

# Interim report Q4 2019

January 31, 2020

Per Lindberg, President and CEO

Anders Lindén, CFO

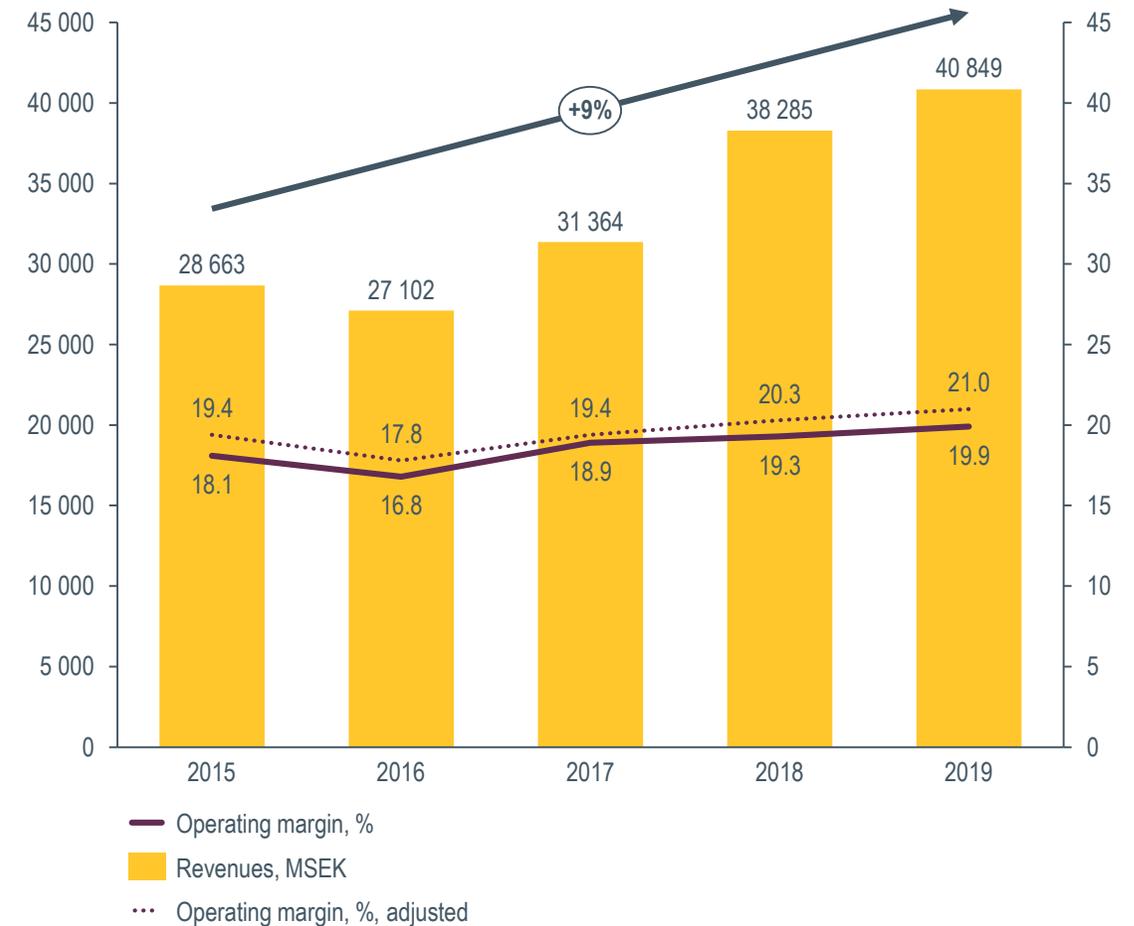


# Record revenues and profit in a strong 2019

## Key highlights full-year 2019

- Strong growth of our service business, but negative development for equipment
- High interest for automation and information management, and for battery-electric vehicles
- Three acquisitions
- Efficiency actions
- Financials
  - Revenues increased 7%
  - Operating profit +10%
  - Reported operating margin 19.9%
  - Adjusted operating margin 21.0%
- Strong operating cash flow at MSEK 6 688
- Proposed dividend of SEK 2.40 (2.10) per share

Revenues and operating margin



# Continued growth in service

## Key highlights Q4 2019

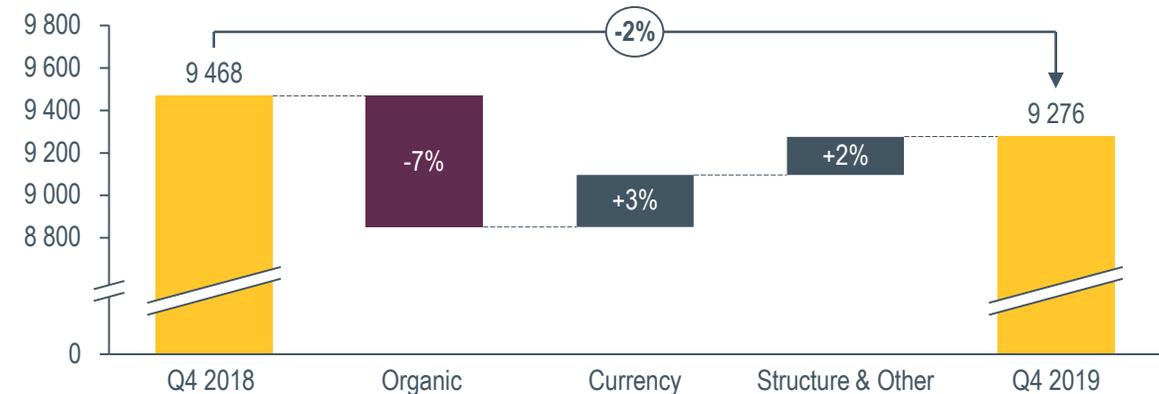


- Order intake at similar level as in Q3
  - Equipment orders decreased year-on-year, but were stable sequentially
  - Solid service growth year-on-year
- Lower revenues
- Improved underlying margin
- Strong cash flow
- Continued focus on innovation
- Efficiency actions and adaptation of product portfolio and production continued

# Key financials Q4 2019

- Order intake declined 2%, -7% organic
- Revenues declined 3%, -7% organic
- Operating profit at MSEK 2 016
  - Items affecting comparability of MSEK -115
  - Mainly restructuring costs and LTI
  - Positive contribution from currency
- Margin at 19.6% (20.5)
  - Adjusted for items affecting comparability at 20.7%
  - Margin diluted by lower revenues and acquisitions
- Operating cash flow improved to MSEK 2 827 (2 242)

