

# INTERIM REPORT

## THIRD QUARTER 2017



# SUMMARY



## SIGNIFICANT ORDER GROWTH

ORDER INTAKE +13%

LARGE ORDERS RECEIVED

POSITIVE DEVELOPMENT IN ALL BUSINESS AREAS AND REGIONS

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## EARNINGS AND MARGIN IMPROVEMENT

SUPPORTED BY STRONG REVENUE GROWTH AND EFFICIENCY MEASURES

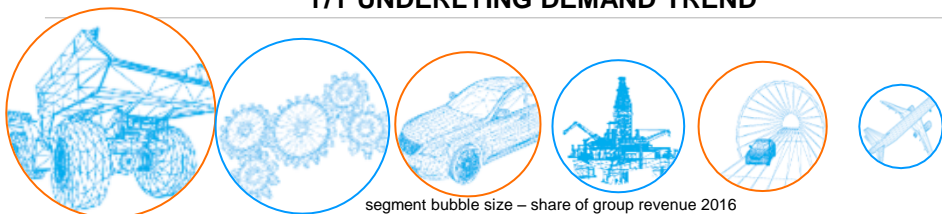
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## PORTFOLIO CONSOLIDATION CONTINUES

- GOOD PROGRESS FOR SANDVIK PROCESS SYSTEMS CARVE-OUT
  - HYPERION AND WIRE TRANSACTIONS DEVELOPING ACCORDING TO PLAN
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# MARKET DEVELOPMENT

## Y/Y UNDERLYING DEMAND TREND



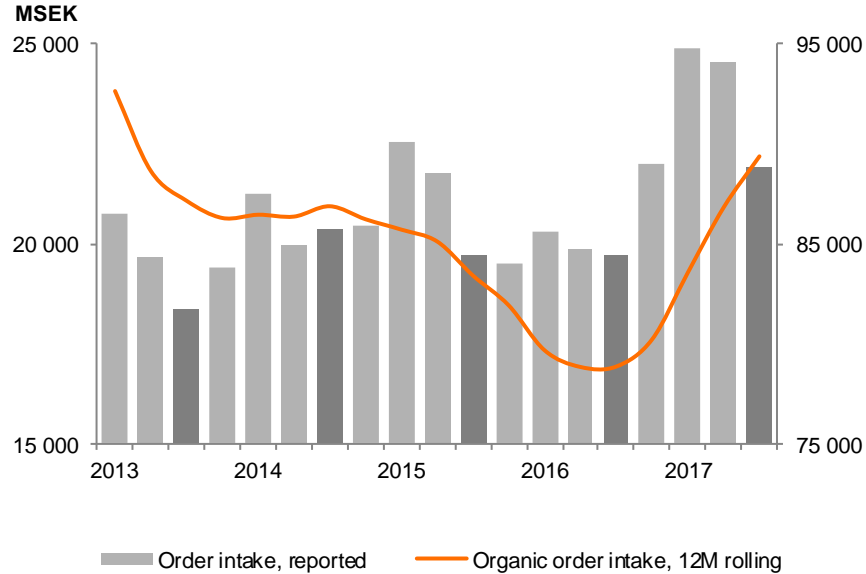
segment bubble size – share of group revenue 2016

	% of group revenue FY16	Y/Y order intake	Y/Y UNDERLYING DEMAND TREND						Q/Q underlying demand trend
EUROPE	40%	+9%	↗	↗	→	→	→	→	↗
NORTH AMERICA	20%	+12%	↗	↗	→	↗	→	↗	↗
ASIA	20%	+14%	↗	↗	↗	→	→	→	→
AFRICA/MIDDLE EAST	9%	+17%	↗	↗					→
SOUTH AMERICA	5%	+19%	↗						→
AUSTRALIA	6%	+37%	↗						↗

