridge</b> |            |            |            |            |            |            |            |            |
| Volumes             | 45         | 145        | 106        | 94         | 28         | 22         | 89         | 126        |
| Price/mix           | 61         | 85         | 86         | -22        | 76         | 89         | 57         | 49         |
| Structural          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Currency            | 135        | 149        | 29         | -4         | -41        | -78        | -6         | -23        |
| Other               | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| <b>Total growth</b> | <b>241</b> | <b>379</b> | <b>220</b> | <b>68</b>  | <b>63</b>  | <b>33</b>  | <b>140</b> | <b>152</b> |

Source: Company data and Nordea estimates

**FERRONORDIC'S QUARTERLY ESTIMATES**

| <b>(SEKm)</b>                       | <b>Q1 17</b> | <b>Q2 17</b> | <b>Q3 17</b> | <b>Q4 17</b> | <b>Q1 18</b> | <b>Q2 18</b> | <b>Q3 18E</b> | <b>Q4 18E</b> |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Revenue                             | 550          | 785          | 626          | 606          | 614          | 817          | 774           | 767           |
| Cost of sales                       | -441         | -638         | -506         | -494         | -497         | -660         | -626          | -625          |
| Gross profit                        | 110          | 146          | 120          | 112          | 117          | 158          | 148           | 143           |
| Sales expenses                      | -31          | -32          | -32          | -29          | -32          | -36          | -39           | -36           |
| General and administrative expenses | -38          | -50          | -37          | -39          | -43          | -49          | -43           | -48           |
| Other income                        | 0            | 2            | 1            | 2            | 2            | 0            | 1             | 2             |
| Other expenses                      | -4           | -4           | -2           | -7           | -3           | -6           | -2            | -9            |
| EBIT                                | 37           | 62           | 50           | 38           | 41           | 68           | 65            | 53            |
| Finance income                      | 2            | 4            | 6            | 3            | 1            | 1            | 2             | 1             |
| Finance costs                       | -1           | -1           | -1           | -3           | -3           | -2           | -2            | -2            |
| Net FX gains/(losses)               | -1           | 0            | 0            | -1           | -1           | 2            | -1            | -1            |
| EBT                                 | 38           | 65           | 54           | 36           | 39           | 70           | 64            | 51            |
| Income tax                          | -8           | -14          | -11          | -8           | -9           | -15          | -14           | -11           |
| Net income                          | 30           | 51           | 43           | 28           | 30           | 54           | 50            | 40            |
| EPS                                 | 1.60         | 3.61         | 2.77         | 0.52         | 1.93         | 3.75         | 3.45          | 2.73          |
| Pre tax adjustments                 | 0            | 0            | 0            | 0            | 0            | 0            | 0             | 0             |
| After tax adjustments               | 0            | 0            | 0            | 0            | 0            | 0            | 0             | 0             |
| Adj. EBIT                           | 37           | 62           | 50           | 38           | 41           | 68           | 65            | 53            |
| Adj. PTP                            | 38           | 65           | 54           | 36           | 39           | 70           | 64            | 51            |
| Adj. Net income                     | 30           | 51           | 43           | 28           | 30           | 54           | 50            | 40            |
| Adj. EPS                            | 1.60         | 3.61         | 2.77         | 0.52         | 1.93         | 3.75         | 3.45          | 2.73          |

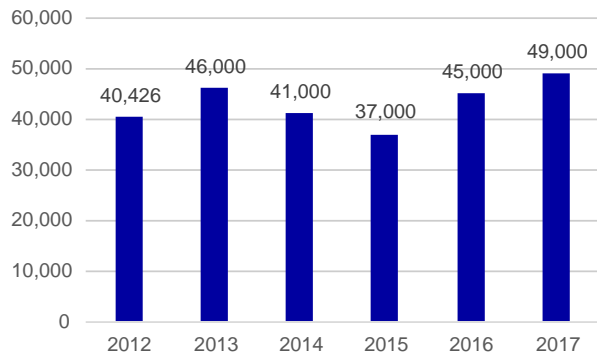
Source: Company data and Nordea estimates

# Sustainability

Considerable investment in employee engagement and training combined with strict anti-bribery and anti-corruption policies define Ferronordic's corporate governance and is at the core of its ambition to create a long-term, sustainable organisation. The company provides over 40,000 training hours for its employees a year, with a mini MBA programme available at management level. All of these efforts are paying off and the company enjoys high employee satisfaction scores.

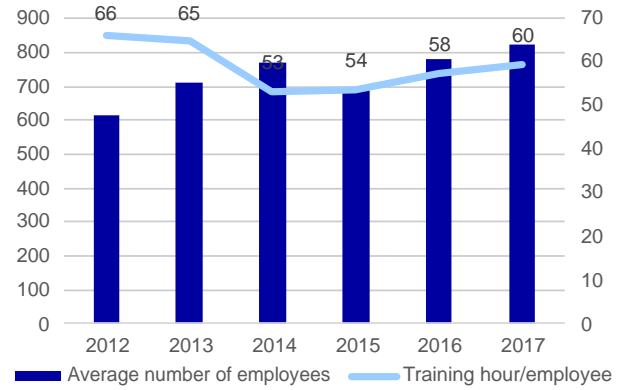
|  |  |
|--|--|
| <p>Ferronordic defines itself as a Swedish company with operations in Russia</p>   | <p><b>A Swedish company based in Russia</b></p> <p>Ferronordic defines itself as a Swedish company with operations in Russia. The majority of its shareholders and the board have a Nordic background, with a strong focus on corporate governance as well as zero tolerance of bribery and corruption. The company follows the international accounting standard.</p> <p>Ferronordic has its administrative head office in Stockholm where its finance and investor relation functions are based, while its operational head office is in Moscow. Other functions are also based in Moscow, albeit at a regional outlet. Thanks to strong growth, sales increased from SEK 700m in 2010 to SEK 2.6m in 2017 and the number of employees has almost doubled, making corporate governance an increasingly important topic.</p>  |
| <p>Ferronordic has zero tolerance of corruption and bribery</p>  | <p><b>Fighting corruption</b></p> <p>Corruption in Russia is a significant and widespread problem, impacting all aspects of administration, law enforcement, education and healthcare. In a major corruption survey, Russia was ranked 135 out of 176 countries. In light of this, there is some risk that corrupt officials could have a negative impact on companies with operations in Russia.</p> <p>Having a presence in a country with a high level of corruption puts pressure on internal corporate governance. However, Ferronordic's zero tolerance policy on corruption strengthens its brand as well as customer relations. Both the board of directors and the management team have solid experience in the Russian market and understand the importance of enforcing strict routines to avoid illegal activities.</p> <p>Employees regularly undergo anti-corruption and general business ethics training and the company has also set up a hotline so employees can report suspicious behaviour. The anti-corruption programme is either internally or externally audited on an annual basis.</p> |
| <p>Large investments could be one factor behind the employee engagement score of 83% and the satisfaction score of 73%</p> | <p><b>Major investment in employee engagement bearing fruit</b></p> <p>In an organisation highly dependent on its workers, maintaining high employee engagement is a priority. In 2017, Ferronordic increased the number of training hours by almost 10%, to 49,000 hours, corresponding to 60 hours per employee. The training is available to all employees but targets sales reps and mechanics in particular. The training material is mainly online and provided by Ferronordic's suppliers and is subsequently translated into Russian by Ferronordic. A mini MBA programme is also available to management at various levels.</p> <p>The large investments could be one factor behind the employee engagement score of 83% and the satisfaction score of 79%. The result compares favourably with an average Russian employment engagement score of approximately 60%.</p> <p>Internal promotion is encouraged and around 60% of new recruitments are internal.</p>   |

