2024-12-12 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 **11:30 CET** on Thursday, January 30.
- The **webcast** is planned for 14:00 CET.
- Webcast link here.
- Telco numbers can be found here.
- We enter quiet period on December 30, however, if you have questions, please reach out before **December 19.**

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 **Tuesday, January 21.**

Pre-call?
By sending this e-mail, I hope that you get all your questions answered. However, if anything is unclear, please reach out as soon as you can, and before December 19.

Demand comment:

- Looking ahead, in the near term, we expect that the 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 Q3 results call.*

Demand comment for construction? *22% of group orders in Q324.*

- The weak construction demand impacted mainly the attachment business but also tools that are used at construction sites and quarries to some extent.
- 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.*
- I also would like to remind you that short term, the second half of the year is always softer. And we are taking measures to improve the margins, but volumes need to come back for us to be back on the same margins that we delivered in this segment before.
  - Comments from the CMD presentation.

Details on mining demand? *78% of group orders in Q324.*

- There is still a lot of business cooking out there, and we remain optimistic on mining. And this reflects then a continued high mining activity and a good demand for our digital solutions as well as also high demand for midlife upgrades.
  - *Comments from the Q3 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?

- Year-on-year, the orders received organically increased quite strongly, up 9% to SEK 11.8 billion, and this is including a record-high level of SEK 1.4 billion in large orders. This should be compared with SEK 1 billion that we had in Q3 2023. And we have said this many times, but we will repeat it again, large orders are lumpy by nature, and this was, as said, a record-high quarter for us.
    - *Comments from the Q3 results call. See also our key figures file, sheet "large orders".*

Quarter	Sum of externally announced large orders (press release)	Comment in results presentation
Q424	None as per 2024-12-12	*NA*
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)*
Q423	680	*"We won several large orders and in total, these large orders amounted to BSEK 1.2."*

How would Epiroc be affected by potential US tariffs?

- **Group revenues from US?** 11% in 2023.
- **COGS from within the US 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?** Our main production countries (numbers of headcounts) are in Sweden, US, Australia, South Africa and China. Largest production sites are: Örebro, Sweden (underground and surface equipment), Garland, US (Surface drill rigs), Johannesburg South Africa (Rock reinforcement and ground support), , Fagersta, Sweden (Rock drilling Tools).
    - *IR comment. The Epiroc Annual report 2023, page 150, lists all facilities and entities. In addition, Epiroc has another 10+ facilities in the US that came into Epiroc with the acquisition of Stanely Infrastructure in 2024.*

Demand for automation solutions? Position within automation?

- *We had good mining demand for digital solutions, including mixed-fleet automation solutions (in Q3).*
    - *Comments from the Q3 results call*
- *Market leader in mixed-fleet automation with +3 100 driverless machines. We have more than 1300 machines with tele-remote capabilities. We have 1100 fully autonomous drill rigs – and this number is both underground and surface – and we have more than 850 fully autonomous load/haul machines using our software*

systems. To our knowledge, this makes Epiroc the largest provider of automation in the mining and construction industry.

  - *Comments from the CMD presentation.*

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

- Group revenues related to electrification 4%. Active electric fleet of rigs, loaders and trucks (Large portion is historical fleet, incl. cable) 600+. Sites with BEVs globally 34, recurring BEV orders from 12 sites.
  - *Comments from the CMD presentation.*
- All BEV-machines have been delivered with a service contract.
  - *From annual report 2023.*
- Learn more? See the Electrification update (1.5 hrs) from 2023 to learn why our BEV-solution is best in class.
  - *Electrification update 2023-12-11.*

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

- The working capital increased 6% in the quarter (Q3) and is now 38% of revenues on a 12-month rolling basis. Despite a reduction in inventory, net working capital actually increased as payables and also then acquisitions contributed negatively, building up the working capital. So year-on-year, we are seeing a development we are not happy with.
- For inventory, we are a quite different company compared to pre-COVID, both in terms of how much we have grown and also in terms of how much we are selling in different parts of the world, for example, growing in Africa and in Australia. Very far away from where we normally produce. And we have seen a tremendous growth within service. And in order to have that growth within service, we also need to have the stocking points close to our customers so we actually can have shorter delivery times. So getting back to COVID levels, that would be a bit of a stretch. Improving from where we are today, well, that's definitely something we are looking to and expecting to do.
  - *Comments from the Q3 results call*

What about pricing?

