

INTERIM REPORT FIRST QUARTER 2020



MY FIRST IMPRESSIONS...

- Knowledgeable and passionate colleagues with business focus
 - Responsibility and accountability in the businesses
 - Strong market positions in most segments
-

...AND INITIAL FOCUS AREAS

- Getting to know the people, businesses and customers
- Execution on announced efficiency measures
- View on Sandvik Materials Technology
- Growth – organic and M&A



Stefan Widing, CEO

...the Corona situation has emphasized priorities around execution, savings & efficiency

CORONA UPDATE

Q1 LARGELY AS EXPECTED

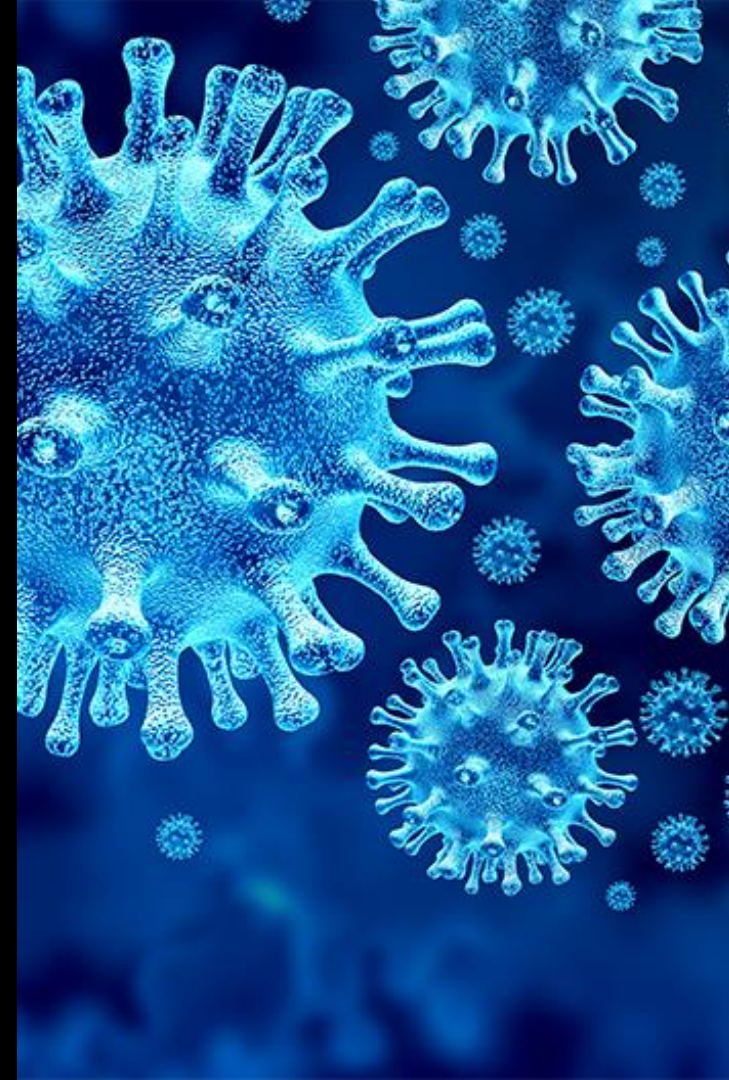
- Disruptions in China with one week of extended production closure after Chinese New Year
 - Full capacity approached after a couple of weeks
-

GLOBAL ESCALATION OF CORONA SITUATION THROUGH MARCH

- Some disruption in our production due to local governmental restrictions and health precaution measures, but majority of manufacturing running
 - Supply & distribution issues managed – no significant impact
-

SHARP DECLINE IN DEMAND IN SMS LAST WEEK OF MARCH

- Underlying growth rate of approx. -25% vs. last year



SUMMARY Q1

ORDERS DECLINE -11% ON RECORD-HIGH COMPARABLES

- Large orders received in SMT
- Protracted lead times in customer orders in SMRT
- Decline in short-cycle business; SMS and large parts of SMT
- Sharp drop in SMS demand at the end of March

ADJUSTED OPERATING PROFIT AT 15.8% (18.3)

- All business areas declined
- Margin pressure from weaker demand, FX and metal prices
- Support from savings, but not sufficient to offset impact from negative revenue growth

STRONG BALANCE SHEET

- Net gearing at low 0.17
- > SEK 30 B in accessible cash including undrawn credit lines