**NUMBER OF TRAINING HOURS**



Source: Company data and Nordea

**NUMBER OF EMPLOYEES AND TRAINING HOURS/EMPLOYEE**



Source: Company data and Nordea

# Peer description

This section provides a brief overview of Ferronordic's peer group.

## Peer description

### Oriflame

Oriflame Holding AG is a Swedish cosmetics company. Headquartered in Switzerland, it develops and produces beauty products and accessories, and markets them through a sales force of independent direct sellers. Direct sellers are incentivised with a discount on ordered items and a bonus reward system based on sales of downline recruits. A significant part of its sales are in emerging markets.

### Nokian Tyres

Based in Finland, Nokian Tyres is active in the manufacturing industry. The company has three segments: Passenger Car Tyres, Heavy Tyres and Vianor. Passenger Car Tyres produces summer and winter tyres for cars and vans, while Heavy Tyres comprises tyres for forestry machinery, special tyres and agricultural machinery, tractors and industrial machinery. Vianor specialises in car maintenance and tyre services and covers all sorts of tyres for passenger cars, vans and trucks, and heavy machinery.

### Systemair

Systemair is a Swedish company engaged in the development, production and marketing of ventilation products and solutions. The products are marketed under the Systemair, Fantech, Frico and VEAB brands. Systemair specialises in ventilation products, such as fans, air distribution products, chillers and air handling units. Fantech develops, designs and markets solutions for residential and commercial properties.

### Inchcape

Inchcape is a UK-based automotive distributor and retailer operating in around 30 markets. It has three segments: Distribution, Retail and Central. The company pursues a range of retail techniques, including social media campaigns and other strategies. The Distribution segment sells new vehicles and parts in Australia, New Zealand, European markets, Asian markets and growing markets. The Retail segment sells new and used vehicles also in Australia. The company also engages in aftermarket sales of service, body shop repairs and parts.

### Carlsberg

Carlsberg was founded by J.C. Jacobsen in 1847 in Denmark and is now the third-largest global brewing company. Its product range includes beer, soft drinks, mineral water, energy drinks and cider, forming a portfolio of strong national and international power brands. Some of its best-known include Baltika, Carlsberg, Grimbergen, Blanc 1664 and Tuborg. The business is structured around three geographical regions: Western Europe, Asia, and Eastern Europe. Other markets are serviced through licence and/or export agreements.

### YIT

YIT is the largest Finnish construction company, focusing on building apartments. It also has exposure to the infrastructure and paving segments and builds apartments in Russia. Approximately 85% of YIT is based on operations in Finland and CEE, while the other 15% is in Russia. The asset base in Russia is larger than this, although dampened by a relatively weaker economy than in YIT's other markets. YIT's roots date back to 1912. Caverion was spun off from the company in 2013.

### Volvo

Volvo Group is a manufacturer of trucks, buses, construction equipment and marine and industrial engines. It also provides solutions for financing and service. The brand portfolio consists of Volvo, Volvo Penta, UD Trucks, Renault Trucks, SDLG, Prevost, Nova Bus and Mack. In addition to vehicles and machines, it offers a range of services, such as insurance, rental, spare parts and maintenance.

**Caterpillar**

Caterpillar is a US-based manufacturer of construction and mining equipment engines and machines. Among its segments are Construction Industries, Resource Industries, Energy & Transportation, Financial Products and All Other operating segments. As of 2016, the company's machines were distributed primarily through a dealer network, with 49 located in the US and 123 outside the US, serving a total of 190 countries.

**Komatsu**

Komatsu is a Japanese manufacturer of industrial products and services. The company is engaged in construction and mining equipment, industrial machinery and vehicles, logistics, electronics and other solutions. Its products include forest machines, forklift trucks, diesel engine generators, large press systems, small- and medium-sized presses, sheet-metal machinery, machine tools, excimer lasers, and thermoelectric modules.

**Hitachi**

Hitachi is a solution provider across a range of sectors, including power and energy, industry, urban development, finance, and public healthcare. Among Hitachi's segments, we find Information & Telecommunication Systems, Social Infrastructure & Industrial Systems, Electronic Systems & Equipment, Construction Machinery, High Functional Materials & Components, Automotive Systems, Smart Life & Ecofriendly Systems, Others and Financial Services. The company also offers products and services such as industrial machinery and plants, elevators, escalators, equipment for semiconductors and other electronic devices.

**Deere & Company**

Deere & Company is US-based and engaged in equipment operations. It operates three business segments: Agriculture and Turf, Construction and Forestry, and Financial Services. The Agriculture and Turf segment manufactures and distributes agriculture and turf equipment and service parts. Construction and Forestry provides a range of construction equipment and forestry machines globally. The products are mainly sold through independent retail dealers and retail outlets.

**Finning International**

Finning International sells, services and rents heavy construction equipment, engines and related products globally. The company has three segments: the Canadian operations, which include British Columbia, Alberta and the Northwest Territories; the South American operations, which include Chile, Argentina, Bolivia and Uruguay; and the UK and Ireland operations. It is the world's largest distributor of Caterpillar products such as tractors, trucks and drills, and buys and sells used equipment.

**Barloworld**

Barloworld is a dealer of international brands providing rental, fleet management, product support and logistics. Barloworld has three segments: Equipment and Handling, Automotive and Logistics, and Corporate. The Equipment subsegment provides customers with Caterpillar construction equipment, engines and other brands. Handling provides customers with lift trucks, warehouse handling equipment and distribution of agricultural equipment. Automotive provides customers with a range of motor vehicle usage solutions through car rental, motor retail and fleet service. The company is based in Johannesburg, South Africa.

**Cervus**

Cervus works with the sale, after-sale service and maintenance of agricultural, transportation, construction and industrial equipment. It acquires and operates authorised agricultural, construction, material handling and transportation equipment dealerships. Its Agricultural equipment segment sells agricultural and turf equipment by John Deere. Its Commercial and Industrial equipment segment sells and services commercial and industrial equipment. It includes light and medium construction equipment dealerships selling Bobcat and JCB construction equipment. It also includes material handling equipment dealership.

