

# INTERIM REPORT SECOND QUARTER 2020



# SUMMARY Q2

## A CHALLENGING QUARTER

- Sharp decline in the short-cycle businesses within SMS and large parts of SMT
- O&G uncertainty affected SMT's order intake
- Mining underlying stable, negatively impacted by mine closures

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## RESILIENT EARNINGS PERFORMANCE

- Adjusted operating profit at 14.0% (18.8)
- Strong support from savings and reduced spend of SEK 1.5 B
- R12 adjusted EBIT excl. metal prices 17.0%

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## STRONG BALANCE SHEET

- Cash-flow of SEK 2.5 B driving net gearing to a low 0.11
- Three acquisitions and one divestment closed/announced in the quarter and in July

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## SLIGHT IMPROVEMENT CONTINUED INTO JULY

- Supply chains robust, Europe opening up, mines reopening
- Signs of some recovery in SMS, starting July at a order intake rate of -20 to -25%
- Expect slow recovery due to weakness in automotive, aerospace, oil & gas

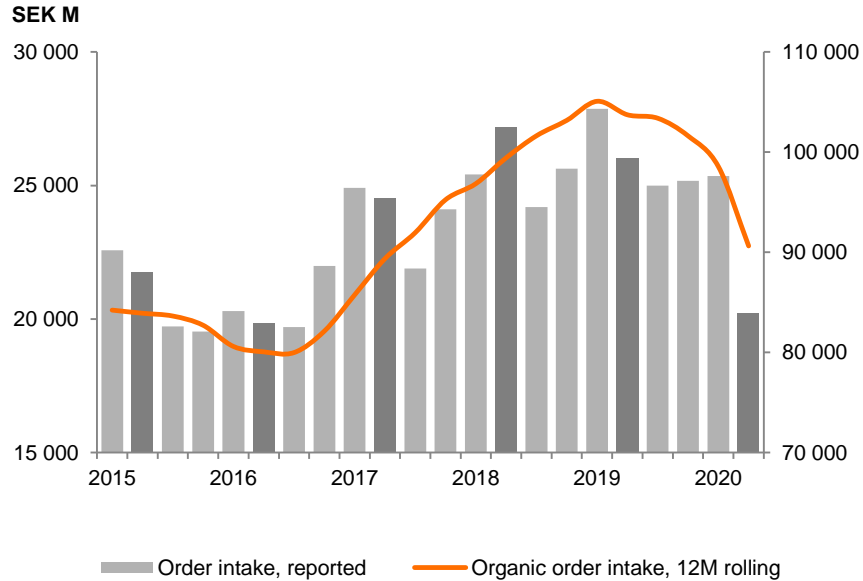




# ORDER INTAKE

WIDESPREAD COVID-19 RELATED DECLINE

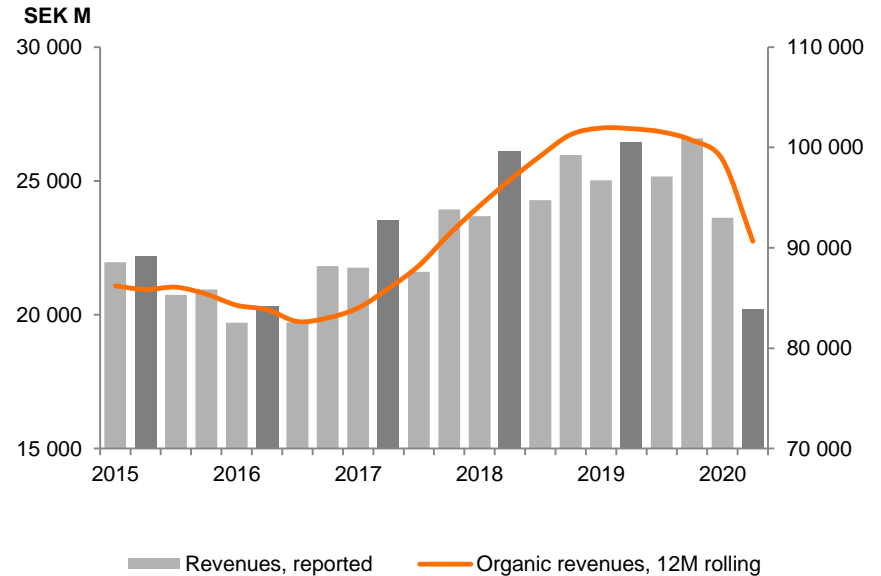
REPORTED P/V  
**18 971** **-23%**



# REVENUES

MORE PROTECTED DUE TO BACKLOG IN SMRT AND SMT

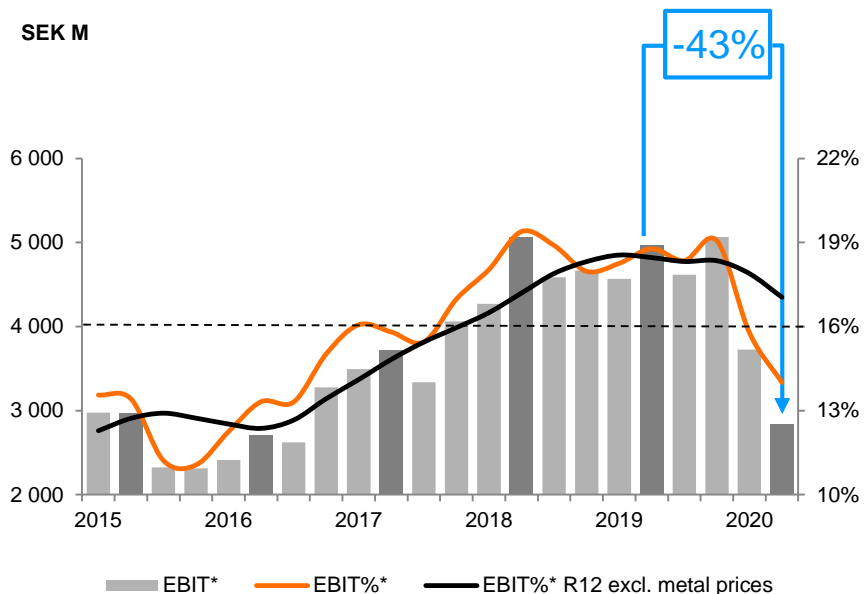
REPORTED P/V  