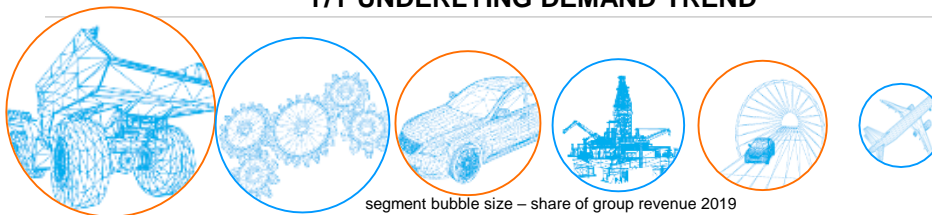
AFTER Q1 – WITHDRAWN DIVIDEND PROPOSAL

- Precautionary measure; Board intends to reevaluate when market permits



MARKET DEVELOPMENT

Y/Y UNDERLYING DEMAND TREND



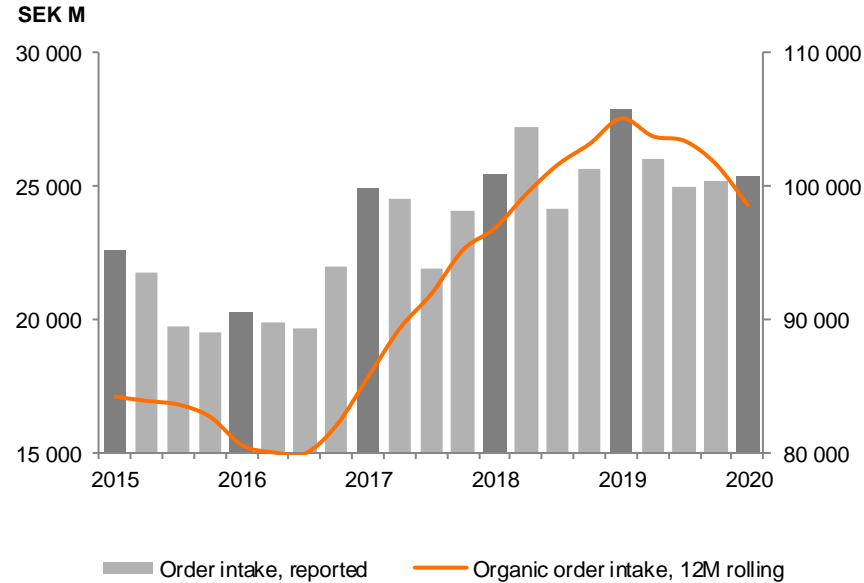
segment bubble size – share of group revenue 2019

	% of group revenue FY19	Y/Y order intake	Y/Y UNDERLYING DEMAND TREND						Sequential underlying demand trend (Q4/Q1)
EUROPE	37%	-14%	↘	↘	↘	↘	↘	↘	↘
NORTH AMERICA	23%	-14%	→	↘	↘	↘	→	↘	↘
ASIA	19%	-6%	→	↘	↘	→	→	↘	↘
AFRICA/MIDDLE EAST	9%	-8%	→	↘					↘
AUSTRALIA	7%	+0%	→						→
SOUTH AMERICA	5%	-4%	↘						→