Orders received, MSEK and change, %



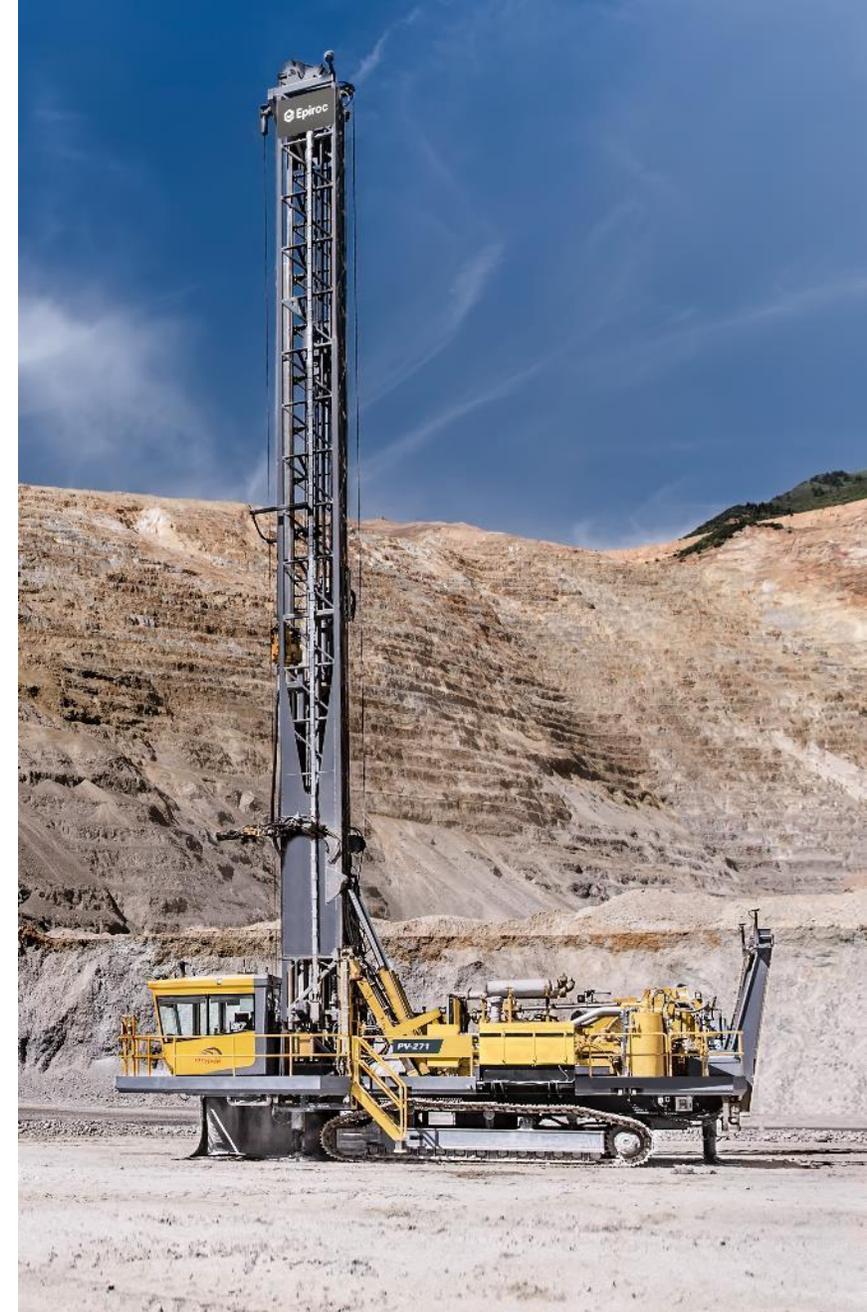
Revenues, operating profit and margin



# Leading the way in innovation

## Q4 2019

- Continued focus on innovations
- Orders received to digitalize Pocubre's mining operations
- Partnership with Orica to develop a semi-automated explosives delivery system
- Pit Viper 270 XC series with advanced rig control system
- PowerROC D60 with Tier 4 engine
- New range of down-the-hole hammers
- No. of connected machines increasing



Epiroc Pit Viper 270 XC series  
with several automation features.

# Continuous strive to improve operational excellence



## Q4 2019

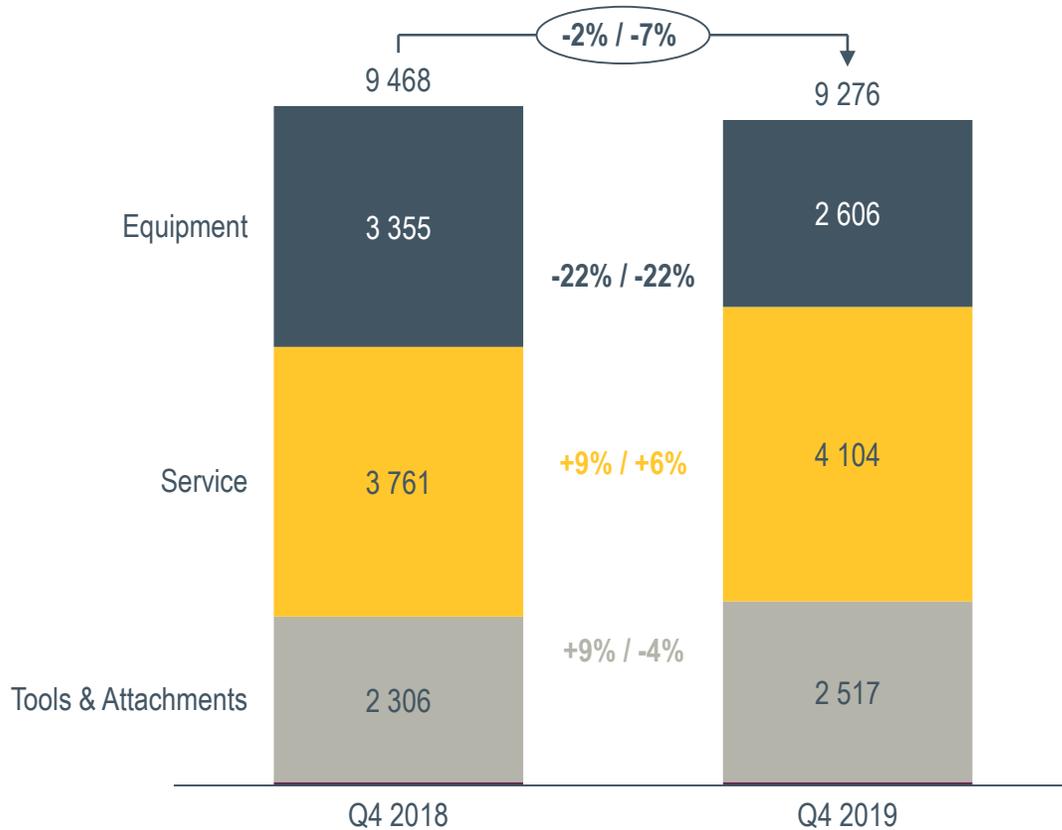
- Workforce reduced by 521 in the quarter
- Efficiency improvements initiated and will continue in the coming quarters and expected to give visible effects in the first half of 2020
- Rock drilling tools factory in China closed and facility in Sweden sold
- Announcement in January 2020 to consolidate dimension stone equipment manufacturing
- Safety and well-being – work related injuries lower for full-year 2019
- Supply chain program progressing with gradual improvements
- Reduction of CO<sub>2</sub> emissions from transport



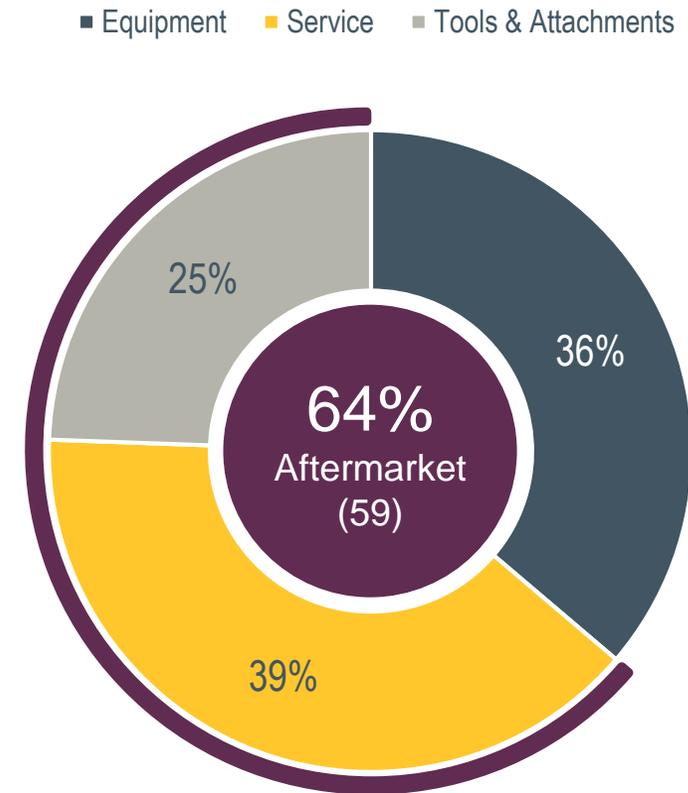
# High proportion of recurring business

## Per segment Q4 2019

Order intake, MSEK and growth, %  
(Total growth / Organic growth)