- We continue to work with the pricing, as always. We're doing exactly the same things. The more value we develop for our customers, then we can also work on the pricing.
  - *Comments from the Q3 results call.*

What about EBIT-margins?

- We do not provide guidance (on margin).
- **Group:** EBITA in the third quarter was 24.8% (26.3), while, at the same time, the adjusted operating margin, the EBIT, was down from 21.8% to 19.7%. The main deviation is that we have the impairments of intangible assets, which are SEK 346 million in EBIT, while they are not included in the EBITA calculation.
- In Q3, in organic, we lost 1.3 percentage points compared to the previous year, and this was mainly because of 3 things. 1) Mix effect: lower service revenue and higher equipment revenues compared to previous year. 2) Dilution from acquisition within Tools & Attachment. And on group level, this dilution is 1.3 percentage points. In the bridge, however, this is mitigated by the positive effect that we get from the items affecting comparability. 3) Higher costs than we had last year.

- **E&S:** Adjusted margin of 22.9% (24.4). We had a negative impact on the organic side, which is mainly explained by the mix effect, where we have a higher proportion of equipment invoiced and then also mix effect within service. Year-on-year, we also have higher costs. Actions have been taken, but as mining is so important for this segment, we have carefully pinpointed our efforts to remove costs to make sure that we are not harming long-term growth prospects.
- The intention is to continue to grow our midlife offering because we see that this is what our customers want. It's lower margin on midlife upgrades compared to just selling parts because you have a fairly big labor component. But the workshop efficiency is addressed to become more efficient in how we do midlife upgrades as well. But remember with an upgrade, that machine is consuming parts for another 2 to 3 years, which is more revenue stream from a parts perspective compared to replacing a machine. The first couple of years, a new machine is not consuming a lot of parts.
- Overall for equipment, there's no big change in margin. It can vary sometimes if we have a mix effects, but I wouldn't say that there's any big difference between the equipment margin this quarter versus a year ago.
- **T&A:** Adjusted margin of 11.3% (15.1%). Acquisitions diluted margin meaningfully around 3.9 percentage points. In this segment, a lot has been done and is still being done to protect our margins. And as an example, we are now consolidating some manufacturing sites in the U.S.
- We have already taken a number of measures on the cost side, given the lower demand for our products that relates to Stanley, including restructuring and consolidation of sites. So that is ongoing. When it comes to moving factories, it takes a little bit longer time than headcount reductions. We're doing both right now. Right now, we have shifted our focus to cost.
    - *All margin comments above from the Q3 results call.*

Interest cost?

- As of Q324. The average tenor of Epiroc's long-term debt was 4.3 years. The average interest duration was 20 months (19) and the average interest rate at the end of the quarter was 4.41% (4.16).
    - *From the Q3 report.*

Cash generation?

- The operating cash flow was BSEK 1.8 (1.9), negatively impacted by lower operating profit when we adjust for the noncash items, but actually compared to last year, positively impacted by a lower buildup of working capital. The cash conversion rate was 88%.
    - *Comments from the Q3 results call.*

FX?

- IR comment: 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".

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

- In Q324 : IAC was MSEK 191 (-12), incl. provision for the share-based long-term incentive programs of MSEK -17 (-19). Equipment & Service included items affecting comparability of net MSEK 208 (positive revaluation effect of the shares held prior to the acquisition of ASI Mining MSEK +554 and impairments of intangible assets related to acquisitions of MSEK -346). No IAC in T&A. See also key figure file, sheet segments.

