

CEO's message

The past year was largely characterized by continued measures to deal with the coronavirus pandemic and the strong economic recovery. The extensive vaccinations against Covid-19 that have been conducted in large parts of the world enabled societies to once again open up. From a real economy perspective, the easing of restrictions combined with major stimulus packages created conditions for strong demand. On the supply side, however, significant disruptions took place in global supply chains, resulting in a shortage of semiconductors, rising prices for input goods and energy, a shortage of labor and higher transport costs, among other things.

The stock market performed very strongly during the year, and the Stockholm Stock Exchange's broad index (OMXSPI) rose by 35%. On top of the strong economic recovery, the continued vaccinations against Covid-19 made a positive contribution. This, combined with continued low interest rates and a shortage of attractive investment alternatives, lent support to the stock market, even though discussions about inflation expectations and rising interest rates intensified towards the end of the year, which contributed to increased volatility.

Despite a challenging year, our portfolio companies performed very well. By continuously adapting their operations to rapidly changed conditions, they managed the sharp decline at the start of the pandemic as well as the strong recovery phase. Parallel with this, the portfolio companies worked to transform their businesses over the long term to meet trends such as digitalization and growing demands for sustainable solutions. Successfully managing these types of transformations is crucial for creating value over the long term. As an active owner we focus strongly on this work, and for several years we have driven issues related to focusing, stable finances, integrated sustainability work and increased flexibility.

At its core, Industrivärden's business mission is grounded in a strong business focus, engagement and long-term perspective. Our objective is to actively contribute to long-term value creation in a limited number of portfolio companies. Work is based in part on our equities portfolio, comprising some of Sweden's finest quality companies, and in part on our operations with talented employees and a highly developed corporate governance model. Without a doubt it is here where we have our relative strength advantage – to develop leading companies in which we have a depth of knowledge and strong influence. Against this background it is gratifying to see how our portfolio companies further strengthened their positions during the year. Our involvement and depth of knowledge along with the opportunity to influence the portfolio companies increases value creation in Industrivärden at the same time that it mitigates the risk in our investments.

Our chosen business model has been successful, which is illustrated in among other things good growth of net asset value at balanced risk. Over the last three- and five-year periods Industrivärden has generated an annual net asset growth of 21% and 14%, respectively, including reinvested dividend. The active owner role, with clear involvement in the companies' strategic development, entails quite naturally a long-term evaluation and investment perspective. Our focus is therefore on company development rather than on equity transactions. Industrivärden today can be regarded more as an owner-company with a clear agenda rather than a more traditional holding company.

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If we look a bit more closely at our portfolio companies, there are several common denominators. They have strong market positions in their respective areas, stable finances, and overall good profitability and strong cash flows. This has been made possible thanks to success factors such as first-rate business models, competent management teams and employees with a clear capacity for adaptation, innovation and development. Our portfolio companies are without a doubt good at formulating as well as executing upon their strategies. Even though the portfolio companies' successes at their core are based on their respective operating activities, corporate governance makes up a vital component. Good companies have competent boards and management teams. Understanding the portfolio companies' challenges and converting these into concrete competency needs in their respective boards is one of our main duties. We therefore put great energy into our participation on the companies' nominating committees. In the same way, it is of utmost importance for us to participate in the portfolio companies' board work as an engaged and influential owner. In recent years, the pace of change in the companies has increased, which is a result of the rapid shifts that are taking place in our world, such as digitalization, electrification and stronger focus on sustainability. From a governance perspective this entails intensified and more complex board work, and that the competency needs in company boards are changing at an ever-faster pace. This is a challenge, but also a competitive advantage for an owner like Industrivärden, with a proven and successful ownership model.

Ultimately, active ownership is about the strategic activities and step changes that are carried out in our portfolio companies. I therefore want to mention a few concrete examples of this during 2021.

Long-term value is basically created by focusing on the parts of business that have potential for sustainable growth, good profitability, and where the company has the opportunity to command a leading position. Against this background it is gratifying to see how Sandvik carried out several acquisitions during the year that strengthen the company's business in both the manufacturing and mining industries. Handelsbanken is another example, where the bank is leaving markets with lower growth potential in order to further develop its business in markets and areas in which it has a strong position. In addition, Skanska's launch of the new Investment Properties business stream is a prime example of how a company can capitalize on a greater share of the value that it takes part in creating.

Another important perspective is transformation – adapting a company's operations to changed conditions while at the same time advancing its positions. Here I want to mention Volvo, which has successfully strengthened its positions in the areas of electromobility and autonomous and connected vehicles. During 2021 Volvo signed one of the world's largest orders for fully electric heavy-duty trucks – a segment in which it is a world leader. Our portfolio companies Essity and SCA are also at the forefront of driving the transformation towards greater sustainability, with a high pace of innovation and continuous product development as key competitive advantages. In both cases it's very much a matter of meeting changed customer needs, and for SCA's part also about the operational process and innovating uses for the forest raw material. For these, but also for our other portfolio companies, innovation is tightly interwoven with sustainability – to make the companies and their products more sustainable over time. Ericsson's acquisition of the American software company Vonage, a global provider of cloud-based communication, is an example of a transformative acquisition that is enabling the building of a global networking and communication platform in open innovation for enterprises, developers and operators.

Sustainable business goes hand-in-hand with long-term value creation. Industrivärden therefore puts strong emphasis on analyzing, understanding, and where needed influencing its portfolio companies on material sustainability issues. One important insight is that genuine sustainability is an approach that must encompass all parts of a company and be an integrated part of its operating activities. Our sustainability work is therefore an integral part of everything we do, from participating in nominating committee work to the continuous evaluation of our portfolio companies. During 2021 we further developed our work and



among other things more clearly defined our climate and diversity goals. We have set a goal to ensure that the portfolio companies reduce their carbon footprints based on a scientifically based framework. Against this background it is gratifying that most of our portfolio companies have joined the Science Based Targets initiative (SBTi). Through our active owner role we aim to contribute to a sustainable world and will continue to support and promote the UN Global Compact and its ten principles.

For several years we have had a dividend policy that aims to create a positive net balance of dividends before investments. During the past year the net of dividends received and paid out amounted to just over three and a half billion SEK. We have thereby once again generated significant investment capacity for future value creation. In 2021 we invested more than four billion SEK in Sandvik, Volvo, Handelsbanken and Essity. In addition, we sold our remaining shareholding in SSAB for two billion SEK.

In a concentrated equities portfolio, for natural reasons returns may be uneven between individual calendar years. The portfolio had weaker growth in value during the past year, which impacts upon our long- and medium-term returns. However, we believe that our portfolio companies have substantial value potential. Industrivärden thereby has a solid foundation to continue generating a long-term favorable return at balanced risk.

Through Handelsbanken's distribution in kind of Industrivärden shares, during the year we were able to welcome some 90,000 new shareholders, and we now have approximately 204,000 shareholders. It is my ambition and conviction that, with our high-quality portfolio companies and well-developed ownership model, we will be able to create value for our shareholders over time.

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Helena Stjernholm