**20 230** **-20%**



# EBIT DEVELOPMENT

GROUP  
LEVERAGE:

**-37%**



EBIT ADJUSTED

**2 837**

SEK M

EBIT % ADJUSTED

**14.0**

- Margin at 14.0% (18.8)
  - 14.4% (18.3) excluding metal price effects
  - -0.8%-points impact from lower production rates
- Resilient earnings performance in all business areas
- Savings and reduced spend in the quarter of SEK 1.5 B
- R12 adjusted EBIT excl. metal prices 17.0%

\*Adjusted for items affecting comparability



# SANDVIK MINING AND ROCK TECHNOLOGY

## ORDERS DECLINE -10% FROM RECORD-HIGH LEVEL

- Equipment orders drop single digit on the back of successful landing of large orders
- Aftermarket down low double digit driven by mining closures
- Launch of new automation-ready Rotary Blast drill

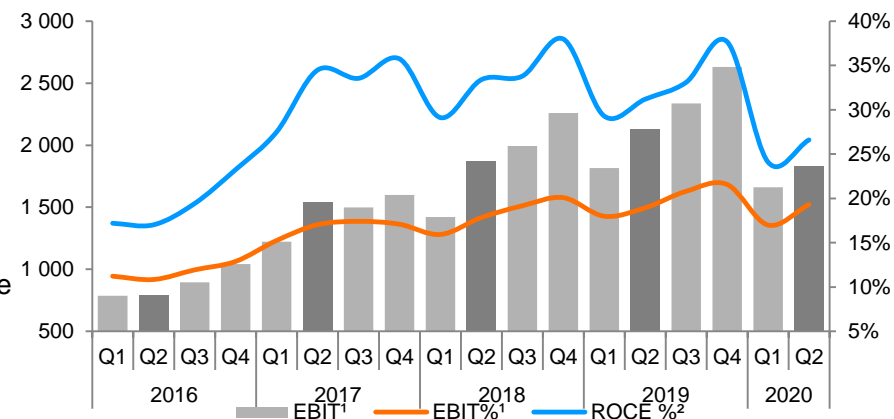
## MARGIN ACCRETION DESPITE HEADWIND

- Strong earnings performance and margin improvement both from equipment and aftermarket
- Support from savings measures, SEK 415 M
- No supply chain disturbances from Covid-19, mining closures at the start of the quarter but signs of recovery during the second half of the quarter
- Acquisition of a US distributor in July

SEK M	Q2 2019	Q2 2020	CHANGE
ORDER INTAKE	11 318	9 773	-10%*
REVENUES	11 233	9 489	-12%*
ADJ. OP. PROFIT	2 126	1 833	-14%
% OF REVENUES	18.9%	19.3%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT





# SANDVIK MACHINING SOLUTIONS

## STABILIZING TREND TOWARDS QUARTER-END

- Europe -33%, North America -40% and Asia -18%
- Significant negative impact from automotive and aerospace
- Slight recovery in June and beginning of July in predominantly Europe and the automotive segment

## EARNINGS IMPACTED BY UNDERABSORPTION AND DESTOCKING

- Sharp volume drop impacted earnings and margin
- Partially offset by savings SEK 950 M
- Lower production rates impacted negatively 1.4%-points
- No major supply chain disturbances

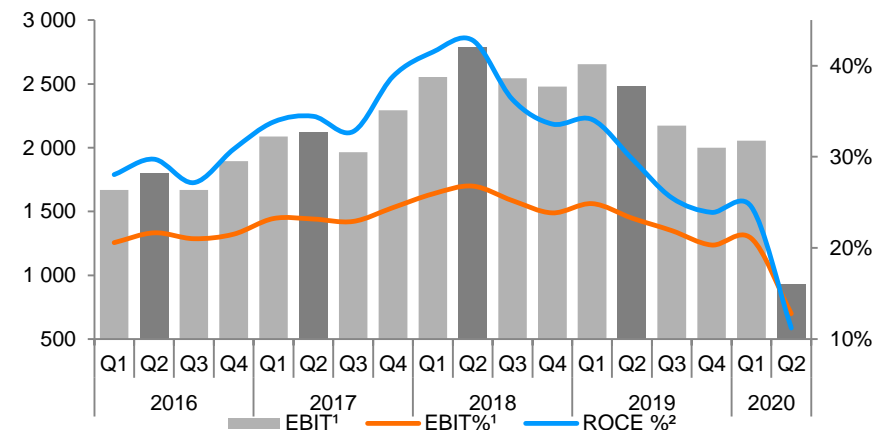
## STEPS TOWARDS PROFITABLE GROWTH

- One round tools acquisition was announced, and one was closed
- Announced new organization focused on core machining and adjacent manufacturing solutions

SEK M	Q2 2019	Q2 2020	CHANGE
ORDER INTAKE	10 629	6 821	-35%*
REVENUES	10 674	7 247	-32%*
ADJ. OP. PROFIT	2 483	927	-63%
% OF REVENUES	23.3%	12.8%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT





# SANDVIK MATERIALS TECHNOLOGY

## SHORT-CYCLE BUSINESS IMPACTED BY COVID-CLOSURES

- Oil price drop creates uncertainty in the oil and gas segment with both delays and cancellations
- Negative sentiment in aerospace impacts the order situation
- Asia held up well backed by good order intake in the nuclear segment
- Revenues supported by strong order backlog

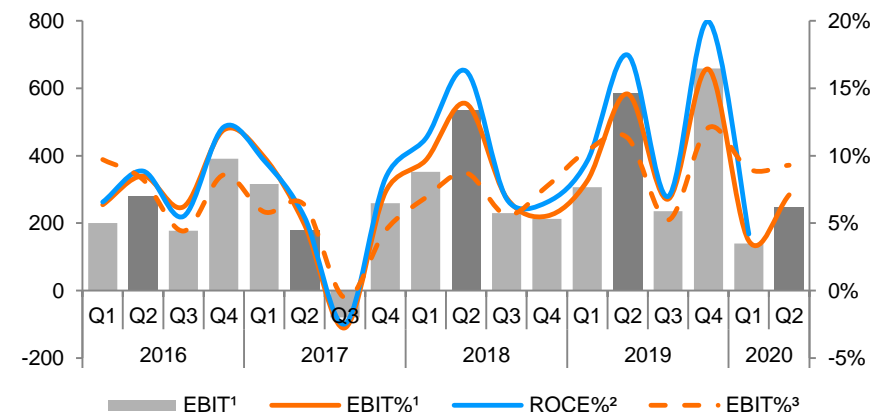
## MARGIN SUPPORTED BY SAVINGS

- Lower production rates impacted negatively 1.3%-points
- Earnings affected by revenue decline but margin showed resilience
- Support from savings measures, SEK 110 M

SEK M	Q2 2019	Q2 2020	CHANGE
ORDER INTAKE	3 535	2 377	-33%*
REVENUES	4 011	3 495	-13%*
ADJ. OP. PROFIT	585	248	-58%
% OF REVENUES	14.6%	7.1%	
UNDERLYING MARGIN <sup>3</sup>	11.3%	9.3%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT





TOMAS ELIASSON  
CFO

= 13

= 7

= -10

= 7

# FINANCIAL SUMMARY Q2

## GROWTH Q220, %

	ORDER REVENUES	INTAKE
ORGANIC:	-23	-20
CURRENCY:	-2	-2
STRUCTURE:	-3	-2
<b>TOTAL</b>	<b>-27</b>	<b>-24</b>

SEK M	Q2 2019	Q2 2020	CHANGE %	H1 2019	H2 2020	CHANGE %
ORDER INTAKE	26 031	18 971	-23 <sup>1</sup>	53 905	44 327	-17 <sup>1</sup>
REVENUES	26 467	20 230	-20 <sup>1</sup>	51 492	43 851	-14 <sup>1</sup>
ADJUSTED OPERATING PROFIT	4 968	2 837	-43	9 535	6 565	-31
<i>% OF REVENUES</i>	<i>18.8</i>	<i>14.0</i>		<i>18.5</i>	<i>15.0</i>	
FINANCE NET	-387	+20	n/a	-765	-396	+50
NORMALIZED TAX RATE	26.0	24.3		21.6	24.3	
NWC % <sup>2</sup>	25.5	31.0		25.5	31.0	
CASH FLOW <sup>3</sup>	+2 156	+2 461	+14	+5 508	+5 589	+2
ADJUSTED ROCE % <sup>2</sup>	21.9	12.5		21.7	18.0	
ADJUSTED EPS	2.81	1.73		5.31	3.87	

<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:

**-37%**

SEK M	Q2 2019	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	METAL PRICE EFFECTS SMT	STRUCTURE	Q2 2020
REVENUES	26 467	-5 206	-496	-71	-464	20 230
ADJUSTED EBIT	4 968	-1 902	+28	-207	-50	2 837
ADJUSTED EBIT MARGIN	18.8%	-37%				14.0%

MARGIN ACCRETION / DILUTION

-4.3%

0.2%

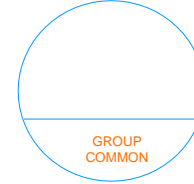
-0.7%

0.1%

Includes metal price effects within Sandvik Materials Technology of SEK -71 M in alloy surcharges on revenues and SEK -76 M (+131) in metal price effect on EBIT. Structure includes divestment of Varel SEK -549 M on topline and -30 M on EBIT.

# SUMMARY SAVINGS PROGRAMS Q2

SEK M



**Total Annualized**

	SANDVIK MACHINING SOLUTIONS	SANDVIK MINING & ROCK TECHNOLOGY	SANDVIK MATERIALS TECHNOLOGY	GROUP COMMON	Total	Annualized
Program from Q3 2019	270	110	25	20	425	1 700
Work time reduction	360	175	55	15	605	n/a
Other temporary savings	320	130	30	25	505	n/a
<b>Total</b>	<b>950</b>	<b>415</b>	<b>110</b>	<b>60</b>	<b>1 535</b>	

Permanent (structure and volume-driven) savings program announced in Q1 and Q2 2020 with effects starting 2021

**1 300**

# NET FINANCIALS

SEK M	Q2 19	Q2 20
Interest net	-144	-90
Pension	-34	-32
Bank charges	-10	-10
Other fin income & costs	+2	-10
Leases IFRS16	-29	-27
FX & other asset classes	+33	+189
One-off (loan repayment)	-204	
<b>Total</b>	<b>-387</b>	<b>+20</b>

- Interest net down
  - Y-o-Y due to lower debt driven by redemptions a year ago
  - Sequentially driven by a more normalized market in Q2
- Temporary revaluations of hedges bounced back sequentially (Q1 -> Q2)

