

# INTERIM REPORT FOURTH QUARTER 2020



# SUMMARY Q4

## SHIFTING TO GROWTH

- First quarter with positive order intake (excl. major orders) since Q1 2019
- Record order intake noted in SMRT
- Improved sequential demand in SMM driven by automotive
- Good development in medical, industrial heating and consumer segments in SMT
- Announced intention to acquire DSI Underground, expected to close mid-2021

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## MARGINS AT RECORD LEVELS

- Adjusted operating profit at 20.1% (19.1)
- R12 month adjusted EBIT margin excl. metal prices 17.1%
- Strong support from previously announced savings programs and reduced spend of SEK 920 M

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## STRONG BALANCE SHEET

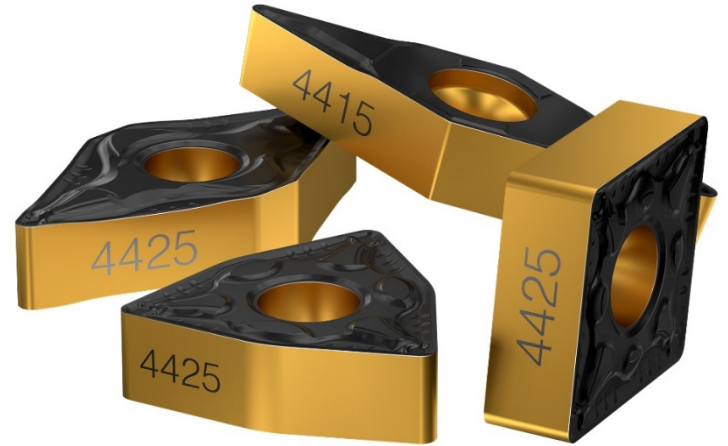
- Cash-flow of SEK 5.9 B driving net gearing to a low 0.04
- Three acquisitions closed during the quarter
- The Board of directors proposes an ordinary dividend of SEK 4.50 per share (0) and an extra dividend of SEK 2.00



# Q4 LAUNCH - GC4425 AND GC4415







## PAIRED UP FOR PRODUCTIVE STEEL TURNING

- Second generation Inveio® coating technology delivers market-leading performance in steel turning
- New substrates, a unique combination of good toughness and resistance against plastic deformation, offer a reliable performance
- New post-treatment enhances performance in intermittent cutting operations, avoiding any sudden breakages
- Increased tool life by an average of 25%, delivering more pieces per edge, every single time



# MARKET DEVELOPMENT

## Y/Y UNDERLYING DEMAND TREND

	% of group revenue 2020	Q4 Y/Y order intake
 EUROPE	35%	-2%
 NORTH AMERICA	22%	-23%
 ASIA	20%	+4%
 AFRICA/MIDDLE EAST	9%	+26%
 AUSTRALIA	9%	+4%
 SOUTH AMERICA	5%	+24%

	Mining 40%	Engineering 23%	Automotive 11%	Energy 10%	Construction 8%	Aerospace 5%
	→	↘	→	↘	↘	↘
	→	→	→	↘	↘	↘
	→	↘	→	↘	→	↘
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Demand trend  
Sequential Q/Q

↗
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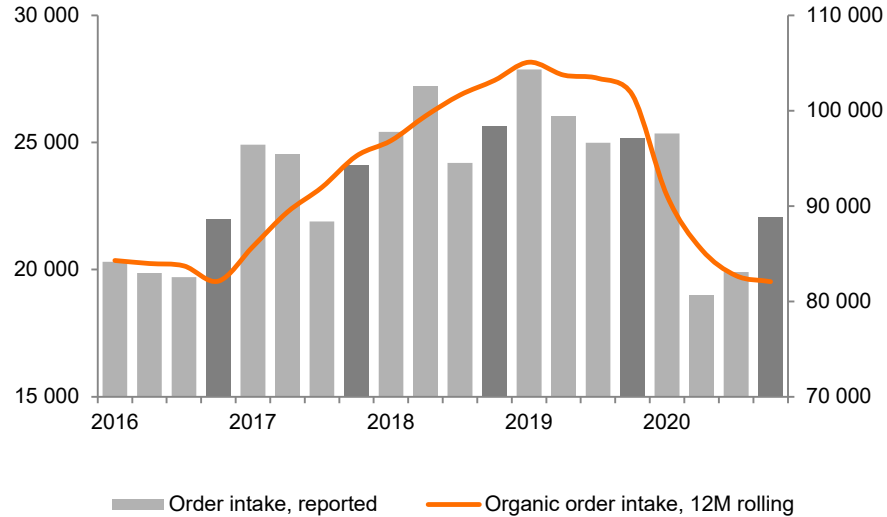
Demand trend  
Sequential Q/Q