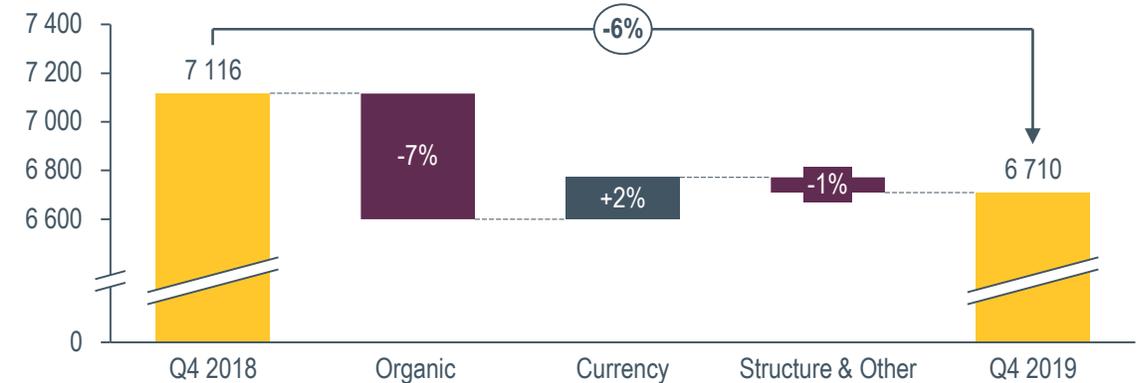
Revenues in the quarter



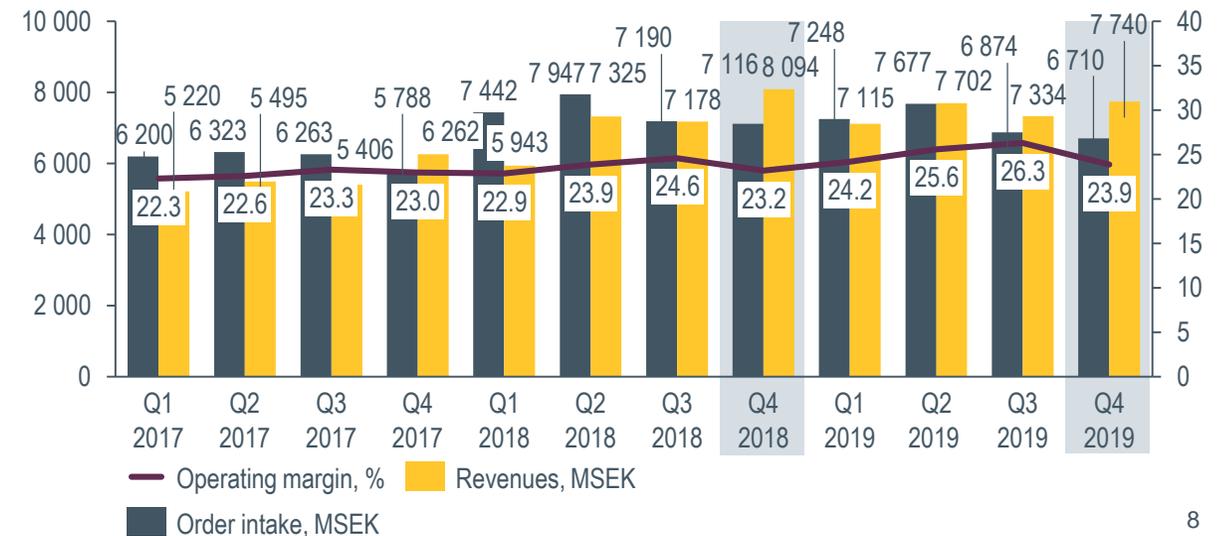
# Segment: Equipment & Service

- Orders received -6%, -7% organic
- Service orders up 6% organic
  - High customer activity
- Equipment orders down 22% organic
  - Investment decisions postponed
- Revenues -4%, -6% organic
- Operating profit at MSEK 1 853, including costs related to efficiency improvements of MSEK -28
- Margin increased to 23.9% (23.2)
  - Supported by currency and mix
  - Negatively impacted by lower revenue volumes and restructuring costs
  - Sequentially, negative currency and mix

Orders received, MSEK and change, %



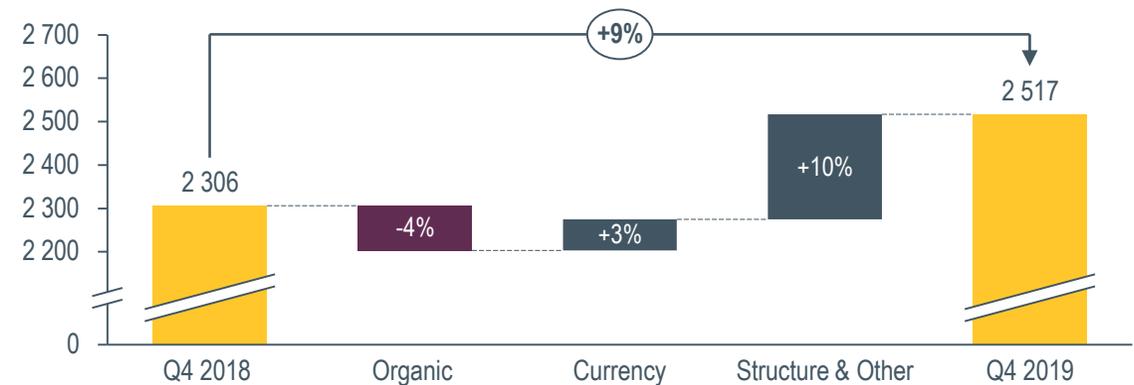
Orders received, revenues and operating margin



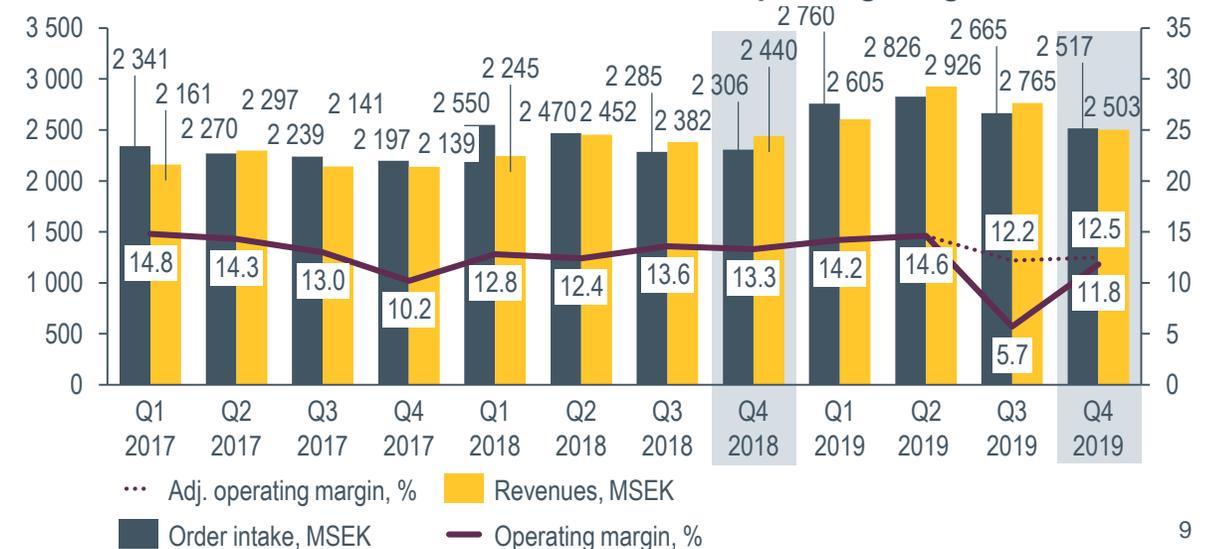
# Segment: Tools & Attachments

- Orders received up 9%, -4% organic
  - Rock drilling tools orders negatively impacted by exit of handheld rock drilling tools and optimization of product offering
  - Hydraulic attachment tools decreased organically
- Revenues up 3%, -10% organic
- Margin of 11.8% (13.3)
  - Costs related to efficiency improvements MSEK -17
  - Adjusted operating margin 12.5%, supported by currency, but diluted by acquisitions
  - One-time costs related to acquisitions of MSEK -18