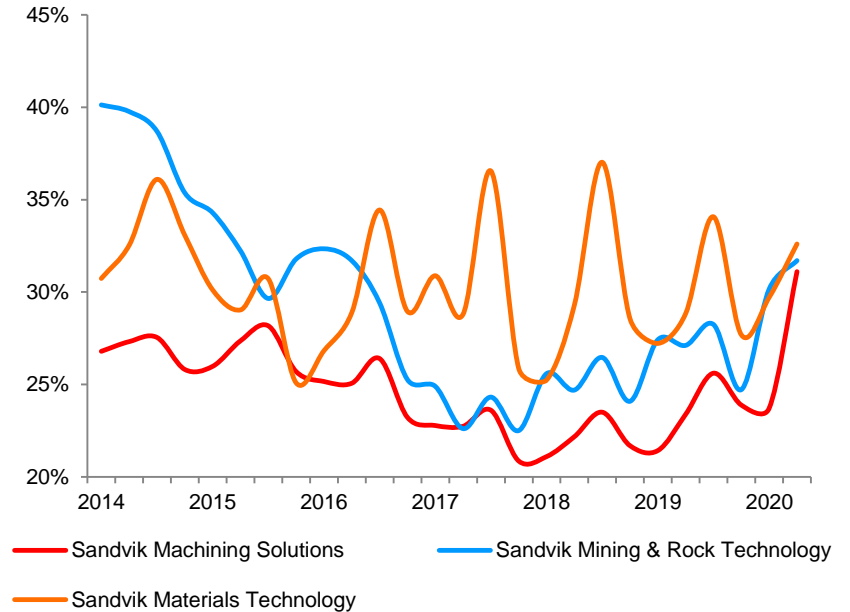
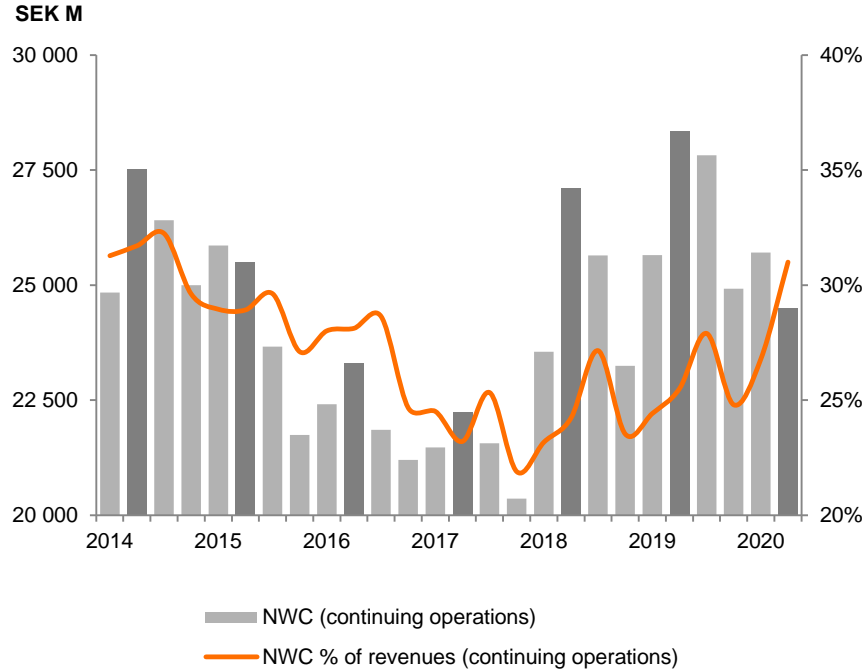
# REPORTED AND UNDERLYING TAX RATE

	Q2 2019	Q2 2020
REPORTED	26.0%	28.1%
EXCLUDING IAC	26.0%	24.3%

IN LINE WITH 23-25% GUIDANCE FOR 2020

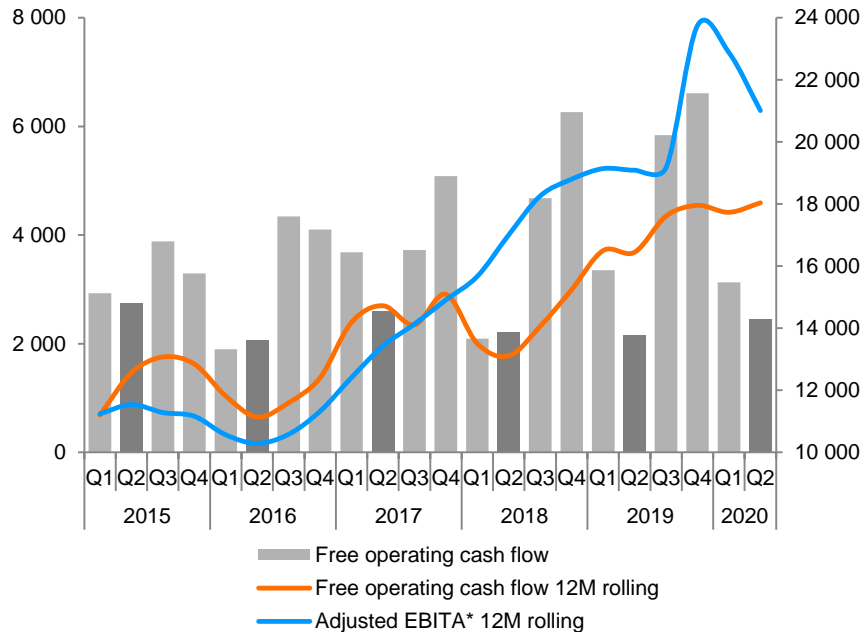
# NET WORKING CAPITAL      RELATIVE NWC BY BA