ORDER INTAKE

DECLINE ON HIGH COMPARABLES

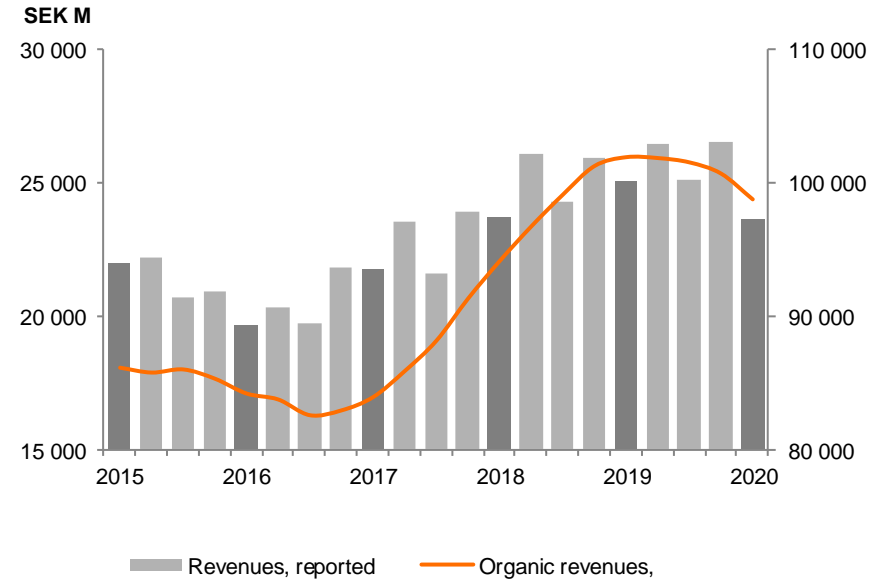
REPORTED P/V
25 356 **-11%**



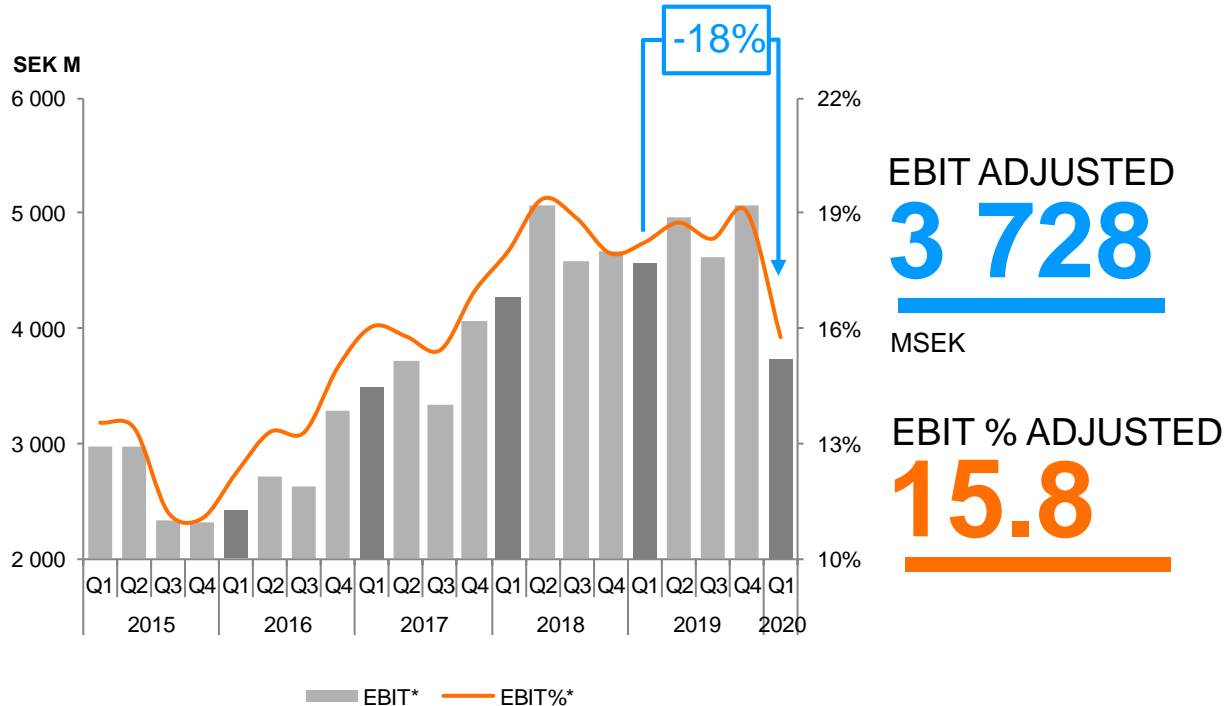
REVENUES

NEGATIVE GROWTH IN ALL THREE BUSINESS AREAS

REPORTED P/V
23 620 **-7%**



EBIT DEVELOPMENT



- MARGIN AT 17.5%
 - Excluding in period metal and FX-revaluation effects in SMRT
- UNDERABSORPTION DUE TO VOLUME DECLINE -7%, AND:
 - Negative impact from revaluation/hedges SEK -212 M
 - Metal prices SEK -116 M
- PARTIALLY OFFSET BY SAVINGS SEK ~360 M

*Adjusted for items affecting comparability



SANDVIK MINING AND ROCK TECHNOLOGY

ORDERS DECLINE -8% FROM RECORD LEVELS

- Equipment orders drop at a high-teen rate primarily driven by Mechanical Cutting
- Aftermarket largely stable
- Somewhat protracted lead times in customers' decision process

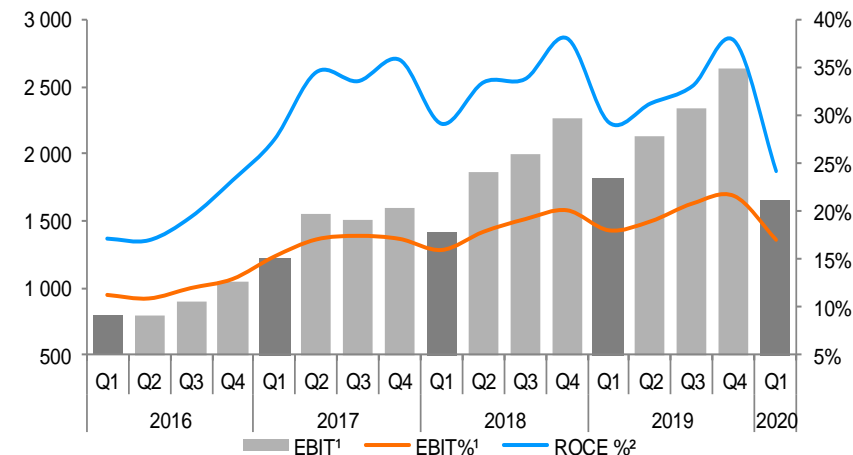
EARNINGS AND MARGIN DECLINE

- Adverse impact from lower organic revenues
- Support from announced savings measures, SEK 100 M
- Adverse impact on earnings from FX and structure
- Margin excl. revaluation/hedges impact ~19%

SEK M	Q1 2019	Q1 2020	CHANGE
ORDER INTAKE	11 369	10 570	-8%*
REVENUES	10 103	9 775	-5%*
ADJ. OP. PROFIT	1 817	1 661	-9%
% OF REVENUES	18.0%	17.0%	

*At fixed exchange rates for comparable units

EBIT & ROCE DEVELOPMENT





SANDVIK MACHINING SOLUTIONS

DEMAND DECLINED ACROSS MAJOR REGIONS AND SEGMENTS

- Decline intensified at the end of the quarter as the corona situation escalated
- Customer activity in China improved toward the end of Q1

EARNINGS IMPACTED BY UNDERABSORPTION AND DESTOCKING

- Sharp volume drop: negative impact on margin of ~520bps
- Destocking adversely impacted the margin by ~70bps
- Partially offset by savings ~210bps

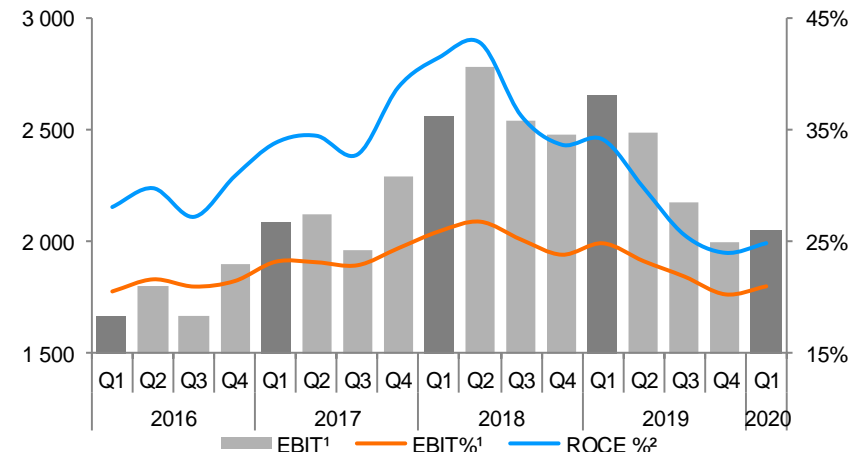
ADDITIONAL EFFICIENCY MEASURES INITIATED

- Closure of production plant in Germany
- Estimated savings of about SEK 110 M at mid-2021