# ORDER INTAKE

COVID-19 RELATED DECLINE WITH SEQUENTIAL IMPROVEMENT

REPORTED P/V  
**22,051** **-2%**

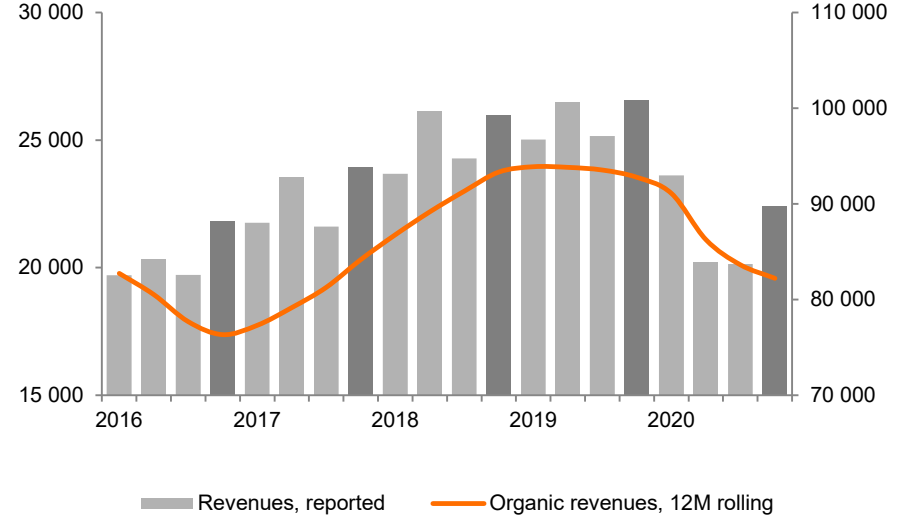
SEK M



# REVENUES

REPORTED P/V  
**22,408** **-6%**

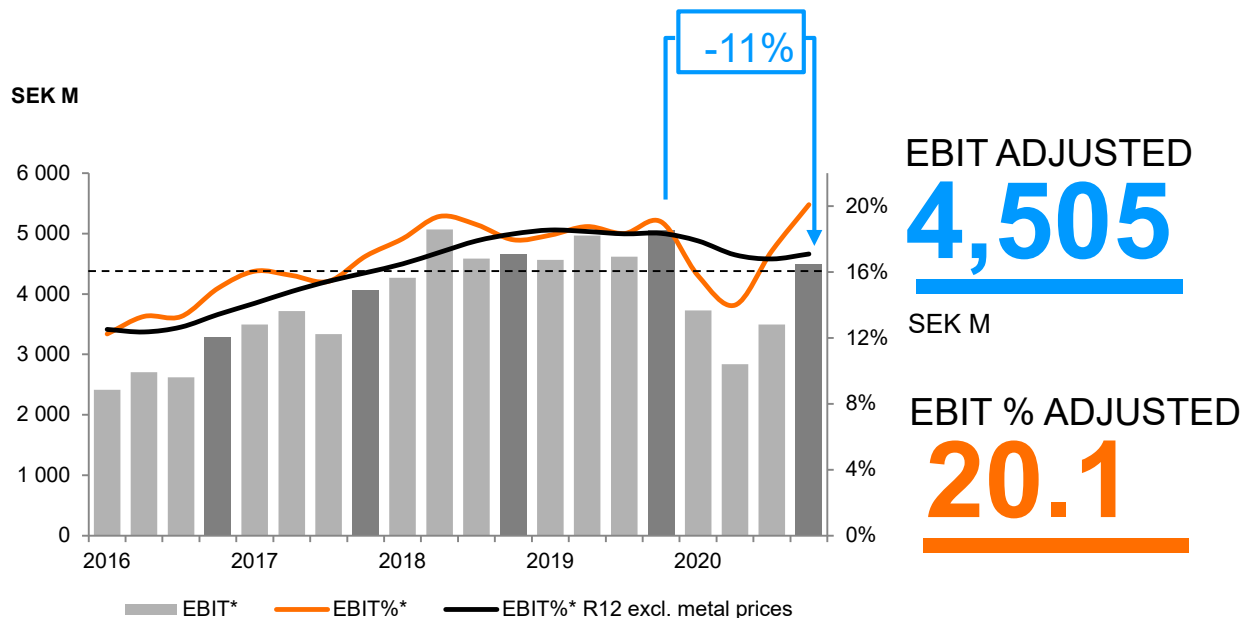
SEK M



# EBIT DEVELOPMENT

GROUP  
LEVERAGE:

**N/A**



\*Adjusted for items affecting comparability

- Margin at 20.1% (19.1)
  - 19.5% (18.4) excluding metal price effects
  - Adjusted EBIT excluding currency on par with Q4 2019
- Resilient earnings performance in all business areas and SMRT margin at all-time high
- Previously announced savings programs and reduced spend in the quarter of SEK 920 million
- R12 adjusted EBIT excl. metal prices 17.1%

# SANDVIK MINING AND ROCK TECHNOLOGY

## ORDERS INCREASED ORGANICALLY BY 15%

- Record high order intake in the quarter
- Strong organic order intake growth in both equipment and aftermarket
- A number of significant orders received

## ALL-TIME HIGH MARGIN

- Strong earnings performance and margin improvement
- Savings programs and reduced spend impacted with SEK 255 M
- Acquisition costs of SEK 84 million offset by several positive year-end related items