## NO SEASONAL BUILD-UP – AR OVERDUES DOWN



# FREE OPERATING CASH FLOW

SEK M



SEK M

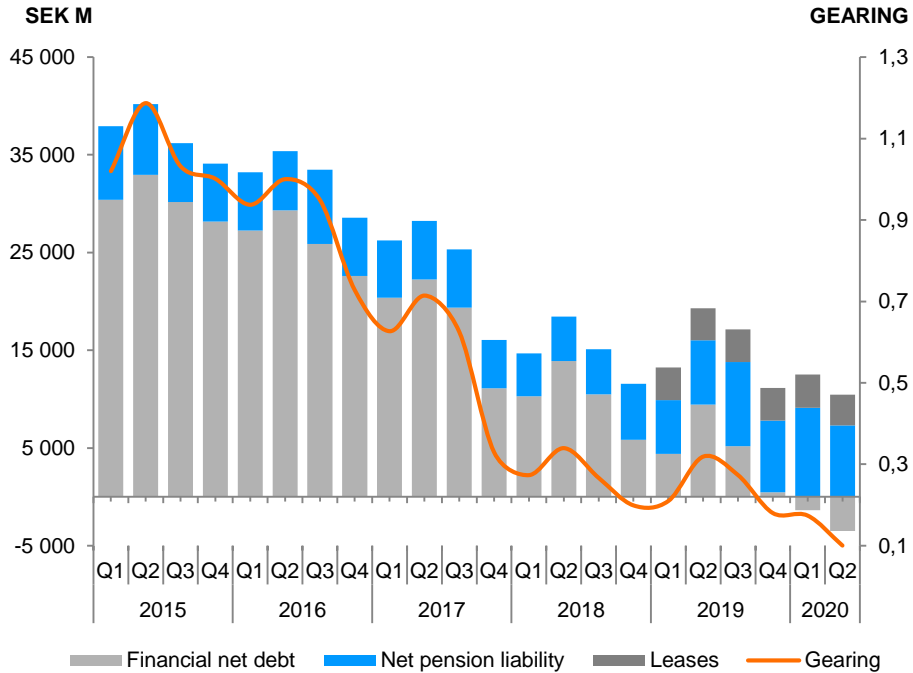
	Q2 2019	Q2 2020
EBITDA + non-cash	5 733	3 445
NWC change	-2 457	-89
Capex*	-1 121	-894
FOCF**	+2 156	+2 461

\*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 0.11
- Net cash position SEK 3.5 B
- >SEK 30 B in cash and undrawn credit lines (un-changed from Q1)

# OUTCOME Q2

## Q2 2020

Underlying currency effect (SEK M):	-86	(+100)
Total currency effect (SEK M):	+28	
Metal price effect in quarter (SEK M):	-76	(-150)

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Capex (SEK B):	0.8
Interest net (SEK B):	-0.1
Normalized tax rate (%):	24.3



# GUIDANCE 3Q20 AND FY2020

## CAPEX (CASH)

Estimated to **<SEK 3.5 B for 2020** (updated from <SEK 4.0 B)

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## CURRENCY EFFECTS

Given currency rates at end of June 2020 the effect on operating profit from transaction and translation would be **SEK -250 M for Q3 2020**

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## METAL PRICE EFFECTS

Given currency rates, stock levels and metal prices at the end of June 2020, it is estimated that effect on operating profit in **Q3 2020 will be SEK -50 M**

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## INTEREST NET

Underlying interest net is estimated at about **SEK -500 M for 2020**

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## NORMALIZED TAX RATE

The tax rate is estimated to **23%-25% for 2020**

# RESILIENCE IN CHALLENGING MARKETS

## RESILIENT EARNINGS PERFORMANCE

- Strong support from savings and reduced spend
  - Shifting focus towards structural savings and more permanent volume adjustments
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## STRONG BALANCE SHEET

- Good cash flow
  - Net cash position
- 

## SIGNS OF RECOVERY

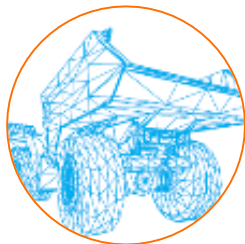
- Signs towards end of quarter have continued into July
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## INCREASED FOCUS ON PROFITABLE GROWTH

- Reorganization of Sandvik Machining Solutions
- Continue to utilize strong balance sheet for strategically important acquisitions

