2025-03-31 19:34

Dear Epiroc analyst,

I hope all is well. Please find some already communicated information to consider (checklist) when preparing your pre-results analysis. **Black text = new.** Grey text = from previous pre-results e-mail. You can find all financial publications here.

Report details:

- We plan to publish the results at **08:00 CEST** on Tuesday, April 29.
- The **webcast** is planned for 10:00 CEST.
- Webcast: https://epiroc.events.inderes.com/q1-report-2025
- Telco reg: https://events.inderes.com/epiroc/q1-report-2025/dial-in
- We enter quiet period on March 29, however, if you have questions, please reach out before **March 25**, since we will be out of the office end of March**.**

Company-compiled consensus:
As always, we gather company-compiled consensus and share with those analysts contributing. See form attached. Please add your estimates and send it back no later than **Friday, April 11.**

Pre-call?
By sending this e-mail, we hope that you get all your questions answered. However, if anything is unclear, please reach out as soon as you can, and before March 25.

Demand comment:

- We expect, in the near term, that underlying mining demand, both for equipment and aftermarket, will remain at a high level, while the demand from construction customers is expected to remain weak.
    - *Comments from the Q4 results call.*

Demand comment for infrastructure/construction? *22% of group orders in Q424. Please note, more than half of this exposure is infra/civil engineering, and less than half is construction.*

- The demand from infrastructure customers was mixed with solid demand from customers within tunneling and civil engineering whereas the demand from construction customers remained weak.
- The demand for drilling equipment and tools for infrastructure projects was solid, but the demand for attachments used in construction was weak.
- There are two components in this: 1) Clearly lower demand through the year, and we don't near term, see an uptick in demand. 2) Destocking of inventory. It's not finalized yet, but at least, we're coming closer to that.
- Stanley Infrastructure: It's a tough market environment, and we are taking the actions that we need to take to adjust and be ready for when the market starts to take off again.
    - *Comments from the Q4 results call.*
- In the near term, demand from construction customers is expected to remain weak.
    - *From the Q4 report*
- Stanley Infrastructure acquisition: We have already taken a number of measures on the cost side, given the lower demand, … , including restructuring and consolidation of sites. … Long term, the deal is built up on sales synergies, but right now, we have shifted our focus to cost.
    - *Comments from the Q3 results call.*

Details on mining demand? *78% of group orders in Q424.*

- The mining customer demand remained strong, especially for solutions within automation and digitalization…. Our Tools division also had a good quarter, driven by mining customers.
- We expect in the near term that underlying mining demand, both for equipment and aftermarket will remain at a high level.
    - *Comments from the Q4 results call*
- Short term: High mineral prices lead to higher demand for service and tools.
- Mid term: mineral prices are leading indicators for capex within 1-2 years.

- Long term: Increased customer confidence leads to increased exploration budgets and greenfield investments.
    - *Comments from the CMD presentation.*

Large (mining) orders?
Our large orders in Q4 amounted to MSEK 820 and included two large orders for wireless connectivity solutions for mines.
    - *Comments from the Q4 results call. See also our key figures file, sheet "large orders".*

Quarter	Sum of externally announced large orders (press release)	Comment in results presentation
Q125	100	*NA*
Q424	245	820
Q324	Approx 200	*1 400*
Q224	215	*950*
Q124	200	*"The large orders are, as we have said before, lumpy and we received fewer large orders in Q1 than we did in last year" (MSEK 400 vs 900 in Q123)*

What about exploration? Do you see any positive signs, given the high gold price?
- Not yet, but as 46% of global exploration capex is related to gold, high gold prices should at some point translate into exploration orders. We have a strong offering within exploration.
- The longer the prices have been on a high level, the more willing the mining industry is to invest more in exploration, if be it greenfield or be it brownfield. Our view is that this is actually set for growth.
    - *Comments from CMD 2024*

How would Epiroc be affected by potential US tariffs?
- **Group revenues from USA?** 13% in 2024.
- **COGS from within the USA vs. COGS imported?** We do not share this data, but Epiroc produces more in value in the US, than Epiroc invoices in the US.
- **Main production sites / countries?** The Epiroc Annual report 2024, page 203-204, lists all facilities and entities. Our main production countries (numbers of headcounts) are in Sweden, South Africa, US, China and Australia. Largest production sites are: Örebro, Sweden (underground and surface equipment), Garland, USA (Surface drill rigs), Johannesburg, South Africa (Rock reinforcement and ground support), Nanjing, China (Surface and underground equipment), Nashik, India (Surface and underground equipment) and Fagersta, Sweden (Rock drilling tools).
- **Epiroc vs. competition?** The largest revenue stream for Epiroc is Service, which will not be impacted to a large extent. On the equipment side; Large surface rotary drill rigs are produced in the USA for both Epiroc and the main competitors. Some components are bought in Mexico, but could over time be sourced in US if needed. For underground equipment, both Epiroc and the main competitor produce the majority of their equipment in Europe. All in all, we are prepared and ready to take action and will to push through potential increased costs.
    - *IR comment*

What is the current exposure to Ukraine and would Epiroc benefit from peace?
- Revenues in 2024; 0.3% and more than 80 employees. The exposure is mainly mining, but if/when peace is coming, the rebuild of urban areas will be very positive for, mainly, the attachments business.