SEK M	Q1 2019	Q1 2020	CHANGE
ORDER INTAKE	11 105	10 124	-12%*
REVENUES	10 679	9 766	-12%*
ADJ. OP. PROFIT	2 654	2 054	-23%
% OF REVENUES	24.9%	21.0%	

*At fixed exchange rates for comparable units

EBIT & ROCE DEVELOPMENT





SANDVIK MATERIALS TECHNOLOGY

LARGE ENERGY ORDERS RECEIVED ALBEIT INCREASED MARKET UNCERTAINTY

- Sharp drop in oil prices creates mid-term uncertainty
- Large energy orders of SEK 0.7 B (LY: SEK 1 B)
- Order growth -9% excl. large orders due to demand decline for standardized tubular products as well as Kanthal

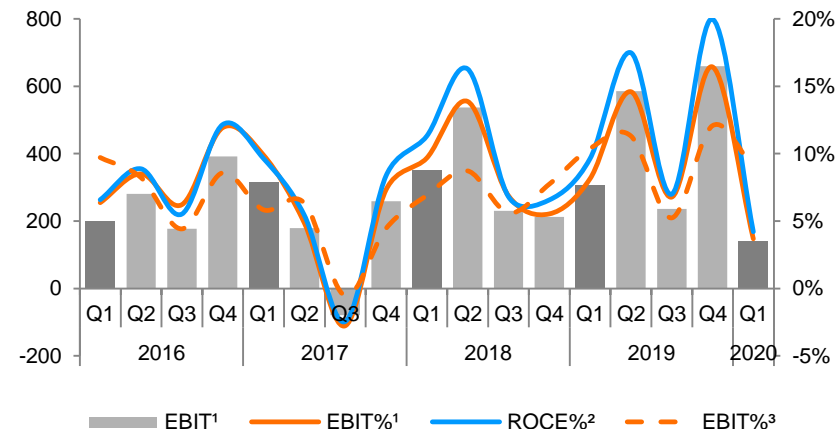
ADJ. EBIT MARGIN SLIGHTLY DOWN TO 9% EXCLUDING IMPACT FROM METAL PRICES

- Adverse impact primarily due to decline in organic revenues; -3% including +2% in alloys
- Support from announced savings measures, +50bps

SEK M	Q1 2019	Q1 2020	CHANGE
ORDER INTAKE	4 930	4 365	-14%*
REVENUES	3 773	3 782	-3%*
ADJ. OP. PROFIT	307	139	-55%
% OF REVENUES	8.1%	3.7%	
UNDERLYING MARGIN ³	10.4%	9.0%	

*At fixed exchange rates for comparable units

EBIT & ROCE DEVELOPMENT



TOMAS ELIASSON
CFO

= 13

= 7

= -10

= 7

FINANCIAL SUMMARY Q1

GROWTH Q120, %

	ORDER REVENUES INTAKE	
ORGANIC:	-11	-7
CURRENCY:	+2	+2
STRUCTURE:	-0	-0
TOTAL	-9	-6

SEK M	Q1 2019	Q1 2020	CHANGE %
ORDER INTAKE	27 873	25 356	-11 ¹
REVENUES	25 025	23 620	-7 ¹
ADJUSTED OPERATING PROFIT	4 567	3 728	-18
<i>% OF REVENUES</i>	18.3	15.8	
FINANCE NET	-378	-416	-10
NORMALIZED TAX RATE	25.0	23.1	
NWC % ²	24.4	26.8	
CASH FLOW ³	+3 352	+3 128	-7
ROCE % ²	20.3	16.1	
ADJUSTED EPS CONT. OPS.	2.50	2.14	-15

¹ At fixed exchange rates for comparable units

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

³ Cash flow before acquisitions and disposals, financial items and taxes

BRIDGE ANALYSIS

SANDVIK GROUP

GROUP UNDERLYING
LEVERAGE:

-39%

SEK M	Q1 2019	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	METAL PRICE EFFECTS SMT	STRUCTURE	Q1 2020
REVENUES	25 025	-1 872	+427	+62	-22	23 620
ADJUSTED EBIT	4 567	-726	+12	-116	-9	3 728
ADJUSTED EBIT MARGIN	18.3%	-39%				15.8%

MARGIN ACCRETION / DILUTION

-1.7%

-0.3%

-0.5%

-0%

- Includes metal price effects within Sandvik Materials Technology of SEK +62 M in alloy surcharges on revenues and SEK -116 M in metal price effect on EBIT (-85 Q1 2019 vs. -201 Q1 2020). Structure SMT SEK +38 M on topline and SEK +3 M on EBIT (Thermaltek/Summerill). Structure SMS SEK +68 M on topline and SEK -3 M on EBIT (OSK, Melin). Structure SEK +42 M SMRT on topline and SEK -20 M on EBIT (Newtrax). Divestment of Varel SEK -170 M on topline, and +11 on EBIT.