Orders received, MSEK and change, %



Orders received, revenues and operating margin



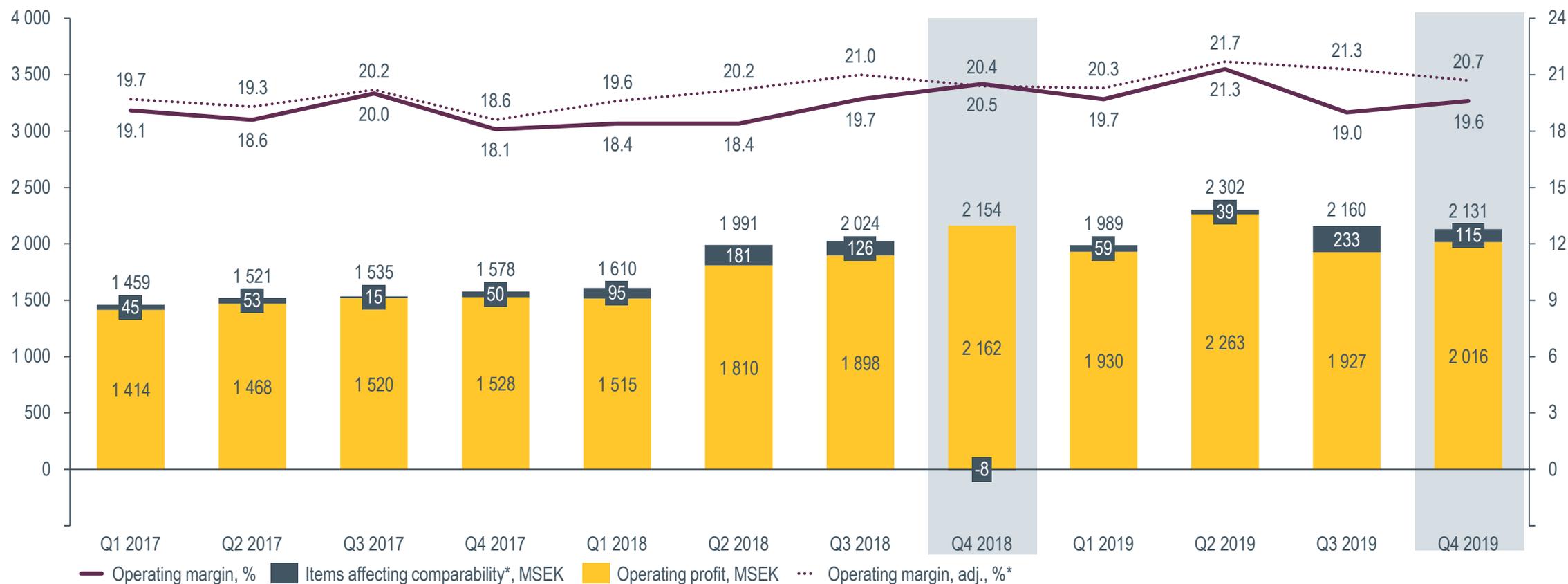
# Financials



# Profit impacted by items affecting comparability

Q4 2019

Operating profit and margin



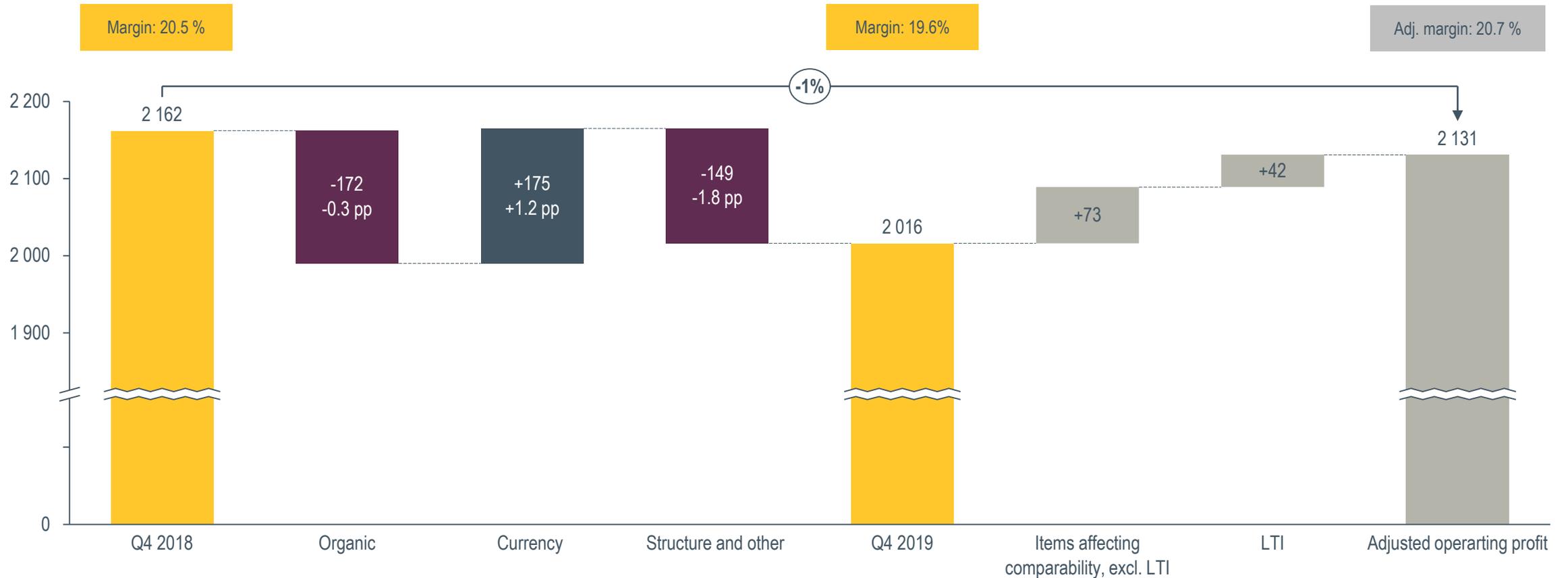
\* Q1 2017-Q4 2018 includes costs related to the split from Atlas Copco.

\* Q1 2017-Q4 2019 includes change in provision for long-term incentive plans.

\* Q4 2019 includes items affecting comparability of MSEK -115, including change in provision for long-term incentive plans of MSEK -42.

# Epiroc Group – Profit bridge

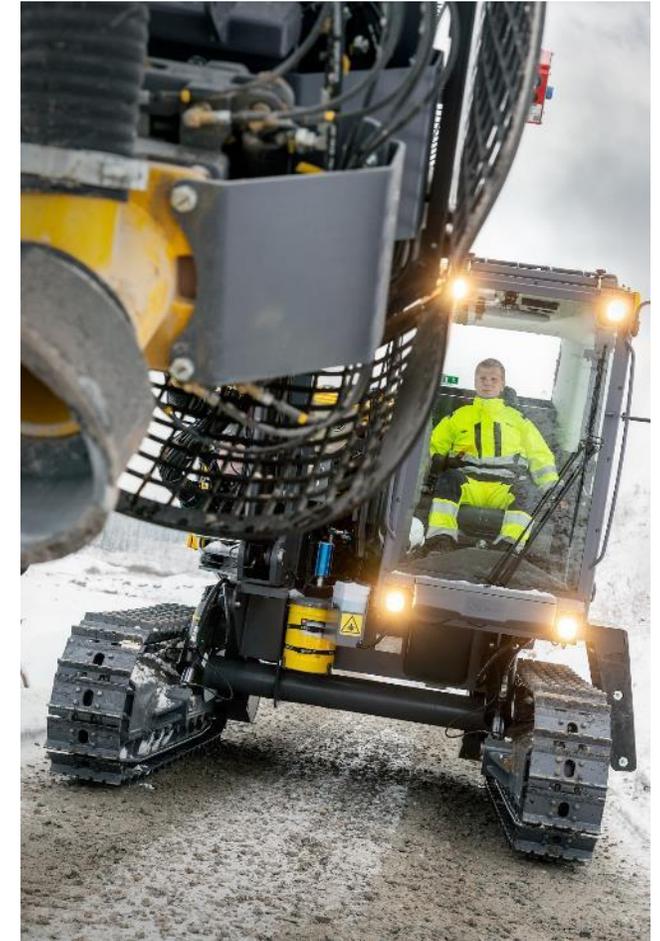
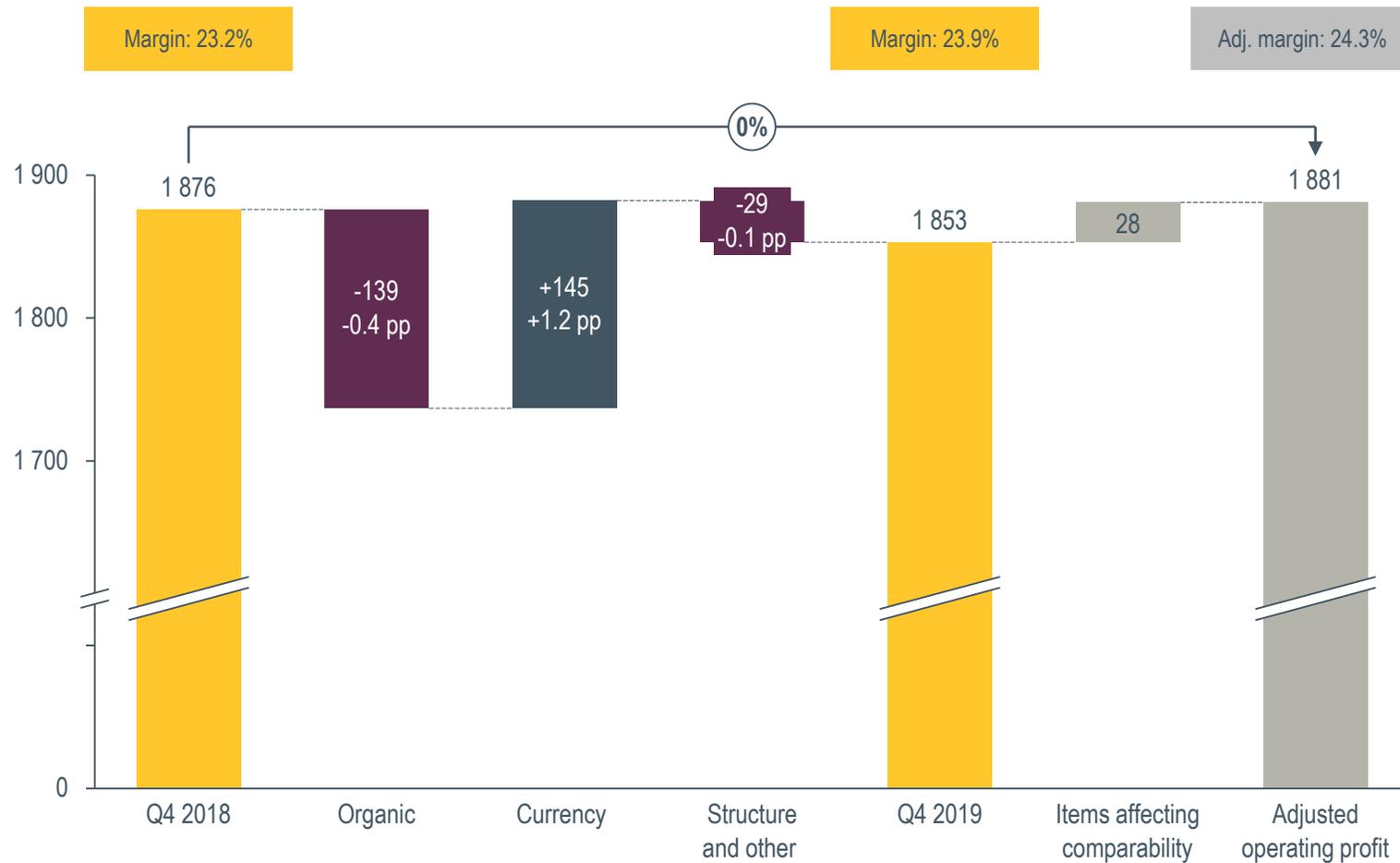
## Looking into the numbers



“Structure and other” includes operating profit/loss from acquisitions and contract manufacturing MSEK -15, including a one-time item of MSEK -18, costs of MSEK -45 related to efficiency improvements, costs of MSEK -28 related to the agreement with the departing President and CEO, split costs of MSEK +48 = -11(-59), and change in provision for long-term incentive programs MSEK -109 = -42-(+67). “Items affecting comparability” includes change in provision for long-term incentive programs MSEK -42, costs of MSEK -45 related to efficiency improvements, and costs of MSEK -28 related to the agreement with the departing President and CEO.