- In Q224: Items affecting comparability amounted to MSEK -325 (-16), including transaction and integration costs of MSEK -130 related to acquisitions, restructuring costs of MSEK -104, earn-out for the acquisition of RCT of MSEK -73 and change in provision for the share-based long-term incentive programs of MSEK -18 (-16). We do not provide guidance on LTI, but we always have a page in the quarterly report that show the items affecting comparability – we will do the same onwards. In general, an increase of the share price means an increased provision (=cost) for LTI and vice versa.
- The Stanley transaction and integration cost (one-off) in Q2 were MSEK 130.
- In Q124 Items affecting comparability amounted to MSEK -127 (-26), including transaction and integration costs of MSEK -125 related to the acquisition of Stanley Infrastructure and change in provision for the share-based long-term incentive programs of MSEK -2 (-26). We do not provide guidance on LTI, but we always have a page in the quarterly report that show the items affecting comparability – we will do the same onwards. In general, an increase of the share price means an increased provision (=cost) for LTI and vice versa.
- The Stanely transaction and integration cost (one-off) in Q1 were MSEK 125.

Acquisition of Stanley infrastructure

- **Margin?** Dilution from acquisitions in T&A (in Q3) was 3.9%. A lot of that is related to the Stanley Infrastructure, where we had a lower profitability level in Q3 than in Q2. We also have this inventory step-up items that we have in Q2, Q3 and Q4 2024. And obviously, we have amortization. So we said in Q2 that Stanley was on low double-digit EBITA level, and it's positive still on EBITA level, but now it's more mid-single-digit EBITA level. We have consolidations ongoing. It takes some time before we start to see the results of that.
    - *Comments from the Q3 results call.*
- The acquisition will dilute the Group’s and the Tools & Attachments’ full year 2024 adjusted EBITA margins with approximately 0.6-0.8 and 1.6-1.8 percentage points respectively. Integration and transaction costs amounted to MSEK -255 in the first nine months 2024 (booked in Q1 and Q2).
    - *From the Q3 report*
- **What:** Acquisition of Stanley Infrastructure, a global manufacturer of excavator attachments and handheld hydraulic and battery-operated tools used in infrastructure, construction, scrap recycling, demolition and railroad applications
- **Why?** Sales synergies (growth case). Strengthen and diversify Epiroc’s long-term presence in the attachments business in infrastructure and construction, especially in the United States. Stanley Infrastructure is a perfect fit for Epiroc with industry-leading brands – complementing and filling gaps in Epiroc’s offering. It has strong people culture and solid customer relationships. Epiroc gains access to long-standing OEM relationships and a broad indirect sales network. Additionally, it increases exposure to attractive tailwinds such as the US IRA bill.
- Stanley Infrastructure had revenues in 2023 of MUSD 447 (MSEK 4 725), an adjusted EBITA margin of 16% and 1 380 employees. The acquisition was announced on December 15, 2023, and was completed on April 1, 2024. Revenues from the acquisition are reported in “Tools & Attachments”. The purchase price (Enterprise Value) amounted to MUSD 760 (MSEK 8 200) and is mainly allocated to intangible assets and goodwill. The acquisition was an all-cash transaction. The acquisition will dilute both the Group and the Tools & Attachments full year 2024 adjusted EBITA margins with approximately 0.5-0.7 percentage points. Integration and transaction costs amounted to MSEK -255 in the first half year 2024.

- *From previous financial reports and press conference.*

Other M&A comments?

- 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”.
- You can always find an updated M&A list here.

Other relevant announcements for the quarter?

- 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

- 2024-05-14: Report from Epiroc's Annual General Meeting 2024
- 2024-01-24: Epiroc Capital Markets Day on September 24, 2024

Seasonality?

- Historically Q4 has somewhat higher revenues than Q3. Attachments generally weak in Q4 (Season).
  - *IR comments to financial markets in key figure file, sheet OIB.*

Capital Markets Day in Las Vegas, September 24

- Epiroc Capital Markets Day: strategy for resilient, recurring and profitable growth
  - The purpose of the event was to give an update on how Epiroc is positioning itself for profitable growth that is resilient and recurring in an ever-changing world.
  - Link to the press release.
  - Link to the CMD 2024 presentation.

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

Tax rate guidance?

- Between 22% and 24%.

Other relevant information

➔ As of Q1, we have some improvements in the way we report.
  - We have moved some electrification business lines from "Service" to "Equipment" (Meglab and JTMEC). In 2023, these represented MSEK 1 010 in revenues, i.e. around MSEK 250 per quarter.
  - We will NOT include orders on hand in the orders received when we acquire companies.
  - We start providing EBITA for the Group, E&S and T&A.

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