



CEO's message

The past year was characterized by continued good operational development in most of our portfolio companies. However, volatility increased in the stock market, and some of our holdings had weak share price performance. Within Industrivärden the activity level was high, with several value-creating transactions and a strong focus on active ownership in the portfolio companies.

NET ASSET DEVELOPMENT SLIGHTLY BELOW THE MARKET INDEX

During 2018, net asset value decreased by SEK 11.1 billion, or -9% including reinvested dividend, compared with a -4% drop for the Stockholm Stock Exchange total return index (SIXRX). At the same time, the total return for the Class A and C shares was -11% and -9%, respectively. The equities portfolio's relatively large exposure to companies that are sensitive to economic swings affected performance during the year. Looking at the equities portfolio's total return in 2018, the largest contributors were Ericsson, with an increase of SEK 2.2 billion, or 48%, and ICA Gruppen, with an increase of SEK 0.6 billion, or 10%.

COMPETITIVE RETURN SINCE REFINEMENT OF OUR STRATEGY

Our respective portfolio companies work in different sectors, which naturally affects their returns during a given calendar year. However, viewed over a longer time period, it is important that our equities portfolio generates a higher total return than the average for the Stockholm Stock Exchange, which is an important prerequisite for us to be able to achieve our goal of delivering a favorable return to Industrivärden's shareholders. Against this background

it is gratifying to note that we succeeded in generating a competitive total return over the last three-year period based on the refined strategy that we presented in February 2016. During this period of time the Class C shares generated an average total return that outperformed the total return index by 6 percentage points per year. Measured against our low management costs, this is a fine performance.

HIGH ACTIVITY IN INVESTMENT OPERATIONS

During 2018 we carried out a number of investment activities that further strengthened our ability to generate good future growth in value. In April we sold just over half of our shareholding in SSAB for SEK 3.1 billion, which was a good deal in which we were able to realize part of the value increase in our SSAB holding. It is particularly gratifying that we earned a favorable return from our participation in SSAB's new issue in 2016, which strengthened the company in a challenging market situation.

In November we carried out another major transaction through the sale of slightly more than a quarter of our holding in ICA Gruppen to ICA-handlarnas Förbund, for SEK 1.7 billion. By acquiring a put option from the same counterparty, this enables us to proceed with a full divestment of our remaining holding in May 2019. The transactions ensure an annual total return of 22% during the holding period, which makes ICA Gruppen a very good investment.

On top of these divestments of approximately SEK 4.8 billion, we carried out investments worth a total of SEK 1.8 billion. We bought shares in Handelsbanken, Sandvik and Volvo – companies we know well and in which we see clear value potential. It is important to note that these purchases were made after a thorough analysis against potential alternative investments in new companies. For us this is a clear proof of the relative strength in several of our portfolio companies. Through further investments in the portfolio companies we also increase the financial leverage of our active ownership at the same time that we strengthen our ownership positions in globally attractive companies.

On the whole we have realized built-up value and laid the foundation for future growth in value. Through a decrease in borrowing we have also increased our flexibility in a more uncertain economic situation. During the year our debt-equities ratio decreased from 10% to 7%, and with a future divestment of the holding in ICA Gruppen, Industrivärden will have a low leverage.

GREATER DEMANDS ON ENGAGED OWNERS CREATE OPPORTUNITIES

Companies today are facing ever-tougher challenges. This applies to everything from shifting macroeconomic conditions in the companies' respective geographic markets to new threats and opportunities sprung out of tumultuous and tightly interwoven megatrends. This can involve everything from urbanization, digitalization and

evolving customer behaviors to demands for sustainable business models. This is driving companies to focus their operations on areas in which they have a strength advantage, but also to be quick and adaptable in the face of constantly changing conditions. Greater demands on companies are also putting higher demands on company boards and the shareholders who elect the boards. Long-term owners that succeed in finding and attracting talented board members and continuously adapting the board's composition to the company's shifting needs will play an increasingly important role over time. Similarly, owners can provide key insights in strategic considerations. This development is creating greater opportunities for engaged and knowledgeable owners who have a keen understanding of their portfolio companies and their operating environments. Active owners who can make clear demands and raise questions, but who also buttress their portfolio companies, are therefore a distinct competitive advantage that benefits both the companies and us as asset managers. It is here that we have our position of strength with a professional organization and proven ability to generate favorable returns. It is our absolute ambition to further develop this position.