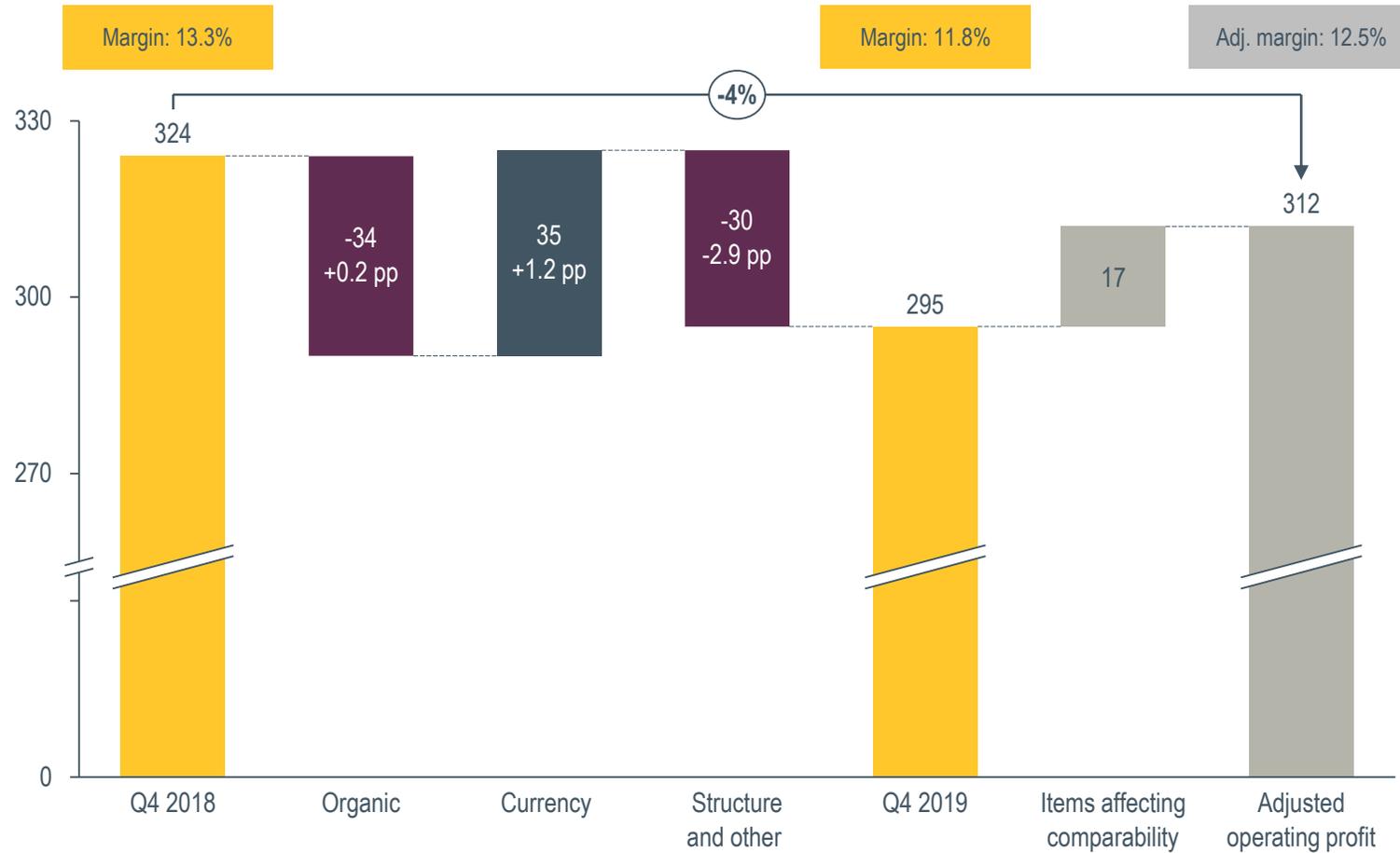
# Equipment & Service – Profit bridge

## Looking into the numbers

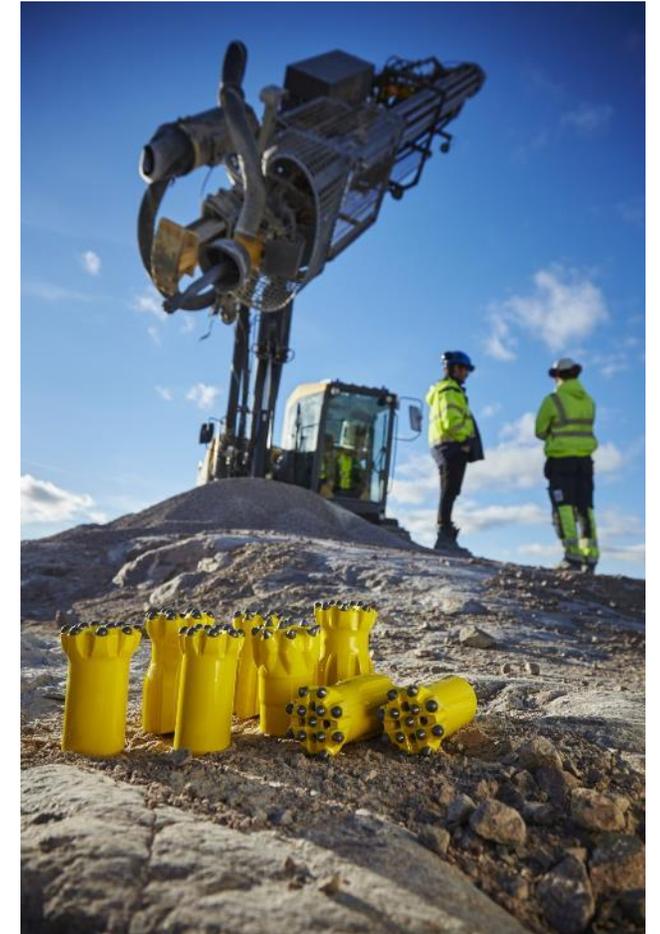


# Tools & Attachments – Profit bridge

## Looking into the numbers



Operating profit including a one-time item of MSEK –18 related to acquisitions.

