

# CEO's message

The past year 2020 was largely dominated by the Covid-19 pandemic, which had significant impacts on large parts of society. The number of deaths and infections has been high, and people's daily lives as well as company operations have been impacted to a high degree. Development of the real economy has been erratic, with sharp swings and large variations between sectors and geographies. The restrictive measures enacted to slow transmission of the virus have been followed by substantial stimulus measures. In the U.S., consumer demand has been strong. The U.S. economy is generally more dynamic, and from an economic perspective the country has therefore fared better than Europe, even though European export industries have performed relatively well. China and parts of Asia have nearly returned to their normal growth trend,

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especially in the manufacturing and construction industries. From a geopolitical perspective, the year was characterized by relations between China and the U.S., and the effects of the U.S. election. Here in Europe, focus was on Brexit and how the UK's exit from the EU will affect the union more long-term. On the macroeconomic plane, a recovery is forecast for 2021. However, the pace of the recovery will be strongly dependent on the pandemic's continued progression and at present we are in the midst of the pandemic's second wave, at the same time that vaccinations are getting under way.

The stock market was especially volatile in 2020. Following a steep decline in March caused by uncertainty surrounding the effects of the pandemic, the stock market rebounded significantly, and the Stockholm Stock Exchange total return index (SIXRX) delivered a full 15% return for the year. An improved economy, reduced uncertainty following the completed U.S. election and positive signs surrounding Covid-19 vaccines successively dampened the market's volatility and contributed to hopes for a fast recovery. The stock market was also positively affected by continued low real interest rates and government stimulus measures, which resulted in a favorable environment for long-term equity investments.

At the same time that the pandemic created a difficult situation for individuals, businesses and society in general, the crisis has also led to innovation, various types of collaborations and new ways of working. One example is the rapid development of new vaccines; another is the extensive digitalization of society, with greater prevalence of working from home and e-commerce. Several of these trends had begun before the pandemic, but they accelerated during the past year and in certain cases have contributed to a reshaping of entire sectors.

The Covid-19 pandemic and its effects have impacted all of Industrivärden's portfolio companies, but to varying degrees. In general the companies have handled the challenges very well and quickly adapted their operations to the new conditions. For Industrivärden's part, the

pandemic entailed intensified work on the portfolio companies' boards, where we are represented in our capacity as an active owner, as well as in our continuous dialogues with the companies. Owing to the uncertain situation, most of the portfolio companies decided to not pay any dividend in 2020. Industrivärden therefore received a lower amount of dividend income than

expected. In total, SEK 657 M was received from Essity, Ericsson and Skanska. Given the prevailing circumstances, Industrivärden's board decided to not propose any dividend in 2020.

From an investment perspective, we were active in 2020 and invested a net total of SEK 4 billion in Volvo, Essity, Handelsbanken, SCA and Sandvik. These investments are a clear expression of our strategy to invest in a concentrated portfolio of holdings with long-term competitive value potential. In all cases it has involved us increasing our ownership in prominent companies with strong market positions, a proven ability to adapt and develop, and sustainable solutions for the future – in other words, companies with inherent potential to generate competitive value. With time it has become increasingly clear for us that we create the greatest value for Industrivärden's shareholders by developing our portfolio companies and that it is hard to find better companies for active value creation. A stable portfolio composition with few new investments or divestments is therefore a natural consequence of the strategy we have chosen. Given how our portfolio companies have performed in recent years, I can say that our actions based on this strategy have been spot on.

Our work is thus mainly focused on taking an active engagement in the companies we own in the aim of supporting their operational and strategic development. In doing so we contribute to value creation in the portfolio companies and favorable growth in Industrivärden's net asset value. This said, I would like to share a few brief comments on important events in the portfolio companies during the past year.