**H&E Equipment Services**

H&E is a US equipment services company focused on construction equipment. It rents, sells and provides parts and services support for four core categories of specialised equipment: hi-lift or aerial work platform equipment; cranes; earthmoving equipment, and industrial lift trucks. The company's principal business activities include equipment rental, new equipment sales, used equipment sales, parts sales, and repair and

maintenance services. It has around 78 facilities in the US. Among H&E's brands we find Komatsu, John Deere, JLG, Doosan and Bobcat.

### **Toromont**

Toromont is a Canadian company which operates through two segments: Equipment Group and CIMCO. Equipment Group supplies specialised mobile equipment and consists of various businesses including CAT, Toromont Energy and AgWest. Its customer base includes infrastructure contractors, residential and commercial contractors, mining companies and forestry companies. CIMCO is involved in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems with operations in Canada and the US.

### **Doosan Heavy Industries & Construction**

Doosan is a Korean company which produces and sells construction and power plant equipment. It operates its business through ten segments: Doosan Infracore, Power Generation, Water, Industry, Castings and Forgings, Construction, Wholesale and Retail, Doosan Engine, and Doosan Construction. The Doosan Infracore segment produces and sells construction equipment such as excavators and wheel loaders, as well as engines, generators and internal combustion engines.

# Detailed estimates

## FERRONORDIC'S ANNUAL ESTIMATES

| (SEKm)                              | 2013   | 2014   | 2015   | 2016   | 2017   | 2018E  | 2019E  | 2020E  |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue                             | 2,482  | 2,335  | 1,469  | 1,658  | 2,567  | 2,972  | 3,263  | 3,537  |
| Cost of sales                       | -2,072 | -1,936 | -1,136 | -1,292 | -2,079 | -2,407 | -2,648 | -2,875 |
| Gross profit                        | 409    | 398    | 333    | 366    | 488    | 565    | 615    | 661    |
| Sales expenses                      | -353   | -96    | -81    | -99    | -125   | -141   | -150   | -158   |
| General and administrative expenses | 0      | -226   | -175   | -137   | -165   | -182   | -189   | -197   |
| Other income                        | 1      | 7      | 5      | 4      | 5      | 5      | 5      | 5      |
| Other expenses                      | -6     | -14    | -22    | -29    | -16    | -19    | -21    | -21    |
| EBIT                                | 52     | 69     | 61     | 104    | 187    | 227    | 260    | 290    |
| Finance income                      | 1      | 3      | 10     | 10     | 15     | 5      | 7      | 8      |
| Finance costs                       | -81    | -37    | -26    | -8     | -7     | -9     | -8     | -8     |
| Net FX gains/(losses)               | -28    | -9     | -8     | 1      | -2     | 0      | -4     | -4     |
| EBT                                 | -57    | 26     | 37     | 107    | 193    | 223    | 255    | 286    |
| Income tax                          | 13     | -7     | -8     | -24    | -42    | -49    | -56    | -63    |
| Net income                          | -44    | 19     | 29     | 84     | 151    | 174    | 199    | 223    |
| EPS                                 | -4.44  | -3.10  | -2.12  | 3.03   | 8.50   | 11.86  | 13.68  | 15.33  |
| Pre tax adjustments                 | 0      | -33    | -26    | -27    | 0      | 0      | 0      | 0      |
| After tax adjustments               | 0      | -26    | -20    | -21    | 0      | 0      | 0      | 0      |
| Adj. EBIT                           | 52     | 102    | 87     | 132    | 187    | 227    | 260    | 290    |
| Adj. PTP                            | -57    | 59     | 63     | 135    | 193    | 223    | 255    | 286    |
| Adj. Net income                     | -44    | 45     | 49     | 105    | 151    | 174    | 199    | 223    |
| Adj. EPS                            | -4.44  | -0.53  | -0.10  | 5.16   | 8.50   | 11.9   | 13.7   | 15.3   |

Source: Company data and Nordea estimates

## FERRONORDIC'S ANNUAL SALES BRIDGE

| (SEKm)              | 2013         | 2014         | 2015         | 2016         | 2017         | 2018E        | 2019E        | 2020E        |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales</b>        |              |              |              |              |              |              |              |              |
| Equipment Sales     | 1,902        | 1,747        | 934          | 1,029        | 1,765        | 2,103        | 2,338        | 2,538        |
| Aftermarket Sales   | 535          | 524          | 502          | 566          | 701          | 757          | 807          | 871          |
| Other Sales         | 45           | 64           | 33           | 64           | 101          | 112          | 118          | 127          |
| <b>Total sales</b>  | <b>2,481</b> | <b>2,335</b> | <b>1,469</b> | <b>1,658</b> | <b>2,567</b> | <b>2,971</b> | <b>3,263</b> | <b>3,537</b> |
| <b>Sales bridge</b> |              |              |              |              |              |              |              |              |
| Volumes             | 7%           | -1%          | -32%         | 4%           | 24%          | 10%          | 9%           | 7%           |
| Price/mix           | -4%          | 8%           | 14%          | 17%          | 13%          | 11%          | 3%           | 2%           |
| Structural          | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           |
| Currency            | 0%           | -13%         | -19%         | -8%          | 19%          | -6%          | -1%          | 0%           |
| Other               | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           |
| <b>Total growth</b> | <b>4%</b>    | <b>-6%</b>   | <b>-37%</b>  | <b>13%</b>   | <b>55%</b>   | <b>16%</b>   | <b>10%</b>   | <b>8%</b>    |
| <b>Sales bridge</b> |              |              |              |              |              |              |              |              |
| Volumes             | 172          | -23          | -752         | 65           | 390          | 264          | 254          | 216          |
| Price/mix           | -104         | 195          | 318          | 244          | 209          | 272          | 77           | 54           |
| Structural          | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Currency            | 0            | -318         | -432         | -119         | 309          | -148         | -42          | 0            |
| Other               | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total growth</b> | <b>68</b>    | <b>-147</b>  | <b>-866</b>  | <b>190</b>   | <b>909</b>   | <b>388</b>   | <b>289</b>   | <b>270</b>   |

