

Strong position in a challenging period

The ultra easy monetary policy that has been pursued in recent years changed dramatically in 2022. In both Europe and the U.S., interest rates rose sharply and access to liquidity deteriorated. Inflation rose to levels we have not seen in decades. Problems with supply disruptions and component shortages remained during a large part of the year. Russia's invasion of Ukraine contributed to this, as did lingering effects from the pandemic. The energy situation took a dramatic turn for the worse in Europe, with rising prices as a result. The careless energy policy that has been pursued for many years has now become clear. The result of this has been an undermining of household purchasing power and rampant energy costs for businesses. Many energy-dependent companies, particularly small and medium-sized companies without major financial resources, have been hard-hit. Growth in the economy has subsided, and the economic outlook for 2023 has worsened.

Despite all these problems, large parts of Swedish business fared well in 2022. The consumer goods sector, however, was hurt by weaker demand and cost pressure. The Swedish stock market performed weakly, with a total return for the full year of -23%. The stock market's performance was negative also in the rest of Europe and in the U.S. In Sweden, stock prices fell the most for property companies with a high level of borrowing and growth companies with weak balance sheets and high P/E multiples.

However, Industrivärden's portfolio companies performed well for the most part, which moderated their price declines in the stock market. Industrivärden's net asset value decreased by 10%, and the total return for the Class C shares was -9%. Our portfolio companies are very competitive and are among the strongest companies in Sweden in their respective sectors. We therefore see continued good opportunities for value creation in the future. As an active owner our focus is on trying to contribute to this. The individuals who represent Industrivärden on the companies' boards are doing very thorough and serious work, which benefits all shareholders of the portfolio companies.

During the year we continued to invest in our portfolio companies to thereby increase our share of their value creation. Experience shows that continuous investments in equities – both in upturns and downturns – creates value over time through the compounded interest principle. Our dividend surplus gives us a positive cash flow before investments, which also allows us to

limit our borrowing. With the eight companies we have in the portfolio, we have a sufficiently good spread of risk without becoming overly fragmented. Our buildup of knowledge about the companies also grows over time. I feel that further ownership engagement in considerably more companies than we now have would increase our risk and strongly limit our opportunities for active ownership.

Our objective is to give the shareholders a competitive, absolute return over time. Some of the key questions that we are focusing on to achieve this objective are leadership, decentralization and financial strength. We attach great importance to board elections and the appointment of CEOs, and have been working systematically with this for many years. Fruitful cooperation with other larger shareholders is also important for us.

In my view there is no doubt that the central banks both in the U.S. and Europe are determined to bring down inflation to the previous low levels. This means that during 2023 we can expect to see continued high interest rates. Liquidity in the capital market will be clearly lower, and interest rate spreads will be larger than in recent years. Some companies will encounter problems with their refinancing needs. A major uncertainty that lies ahead of us is also how the war in Ukraine develops. On this point there is a broad range of outcomes, with many risks that can impact mainly Europe's economy.

Our portfolio companies are financially strong however, and have market-leading positions. They all also have CEOs and management teams of very high class. I am therefore highly confident about our ability over time to continue creating value in our portfolio companies.

Industrivärden's financial position remains strong, with a net debt-equities ratio of 5%. In light of this and the portfolio companies' positive performance, the Board proposes to the coming AGM an increase in the dividend from SEK 6.75 to SEK 7.25 per share.

Board work at Industrivärden worked well in 2022. We held ten board meetings along with a number of meetings of the Compensation and Audit Committees. A number of CEOs of the portfolio companies visited our meetings and presented their respective companies.

Our CEO, Helena Stjernholm, together with her colleagues regularly shared their views on the macro economy and our portfolio companies. Major attention was also paid to sustainability matters. As in her previous years as CEO, Helena has performed her job in a highly competent and praiseworthy manner. On behalf of the Board of Directors I want to express our great thanks to her and her team. I also want to thank my colleagues on the Board for their fruitful cooperation. Finally, warm thanks to the boards and management teams of the portfolio companies for their solid work during the past year.

Stockholm, March 2023
Fredrik Lundberg