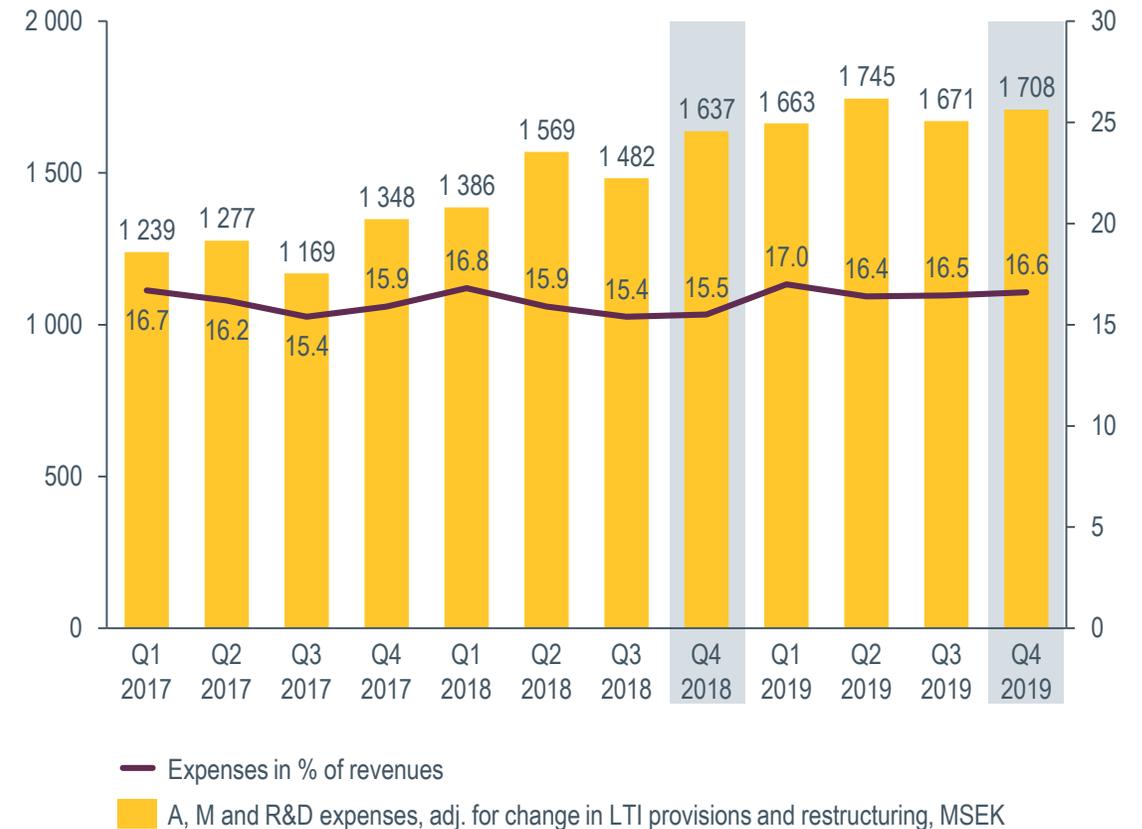


# Costs, net financials and tax

## Q4 2019

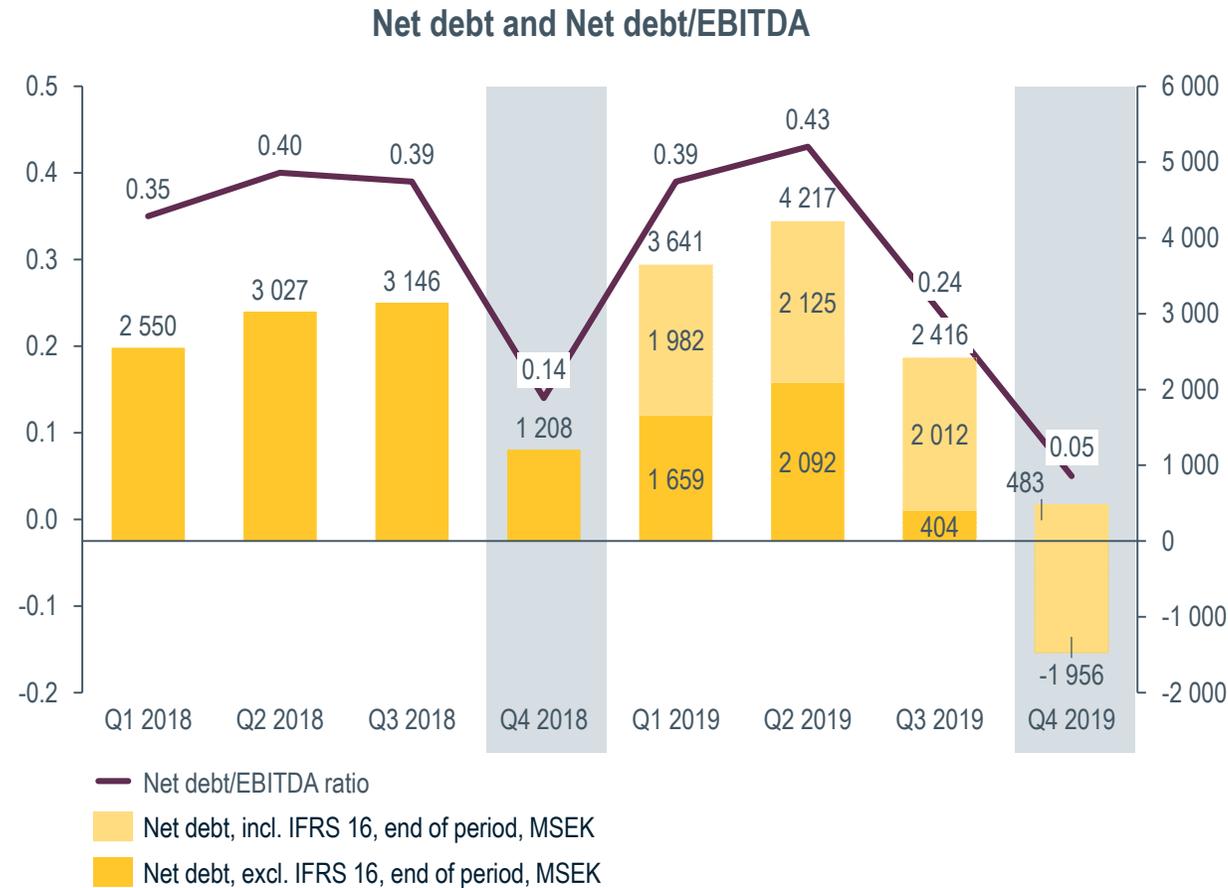
- Lower comparable costs
  - Acquisitions and currency reason for the increase year-on-year
  - Expenses adjusted for change in provision for LTI and items affecting comparability
- Net financial items were MSEK -94 (-46)
  - Interest net was MSEK -36 (-37)
- Tax expense MSEK -439 (-493)
  - Effective tax rate 22.5% (23.3)
  - Guidance: below 25%

Administration, marketing and R&D expenses



# Capital structure

Q4 2019

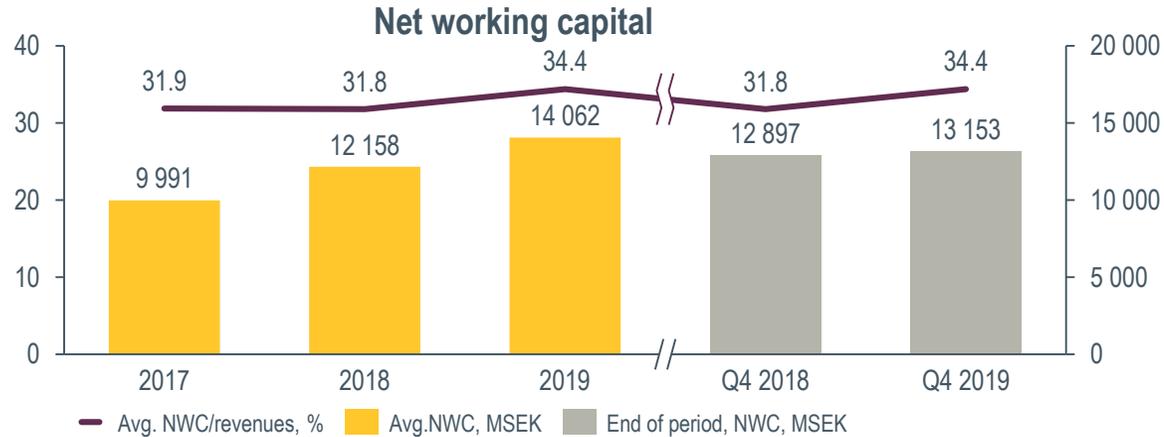


- Net debt was MSEK 483 (1 208)
  - Post-employment benefits MSEK 596 (283)
- IFRS 16 increased net debt by MSEK 1 956
- Net debt/EBITDA ratio at 0.05 (0.14)
- Net debt/equity ratio was 1.2% (6.4)
- Proposed dividend for 2019, SEK 2.40
  - To be paid in two instalments

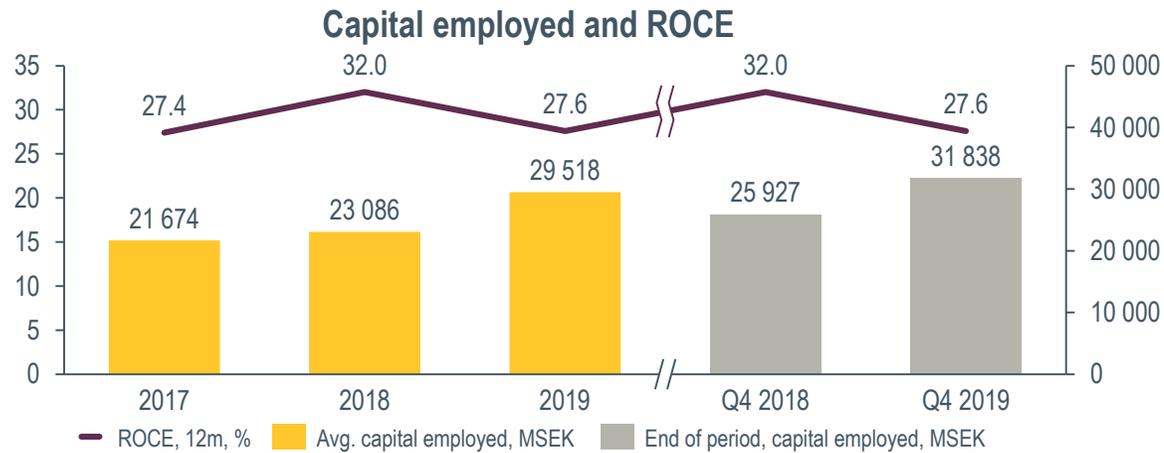
\* Numbers for 2018 not restated for IFRS 16.