Source: Company data and Nordea estimates

**ANNUAL GROWTH BY SEGMENT**

| (%)                      | 2013         | 2014         | 2015        | 2016         | 2017         | 2018E        | 2019E        | 2020E        |
|--------------------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>Equipment Sales</b>   | <b>1,902</b> | <b>1,747</b> | <b>934</b>  | <b>1,029</b> | <b>1,765</b> | <b>2,103</b> | <b>2,338</b> | <b>2,538</b> |
| Volumes                  | 9%           | -6%          | -49%        | -8%          | 30%          | 9%           | 9%           | 6%           |
| Price/mix                | -6%          | 10%          | 18%         | 26%          | 20%          | 15%          | 4%           | 2%           |
| Structural               | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| Currency                 | 0%           | -13%         | -15%        | -8%          | 21%          | -6%          | -1%          | 0%           |
| Other                    | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| <b>Total growth</b>      | <b>4%</b>    | <b>-8%</b>   | <b>-47%</b> | <b>10%</b>   | <b>72%</b>   | <b>19%</b>   | <b>11%</b>   | <b>9%</b>    |
| <b>Aftermarket Sales</b> | <b>535</b>   | <b>524</b>   | <b>502</b>  | <b>566</b>   | <b>701</b>   | <b>757</b>   | <b>807</b>   | <b>871</b>   |
| Volumes                  | 0%           | 12%          | 24%         | 22%          | 9%           | 14%          | 8%           | 8%           |
| Price/mix                | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| Structural               | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| Currency                 | 0%           | -13%         | -28%        | -9%          | 15%          | -6%          | -2%          | 0%           |
| Other                    | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| <b>Total growth</b>      | <b>5%</b>    | <b>-2%</b>   | <b>-4%</b>  | <b>13%</b>   | <b>24%</b>   | <b>8%</b>    | <b>7%</b>    | <b>8%</b>    |
| <b>Other Sales</b>       | <b>45</b>    | <b>64</b>    | <b>33</b>   | <b>64</b>    | <b>101</b>   | <b>112</b>   | <b>118</b>   | <b>127</b>   |
| Volumes                  | 0%           | 55%          | -20%        | 106%         | 49%          | 16%          | 8%           | 8%           |
| Price/mix                | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| Structural               | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| Currency                 | 0%           | -13%         | -28%        | -10%         | 10%          | -5%          | -2%          | 0%           |
| Other                    | 0%           | 0%           | 0%          | 0%           | 0%           | 0%           | 0%           | 0%           |
| <b>Total growth</b>      | <b>-19%</b>  | <b>43%</b>   | <b>-49%</b> | <b>95%</b>   | <b>58%</b>   | <b>11%</b>   | <b>6%</b>    | <b>8%</b>    |

Source: Company data and Nordea estimates

**FERRONORDIC'S ANNUAL KPI**

| (Units)                        | 2013  | 2014  | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|--------------------------------|-------|-------|------|------|------|-------|-------|-------|
| New units                      | 1,425 | 1,335 | 523  | 479  | 738  | 841   | 912   | 965   |
| Change y/y, %                  | 4%    | -6%   | -61% | -8%  | 54%  | 14%   | 8%    | 6%    |
| TTM                            | n.a   | n.a   | n.a  | n.a  | n.a  | n.a   | n.a   | n.a   |
| New units sale/total units (%) | 90%   | 89%   | 70%  | 69%  | 82%  | 86%   | 86%   | 85%   |
| Used units                     | 156   | 158   | 226  | 214  | 162  | 140   | 154   | 166   |
| Change y/y, %                  | 108%  | 1%    | 43%  | -5%  | -24% | -14%  | 10%   | 8%    |
| TTM                            | n.a   | n.a   | n.a  | n.a  | n.a  | n.a   | n.a   | n.a   |
| Used units/total units (%)     | 10%   | 11%   | 30%  | 31%  | 18%  | 14%   | 14%   | 15%   |
| Total units                    | 1,581 | 1,493 | 749  | 693  | 900  | 981   | 1,066 | 1,132 |
| Change y/y, %                  | 9%    | -6%   | -50% | -7%  | 30%  | 9%    | 9%    | 6%    |
| TTM                            |       |       |      |      |      |       |       |       |
| Price per unit, SEKm           | 1.2   | 1.2   | 1.2  | 1.5  | 2.0  | 2.1   | 2.2   | 2.2   |
| Change y/y, %                  | -5%   | -3%   | 7%   | 19%  | 32%  | 9%    | 2%    | 2%    |
| Price per unit, RUBm           | 5.9   | 6.5   | 9.0  | 11.5 | 13.4 | 15.4  | 16.0  | 16.4  |
| Change y/y, %                  | n.m   | n.m   | n.m  | n.m  | n.m  | n.m   | n.m   | n.m   |
| Number of outlets              | 75    | 75    | 64   | 73   | 74   | 77    | 79    | 81    |
| Net opening(+)/closing(-)      | 6     | 0     | -11  | 9    | 1    | 3     | 2     | 2     |
| Net sales per outlet, SEKm     | 33    | 31    | 23   | 23   | 35   | 39    | 41    | 44    |

Source: Company data and Nordea estimates

# Quarterly detailed estimates

## FERRONORDIC'S QUARTERLY ESTIMATES

| (SEKm)                              | Q1 17 | Q2 17 | Q3 17 | Q4 17 | Q1 18 | Q2 18 | Q3 18E | Q4 18E |
|-------------------------------------|-------|-------|-------|-------|-------|-------|--------|--------|
| Revenue                             | 550   | 785   | 626   | 606   | 614   | 817   | 774    | 767    |
| Cost of sales                       | -441  | -638  | -506  | -494  | -497  | -660  | -626   | -625   |
| Gross profit                        | 110   | 146   | 120   | 112   | 117   | 158   | 148    | 143    |
| Sales expenses                      | -31   | -32   | -32   | -29   | -32   | -36   | -39    | -36    |
| General and administrative expenses | -38   | -50   | -37   | -39   | -43   | -49   | -43    | -48    |
| Other income                        | 0     | 2     | 1     | 2     | 2     | 0     | 1      | 2      |
| Other expenses                      | -4    | -4    | -2    | -7    | -3    | -6    | -2     | -9     |
| EBIT                                | 37    | 62    | 50    | 38    | 41    | 68    | 65     | 53     |
| Finance income                      | 2     | 4     | 6     | 3     | 1     | 1     | 2      | 1      |
| Finance costs                       | -1    | -1    | -1    | -3    | -3    | -2    | -2     | -2     |
| Net FX gains/(losses)               | -1    | 0     | 0     | -1    | -1    | 2     | -1     | -1     |
| EBT                                 | 38    | 65    | 54    | 36    | 39    | 70    | 64     | 51     |
| Income tax                          | -8    | -14   | -11   | -8    | -9    | -15   | -14    | -11    |
| Net income                          | 30    | 51    | 43    | 28    | 30    | 54    | 50     | 40     |
| EPS                                 | 1.60  | 3.61  | 2.77  | 0.52  | 1.93  | 3.75  | 3.45   | 2.73   |
| Pre tax adjustments                 | 0     | 0     | 0     | 0     | 0     | 0     | 0      | 0      |
| After tax adjustments               | 0     | 0     | 0     | 0     | 0     | 0     | 0      | 0      |
| Adj. EBIT                           | 37    | 62    | 50    | 38    | 41    | 68    | 65     | 53     |
| Adj. PTP                            | 38    | 65    | 54    | 36    | 39    | 70    | 64     | 51     |
| Adj. Net income                     | 30    | 51    | 43    | 28    | 30    | 54    | 50     | 40     |
| Adj. EPS                            | 1.60  | 3.61  | 2.77  | 0.52  | 1.93  | 3.75  | 3.45   | 2.73   |