SAVINGS MEASURES AHEAD OF PLAN

SEK 1.4 B IN ANNUALIZED RUN-RATE



ANNUALIZED RUN-RATE SAVINGS END OF Q1 2020

~1 400 

SEK M, OUT OF SEK 1 700 M IN SCOPE

ACTUAL ACHIEVED IN 2019

~400

SEK M

ACTUAL ACHIEVED IN Q1 2020

~360

SEK M

880

400

80

60

260

80

10

10

220

100

20

15

REDUCTION OF ~2000* EMPLOYEES IN SINCE Q3 2019

NET FINANCIALS

SEK M	Q1 19	Q1 20
Underlying interest net	-168	-126
Pension	-35	-31
Bank charges	-15	-14
Other fin income & costs	-4	-10
Leases IFRS16	-26	-25
FX & other asset classes	-131	-210
Total	-378	-416

- Temporary revaluations of hedges
 - Predominantly electricity prices
 - Nickel and molybdenum
 - Firm order hedges

REPORTED AND UNDERLYING TAX RATE

	Q1 2019	Q1 2020
REPORTED	25.0%	21.8%
EXCL. IAC	25.0%	19.2%
NORMALIZED*	25.0%	23.1%

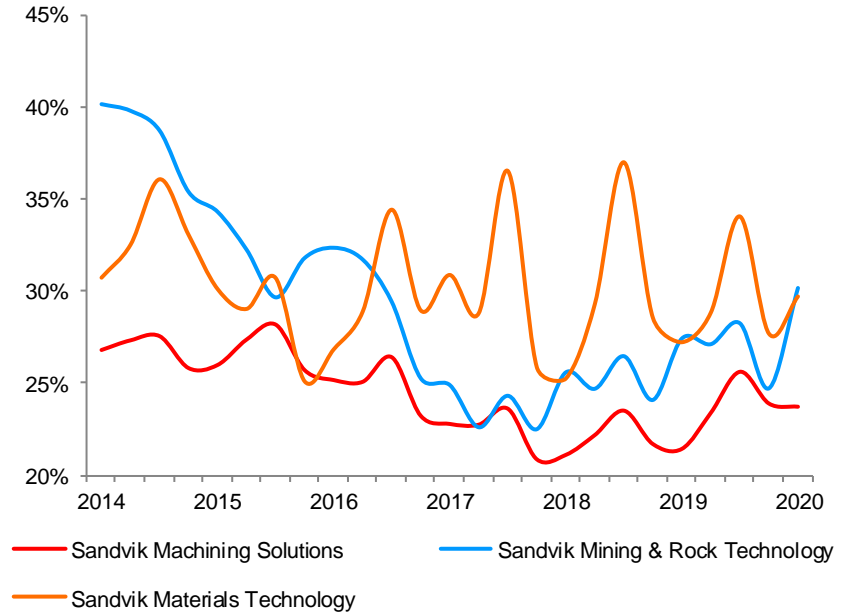
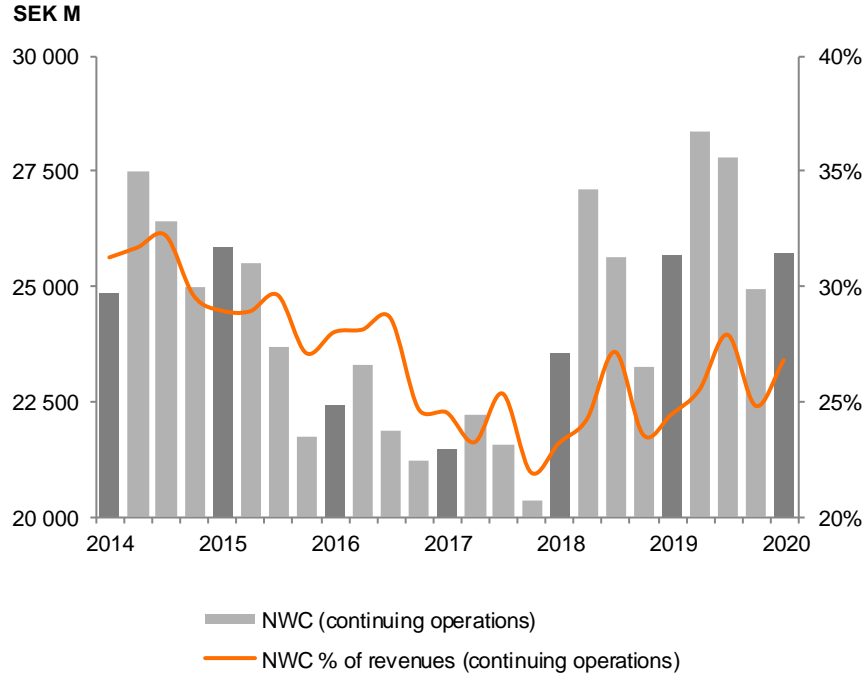
IN LINE WITH 23-25% GUIDANCE FOR 2020

*Including positive one-off tax implications as well as items affecting comparability

