



Actively owned quality companies create good value potential

A number of dramatic changes took place in the world in 2022. On top of the war in Ukraine and heightened geopolitical concerns, the pandemic continued to affect certain regions and an energy crisis breezed in Europe. Together these presented significant challenges for society, companies and individuals, and had a major impact on macroeconomic development. Demand was favorable in several sectors, even though supply was limited by a shortage of labor and supply chain disruptions. The situation that has arisen has led to sharply rising inflation, which has prompted central banks to raise their key interest rates and reduced stimulus measures. As a result of this development,

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global GDP growth fell from 6.2% in 2021 to 3.4% in 2022, according to the IMF.

The changed conditions in 2022 were also reflected in a very weak and volatile stock market, where the total return

for the Stockholm Stock Exchange decreased by 23%. During the year a sector rotation could be noted from more growth-oriented companies with future capital needs to companies with strong finances and a proven ability to generate good earnings and cash flows. This benefited Industrivärden's portfolio companies, which overall showed lower declines in value than the stock exchange as an average. Industrivärden's net asset value at the end of 2022 amounted to SEK 126.5 billion, a decrease during the year by 10% including reinvested dividend.

The rapid changes in the business environment in recent years are putting great demands on companies. To be able to deal with short-term challenges, flexibility is required at the

same time that companies must have endurance to achieve their long-term strategic objectives. In this regard, Industrivärden's portfolio companies have clear strength advantages. They are all distinguished companies with proven business models and strong market positions. This creates conditions for favorable earnings and strong cash flows, which are needed to stay at the forefront and develop long-term sustainable business. Moreover, the companies are engaged in a range of varying businesses within their respective core areas. Together these are key qualities that reduce the portfolio companies' risks and increase their value potential over time.

Industrivärden's strategy is to be a holding company that invests in and works long-term to develop and create value in its portfolio companies. Our role as an active owner is based on substantial influence, industrial knowledge and financial strength. With these as a foundation, the portfolio companies' strategies and performance are evaluated constantly based on their respective conditions. In this work particular importance is put on a number of fundamental principles that we believe strengthen the companies' capacity for efficiency, adaptation and innovation. These are: clear leadership, strategic focus, operational flexibility, decentralization and financial strength. We have worked according to these principles for a number of years now, and I am convinced that they are qualities that have benefited our portfolio companies in an increasingly rapid-changing world. Here I want to especially assert the importance of strong leadership and successful culture-building. Against this background we engage ourselves particularly in matters concerning board composition and appointment of the CEO. Through our ownership model we have established close relationships with the members of the portfolio companies' nominating committees and boards. Overall this creates

favorable conditions for trust-based influence and long-term value creation over time.

To steadily enhance the financial exchange from our active ownership, we continuously make investments in the portfolio companies. This is a key part of our strategy to generate long-term shareholder value. During the year we invested an additional SEK 3.2 billion, and among other things we increased our ownership in the newly listed company Alleima, which was distributed by Sandvik in 2022. Viewed from a slightly longer time perspective, we have invested SEK 16.3 billion during the last five-year period.

Industrivärden's dividend policy prescribes that we are to generate a positive cash flow, which enables good investment capacity and a strong financial position for Industrivärden. Major emphasis is therefore put on good profitability and strong cash generation in the portfolio companies, which lays the foundation for favorable dividends to Industrivärden and other shareholders.

During the past year our portfolio companies showed good performance and an ability to adapt their operations to prevailing conditions. The company presentations in the annual report describe their financial performance in 2022 in more detail.

Apart from their continuing operations our portfolio companies are taking measures to strengthen their future competitiveness and address megatrends such as digitalization and demands for sustainable solutions. In this respect the portfolio companies have made a determined effort to build strong positions for long-term value creation. Let me give a few concrete examples from the past year.

Volvo has a leading position in several areas of the transport sector's transformation to more sustainable solutions. In 2022 a number of important steps were taken that have further strengthened this position. These include, among other things, important infrastructure partnerships for charging networks in Europe and North America, projects focusing on large-scale production of battery components, and the start of series manufacturing of heavy duty electric trucks.

At Sandvik, the company has maintained a continued strong focus on product development. A good example is the company's product and service offering in electrified mining equipment, which supports customers' green transition and for which the company won a number of significant orders during the year. Sandvik also made a number of acquisitions that strengthen its future capacity and growth opportunities in various areas. As part of its refinement strategy, during the year Sandvik completed its distribution of the Sandvik Materials Technology business unit under the name Alleima. This measure has sharpened the focus of Sandvik's as well as the new listed company Alleima's future development opportunities.

Handelsbanken is striving to focus its business and strengthen its offering in markets, customer groups and product areas in which it has a strong position and opportunities for profitable growth. During the year its operation in Denmark was divested, and a process to leave Finland is in progress. In recent years the bank has invested further in IT development, among other things to strengthen its cost efficiency and improve the customer interface.

Essity is an innovation-driven company that has taken a conscious initiative to elevate the customer experience and climate considerations. The company has made continued investments and smaller complementary acquisitions for development and expansion of its offerings in advanced incontinence products, among other areas. During the year Essity adapted its organi-

zational structure to increase efficiency and further strengthen its ability to benefit from innovation and digitalization.

A number of future-oriented projects are being conducted at SCA, where 2022 was characterized by ongoing capacity investments in existing plants, continued acquisition of forestlands in the Baltic countries, and a number of interesting projects in renewable energy.

During the year Ericsson announced several important deals and partnerships for future value creation as well as product launches that will clearly contribute to customers' reduced energy consumption. In line with the ambition to grow in the wireless business segment, the company Vonage was acquired, whose technology builds upon the advanced qualities of 4G and 5G networks for development of new solutions in the business market.

Owing to a strong commercial focus and a structured process for building local experience and customer knowledge in its home markets, Skanska has reduced its operational risk and developed its business over time. In 2022 the company acquired, in the newly launched Investment Properties business stream, three properties that were developed internally and continued to invest in project development.

The newly added portfolio company Alleima got off to a fine start as a standalone company with a number of major deals in 2022 and a strong orderbook. It also carried out a few acquisitions, including in the medical technology segment, which will contribute to the company's future growth opportunities.

Our long-term owner perspective entails a natural focus on innovation and sustainability. Sustained growth in value is created in long-term competitive companies that are adept at managing environmental, social and governance aspects. In our ownership we therefore attach great importance to the portfolio companies' sustainability-related risks and opportunities as well as their strategies for managing these in a way that mitigates risk and creates value. Having engaged and long-term owners like Industrivärden is therefore a distinct competitive advantage for the portfolio companies. We aspire to contribute to a sustainable world and will continue to support and work in accordance with the principles of the UN Global Compact.

It is gratifying to note that Industrivärden has generated an attractive long-term return at balanced risk. With a foundation of distinguished portfolio companies and Industrivärden's long-term owner involvement, I believe we have continued favorable value potential also going forward.

In closing I would like to thank all employees for their good efforts during the past year.

Stockholm, March 2023
Helena Stjernholm

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