Source: Company data and Nordea estimates

## FERRONORDIC'S QUARTERLY SALES BRIDGE

| (SEKm)              | Q1 17      | Q2 17      | Q3 17      | Q4 17      | Q1 18      | Q2 18      | Q3 18E     | Q4 18E     |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Sales</b>        |            |            |            |            |            |            |            |            |
| Equipment Sales     | 362        | 574        | 435        | 395        | 403        | 593        | 558        | 549        |
| Aftermarket Sales   | 167        | 187        | 168        | 179        | 174        | 201        | 191        | 190        |
| Other Sales         | 22         | 24         | 24         | 31         | 37         | 22         | 24         | 28         |
| <b>Total sales</b>  | <b>550</b> | <b>785</b> | <b>626</b> | <b>606</b> | <b>614</b> | <b>816</b> | <b>774</b> | <b>767</b> |
| <b>Sales bridge</b> |            |            |            |            |            |            |            |            |
| Volumes             | 15%        | 36%        | 26%        | 18%        | 5%         | 3%         | 14%        | 21%        |
| Price/mix           | 20%        | 21%        | 21%        | -4%        | 14%        | 11%        | 9%         | 8%         |
| Structural          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         |
| Currency            | 44%        | 37%        | 7%         | -1%        | -7%        | -10%       | -1%        | -4%        |
| Other               | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         |
| <b>Total growth</b> | <b>78%</b> | <b>94%</b> | <b>54%</b> | <b>13%</b> | <b>11%</b> | <b>4%</b>  | <b>23%</b> | <b>27%</b> |
| <b>Sales bridge</b> |            |            |            |            |            |            |            |            |
| Volumes             | 45         | 145        | 106        | 94         | 28         | 22         | 89         | 126        |
| Price/mix           | 61         | 85         | 86         | -22        | 76         | 89         | 57         | 49         |
| Structural          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Currency            | 135        | 149        | 29         | -4         | -41        | -78        | -6         | -23        |
| Other               | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| <b>Total growth</b> | <b>241</b> | <b>379</b> | <b>220</b> | <b>68</b>  | <b>63</b>  | <b>33</b>  | <b>140</b> | <b>152</b> |

Source: Company data and Nordea estimates

**QUARTERLY GROWTH BY SEGMENT**

| (%)                      | Q1 17       | Q2 17       | Q3 17      | Q4 17      | Q1 18      | Q2 18      | Q3 18E     | Q4 18E      |
|--------------------------|-------------|-------------|------------|------------|------------|------------|------------|-------------|
| <b>Equipment Sales</b>   | <b>362</b>  | <b>574</b>  | <b>435</b> | <b>395</b> | <b>403</b> | <b>593</b> | <b>558</b> | <b>549</b>  |
| Volumes                  | 5%          | 53%         | 45%        | 18%        | -2%        | -2%        | 15%        | 28%         |
| Price/mix                | 31%         | 34%         | 38%        | -6%        | 21%        | 16%        | 13%        | 13%         |
| Structural               | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| Currency                 | 46%         | 44%         | 9%         | -1%        | -8%        | -10%       | -1%        | -4%         |
| Other                    | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| <b>Total growth</b>      | <b>82%</b>  | <b>131%</b> | <b>92%</b> | <b>11%</b> | <b>11%</b> | <b>3%</b>  | <b>28%</b> | <b>39%</b>  |
| <b>Aftermarket Sales</b> | <b>167</b>  | <b>187</b>  | <b>168</b> | <b>179</b> | <b>174</b> | <b>201</b> | <b>191</b> | <b>190</b>  |
| Volumes                  | 15%         | 7%          | 2%         | 13%        | 11%        | 18%        | 15%        | 10%         |
| Price/mix                | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| Structural               | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| Currency                 | 39%         | 26%         | 5%         | -1%        | -7%        | -10%       | -1%        | -4%         |
| Other                    | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| <b>Total growth</b>      | <b>54%</b>  | <b>33%</b>  | <b>7%</b>  | <b>12%</b> | <b>4%</b>  | <b>8%</b>  | <b>14%</b> | <b>6%</b>   |
| <b>Other Sales</b>       | <b>22</b>   | <b>24</b>   | <b>24</b>  | <b>31</b>  | <b>37</b>  | <b>22</b>  | <b>24</b>  | <b>28</b>   |
| Volumes                  | 630%        | 27%         | 0%         | 40%        | 77%        | 3%         | 2%         | -6%         |
| Price/mix                | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| Structural               | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| Currency                 | 39%         | 26%         | 5%         | -1%        | -7%        | -10%       | -1%        | -4%         |
| Other                    | 0%          | 0%          | 0%         | 0%         | 0%         | 0%         | 0%         | 0%          |
| <b>Total growth</b>      | <b>669%</b> | <b>52%</b>  | <b>5%</b>  | <b>39%</b> | <b>70%</b> | <b>-7%</b> | <b>1%</b>  | <b>-10%</b> |

Source: Company data and Nordea estimates

**FERRONORDIC'S QUARTERLY KPI**

| (Units)                        | Q1 17 | Q2 17 | Q3 17 | Q4 17 | Q1 18 | Q2 18 | Q3 18E | Q4 18E |
|--------------------------------|-------|-------|-------|-------|-------|-------|--------|--------|
| New units                      | 154   | 218   | 198   | 168   | 155   | 231   | 229    | 227    |
| Change y/y, %                  | 20%   | 112%  | 96%   | 14%   | 1%    | 6%    | 16%    | 35%    |
| TTM                            | 505   | 620   | 717   | 738   | 739   | 752   | 783    | 841    |
| New units sale/total units (%) | 80%   | 80%   | 87%   | 81%   | 82%   | 87%   | 88%    | 85%    |
| Used units                     | 38    | 54    | 30    | 40    | 33    | 35    | 32     | 39     |
| Change y/y, %                  | -30%  | -28%  | -46%  | 38%   | -13%  | -35%  | 8%     | -2%    |
| TTM                            | 198   | 177   | 151   | 162   | 157   | 138   | 140    | 140    |
| Used units/total units (%)     | 20%   | 20%   | 13%   | 19%   | 18%   | 13%   | 12%    | 15%    |
| Total units                    | 192   | 272   | 228   | 208   | 188   | 266   | 261    | 266    |
| Change y/y, %                  | 5%    | 53%   | 45%   | 18%   | -2%   | -2%   | 15%    | 28%    |
| TTM                            | 703   | 797   | 868   | 900   | 896   | 890   | 923    | 981    |
| Price per unit, SEKm           | 1.9   | 2.1   | 1.9   | 1.9   | 2.1   | 2.2   | 2.1    | 2.1    |
| Change y/y, %                  | 73%   | 51%   | 32%   | -6%   | 14%   | 6%    | 13%    | 13%    |
| Price per unit, RUBm           | 12.4  | 13.7  | 13.8  | 13.3  | 15.0  | 15.9  | 15.6   | 15.1   |
| Change y/y, %                  | 29%   | 23%   | 26%   | -5%   | 21%   | 16%   | 13%    | 13%    |