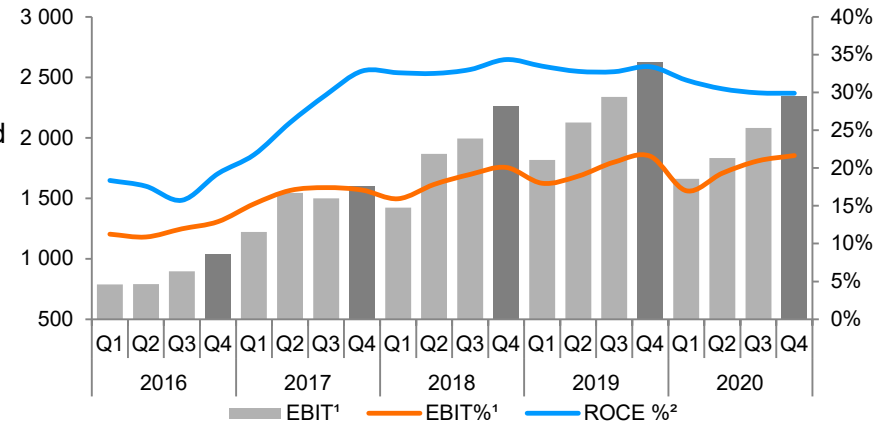
## ACQUISITION OF DSI UNDERGROUND

- Global market leading safety solutions company
- One of the largest acquisitions in Sandvik's history
- Expected closure in H1 2021

SEK M	Q4 2019	Q4 2020	CHANGE
ORDER INTAKE	10,685	10,926	15%*
REVENUES	12,197	10,833	-1%*
ADJ. OP. PROFIT	2,630	2,346	-11%
% OF REVENUES	21.6%	21.7%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT



# SANDVIK MANUFACTURING AND MACHINING SOLUTIONS

## RECOVERY DRIVEN BY AUTOMOTIVE

- Customer activity in parts of Europe and Asia intensified
- Slightly improved sentiment in automotive in North America
- Europe -6%, North America -17% and Asia -3% year on year
- Daily order intake rate in first two weeks of January in the negative low-single digits
- Strong improvement in order intake in tungsten powder business Wolfram

## IMPROVED MARGINS ON REVENUE DECLINE

- Margins supported by previously announced savings programs and reduced spend of SEK 545 M

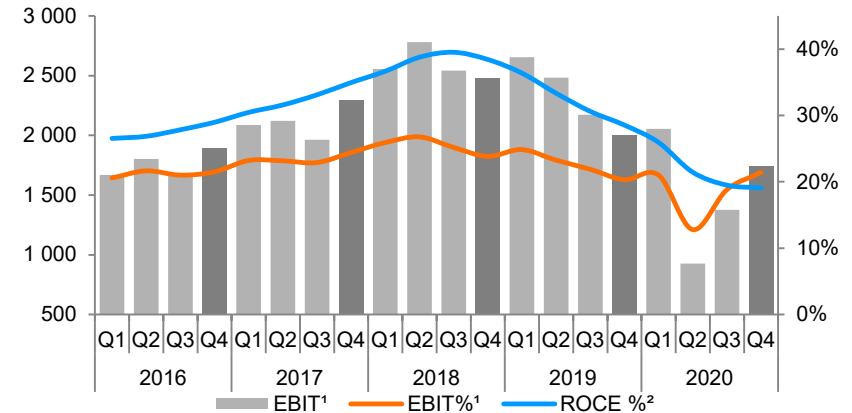
## TWO ACQUISITIONS COMPLETED

- US based CGTech and Indian based Miranda tool completed
- Minority stake investment in US based software company Oqton

SEK M	Q4 2019	Q4 2020	CHANGE
ORDER INTAKE	9,820	8,434	-7%*
REVENUES	9,844	8,139	-11%*
ADJ. OP. PROFIT	2,000	1,742	-13%
% OF REVENUES	20.3%	21.4%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT







# SANDVIK MATERIALS TECHNOLOGY

## REVENUES PARTLY SUPPORTED BY BACKLOG

- Continued high weakness in the oil and gas segment and soft aerospace demand
- Major order in advanced tubular products in the preceding year negatively impacted order intake
- Strong development in medical and consumer related segments as well as in industrial heating

## MARGIN SUPPORTED BY SAVINGS

- Earnings affected by revenue decline but margin showed resilience
- Supported by SEK 80 M from previously announced savings programs and reduced spend

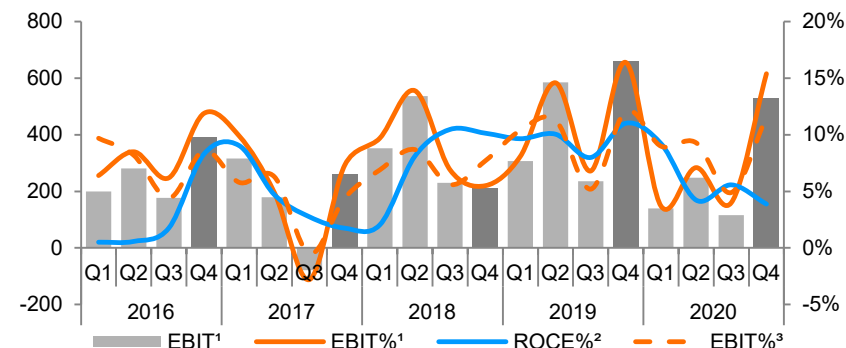
## CONTINUING TOWARDS SEPARATE LISTING

- Pending shareholders' approval in 2022, given that the circumstances are right deemed at the time

SEK M	Q4 2019	Q4 2020	CHANGE
ORDER INTAKE	4,144	2,691	-31%*
REVENUES	4,013	3,436	-10%*
ADJ. OP. PROFIT	659	528	-20%
% OF REVENUES	16.4%	15.4%	
UNDERLYING MARGIN <sup>3</sup>	12.1%	11.6%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT



TOMAS ELIASSON  
CFO

$x_1 = 13$

$x_2 = 7$

$x_3 = -10$

$x_4 = 7$

# FINANCIAL SUMMARY Q4

## GROWTH Q420, %

	ORDER REVENUES INTAKE	
ORGANIC:	-2	-6
CURRENCY:	-9	-9
STRUCTURE:	-2	-2
<b>TOTAL</b>	<b>-12</b>	<b>-16</b>

SEK M	Q4 2019	Q4 2020	CHANGE %	Q1-Q4 2019	Q1-Q4 2020	CHANGE %
ORDER INTAKE	25,179	22,051	-2 <sup>1</sup>	104,075	86,287	-12 <sup>1</sup>
REVENUES	26,583	22,408	-6 <sup>1</sup>	103,238	86,404	-11 <sup>1</sup>
ADJUSTED OPERATING PROFIT	5,066	4,505	-11	19,219	14,563	-24
<i>% OF REVENUES</i>	<i>19.1</i>	<i>20.1</i>		<i>18.6</i>	<i>16.9</i>	
NET FINANCIAL ITEMS	-274	-80	n/a	-1,237	+54	-n/a
UNDERLYING TAX RATE	17.5	24.1		23.5	22.8	
NWC % <sup>2</sup>	24.8	24.3		25.2	27.5	
CASH FLOW <sup>3</sup>	+5,581	+5,228	-6	+17,046	+15,414	-10
ADJUSTED ROCE % <sup>2</sup>	22.0	20.0		21.3	16.0	
ADJUSTED EPS	3.21	2.68		11.12	8.64	

<sup>1</sup> At fixed exchange rates for comparable units

<sup>2</sup> Quarterly calculation i.e. annualized adj. EBIT or revenues and 1Q average CE or NWC

<sup>3</sup> Cash flow before acquisitions and disposals, financial items and taxes

# BRIDGE ANALYSIS

## SANDVIK GROUP

GROUP  
LEVERAGE:

**N/A**

SEK M	Q4 2019	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	METAL PRICE EFFECTS SMT	STRUCTURE	Q4 2020
REVENUES	26,583	-1,467	-2,162	-130	-417	22,408
ADJUSTED EBIT	5,066	+35	-494	-45	-58	4,505
ADJUSTED EBIT MARGIN	19.1%					20.1%

MARGIN ACCRETION / DILUTION

+1.3%

-0.2%

-0.1%

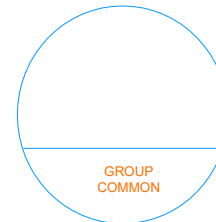
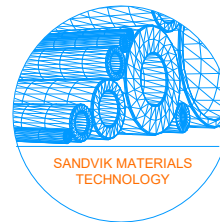
+0.1%

Includes metal price effects within Sandvik Materials Technology of SEK -130 M in alloy surcharges on revenues and SEK +129 M (+174) in metal price effect on EBIT. Structure in revenues includes predominately divestment of Varel SEK -529 M on topline whilst structure on EBIT mainly refers to acquisition cost of DSI Underground SEK -84 M.



# SUMMARY SAVINGS PROGRAMS Q4

SEK M



**Total Annualized**

Program from Q3 2019	120	30	20	10	<b>180</b>	<b>1,700</b>
Work time reduction	140	45	15	5	<b>205</b>	n/a
Other temporary savings	270	180	25	25	<b>500</b>	n/a
New program announced in Q1 and Q2 2020 with majority of savings impacting 2021	15	0	20	0	<b>35</b>	<b>1,300</b>
<b>Total</b>	<b>545</b>	<b>255</b>	<b>80</b>	<b>40</b>	<b>920</b>	

<i>Estimation of total savings split of 2021 program</i>	<i>675</i>	<i>125</i>	<i>500</i>	<i>45</i>
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# NET FINANCIALS

SEK M	Q4 19	Q4 20
Interest net	-120	-96
Pension	-56	-32
Bank charges	-11	-12
Other fin income & costs	-18	-14
Leases IFRS16	-28	-27
FX & other asset classes	-41	+100
<b>Total</b>	<b>-275</b>	<b>-80</b>

- Interest net down year on year due to lower debt
- Temporary revaluations of currency hedges and positive effects from electricity and commodity hedges