# Capital efficiency

## Q4 2019



- Net working capital up 2%
  - For comparable units and currency adjusted, net working capital decreased 6%
  - A reduction in both trade receivables and inventories
  - Trade payables and advance payments were also lower, which partly offset the improvement year-on-year



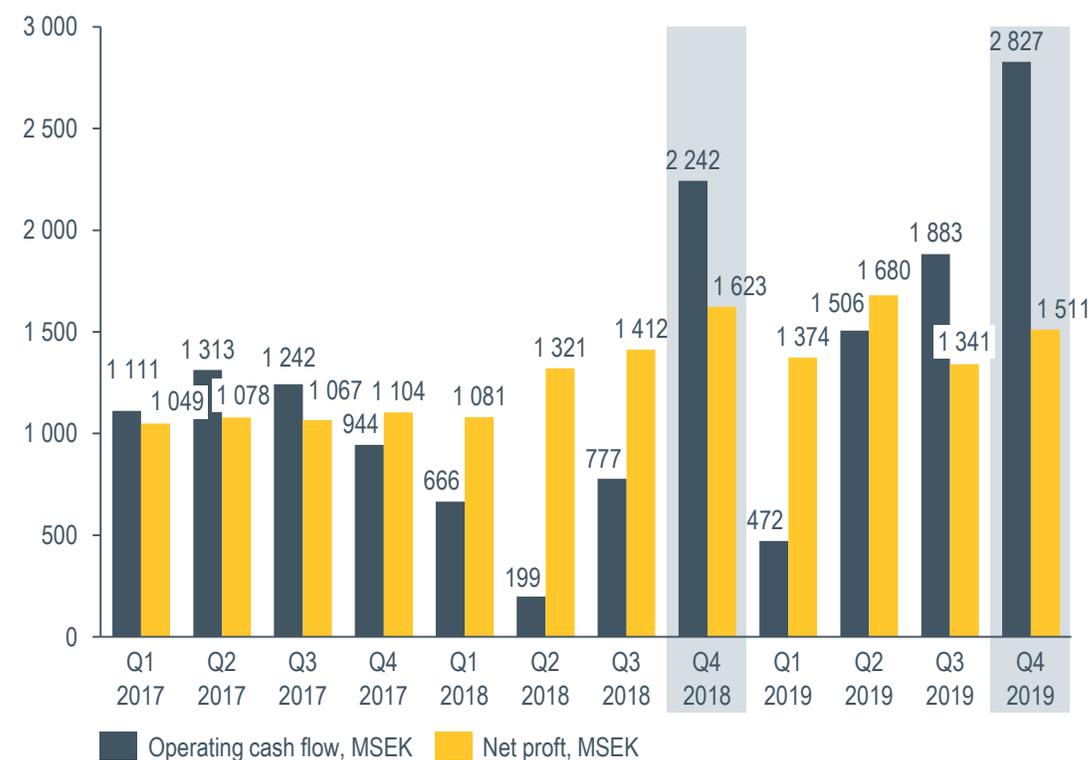
- ROCE at 27.6% (32.0)
  - IFRS 16 impact 1.4 percentage points
  - Impacted by cash and acquisitions

# Operating cash flow

## Q4 2019

MSEK	Q4 2019	Q4 2018
Operating profit	+2 016	+2 162
Depreciation, amortization and impairment	+482	+350
Capital gain/loss and other non-cash items	-28	-18
	<b>+2 470</b>	<b>+2 431</b>
Net financial items received/paid	-25	-24
Taxes paid	-257	-326
Change in working capital	+1 062	+415
Investments, incl. rental equipment*	-302	-308
Pension funding and other**	-121	-68
<b>Operating cash flow</b>	<b>+2 827</b>	<b>+2 242</b>
Acquisitions and divestments	+10	-64

### Operating cash flow and Net profit



\* Investments include rental investments, net, other PPE, net, and intangible assets, net.

\*\* Other includes adjustments for currency hedges of loans and proceeds to/from other financial assets, adjusted for divestment of Payment Solutions credit portfolios.



## Summary and outlook



# Continued growth in service

## Key highlights Q4 2019



- Order intake at similar level as in Q3
  - Equipment orders decreased year-on-year, but were stable sequentially
  - Solid service growth year-on-year
- Lower revenues
- Improved underlying margin
- Strong cash flow
- Continued focus on innovation
- Efficiency actions and adaptation of product portfolio and production continued
- Helena Hedblom, new CEO from March 1

## Demand expectations

*“It is clear that our customers remain cautious in making investment decisions. In the near-term we expect that demand will remain largely at the level seen in the fourth quarter.”*



Q&A





**Disclaimer** - Some statements in this presentation, or in conclusion to it, are forward-looking and the actual outcome may be different. In addition to the factors explicitly commented upon, the actual outcome may be affected by other factors such as macroeconomic conditions, movements in foreign exchange- and interest-rates, political risks, competitor behavior, supply- and IT-disturbances.

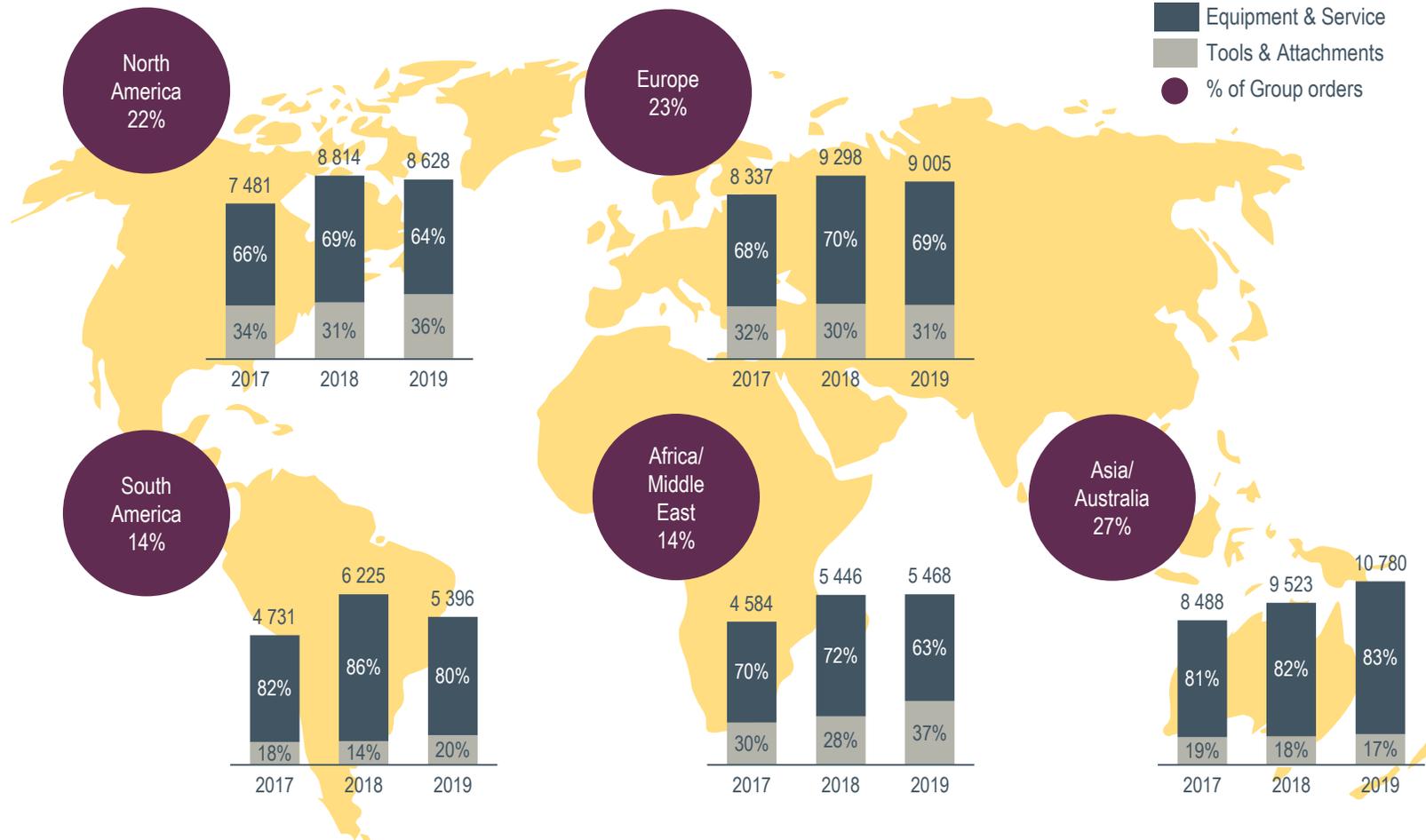


## Appendix



# Geographical overview

Orders received, MSEK and % of Group orders



Orders received excluding Common Group functions.