VALUE CREATING ACTIVITIES IN THE PORTFOLIO COMPANIES

Given the conditions that today's companies have to conduct themselves in, it is not surprising that the pace of change in our portfolio companies remained high in 2018. As an active owner we engage ourselves especially in our portfolio companies' governance and strategic development, with focus on their value potential. From this perspective I would like to briefly comment on the respective portfolio companies.

With a foundation in a clear focus on customer satisfaction and decentralized decision-making, *Handelsbanken* continues to develop its business in all its home markets. During 2018 several initiatives were taken to improve efficiency and further develop the business against the backdrop of developments taking place in the financial sector. In February 2019, it was announced that Carina Åkerström will take the position as new CEO on March 27, 2019.

Sandvik has continued to streamline and decentralize its core businesses and has established a model for continuous improvements. During the year a number of well-considered acquisitions were made to further strengthen the customer offering. Sandvik also made a number of divestments in 2018 of non-core businesses. The actions taken have improved the company's operating margin, lowered its gearing and created a solid foundation for future growth.

As a result of recent years' clear focus on the core business and concerted efficiency improvement work, *Volvo* has increased both its sales and profitability. In parallel with greater operational flexibility, the company has also strengthened its financial position. Volvo is now working

for continued organic growth through an intensified customer focus and by driving innovation in areas such as self-driving, connected and electrified vehicles.

Essity's business is based on an innovation focus and growth through strong brands. The company is working with a distinct efficiency and cost focus, and has been adept at meeting challenges, such as higher raw material costs in 2018.

In recent years *Ericsson* has successfully executed its strategic plan aimed at focusing the core business and exploiting selected positions of strength. Ericsson has made great progress towards its financial targets for 2020 and is well-positioned in the next generation of mobile networks.

SCA continues to work on improving the efficiency of its processes and growing the business in selected segments. The expanded pulp mill in Östrand, Sweden, is now in operation and will allow a doubling of production capacity over time.

ICA Gruppen is a well-managed retail company with a strong market position in which we have been an active owner since 2013. It is now our ambition to divest the remainder of our holding in May 2019, thereby enabling us to realize good growth in value for a successful investment.

During 2018 *Skanska* carried out extensive restructuring in order to focus its business and improve profitability under the direction of the newly installed CEO Anders Danielsson. This work is continuing with full intensity.

SSAB performed well thanks to good demand and a favorable price picture, which led to higher sales and operating income. The company's specialization strategy is creating good future opportunities.

GOOD GROWTH, BUT GREATER UNCERTAINTY

The underlying economy developed well during the first nine months of 2018, but during the fourth quarter, uncertainty grew and the pace of growth slowed. The growth rate increased for the full year in the U.S., but it decreased in Europe and large parts of Asia. During 2018 we saw rising geopolitical tensions, growing protectionism and worries over an economic slowdown, rising interest rates and a scaling back of financial stimulus measures. Altogether this had a damping effect on the stock market, which had very negative performance during the fourth quarter.

During the beginning of 2019, the stock market has turned in a positive direction. The underlying areas of concern remain, however. In January 2019 the IMF lowered its forecast for global GDP growth in 2019 by 0.2 percentage points, to 3.5%. We are thus entering 2019 in a more uncertain situation.

STRONG POSITION FOR THE FUTURE

Industrivärden's portfolio companies have very good market positions and clear value potential. In recent years several of the companies have put great energy into strengthening both their operational and financial flexibility. Today they have room to maneuver and a greater ability to deal with a changed market situation. With this as a foundation and the extensive changes that have taken place in Industrivärden and several of

the portfolio companies, I can assert that we have a strong position ahead of the future. We therefore begin Industrivärden's 75th operational year with great confidence.

Stockholm, February 2019

Helena Stjernholm
CEO