Demand for automation solutions? Position within automation?
- The mining customer demand remained strong, especially for solutions within automation and digitalization. Digitalization orders (reported in Service) grew more than 30% in 2024.

- We increased the number of driverless machines by 21% in 2024 and automated mixed fleet number now exceeds 3 450 machines…. And the demand has been strong for teleremote solutions for fully automated drill rigs as well as for mixed fleet solutions within load and haul, which is very much fleets consisting of other OEMs machines.
    - *Comments from the Q4 results call*

Size of electric business? BaaS? Impact on Balance sheet?

- In 2024, the electrification revenues of group total were 4.2% (3.1). Our customers are satisfied with their BEV fleet, with utilization more than doubling in 2024. In total, 39 mining sites globally have ordered BEVs and of the sites with BEVs in operation, 28% have already ordered more. Our electric trucks, loaders and drill rigs are designed and purposely built to exceed the productivity of the corresponding diesel versions.
    - *Comments from the Q4 results call*

Working capital? Supply-chain issues? Lead times? Time to translate equipment orders to equipment revenues?

- Working capital increased year-over-year 12% to BSEK 24.3. Also in relation to revenues, it increased. The main explanation here is acquisition and currency.
- The sequential development, it clearly looks better. Between Q3 and Q4, the working capital was more or less flat, and our inventory was reduced by BSEK 1. Our receivables increased by BSEK 1.5 and payables increased by and that's, of course, given the strong sales we had and also payables increased by MSEK 600. If we look at it in relation to sales, working capital decreased sequentially.
- Onwards, we will keep on pushing for increased efficiency when it comes to working capital.
    - *Comments from the Q4 results call*

What about pricing?

- I don't see risk of pricing. We continue to work with pricing, as we have always done.
    - *Comments from the Q4 results call*

What about EBIT-margins?

- We do not provide guidance (on margin).
- **Group:** EBIT 19.9% (21.5): Adj. 19.7% (20.7). The decrease compared to last year mainly due into the dilution from acquisitions of 1.4 percentage points.
- **E&S:** EBIT: 23.4% (25.6). Adj. 23.6% (23.3). Improving both year-on-year, but also sequentially. Items affecting comparability amounted to MSEK -15 (280), related to an earnout for the acquisition of RCT.
- **T&A:** EBIT: 8.4% (8.1). Adj. 8.4% (8.1). Dilution from acquisitions, -4.0 percentage points, mainly relating to Stanley infrastructure. The weaker underlying margin is explained by:
    - Seasonality: margins in T&A are usually lower in Q4 than in Q3.
    - One-offs: Some onetime related costs in the quarter; around MSEK 15-20 relating to us trying to become even more effective and efficient in the business.

    Additional Stanley Infrastructure comments:
    - Step-up valuation: (roughly MSEK 20 per quarter in Q2-Q4): That's not going to happen again in 2025.
    - The actions we have taken within Stanley, for example, consolidating 3 sites into 1, we will start seeing the impact of that in 2025. We have not really seen that so far…. However, in order for Stanley to get back to where it was at the year before we acquired it, we obviously need the market to perform better as well.
    - *All margin comments above from the Q4 results call.*

Interest cost?

- As of Q424. The average tenor of Epiroc's long-term debt was 4.5 years. The average interest duration was 20 months (18) and the average interest rate at the end of the quarter was 4.21% (4.29).
    - *From the Q4 report*

Cash generation?

- Operating cash flow improved both sequentially and year-over-year. It increased to BSEK 4.0 (2.4), positively impacted of lower buildup of working capital. Strong cash conversion rate, 104% (12 months rolling).
  - *Comments from the Q4 report.*

FX?

- The SEK has, so far, strengthened in Q1 2025.
- Epiroc is exposed to a large net inflow in many currencies against the SEK and EUR where the Group has its main costs. See pages 189-190 in the Annual report.
- More color regarding FX was provided on the 2024 Capital Markets Day, see slides 165 – 167.
- You can also see more information in our Key figures file on sheet "Adjusted bridges".
  - IR comment

Items affecting comparability, including for change in provision for share-based long-term incentive (LTI) programs?

- Q42024: IAC of MSEK 22 (120). These include earn-out for the acquisition of RCT of MSEK -15 and change in provision for LTIP of MSEK 37 (-2).
- Q12024: IAC of MSEK -127 (-26), including transaction and integration costs of MSEK -125 related to the acquisition of Stanley Infrastructure and change in provision for LTIP of MSEK -2 (-26).

Other M&A comments?