# BACK-UP SLIDES

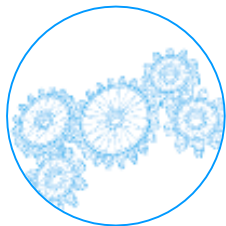




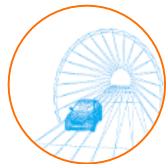
**MINING**  
(37%)



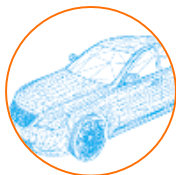
**ENERGY**  
(12%)



**GENERAL  
ENGINEERING**  
(21%)



**CONSTRUCTION**  
(8%)



**AUTOMOTIVE**  
(11%)



**AEROSPACE**  
(7%)

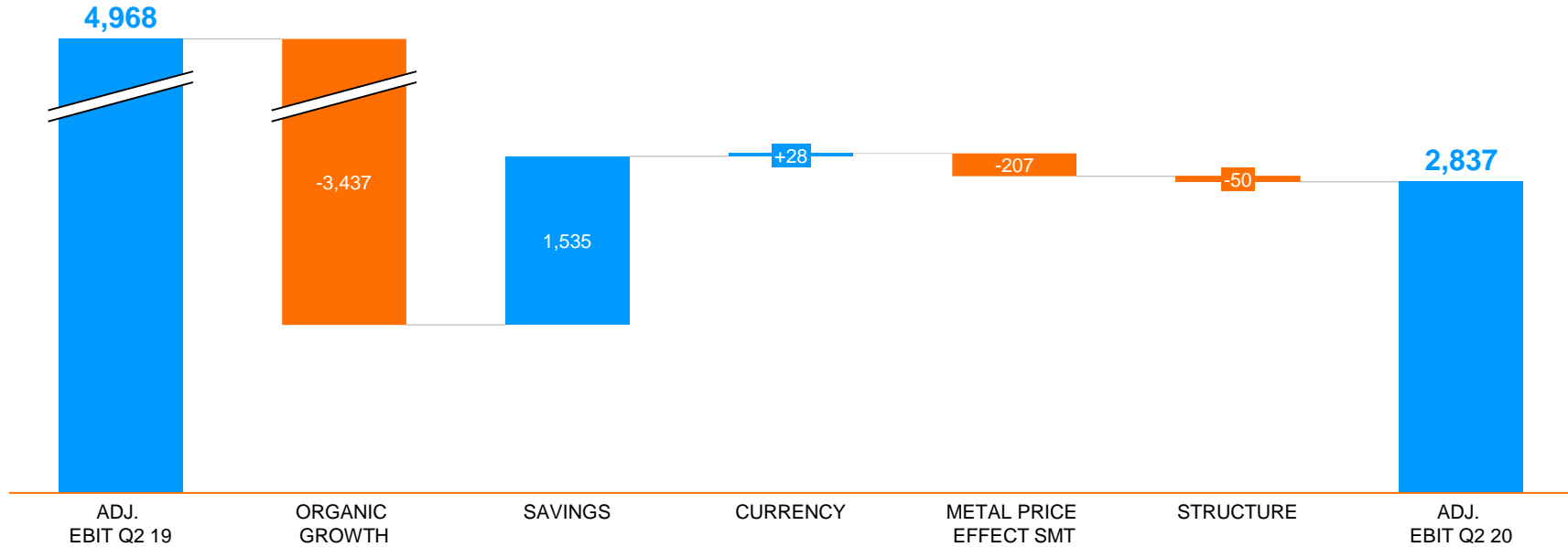
## END-CUSTOMER SEGMENTS

*(% of group revenues 2019 excl. Mining systems and Other Operations; Other e.g. consumer goods, electronics, chemical and miscellaneous accounted for 4%.)*

# PROFITABILITY DEVELOPMENT

GROUP  
LEVERAGE:

**-37%**



ADJUSTED  
EBIT MARGIN

**18.8%**

**14.0%**

# BRIDGE ANALYSIS

SEK M	Q2 2019	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE/ METALS SMT*	Q2 2020
<b>MACHINING SOLUTIONS</b>					
REVENUES	10 674	-3 386	-74	+33	7 247
ADJUSTED EBIT	2 483	-1 586	+38	-8	927
ADJUSTED EBIT MARGIN	23.3%	-47%	-	-	12.8%
<b>MINING AND ROCK TECHNOLOGY</b>					
REVENUES	11 233	-1 365	-407	+28	9 489
ADJUSTED EBIT	2 126	-272	1	-22	1 833
ADJUSTED EBIT MARGIN	18.9%	-20%	-	-	19.3%
<b>MATERIALS TECHNOLOGY</b>					
REVENUES	4 011	-454	-16	-47	3 495
ADJUSTED EBIT	585	-139	0	-198	248
ADJUSTED EBIT MARGIN	14.6%	-31%	-	-	7.1%

Includes metal price effects within Sandvik Materials Technology of SEK -71 M in alloy surcharges on revenues and SEK -76 M (+131) in metal price effect on EBIT. Structure includes divestment of Varel SEK -549 M on topline and SEK -30 M on EBIT.