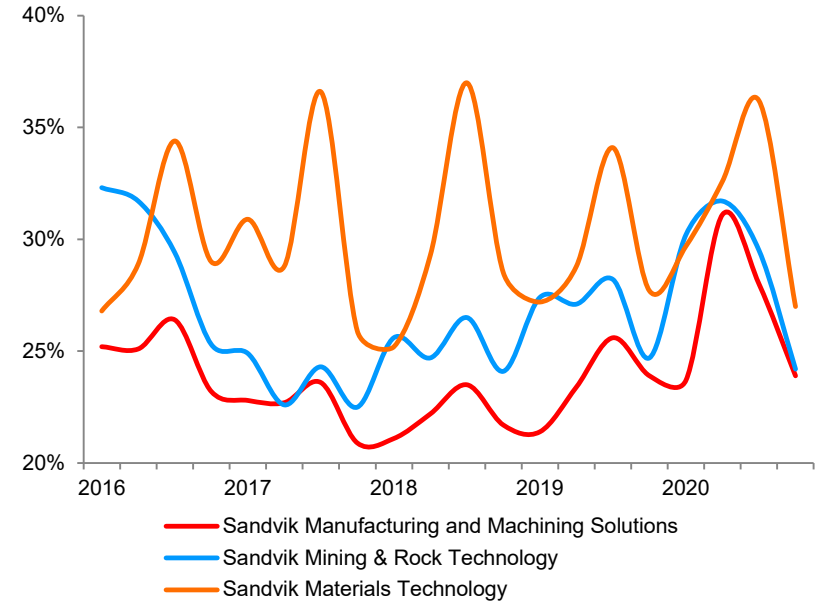
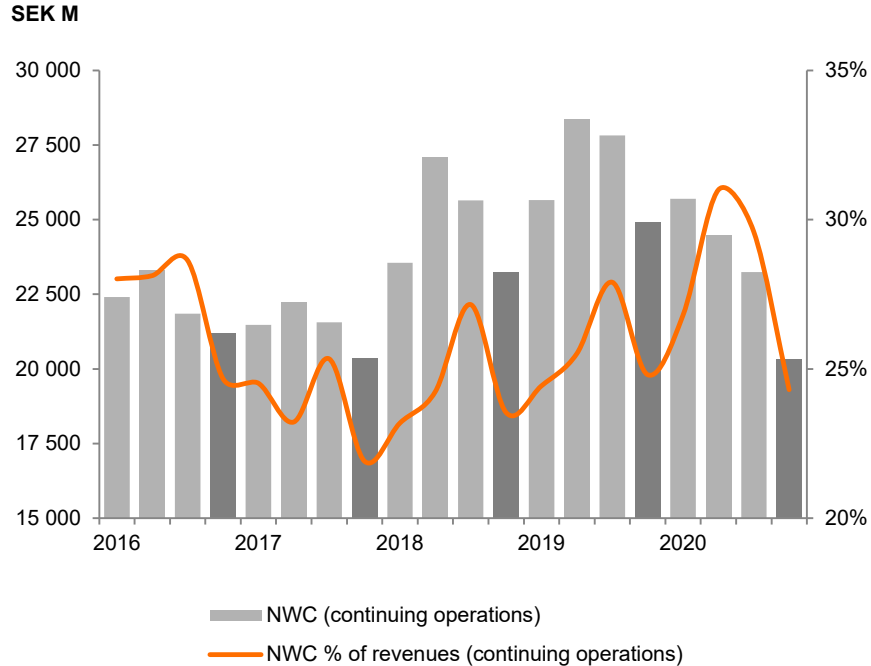
# REPORTED AND UNDERLYING TAX RATE