- No acquisition done or announced in Q1 2025.
- We have a good platform to leverage for organic growth moving forward. So I don't see any big acquisitions within software or within construction moving forward. If anything, it will be to add on, smaller things, bolt on acquisitions.
  - *From Q4 results presentation*
- Acquisitions that are still in "structure" in Q1 2025:
  - ACB+ manufactures attachments and quick couplers used on excavators for construction as well as related areas such as scrap recycling and deconstruction. Quick couplers are used with carriers, typically excavators, to enable safe and efficient change of attachments, such as buckets and hydraulic tools. The company is market leading in France and has customers throughout Europe. The company has approximately MSEK 325 in annual revenues and 140 employees. The acquisition was announced on May 24 and was completed on September 4. Revenues from the acquisition are reported in "Tools & Attachments".
- ASI Mining (new product name: LinkOA) provides mining automation systems, such as remote control, teleoperation, and fully autonomous solutions. Its solutions are OEM agnostic, meaning they work regardless of machine brand and fit well for mixed fleets. The company has approximately MSEK 300 in annual revenues. Epiroc already owned 34% of ASI Mining, which it acquired in 2018. The acquisition of the remaining 66% of the company was completed on July 3. Revenues from the acquisition are reported in "Equipment". The transaction has led to a positive revaluation effect of the ownership held prior to the acquisition in the segment Equipment & Service. The gain has been reported as an item affecting comparability of MSEK +554 in the third quarter 2024.
- Yieldpoint designs, manufactures and sells advanced digital geotechnical instruments, and has customers worldwide. The products, which include ground movement sensors and telemetry solutions, are primarily used for underground mining, tunnelling, and civil construction applications. The company has 10 employees. The acquisition was announced on May 28 and was completed on June 17. Revenues from the acquisition are reported in "Tools & Attachments".
- Weco Proprietary Limited, manufactures precision-engineered rock drilling parts and provides related repairs and services in the Southern African region. The company has approximately MSEK 90 in annual revenues and 80 employees. The acquisition was announced on

December 12, 2023, and was completed on May 3, 2024. Revenues from the acquisition are reported in "Service".

- Stanley Infrastructure designs, manufactures, and sells attachments, typically used on excavators, and handheld hydraulic and battery-powered tools for applications in infrastructure, construction, scrap recycling, deconstruction, and railroad infrastructure. Its strong and innovative brands include LaBounty, Paladin, Pengo and Dubuis. The acquisition strengthens Epiroc's presence, especially in USA and makes Epiroc a strong provider of specialty attachments. The company had revenues in 2023 of MUSD 447 (MSEK 4 725), an adjusted EBITA margin of 16% and 1 380 employees. Revenues from the acquisition are reported in "Tools & Attachments".
- You can always find an updated M&A list here.

Other relevant announcements for the quarter?

- 2025-03-20: Annual Report
- 2025-03-13: Large order for battery-electric vehicles for Canadian gold and copper mine
- 2025-01-16: Large orders for mining connectivity solutions in Australia
- 2025-01-07: Large order for autonomous surface mining equipment in Australia
- 2024-10-07: Epiroc diversifies its financing with sustainability-linked NIB loan
- 2024-09-09: Epiroc wins large equipment order for Australian lithium mine
- 2024-09-04: Epiroc to expand rock drilling tools manufacturing facility, opens innovation center in Hyderabad, India
- 2024-08-22: Epiroc's Water for All celebrates 40 years of changing lives
- Our Chair of Board, Ronnie Leten, has participated in an investment pod (in English). You can find it if you search for "Montrose podden". Or in Spotify by using this link: https://open.spotify.com/episode/1tc87kIvOdlvrdeXzt0k30?si=a976b7c1d4fb47f4
- 2024-06-04: Epiroc wins large mining equipment order in India
- 2024-06-03: Epiroc appoints Jodie Velasquez President Parts & Services APAC division

Seasonality?

- Historically, Q1 has somewhat lower revenues than Q4. Attachments generally strong in H1. We do, however, expect that the construction market will remain weak in Q1.
    - *Comments from the Q4 report as well as IR comments to financial markets in key figure file, sheet OIB.*

Tax rate guidance?

- Between 22% and 24%.
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Dividend information:

- The Board proposes to the AGM an ordinary dividend to shareholders of SEK 3.80 (3.80) per share, equal to MSEK 4 529 (4 591). The dividend is proposed to be paid in two equal installments with record dates May 12 and October 14, 2025.

Capital allocation priorities?

- Our priorities are to continuously invest in profitable organic growth, do acquisitions that support our organic efforts, and pay dividend (goal of 50% pay-out ratio). Thanks to the asset light business model, we have low investment needs.

Capex needs?

- Roughly 75% of the product cost for equipment is purchased, and we produce equipment to order, and that means that we can go quite quickly up and down in our demand depending on how the demand changes. And we only produce the core components, and those ones we want to produce ourselves to safeguard, that we actually keep the innovations internally. All in all, this results in quite low CapEx needs, **roughly 2% to 3%** of revenues over a cycle.
    - From CMD 2024-09-24

Please let us know if anything is unclear. We are happy to help.
BR Karin & Alexander