Source: Company data and Nordea estimates

# Reported numbers and forecasts

## INCOME STATEMENT

| SEKm                                 | 2010        | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018E        | 2019E        | 2020E        |
|--------------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net revenue</b>                   | n.a.        | <b>2,425</b> | <b>2,397</b> | <b>2,482</b> | <b>2,335</b> | <b>1,469</b> | <b>1,658</b> | <b>2,567</b> | <b>2,972</b> | <b>3,263</b> | <b>3,537</b> |
| Revenue growth                       | n.a.        | n.a.         | -1.2%        | 3.5%         | -5.9%        | -37.1%       | 12.9%        | 54.8%        | 15.8%        | 9.8%         | 8.4%         |
| of which organic                     | n.a.        | n.a.         | n.a.         | n.a.         | n.a.         | n.a.         | n.a.         | n.a.         | n.a.         | n.a.         | n.a.         |
| of which FX                          | n.a.        | 0.0%         | 0.0%         | 0.0%         | -12.8%       | -18.5%       | -8.1%        | 18.6%        | -5.8%        | -1.4%        | 0.0%         |
| EBITDA                               | 0           | 88           | 116          | 153          | 172          | 130          | 153          | 214          | 259          | 291          | 321          |
| Depreciation and impairments PPE     | 0           | -58          | -90          | -101         | -70          | -43          | -34          | -26          | -32          | -31          | -31          |
| EBITA                                | 0           | 31           | 26           | 52           | 102          | 87           | 119          | 187          | 227          | 260          | 290          |
| Amortisation and impairments         | 0           | 0            | 0            | 0            | -33          | -26          | -15          | 0            | 0            | 0            | 0            |
| EBIT                                 | n.a.        | 31           | 26           | 52           | 69           | 61           | 104          | 187          | 227          | 260          | 290          |
| of which associates                  | 0           | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Associates excluded from EBIT        | 0           | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Net financials                       | 0           | -47          | -87          | -109         | -43          | -24          | 3            | 6            | -4           | -5           | -4           |
| <b>Pre-tax profit</b>                | <b>0</b>    | <b>-16</b>   | <b>-61</b>   | <b>-57</b>   | <b>26</b>    | <b>37</b>    | <b>107</b>   | <b>193</b>   | <b>223</b>   | <b>255</b>   | <b>286</b>   |
| Reported taxes                       | 0           | 0            | 10           | 13           | -7           | -8           | -24          | -42          | -49          | -56          | -63          |
| Net profit from continued operations | 0           | -16          | -51          | -44          | 19           | 29           | 84           | 151          | 174          | 199          | 223          |
| Discontinued operations              | 0           | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Minority interests                   | 0           | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Net profit to equity                 | 0           | -16          | -51          | -44          | -31          | -21          | 30           | 87           | 172          | 199          | 223          |
| <b>EPS</b>                           | <b>n.a.</b> | <b>-1.62</b> | <b>-5.09</b> | <b>-4.44</b> | <b>-3.10</b> | <b>-2.12</b> | <b>3.03</b>  | <b>8.06</b>  | <b>11.86</b> | <b>13.68</b> | <b>15.33</b> |
| DPS                                  | 0.00        | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 1.73         | 3.50         | 4.00         | 4.50         |
| of which ordinary                    | 0.00        | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 1.73         | 3.50         | 4.00         | 4.50         |
| of which extraordinary               | 0.00        | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |

## Profit margin in percent

|        |      |      |      |      |      |      |      |      |      |      |      |
|--------|------|------|------|------|------|------|------|------|------|------|------|
| EBITDA | n.a. | 3.6% | 4.8% | 6.2% | 7.4% | 8.9% | 9.2% | 8.3% | 8.7% | 8.9% | 9.1% |
| EBITA  | n.a. | 1.3% | 1.1% | 2.1% | 4.4% | 5.9% | 7.2% | 7.3% | 7.6% | 8.0% | 8.2% |
| EBIT   | n.a. | 1.3% | 1.1% | 2.1% | 3.0% | 4.2% | 6.3% | 7.3% | 7.6% | 8.0% | 8.2% |

## Adjusted earnings

|              |      |       |       |       |       |       |      |      |       |       |       |
|--------------|------|-------|-------|-------|-------|-------|------|------|-------|-------|-------|
| EBITDA (adj) | 0    | 88    | 116   | 153   | 172   | 130   | 153  | 214  | 259   | 291   | 321   |
| EBITA (adj)  | 0    | 31    | 26    | 14    | 135   | 113   | 146  | 187  | 227   | 260   | 290   |
| EBIT (adj)   | 0    | 31    | 26    | 14    | 102   | 87    | 132  | 187  | 227   | 260   | 290   |
| EPS (adj)    | n.a. | -1.62 | -5.09 | -7.41 | -0.53 | -0.10 | 5.16 | 8.06 | 11.86 | 13.68 | 15.33 |

## Adjusted profit margins in percent

|              |      |      |      |      |      |      |      |      |      |      |      |
|--------------|------|------|------|------|------|------|------|------|------|------|------|
| EBITDA (adj) | n.a. | 3.6% | 4.8% | 6.2% | 7.4% | 8.9% | 9.2% | 8.3% | 8.7% | 8.9% | 9.1% |
| EBITA (adj)  | n.a. | 1.3% | 1.1% | 0.5% | 5.8% | 7.7% | 8.8% | 7.3% | 7.6% | 8.0% | 8.2% |
| EBIT (adj)   | n.a. | 1.3% | 1.1% | 0.5% | 4.4% | 5.9% | 7.9% | 7.3% | 7.6% | 8.0% | 8.2% |