	Q4 2019	Q4 2020
REPORTED	118.5%	22.7%
EXCLUDING IAC	17.5%	24.1%
NORMALIZED	23.5%	24.1%

IN LINE WITH 23-25% GUIDANCE FOR 2020

# NET WORKING CAPITAL      RELATIVE NWC

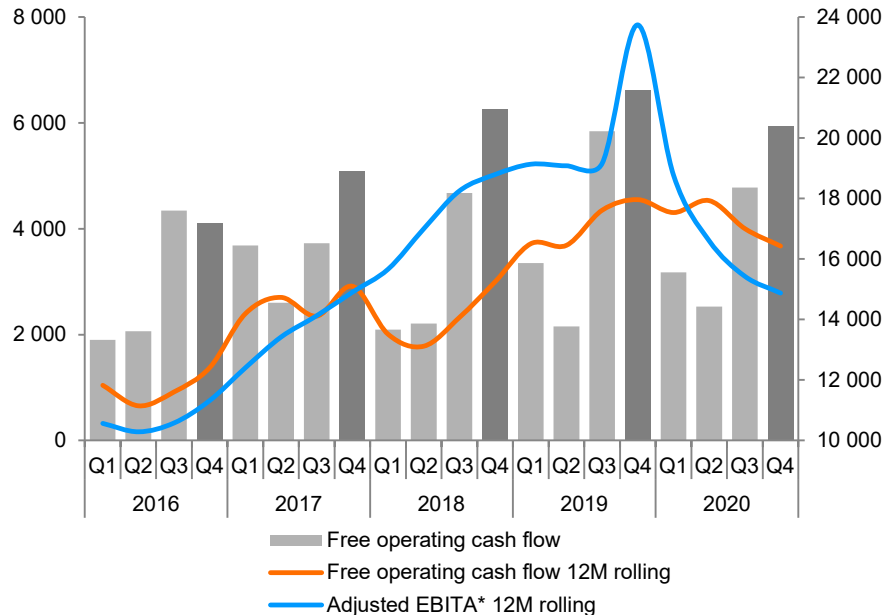
## INVENTORY REDUCTIONS ACROSS ALL BUSINESS AREAS





# FREE OPERATING CASH FLOW

SEK M

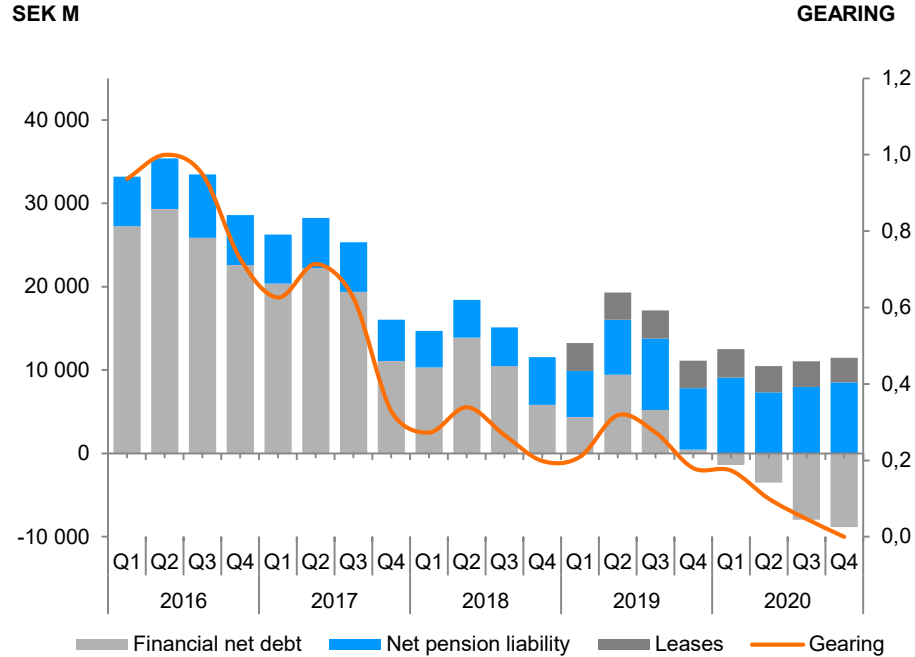


SEK M

SEK M	Q4 2019	Q4 2020
EBITDA + non-cash	5,805	5,285
NWC change	2,093	1,903
Capex*	-1,381	-1,248
FOCF**	+6,517	+5,941

\*Including investments and disposals in rental, tangible and intangible assets  
 \*\*Cash flow before acquisitions and disposals, financial items and taxes

# NET DEBT



- Net gearing at 0.04
- Financial Net Cash position SEK 8.8 B

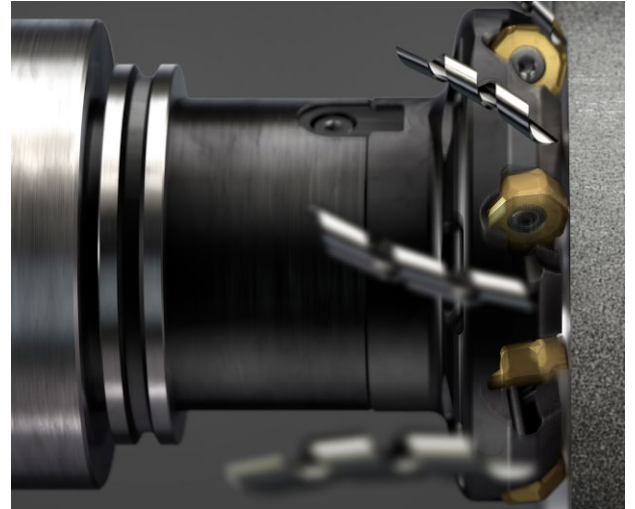
# OUTCOME Q4

## Q4 2020

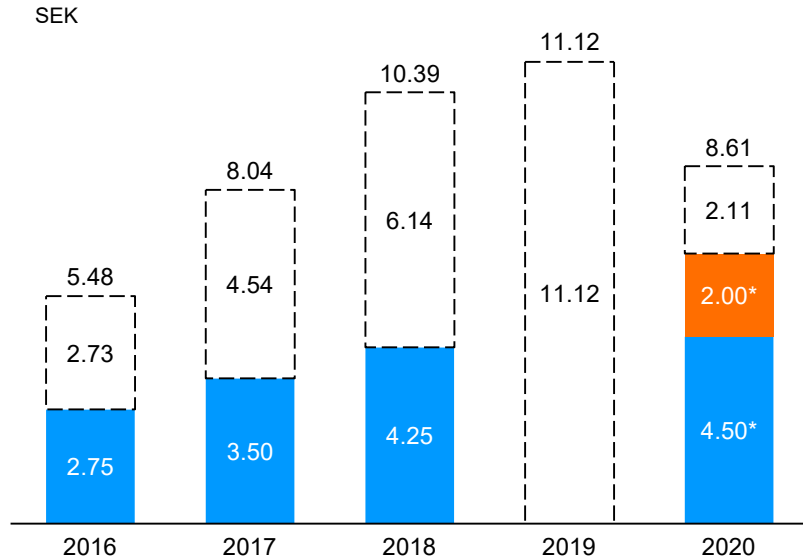
Underlying currency effect (SEK M):	- 536	(-350)
Total currency effect (SEK M):	- 494	
Metal price effect in quarter (SEK M):	+129	(+50)

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Capex (SEK B):	1.1
Interest net (SEK B):	-0.1
Underlying tax rate (%):	24.1



# DIVIDEND PROPOSAL



  Adjusted EPS  
 Extra dividend  
 Ordinary dividend

\*Proposed dividend

## Payout ratio %



SANDVIK: Interim Report on the fourth quarter 2020

*Comments and numbers refer to continuing operations unless otherwise stated.*

# GUIDANCE Q121 AND FY2021

## CAPEX (CASH)

Estimated to **<SEK 4.0 B for 2021**

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## CURRENCY EFFECTS

Given currency rates at end of December 2020 the effect on operating profit from transaction and translation would be **SEK -750 M for Q1 2021**

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## METAL PRICE EFFECTS

Given currency rates, stock levels and metal prices at the end of December 2020, it is estimated that effect on operating profit in **Q1 2021 will be SEK +60 M**