NET WORKING CAPITAL

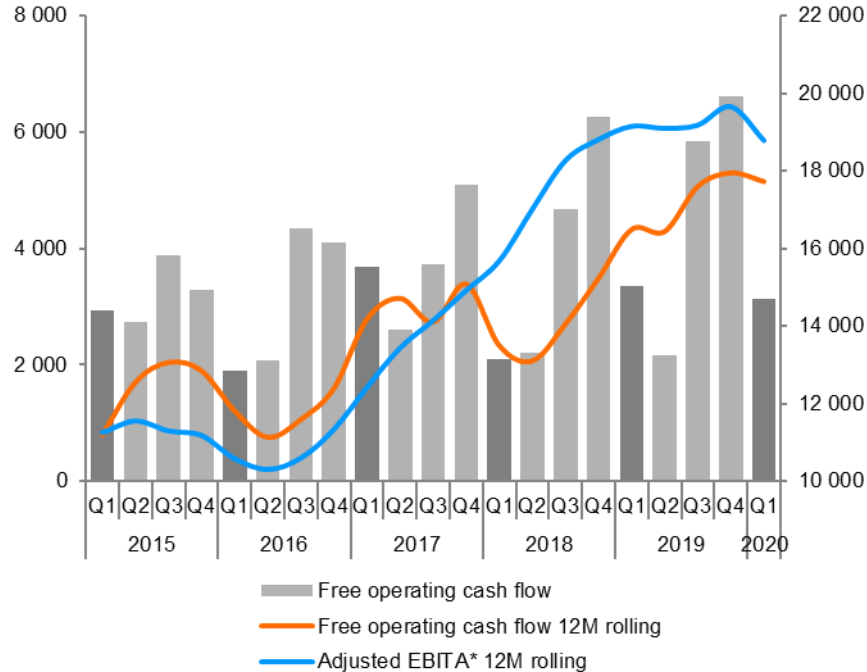
RELATIVE NWC BY BA

SMRT SEASONAL INVENTORY BUILD-UP



FREE OPERATING CASH FLOW

SEK M



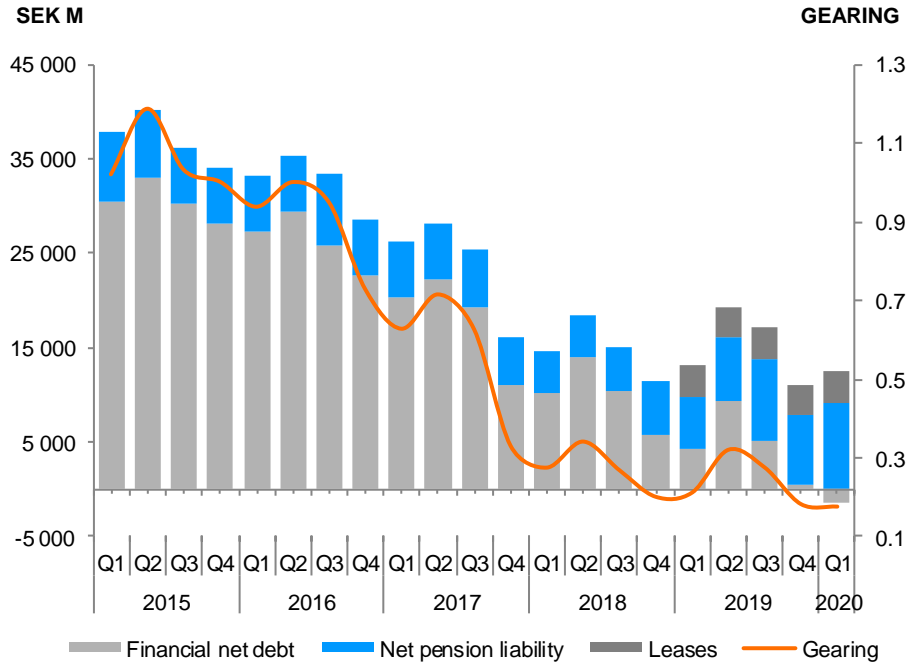
SEK M

	Q1 2019	Q1 2020
EBITDA + non-cash	5 815	4 505
NWC change	-1 577	-697
Capex*	-887	-680
FOCF**	+3 352	+3 128

*Including investments and disposals in rental, tangible and intangible assets

**Cash flow before acquisitions and disposals, financial items and taxes

NET DEBT



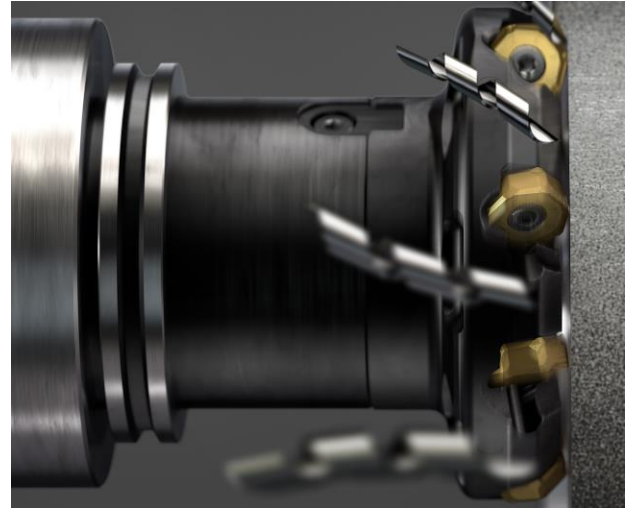
- Net gearing at 0.17
- Net cash position SEK 1.4 B
- >SEK 30 B in cash and undrawn credit lines

OUTCOME Q1

Q1 2020

Underlying currency effect (SEK M):	+224	(~150)
Total currency effect (SEK M):	+12	
Metal price effect in quarter (SEK M):	-201	(-200)

Capex (SEK B):	0.7
Interest net (SEK B):	-0.1
Normalized tax rate (%):	23.1



GUIDANCE 2Q20 AND FY2020

UPDATED FROM
ABOUT SEK 4 B

CAPEX (CASH)

Estimated to **<SEK 4 B for 2020**

CURRENCY EFFECTS

Given currency rates at end of March 2020 the effect on operating profit from transaction and translation would be **SEK +100 M for Q2 2020**

METAL PRICE EFFECTS

Given currency rates, stock levels and metal prices at the end of March 2020, it is estimated that effect on operating profit in **Q2 2020 will be SEK -150 M**

INTEREST NET

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

NORMALIZED TAX RATE

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

MANAGING NEAR-TERM CHALLENGES



EFFICIENCY MEASURES WHILE SECURING MARKET LEADING POSITIONS

- Protecting the earnings by additional SEK ~1.5 B short-term and SEK ~1 B structural savings
 - Will not jeopardize long-term competitive advantage
-