*Volvo* did a superb job at handling the dramatic decline in demand in spring 2020, as well as the subsequent rapid recovery in the market. Here the flexibility and efficiency improvement measures taken by the company in recent years played a key role. Volvo's strength is reflected not least in its financial performance in 2020 relative to its industry peers. The company has a distinct sustainability focus and prominent position in future transport solutions. For example, in 2021 the company plans to launch a complete series of electric trucks in Europe. During the past year Volvo also advanced its positions in a number of strategic areas, including large-scale production of fuel cells through the creation of a joint venture company with Daimler Trucks. Volvo has also announced a strategic alliance with Isuzu Motors in commercial vehicles, which includes the divestment of UD Trucks.

*Sandvik* took a number of measures during the year to adapt its operations to the poorer market conditions. The declining volumes in 2020 were parried in a very good manner. Despite a drop in revenue, Sandvik showed strong resilience in its operating margin and cash flow. The company also took measures to strengthen its business over the long term. These included a number of well-considered add-on acquisitions and divestments as well as the formation of new business areas for sharper focus and future growth opportunities. Sandvik has superior competence in its core businesses and is well positioned to take advantage of opportunities emerging from rapidly emerging trends in areas like industrial production, materials technology and electrification. During the year Sandvik's board decided to proceed with the process of an eventual stock market listing of Sandvik Materials Technology in 2022. In December the company announced that it had signed an agreement to acquire DSI Underground, the leading global supplier of ground support and reinforcement products, systems and solutions for tunneling and mining operations.

Early in 2020 *Essity* had higher demand for certain product categories, while other categories, such as tissue products for restaurants and other public facilities, were hurt by the pandemic. During 2020 Essity intensified the work on increasing its cost and capital efficiency. The company also carried out some smaller acquisitions in Medical Solutions, such as the company ABIGO Medical,



which is active in advanced wound care. A strong financial position is enabling a faster pace of acquisitions. In addition, Essity raised its required return on capital employed, where a faster digital transformation and further efficiency improvements are key measures.

Despite the challenging situation in the world, *Handelsbanken* performed well in 2020, with stable earnings and low credit losses. Through an accelerated pace of digital development and consolidation to fewer branches, the adaptation to changed customer behaviors is now being intensified. The bank has also taken further measures to cut costs and clarified its ambitions by introducing a cost cap.

During the year *Ericsson* further strengthened its market position in 5G, the next generation of mobile networks, with 127 commercial contracts with unique telecom operators. The company's financial performance was very favorable, and in 2020 it exceeded the targets it had set in 2017 by a wide margin. During the year Ericsson completed its acquisition of the U.S. firm Cradlepoint, active in Wireless Edge WAN enterprise solutions, for approximately SEK 10 billion.

In recent years *SCA* has carried out a number of long-term capacity investments in growth areas and announced continued investments in containerboard. The company has been successful at adapting its business to changed customer behaviors and moving away from segments with a poorer outlook to growth segments. In 2020 SCA decided to discontinue its publication paper operations in Ortviken and announced further investments in chemically pre-treated thermo-mechanical pulp.

*Skanska* has continued to execute its strategic plan for greater focus on its core construction and project development businesses. An example of this is the divestment of the infrastructure services business in the UK in 2020. Performance remained favorable in commercial property development, with several large divestments during the

year. The company's earnings and cash flow strengthened during 2020. Skanska is well positioned in green construction of sustainability-oriented buildings and structures, where it has many years of experience.

The steel market has been impacted by challenging market conditions as a result of the pandemic. This is reflected in SSAB's financial performance in 2020, even though the company parried the fluctuating volumes well. SSAB plays a driving role in the HYBRIT collaboration project for steel production of the future, where the world's first pilot plant for production of fossil-free sponge iron was started during the year.

## *The situation in 2020 underscores the importance of sound finances, operational flexibility to be able to deal with unforeseen events and a long-term approach to sustainable business*

In recent years Industrivärden has dedicated great energy to becoming an even clearer – but also more demanding – owner. In our ownership role we aim to be able to provide financial support, but above all we want to contribute with a value-creating dialogue where we share our views on strategically important issues. Our portfolio companies are active in diverse industries and face varying opportunities and challenges. However, there are important capabilities that we believe successful companies must develop over time.