## Performance metrics

|                       |      |      |      |      |      |      |       |       |       |       |       |
|-----------------------|------|------|------|------|------|------|-------|-------|-------|-------|-------|
| CAGR last 5 years     |      |      |      |      |      |      |       |       |       |       |       |
| Net revenue           | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | -7.3% | 1.4%  | 3.7%  | 6.9%  | 19.2% |
| EBITDA                | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | 11.6% | 13.0% | 11.1% | 11.1% | 19.8% |
| EBIT                  | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 27.7% | 48.0% | 34.5% | 30.4% | 36.5% |
| EPS                   | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  |
| DPS                   | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  |
| Average last 5 years  |      |      |      |      |      |      |       |       |       |       |       |
| Average EBIT margin   | n.a. | n.a. | n.a. | n.a. | n.a. | 2.1% | 3.0%  | 4.5%  | 5.9%  | 7.0%  | 7.6%  |
| Average EBITDA margin | n.a. | n.a. | n.a. | n.a. | n.a. | 5.9% | 7.0%  | 7.8%  | 8.4%  | 8.8%  | 8.8%  |

## VALUATION RATIOS - ADJUSTED EARNINGS

| SEKm            | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|-----------------|------|------|------|------|------|------|------|------|-------|-------|-------|
| P/E (adj)       | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 18.7 | 10.1  | 8.8   | 7.8   |
| EV/EBITDA (adj) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 6.1  | 5.5   | 4.4   | 3.5   |
| EV/EBITA (adj)  | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 7.0  | 6.3   | 5.0   | 3.9   |
| EV/EBIT (adj)   | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 7.0  | 6.3   | 5.0   | 3.9   |

## VALUATION RATIOS - REPORTED EARNINGS

| SEKm                  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017  | 2018E | 2019E | 2020E |
|-----------------------|------|------|------|------|------|------|------|-------|-------|-------|-------|
| P/E                   | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 18.7  | 10.1  | 8.8   | 7.8   |
| EV/Sales              | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 0.5   | 0.5   | 0.4   | 0.3   |
| EV/EBITDA             | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 6.1   | 5.5   | 4.4   | 3.5   |
| EV/EBITA              | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 7.0   | 6.3   | 5.0   | 3.9   |
| EV/EBIT               | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 7.0   | 6.3   | 5.0   | 3.9   |
| Dividend yield (ord.) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 1.1%  | 2.9%  | 3.3%  | 3.8%  |
| FCF yield             | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 8.9%  | 5.9%  | 10.9% | 12.2% |
| Payout ratio          | n.a. | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 21.5% | 29.5% | 29.2% | 29.4% |

Source: Company data and Nordea estimates

**BALANCE SHEET**

| SEKm                                  | 2010     | 2011         | 2012         | 2013         | 2014         | 2015       | 2016         | 2017         | 2018E        | 2019E        | 2020E        |
|---------------------------------------|----------|--------------|--------------|--------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|
| Intangible assets                     | 0        | 180          | 142          | 95           | 43           | 15         | 2            | 6            | 8            | 11           | 14           |
| of which R&D                          | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 2            | 5            | 9            |
| of which other intangibles            | 0        | 180          | 142          | 95           | 43           | 15         | 2            | 6            | 6            | 6            | 6            |
| of which goodwill                     | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Tangible assets                       | 0        | 160          | 235          | 248          | 225          | 83         | 116          | 136          | 140          | 132          | 129          |
| Shares associates                     | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Interest bearing assets               | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Deferred tax assets                   | 0        | 8            | 11           | 23           | 36           | 45         | 42           | 42           | 42           | 42           | 42           |
| Other non-IB non-current assets       | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Other non-current assets              | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Total non-current assets              | 0        | 349          | 388          | 366          | 303          | 143        | 160          | 184          | 189          | 184          | 185          |
| Inventory                             | 0        | 558          | 505          | 584          | 425          | 327        | 467          | 633          | 755          | 822          | 891          |
| Accounts receivable                   | 0        | 203          | 273          | 335          | 265          | 161        | 202          | 243          | 306          | 330          | 357          |
| Other current assets                  | 0        | 2            | 3            | 2            | 2            | 1          | 4            | 3            | 4            | 4            | 4            |
| Cash and bank                         | 0        | 110          | 165          | 163          | 177          | 175        | 199          | 352          | 353          | 492          | 646          |
| Total current assets                  | 0        | 873          | 946          | 1,084        | 870          | 665        | 872          | 1,231        | 1,418        | 1,648        | 1,899        |
| Assets held for sale                  | 0        | 0            | 0            | 0            | 0            | n.a.       | n.a.         | n.a.         | n.a.         | n.a.         | n.a.         |
| <b>Total assets</b>                   | <b>0</b> | <b>1,222</b> | <b>1,333</b> | <b>1,450</b> | <b>1,173</b> | <b>808</b> | <b>1,033</b> | <b>1,414</b> | <b>1,607</b> | <b>1,832</b> | <b>2,084</b> |
| Shareholders equity                   | 0        | 178          | 130          | 533          | 372          | 322        | 442          | 611          | 683          | 831          | 996          |
| Of which preferred stocks             | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Of which equity part of hybrid debt   | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Minority interest                     | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Total Equity                          | 0        | 178          | 130          | 533          | 372          | 322        | 442          | 611          | 683          | 831          | 996          |
| Deferred tax                          | 0        | 31           | 21           | 10           | 7            | 0          | 0            | 1            | 1            | 1            | 1            |
| Long term interest bearing debt       | 0        | 438          | 452          | 24           | 21           | 4          | 15           | 22           | 22           | 22           | 22           |
| Pension provisions                    | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Other long-term provisions            | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Other long-term liabilities           | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Convertible debt                      | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Shareholder debt                      | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Hybrid debt                           | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| Total non-current liabilities         | 0        | 475          | 476          | 34           | 28           | 4          | 16           | 23           | 23           | 23           | 23           |
| Short-term provisions                 | 0        | 28           | 26           | 18           | 9            | 4          | 10           | 13           | 15           | 17           | 18           |
| Accounts payable                      | 0        | 303          | 434          | 652          | 492          | 384        | 547          | 737          | 853          | 927          | 1,012        |
| Other current liabilities             | 0        | 4            | 4            | 15           | 8            | 4          | 7            | 12           | 14           | 15           | 17           |
| Short term interest bearing debt      | 0        | 234          | 263          | 198          | 265          | 90         | 11           | 19           | 19           | 19           | 19           |
| Total current liabilities             | 0        | 569          | 727          | 883          | 774          | 482        | 575          | 780          | 901          | 978          | 1,065        |
| Liabilities for assets held for sale  | 0        | 0            | 0            | 0            | 0            | 0          | 0            | 0            | 0            | 0            | 0            |
| <b>Total liabilities and equity</b>   | <b>0</b> | <b>1,222</b> | <b>1,333</b> | <b>1,450</b> | <b>1,173</b> | <b>808</b> | <b>1,033</b> | <b>1,414</b> | <b>1,607</b> | <b>1,832</b> | <b>2,084</b> |
| <b>Balance sheet and debt metrics</b> |          |              |              |              |              |            |              |              |              |              |              |
| Net debt                              | 0        | 561          | 550          | 59           | 109          | -81        | -173         | -312         | -313         | -451         | -606         |
| Working capital                       | 0        | 456          | 342          | 254          | 193          | 101        | 120          | 130          | 198          | 214          | 225          |
| Invested capital                      | 0        | 805          | 730          | 621          | 496          | 244        | 280          | 314          | 387          | 398          | 410          |
| Capital employed                      | 0        | 653          | 607          | 567          | 399          | 325        | 458          | 634          | 706          | 854          | 1,019        |
| ROE                                   | n.m.     | -18.2%       | -33.0%       | -13.4%       | -6.9%        | -6.1%      | 7.9%         | 16.4%        | 26.6%        | 26.3%        | 24.4%        |
| ROIC                                  | n.m.     | 6.0%         | 2.7%         | 1.6%         | 14.2%        | 18.3%      | 39.2%        | 49.2%        | 50.6%        | 51.6%        | 55.9%        |
| ROCE                                  | n.a.     | 4.7%         | 4.4%         | 9.1%         | 17.3%        | 18.8%      | 22.8%        | 29.5%        | 32.2%        | 30.4%        | 28.4%        |
| Net debt/EBITDA                       | n.m.     | 6.3          | 4.7          | 0.4          | 0.6          | -0.6       | -1.1         | -1.5         | -1.2         | -1.6         | -1.9         |
| Interest coverage                     | n.a.     | 0.7          | 0.3          | 0.6          | 2.0          | 2.7        | 14.4         | 30.7         | 26.5         | 33.4         | 37.2         |
| Equity ratio                          | n.m.     | 14.6%        | 9.8%         | 36.7%        | 31.7%        | 39.8%      | 42.8%        | 43.2%        | 42.5%        | 45.4%        | 47.8%        |
| Net gearing                           | n.m.     | 314.8%       | 421.7%       | 11.1%        | 29.4%        | -25.3%     | -39.1%       | -51.0%       | -45.8%       | -54.3%       | -60.8%       |