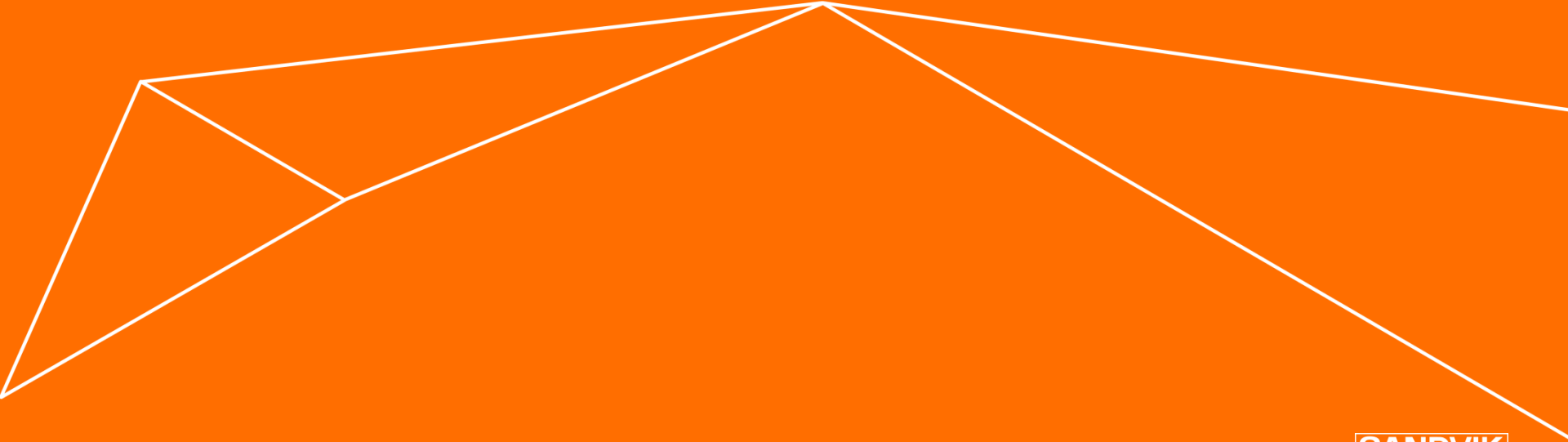
ROBUST FINANCIAL SHAPE

- SEK >30 B in accessible cash
 - Net cash position at end of Q1 2020
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GRASPING M&A OPPORTUNITIES

- Utilize strong balance sheet for strategically important acquisitions
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BACK-UP SLIDES

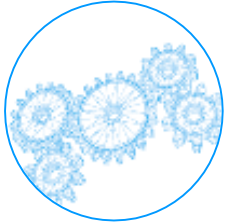




MINING
(37%)



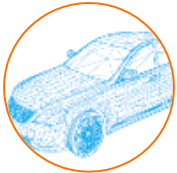
ENERGY
(10%)



**GENERAL
ENGINEERING**
(22%)



CONSTRUCTION
(8%)



AUTOMOTIVE
(12%)



AEROSPACE
(7%)

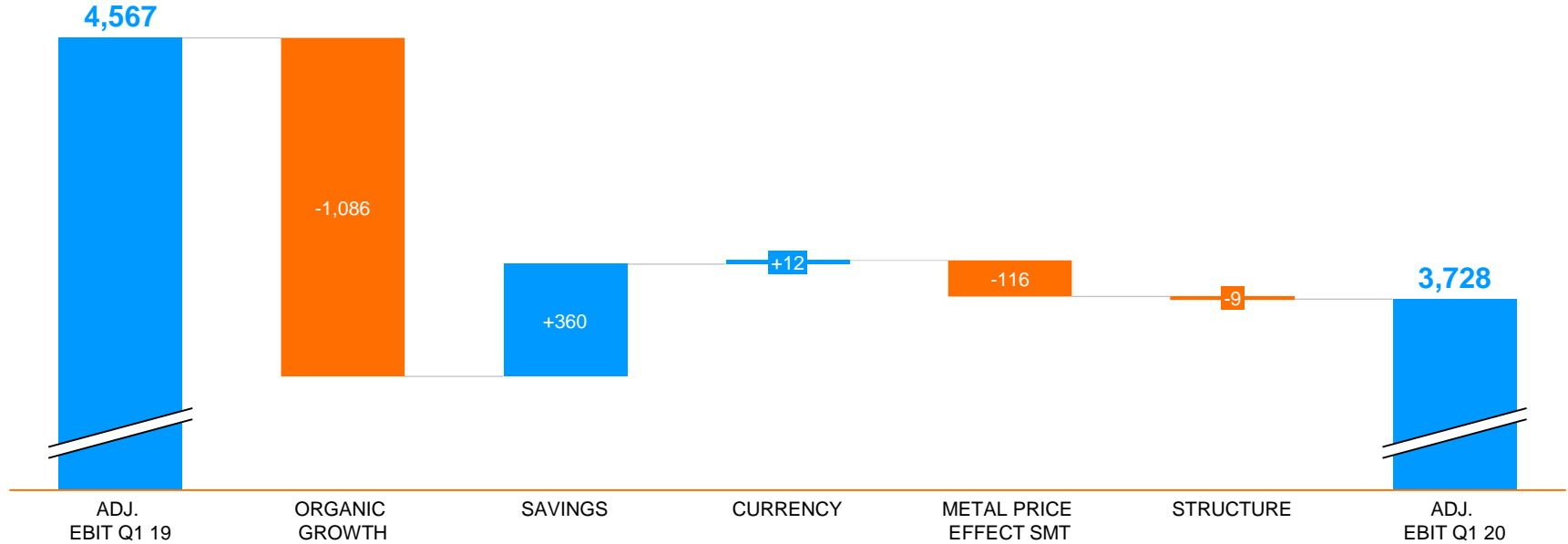
END-CUSTOMER SEGMENTS

(% 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:

-39%



ADJUSTED
EBIT MARGIN

18.3%

15.8%

BRIDGE ANALYSIS

SEK M	Q1 2019	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE METALS SMT*	Q1 2020
MACHINING SOLUTIONS					
REVENUES	10 679	-1 232	+251	+68	9 766
ADJUSTED EBIT	2 654	-673	+76	-3	2 054
ADJUSTED EBIT MARGIN	24.9%	-55%	-	-	21.0%
MINING AND ROCK TECHNOLOGY					
REVENUES	10 103	-461	+92	+42	9 775
ADJUSTED EBIT	1 817	-58	-78	-20	1 661
ADJUSTED EBIT MARGIN	18.0%	-13%	-	-	17.0%
MATERIALS TECHNOLOGY					
REVENUES	3 773	-162	+71	+100	3 782
ADJUSTED EBIT	307	-59	+4	-113	139
ADJUSTED EBIT MARGIN	8.1%	-36%	-	-	3.7%

- * Includes metal price effects within Sandvik Materials Technology of SEK +62 M in alloy surcharges on revenues and SEK -116 M in metal price effect on EBIT (-85 Q1 2019 vs. -201 Q1 2020). Structure SMT SEK +38 M on topline and SEK +3 M on EBIT (Thermaltek/Summeril). Structure SMS SEK +68 M on topline and SEK -3 M on EBIT (OSK, Melin). Structure SEK +42 M SMRT on topline and SEK -20 M on EBIT (Newtrax). Divestment of Varel SEK -170 M on topline, and +11 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	11 469	7 years
Bank loans	9	2 years
Share swap	-	-



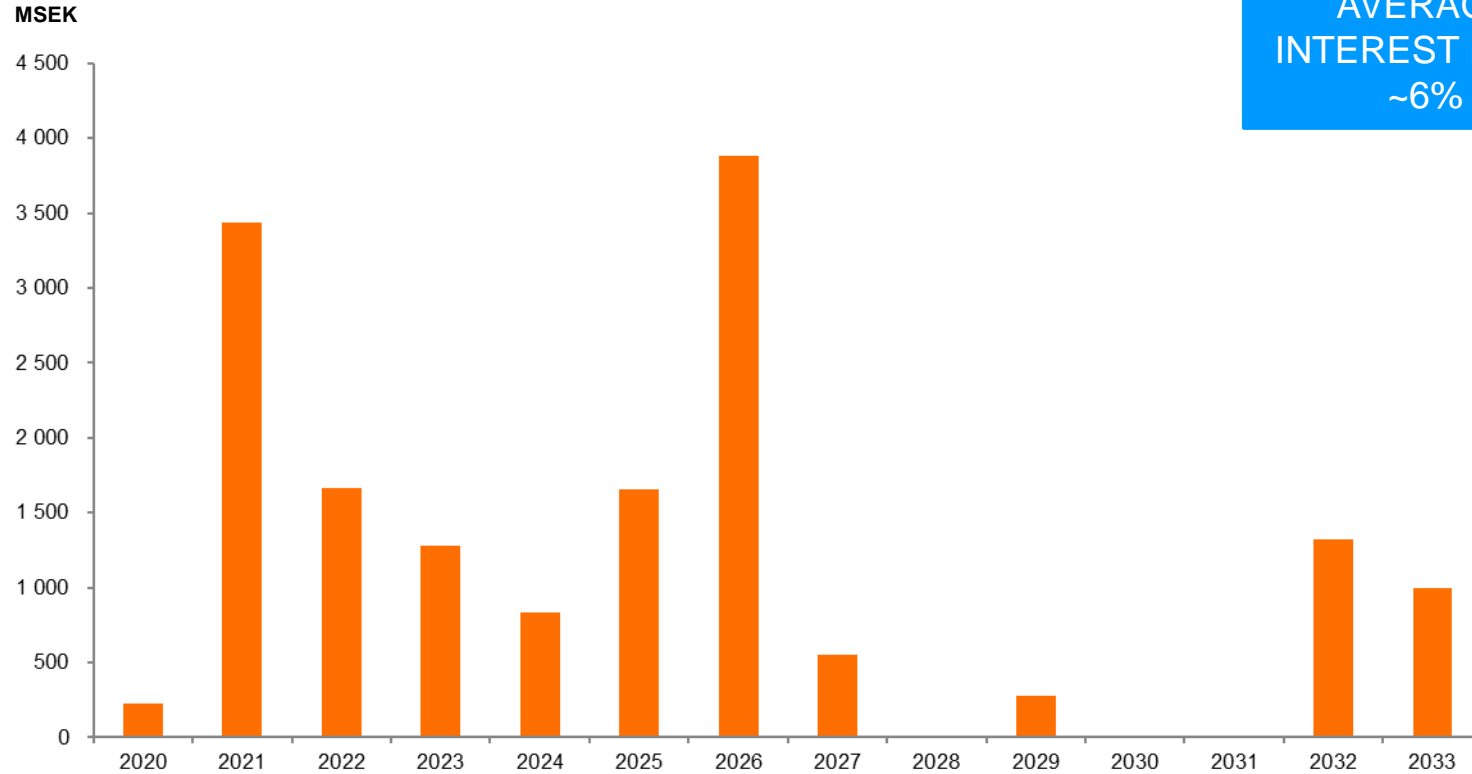
SHORT TERM
19%

US Private Placement	-	-
Fin institutions, EIB, NIB	-	-
Swedish MTN	2 000	3 months
European MTN	776	10 months
Share swap	225	2 months

Cash position **SEK 17 469 M**
Committed Credit facilities **SEK 9 100 M**

TOTAL	16 086	5 years
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LOAN MATURITY PROFILE



AVERAGE
INTEREST RATE:
~6%

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 the black background.

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."