One such success factor that Industrivärden has driven in the portfolio companies in recent years is flexibility and a greater ability to adapt, that is, in a changing world, the ability to adapt to changed conditions. The measures taken by the portfolio companies in recent years aim to create greater financial and operational flexibility, among other things. From a financial perspective this entails, among other measures, strengthening the balance sheet to be able to handle periods with poorer market conditions or unforeseen crises. It is also important to create financial room to maneuver and thereby be able to act and invest for future value creation. A few current examples here are Volvo's announced investment in a joint venture company with Daimler Trucks and Sandvik's announced acquisition of DSI Underground. These are both future-oriented investments that the companies managed to make despite market conditions that in general were not very favorable. In the same way, it is important to ensure operational flexibility in the continuing business. This can involve everything from enabling swift adaptation of production processes to decentralizing decision-making

in order to facilitate continuing adaptations to customers' needs.

Another success factor that we believe is decisive for competitive strength over time is highly integrated sustainability work. Society in general and the business sector in particular are currently undergoing a rapid and revolutionary transition in sustainability, digitalization and a number of other change trends. Understanding and addressing these shifts is paramount for enduring success. As an active owner we therefore expect that the companies we invest in act in a sustainable manner. They must minimize their risks and capitalize on value-creating opportunities. This can

entail, for example, reducing their carbon footprint or leveraging digitalization, automation and electrification of products and processes. It is also important that companies meet their stakeholders' growing demands for transparency and clarity regarding what they are doing and above all how they are doing it. Here Industrivärden plays a key role as a demanding owner with

focus on the portfolio companies' material sustainability issues. This is work that goes hand-in-hand with our strategy to contribute to long-term value creation.

Further information about how Industrivärden integrates the sustainability perspective in its daily work and ownership role can be found in the description of our asset management model in this annual report and in our sustainability report. There we also report on our fundamental view of sustainability and on our contribution to a sustainable world through the UN's Global Compact, whose ten principles Industrivärden continues to support and actively promote.

In recent years our portfolio companies have worked with focus on both increasing their ability to adapt and integrating sustainability into their operations. Naturally, this is a result of determined efforts in the respective companies, but I can assure that Industrivärden has been a driving force behind these matters. And there is no doubt that these steps toward change have created value. Our portfolio companies have managed the Covid-19 pandemic's impacts well, and all of the companies today have recognized, prominent positions in integrated sustainability. Given the steps that have been taken and continue to be taken by the respective companies, I feel that they are well positioned to meet the challenges and opportunities of tomorrow.

For the full year 2020 Industrivärden's net asset value grew SEK 20 per share to SEK 121.2 billion in total. This corresponds to an increase of 8% including reinvested dividend. During the same period, the total return index (SIXRX) increased by 15%. The largest contributors

were the shareholdings in Volvo, with SEK 6.1 billion, corresponding to a total return of 24%, SCA, with SEK 3.5 billion, or 52%, and Sandvik, with SEK 3.0 billion, or 11%. The holdings in Handelsbanken, SSAB, Essity and Skanska showed considerably lower total returns than the total return index and thereby weighed down the portfolio as a whole. The total return for Industrivärden's Class A and C shares was 18% in 2020. The difference between growth in net asset value and Industrivärden's stock price reflects a narrower discount to net asset value during the year. From a longer time perspective, Industrivärden's stock has performed well, with a total return for the Class C shares of 15% and 12%, respectively, during the last five- and ten-year periods.

The situation in 2020 underscores the importance of sound finances, operational flexibility to be able to deal with unforeseen events and a long-term approach to sustainable business. The current external situation in our environment entails continued uncertainty going forward. However, with a portfolio comprising a few of Sweden's foremost companies in their respective areas, I feel strong confidence for the future.

Stockholm, February 2021

*Helena Stjernholm*