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## INTEREST NET

Underlying interest net is estimated at about **SEK -400 M for 2021**

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## NORMALIZED TAX RATE

The underlying tax rate is estimated to **22%-24% for 2021**

# SHIFTING TO GROWTH

## CONTINUED RECOVERY AND RECORD MARGINS

- Solid demand in mining and sequential uptick in our short cycle business driven by automotive
  - Record margins supported by previously announced savings programs and reduced spend
- 

## LOOKING AHEAD

- Recovery expected to continue, yet uncertainty related to second wave of covid-19
  - Handling of pandemic and economic policy decisions to determine the speed and strength in recovery
  - Permanent savings partly replacing short-term savings going into 2021
- 

## EXECUTING ON OUR SHIFT TO GROWTH STRATEGY

- Strategy to manage the pandemic in 2020 included ability to quickly ramp up to capture organic growth
- Three strategic acquisitions completed, and announced intention to acquire DSI Underground
- Active acquisition agenda will continue

# BACK-UP SLIDES

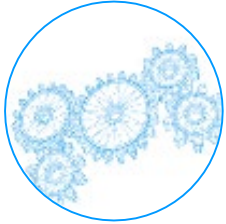




**MINING**  
(40%)



**ENERGY**  
(10%)



**GENERAL  
ENGINEERING**  
(23%)



**CONSTRUCTION**  
(8%)



**AUTOMOTIVE**  
(11%)



**AEROSPACE**  
(5%)

## END-CUSTOMER SEGMENTS

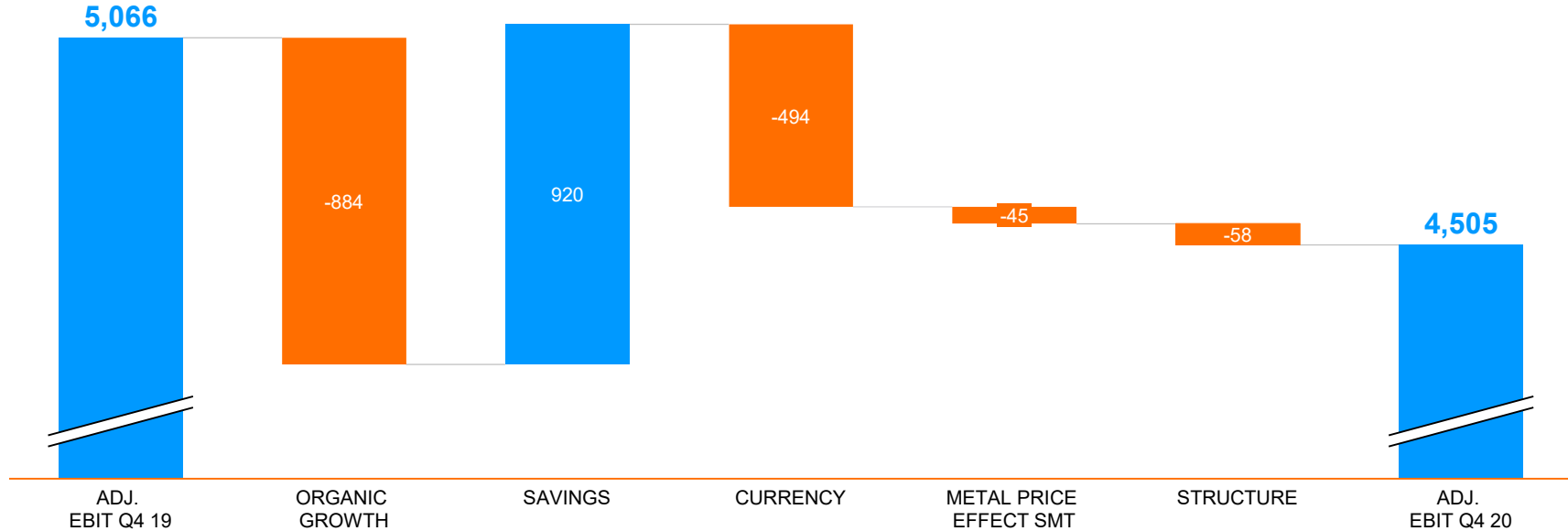
*(% of group revenues 2020 excl. Mining systems, Varel Oil & Gas and Other Operations; Other e.g. consumer goods, electronics, chemical and miscellaneous accounted for 3%.)*



# PROFITABILITY DEVELOPMENT

GROUP  
LEVERAGE:

**N/A**



ADJUSTED  
EBIT MARGIN

**19.1%**

**20.1%**

# BRIDGE ANALYSIS

SEK M	Q4 2019	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE/ METALS SMT*	Q4 2020
<b>MACHINING SOLUTIONS</b>					
REVENUES	9,844	-1,037	-716	+48	8,139
ADJUSTED EBIT	2,000	-97	-124	-36	1,742
ADJUSTED EBIT MARGIN	20.3%	-9%	-	-	21.4%
<b>MINING AND ROCK TECHNOLOGY</b>					
REVENUES	12,197	-144	-1,270	-50	10,833
ADJUSTED EBIT	2,630	+137	-338	-83	2,346
ADJUSTED EBIT MARGIN	21.6%	N/A	-	-	21.7%
<b>MATERIALS TECHNOLOGY</b>					
REVENUES	4,031	-285	-176	-116	3,436
ADJUSTED EBIT	659	-52	-43	-36	528
ADJUSTED EBIT MARGIN	16.4%	-18%	-	-	15.4%

Includes metal price effects within Sandvik Materials Technology of SEK -130 M in alloy surcharges on revenues and SEK +129 M (+174) in metal price effect on EBIT. Structure in revenues includes predominately divestment of Varel SEK -529 M on topline whilst structure on EBIT mainly refers to acquisition cost of DSI Underground SEK -84 M.