# LOAN AND DURATION PROFILE



LONG TERM  
**81%**

	AMOUNT MSEK	AVERAGE DURATION
US Private Placement	-	-
Fin institutions, EIB, NIB	-	-
Swedish MTN	1 650	3 years
European MTN	10 808	6 years
Bank loans	30	2 years
Share swap	-	-



SHORT TERM  
**19%**

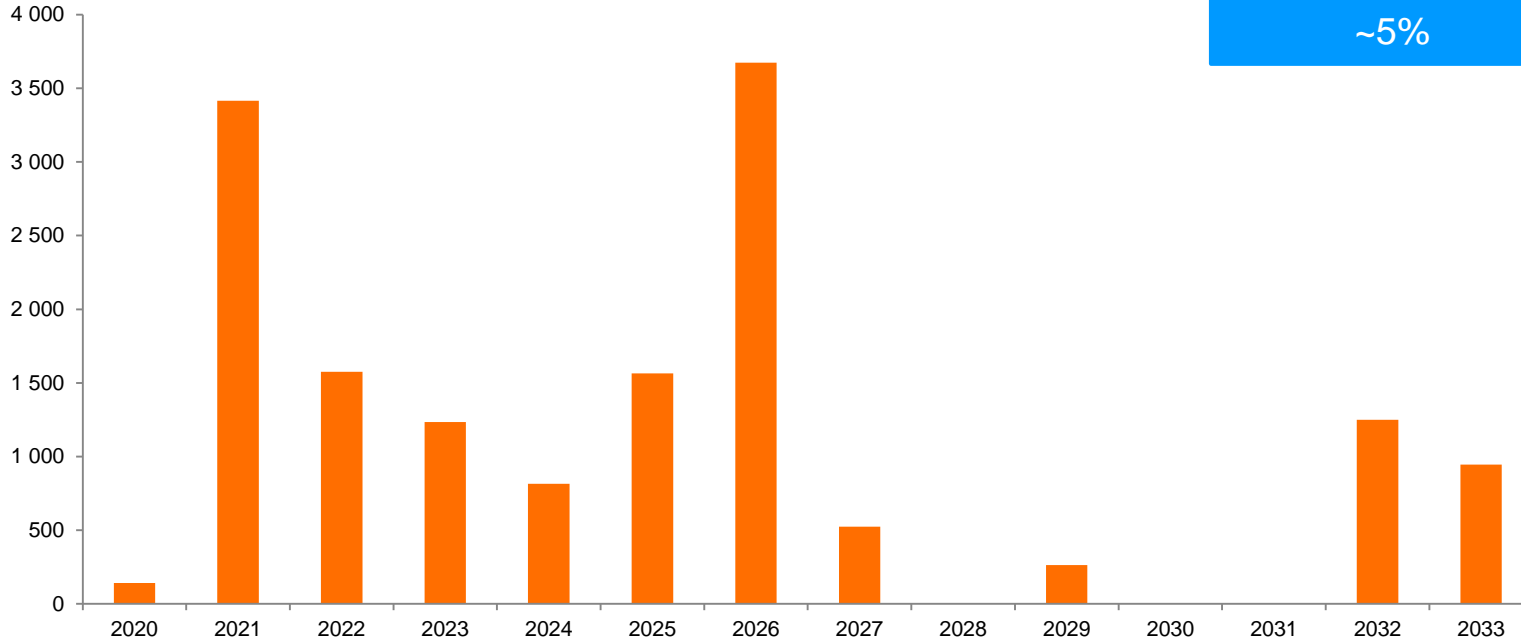
US Private Placement	-	-
Fin institutions, EIB, NIB	-	-
Swedish MTN	2 000	2 months
European MTN	734	7 months
Bank loans	245	0 months
Share swap	-	-

Cash position **SEK 18 952 M**  
Committed Credit facilities **SEK 9 100 M**

<b>TOTAL</b>	<b>15 467</b>	<b>5 years</b>
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# LOAN MATURITY PROFILE

MSEK



AVERAGE  
INTEREST RATE:  
~5%

An abstract graphic consisting of several bright blue lines that intersect to form a series of triangles and polygons, creating a dynamic, geometric pattern against a black background.

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