# Income statement

## Q4 2019

MSEK	2017 Full year	2018 Full year	2019 Full year	2018 Q4	2019 Q4
Revenues	31 364	38 285	40 849	10 558	10 280
Cost of sales	-20 101	-24 317	-25 547	-6 721	-6 377
<b>Gross profit</b>	<b>11 263</b>	<b>13 968</b>	<b>15 302</b>	<b>3 837</b>	<b>3 903</b>
<i>Gross margin, %</i>	35.9%	36.5%	37.5%	36.3%	38.0%
Marketing expenses	-2 280	-2 574	-2 797	-668	-690
Administrative expenses	-2 121	-2 589	-3 261	-621	-848
Research and development expenses	-795	-977	-1 035	-281	-262
Other operating income and expenses	-136	-443	-73	-105	-87
<b>Operating profit</b>	<b>5 930</b>	<b>7 385</b>	<b>8 136</b>	<b>2 162</b>	<b>2 016</b>
<i>Operating profit margin, %</i>	18.9%	19.3%	19.9%	20.5%	19.6%
Net financial items	-137	-184	-293	-46	-94
<i>of which interest net</i>	-132	-137	-186	-37	-36
<b>Profit before tax</b>	<b>5 793</b>	<b>7 201</b>	<b>7 843</b>	<b>2 116</b>	<b>1 922</b>
<i>Profit margin, %</i>	18.5%	18.8%	19.2%	20.0%	18.7%
Income tax expense	-1 495	-1 764	-1 959	-493	-433
Tax rate, %	-25.8%	-24.5%	-25.0%	-23.3%	-22.5%
<b>Profit for the period</b>	<b>4 298</b>	<b>5 437</b>	<b>5 884</b>	<b>1 623</b>	<b>1 489</b>
<b>Items affecting comparability in operating profit</b>		<b>-394</b>	<b>-446</b>	<b>8</b>	<b>-115</b>
Equipment & Service			-28	-	-28
Tools & Attachments			-196	-	-17
Corporate items		-394	-222	8	-70
<b>Adjusted operating profit</b>		<b>7 779</b>	<b>8 582</b>	<b>2 154</b>	<b>2 131</b>
<i>Adj. Operating profit margin</i>		20.3%	21.0%	20.4%	20.7%

# Balance sheet



## Q4 2019

MSEK	2017	2018	2019	% of BS	MSEK	2017	2018	2019	% of BS
	Dec. 31	Dec. 31	Dec. 31			Dec. 31	Dec. 31	Dec. 31	
Intangible assets	3 121	3 620	4 226	10%	Share capital	21	500	500	1%
Rental equipment	1 215	1 233	1 213	3%	Retained earnings	12 020	18 297	22 261	54%
Other property, plant and equipment	2 271	2 473	4 613	11%	Equity attributable to owners of the parent	12 041	18 797	22 761	55%
Investments in associates and joint ventures	94	208	201	0%	Non-controlling interest	6	50	52	0%
Financial assets and other receivables	1 101	1 119	1 007	2%	Total equity	12 047	18 847	22 813	56%
Deferred tax assets	425	543	630	2%	Interest bearing liabilities	2 250	5 095	7 724	19%
Total non-current assets	8 227	9 196	11 890	29%	Post-employment benefits	181	283	596	1%
Inventories	8 440	10 516	10 508	26%	Other liabilities and provisions	289	412	423	1%
Trade receivables	6 271	8 005	7 287	18%	Total non-current liabilities	2 720	5 790	8 743	21%
Other receivables	1 362	1 289	1 597	4%	Interest bearing liabilities	4 808	1 702	705	2%
Income tax receivables	287	333	353	1%	Trade payables	3 966	4 711	4 050	10%
Financial assets	1 152	944	862	2%	Income tax liabilities	436	605	507	1%
Cash and cash equivalents	1 808	5 872	8 540	21%	Other liabilities and provisions	3 570	4 500	4 219	10%
Total current assets	19 320	26 959	29 147	71%	Total current liabilities	12 780	11 518	9 481	23%
Total assets	27 547	36 155	41 037	100%	Total equities and liabilities	27 547	36 155	41 037	100%

# Cash flow



## Q4 2019

MSEK	2017 Full year	2018 Full year	2019 Full year	2018 Q4	2019 Q4
<b>Cash flow from operating activities</b>					
Operating profit	5 930	7 385	8 136	2 162	2 016
Depreciation, amortization and impairment	1 254	1 369	1 978	350	482
Capital gain/loss and other non-cash items	-134	101	-252	-81	-28
Net financial items received/paid	-344	-483	-410	-24	-25
Taxes paid	-666	-1 747	-2 157	-326	-257
Pension funding and payment of pension to employees	-90	-52	-61	4	-18
Change in working capital	-403	-1 875	337	415	1 062
Increase in rental equipment	-793	-896	-915	-238	-189
Sale of rental equipment	422	522	572	225	134
<b>Net cash from operating activities</b>	<b>5 176</b>	<b>4 324</b>	<b>7 228</b>	<b>2 487</b>	<b>3 177</b>
<b>Cash flows from investing activities</b>					
Investments in other property, plant and equipment	-424	-577	-486	-151	-100
Sale of other property, plant and equipment	70	26	60	2	17
Investments in intangible assets	-289	-459	-537	-146	-179
Sale of intangible assets	-	-	16	-	15
Acquisition of subsidiaries	-137	-546	-1 137	-64	-3
Divestment of subsidiaries	-	-	153	-	13
Proceeds to/from other financial assets, net	6 323	219	276	118	244
<b>Net cash from investing activities</b>	<b>5 543</b>	<b>-1 337</b>	<b>-1 655</b>	<b>-241</b>	<b>7</b>
<b>Cash flows from financing activities</b>					
Dividends paid	-	-	-2 523	-	-1 263
Dividends paid to non-controlling interest	-	-	-8	-	-
Dividends paid to Atlas Copco	-5 178	-	-	-	-
Acquisition of non-controlling interest	6	-	-	-	-
Sale/ Repurchase of own shares	-	-1 307	340	-207	45
Change in interest-bearing liabilities	-889	2 367	-820	-110	-181
<b>Net cash from financing activities</b>	<b>-6 061</b>	<b>1 060</b>	<b>-3 011</b>	<b>-317</b>	<b>-1 399</b>
<b>Net cash flow for the period</b>	<b>4 658</b>	<b>4 047</b>	<b>2 562</b>	<b>1 929</b>	<b>1 785</b>
Cash and cash equivalents, beginning of the period	481	1 808	1 808	3 949	6 814
Exchange differences in cash and cash equivalents	-39	17	106	-6	-59
Other cash flow from transactions with shareholders	-3 292	-	0	0	0
<b>Cash and cash equivalents, end of the period</b>	<b>1 808</b>	<b>5 872</b>	<b>4 476</b>	<b>5 872</b>	<b>8 540</b>

MSEK	2017 Full year	2018 Full year	2019 Full year	2018 Q4	2019 Q4
<b>Operating cash flow</b>					
Net cash flow from operating activities	5 176	4 324	7 228	2 487	3 177
Net cash from investing activities	5 543	-1 337	-1 655	-241	7
Acquisition and divestments of subsidiaries	137	546	984	64	-10
Other adjustments	-6 246	351	131	-68	-347
<b>Operating cash flow</b>	<b>4 610</b>	<b>3 884</b>	<b>6 688</b>	<b>2 242</b>	<b>2 827</b>

# Key ratios

## Q4 2019

	2017	2018	2019
	Full year	Full year	Full year
MSEK			
Basic earnings per share, SEK	3.55	4.50	4.89
Diluted earnings per share, SEK	-	4.49	4.89
Basic number of shares outstanding, millions	1 212	1 206	1 201
Diluted number of shares outstanding, millions	-	1 206	1 202
Equity per share, period end, SEK	9.94	15.63	19.00
Operating cash flow per share, SEK	3.80	3.22	5.57
EBITDA, MSEK	7 183	8 753	10 049
EBITDA margin, %	22.9%	22.9%	24.6%
Adjusted EBIT, MSEK	6 093	7 779	8 582
Adjusted EBIT margin, %	19.4%	20.3%	21.0%
Net working capital, end of period, MSEK	10 173	12 897	13 153
Average net working capital	9 991	12 158	14 062
Average net working capital/revenues, %	31.9	31.8	34.4
Average capital employed, MSEK	21 674	23 086	29 518
Return on capital employed, 12 month %	27.4	32.0	27.6
Capital employed turnover ratio	1.4	1.7	1.4
Return on equity, 12 month %	29.1	33.2	28.4
Net debt, MSEK	5 424	1 208	483
Net debt/EBITDA ratio	0.75	0.14	0.05
Debt/equity ratio, period end, %	45.0	6.4	2.1
Equity/assets ratio, period end, %	43.7	52.1	55.6
Number of workrelated accidents per million working hours	4.3	3.4	2.7
Sick leave, %	2.2	2.2	2.1
MWh energy from operations/Cost of sales (MSEK); 12M	8.5	7.6	6.8
Transport CO2 (tonnes)/Cost of sales (MSEK); 12M	6.2	5.6	4.5
Number of employees, period end	12 948	13 847	14 268
Additional workforce, period end	1 397	1 610	1 366



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