# LOAN AND DURATION PROFILE



LONG TERM  
**76%**

	AMOUNT MSEK	AVERAGE DURATION
US Private Placement	-	-
Fin institutions, EIB, NIB	-	-
Swedish MTN	1,000	3 years
European MTN	10,342	6 years
Bank loans	22	1.5 years
Share swap	-	-



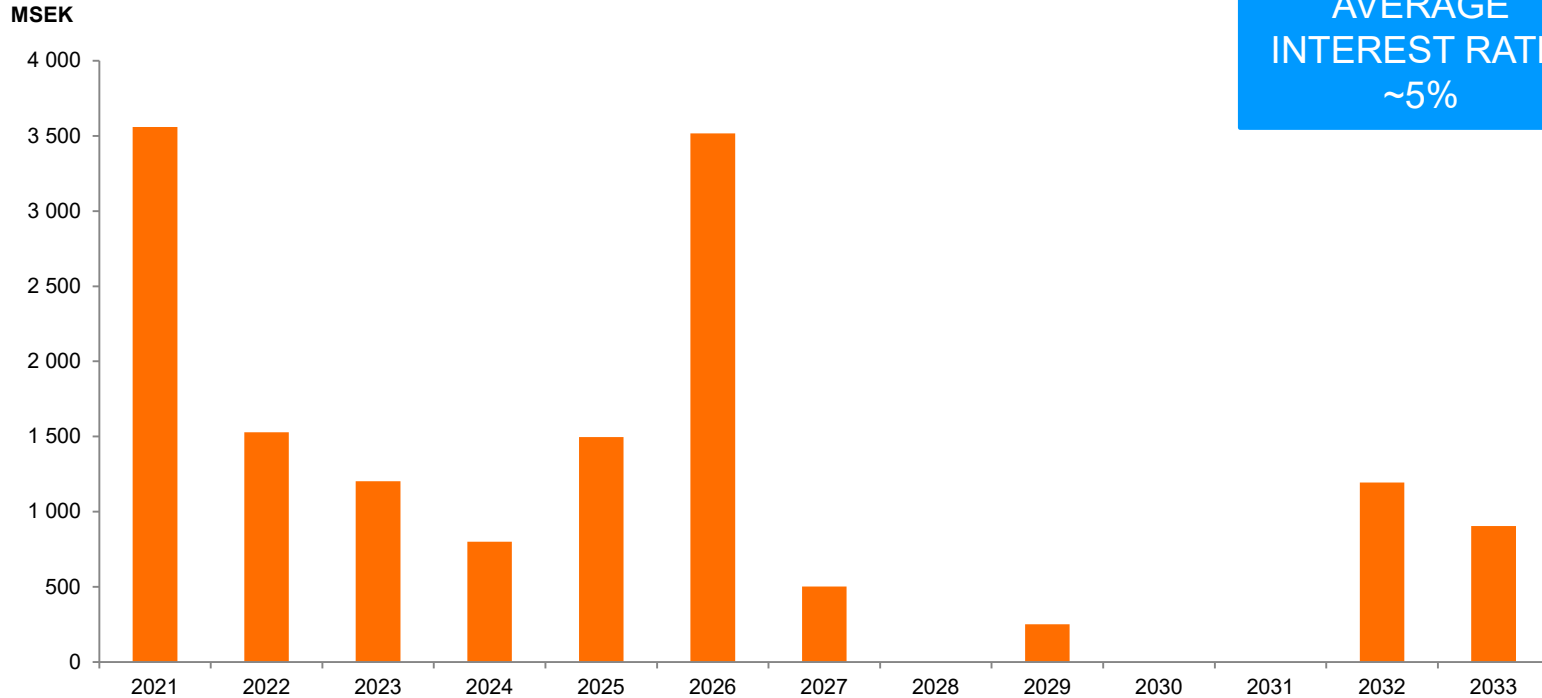
SHORT TERM  
**24%**

US Private Placement	-	-
Fin institutions, EIB, NIB	-	-
Swedish MTN	2,650	2 months
European MTN	702	1 month
Bank loans	206	2 months
Share swap	-	-

Cash position **SEK 23,752 M**  
Committed Credit facilities **SEK 9,100 M**

<b>TOTAL</b>	<b>14,923</b>	<b>4 years</b>
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# LOAN MATURITY PROFILE



**AVERAGE  
INTEREST RATE:  
~5%**

An abstract graphic consisting of several bright blue lines that intersect to form a series of triangles and polygons, set against a black background. The lines are thin and create a sense of depth and movement.

# DISCLAIMER STATEMENT

“Some statements herein are forward-looking and the actual outcome could be materially different. In addition to the factors explicitly commented upon, the actual outcome could be materially affected by other factors for example, the effect of economic conditions, exchange-rate and interest-rate movements, political risks, impact of competing products and their pricing, product development, commercialisation and technological difficulties, supply disturbances, and the major customer credit losses.”