

CEO's message

Industrivärden showed continued high activity in 2019, and a number of important steps were taken by the portfolio companies for increased value creation. The Stockholm Stock Exchange performed well, which is also reflected in Industrivärden's return. After several years of work on strengthening our preconditions, we are now well equipped to generate a competitive total return over time.

The global economy slowed in 2019, albeit with large variations between geographies and sectors. The economy continued to perform well in North America, while a slowdown transpired primarily in Europe and Asia. Looking at various sectors, manufacturing showed slower growth, while the service sector performed relatively well. Global GDP grew approximately 3% during the past year, and for 2020 the IMF forecasts a slight recovery in GDP growth of just under 3.5% owing to more favorable development in a number of emerging economies. However, the major economies in the U.S., the euro area, China and Japan, which together account for just under half of global GDP, are expected to show weaker performance.

Despite an emergent economic slowdown in 2019 and weaker outlook for 2020, the stock market performed very well during the year, partly owing to the fact that the slowdown turned out to be not as sharp or prolonged as previously feared. The Stockholm Stock Exchange (OMXSPI) gained 30%. The historically low real interest rates continued to buttress the stock market. However, external areas of concern, such as rising geopolitical tension, trade barriers and Brexit, resulted in periods of higher volatility.

During 2019 Industrivärden's net asset value grew by SEK 63 per share to SEK 112.7 billion. This represents an increase of 35% including reinvested dividend, which is on par with the Stockholm Stock Exchange's total return index, which grew 35%. The greatest contributors were the shareholdings in Sandvik, by SEK 9.3 billion, corresponding to a total return of 49%, Volvo, by SEK 8.0 billion, or 47%, and Essity, by SEK 6.1 billion, or 42%. The holdings in Handelsbanken, Ericsson and SSAB performed below the total return index and thereby weighed down the portfolio as a whole.

Looking at generated shareholder value, the total return for Industrivärden's stock in 2019 was 30% for both the Class A and Class C shares. This is a good achievement, as we at the same time reduced our debt and thereby our financial risk. The difference in growth between net asset value and the share price reflects a wider discount to net asset value during the year. From a longer perspective as well, our stock has performed well, with total returns for the Class C shares of 13% and 14% over the last three- and five-year periods, respectively. It is our genuine ambition to further strengthen long-term value creation over time.

2019 was yet another eventful year. During the spring we sold our remaining ownership position in ICA Gruppen and can thereby look back on what was a very good deal for Industrivärden, with an average annualized total return of 22% during the holding period. At the same time, the

transaction reduced our debt and increased our financial flexibility. For the full year the debt-equities ratio decreased by 4 percentage points to 3%. With this as a starting point, in 2019 we took advantage of opportunities on a number of occasions to increase our exposure to portfolio companies that we believe have long-term attractive value potential. Add-on investments in our existing portfolio companies are always made after taking into account the assessed, corresponding return potential in investment alternatives. In accordance with our strategy, today we have a concentrated portfolio with sizable positions in a limited number of companies. In terms of value the center of gravity in the portfolio lies in Sandvik, Volvo, Handelsbanken and Essity but we also have large ownership stakes in Ericsson, SCA, Skanska and SSAB.

During the year we invested a net total of SEK 2.7 billion in our portfolio companies, of which SEK 1.6 billion in Volvo, SEK 0.5 billion in Sandvik, SEK 0.4 billion in Skanska and SEK 0.2 billion in Handelsbanken. We also carried out transactions in Essity and SCA, most of which were made to shift Class A shares to Class B shares and thereby create scope to maneuver and increase our equity stakes over time.

In summary I can affirm that we have increased our room to maneuver and our opportunities to act both with respect to increased equity stakes in our portfolio companies and participation in any new issues in these companies.

In recent years we have resolutely strengthened both our ability to exercise a value-creating ownership role and our processes for evaluating the portfolio companies. These are important development steps in a rapidly changing world. We – like our portfolio companies – must continuously strengthen our ability to minimize risks and take advantage of opportunities arising out of changes in the world around us, such as digitalization, electrification and sustainability. For us as a long-term active owner it is therefore natural that we put great emphasis on our portfolio companies' ability to conduct their businesses in a sustainable way and create value over time. This makes up the very foundation of competitive companies and sustainable growth in value. Even though our portfolio companies are facing a number of different challenges, it is gratifying that they have high ambitions, a clear focus and have all made great progress in their work on conducting sustainable business. Industrivärden is a knowledgeable and resolute owner with significant influence in the portfolio companies' governance and strategic development. Against this background I am happy to see the many steps taken

by the portfolio companies during the past year. I want to briefly comment here on the respective companies, but can also refer to the “Active ownership” section in the Annual Report, which describes developments in the respective portfolio companies over a longer period of time.

Sandvik continued its efficiency improvement work and presented new financial and sustainability targets. Owing to a weaker market, the company has taken a number of measures to adapt its costs to lower volumes. During the year a number of structure measures were carried out, such as the sale of Varel and the start of the internal separation of Materials Technology. Sandvik has also strengthened its business areas through a number of well-considered smaller acquisitions. Stefan Widing took office on February 1, 2020, as new CEO.

Volvo also carried out measures for greater flexibility and efficiency while adjusting its capacity to a weaker market situation. Through successful development of operations with improved profitability and a strong cash flow, the company has managed to create substantial shareholder value. Volvo has its focus on the major transformation that the automotive industry is facing, and in 2019 several initiatives were taken to strengthen its competitiveness, including in electrification and automation. At the end of the year the company announced that it had signed a Memorandum of Understanding with the intent to establish a combined heavy-duty truck business for Isuzu Motors and UD Trucks in Japan and across international markets.

Under the leadership of its new CEO, Carina Åkerström, *Handelsbanken* is carrying out a focusing of its business on profitable areas in which the bank has clear strengths. It has also launched an action program for lower costs. This work is being driven under the direction of a new and more concentrated executive management team.

Essity has taken a number of measures to boost its cost- and capital efficiency, which together with a good capacity to execute, has laid the foundation for favorable financial performance. The company has a clear direction towards innovation, product development and sustainability.

Ericsson has strengthened its margin, and is growing organically in its core businesses. The company has been successful in 5G – the next generation of mobile networks – with several commercial rollouts and new contracts. As a result of regulatory violations, a settlement was reached in 2019 with the U.S. authorities, which among other things resulted in penalties totaling approximately SEK 10 billion.

SCA has continued its targeted efficiency improvement work at the time that it has worked with capacity increases for further growth and value creation. During 2019 the expanded pulp mill in Östrand became operational, the investment in Munksund was completed, and the decision was taken on a substantial investment in the kraftliner



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mill in Obbola. At year-end SCA changed the accounting method for valuation of the company’s forest assets, recognizing substantial value.

At *Skanska*, the company has worked on implementation of a strategic plan aimed at sharpening its focus and simplifying its structure. Margins in the largest business stream, construction, have improved, while the commercial property development business had continued good performance.

Finally, *SSAB* encountered more challenging conditions in 2019. The company is taking various adaptation measures to give it greater room to maneuver in a weaker market situation and is continuing its work with the ambition to produce fossil-free steel in the future.

Now that we have put our 75th year in operation behind us, I can affirm that Industrivärden has established a strong position to conduct a successful asset management business through active ownership. With a foundation on Industrivärden’s organization and business model, a strong balance sheet and a portfolio of high-quality portfolio companies, we have good conditions to continue creating shareholder value.

Stockholm, February 2020
Helena Stjernholm
CEO