Source: Company data and Nordea estimates

**CASH FLOW STATEMENT**

| SEKm                                   | 2010     | 2011        | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018E      | 2019E      | 2020E      |
|--|----------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>EBITDA (adj) for associates</b>     | <b>0</b> | <b>88</b>   | <b>116</b> | <b>153</b> | <b>172</b> | <b>130</b> | <b>153</b> | <b>214</b> | <b>259</b> | <b>291</b> | <b>321</b> |
| Paid taxes                             | 0        | 0           | 0          | 0          | 0          | 0          | 0          | 0          | -49        | -56        | -63        |
| Net financials                         | 0        | 66          | 87         | 111        | 43         | 24         | -3         | -6         | -4         | -5         | -4         |
| Change in provisions                   | 0        | 28          | -3         | -8         | -9         | -5         | 7          | 3          | 2          | 1          | 1          |
| Change in other LT non-IB              | 0        | -2          | -6         | -15        | -14        | -9         | 3          | 0          | 0          | 0          | 0          |
| Cash flow to/from associates           | 0        | 0           | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Dividends paid to minorities           | 0        | 0           | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Other adj to reconcile to cash flow    | 0        | -72         | -122       | -172       | -42        | -38        | -36        | -44        | 0          | 0          | 0          |
| <b>Funds from operations (FFO)</b>     | <b>0</b> | <b>110</b>  | <b>72</b>  | <b>69</b>  | <b>151</b> | <b>101</b> | <b>123</b> | <b>168</b> | <b>208</b> | <b>231</b> | <b>255</b> |
| Change in NWC                          | 0        | -502        | 69         | -27        | -176       | 133        | 18         | -20        | -68        | -16        | -11        |
| <b>Cash flow from operations (CFO)</b> | <b>0</b> | <b>-392</b> | <b>141</b> | <b>42</b>  | <b>-25</b> | <b>234</b> | <b>141</b> | <b>148</b> | <b>140</b> | <b>216</b> | <b>244</b> |
| Capital expenditure                    | 0        | -78         | -78        | -22        | -36        | 3          | -10        | -7         | -37        | -26        | -32        |
| <b>Free cash flow before A&amp;D</b>   | <b>0</b> | <b>-471</b> | <b>64</b>  | <b>20</b>  | <b>-61</b> | <b>237</b> | <b>132</b> | <b>141</b> | <b>103</b> | <b>189</b> | <b>213</b> |
| Proceeds from sale of assets           | 0        | 10          | 0          | 0          | 0          | 5          | 4          | 3          | 0          | 0          | 0          |
| Acquisitions                           | 0        | 0           | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Free cash flow                         | 0        | -461        | 64         | 20         | -61        | 242        | 136        | 144        | 103        | 189        | 213        |
| Dividends paid                         | 0        | 0           | 0          | 0          | -50        | -50        | -53        | -58        | -100       | -51        | -58        |
| Equity issues / buybacks               | 0        | 0           | 0          | 1          | 0          | -1         | 0          | 0          | 0          | 0          | 0          |
| Net change in debt                     | 0        | 1,001       | 781        | 282        | 849        | 109        | 0          | -28        | 0          | 0          | 0          |
| Other financing adjustments            | 0        | 34          | -29        | -32        | -1         | -30        | -15        | -12        | -2         | 0          | 0          |
| Other non-cash adjustments             | 0        | -465        | -761       | -272       | -722       | -272       | -45        | 108        | 0          | 0          | 0          |
| Change in cash                         | 0        | 110         | 55         | -3         | 15         | -2         | 24         | 153        | 1          | 138        | 155        |

**Cash flow metrics**

|             |      |        |       |       |       |       |       |       |        |       |        |
|-------------|------|--------|-------|-------|-------|-------|-------|-------|--------|-------|--------|
| Capex/D&A   | n.m. | 135.8% | 86.6% | 22.1% | 35.3% | -4.4% | 20.0% | 25.8% | 116.6% | 84.8% | 102.3% |
| Capex/Sales | n.a. | -3.2%  | -3.2% | -0.9% | -1.6% | 0.2%  | -0.6% | -0.3% | -1.3%  | -0.8% | -0.9%  |

**Key information**

|                                     |      |      |      |      |      |      |      |       |       |       |       |
|-------------------------------------|------|------|------|------|------|------|------|-------|-------|-------|-------|
| Share price year end (/current)     | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 151   | 120   | 120   | 120   |
| Market cap.                         | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 1,615 | 1,744 | 1,744 | 1,744 |
| Enterprise value                    | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 1,303 | 1,431 | 1,293 | 1,138 |
| Diluted no. of shares, year-end (m) | 0.0  | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.7  | 14.5  | 14.5  | 14.5  |

Source: Company data and Nordea estimates

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