# ORDER INTAKE

STRONG ORDER GROWTH IN ALL BUSINESS AREAS

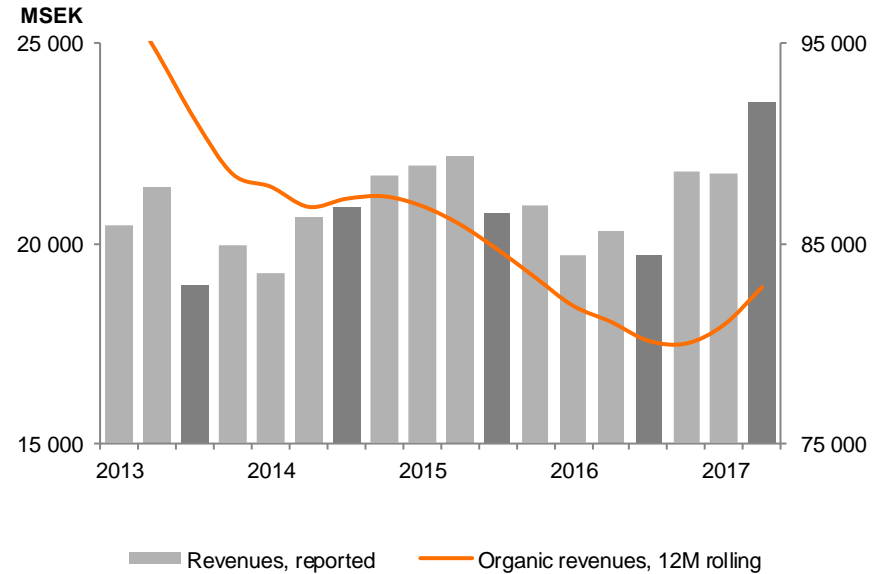
REPORTED P/V  
**21 888** **13%**



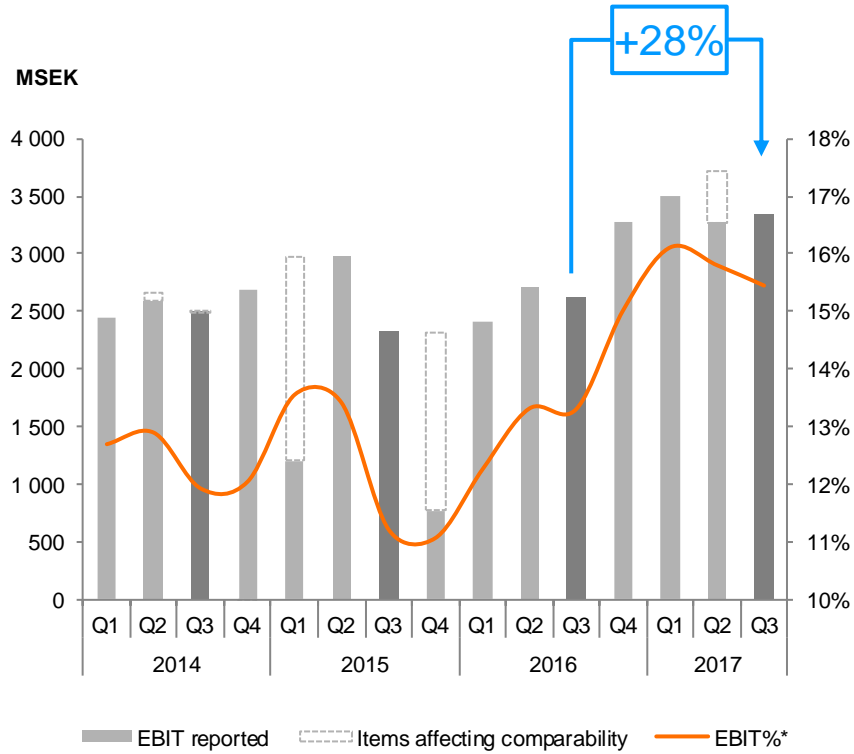
# REVENUES

ACCELERATION OF GROWTH DRIVEN BY SMRT AND SMS

REPORTED P/V  
**21 648** **12%**



# EBIT DEVELOPMENT



REPORTED  
**3 344**

MSEK

EBIT %  
**15.4**

- 42% EBIT GROWTH EXCLUDING FX AND METALS
- EBIT MARGIN 16.8% EXCLUDING FX AND METALS
- SUPPORTED BY REVENUE GROWTH AND EFFICIENCY MEASURES

\*Adjusted for items affecting comparability



# SANDVIK MACHINING SOLUTIONS

## STRONG UNDERLYING GROWTH

- Negative working day effect of -1%
- Positive development in all regions
- Increased activity in particular in general engineering and energy segments

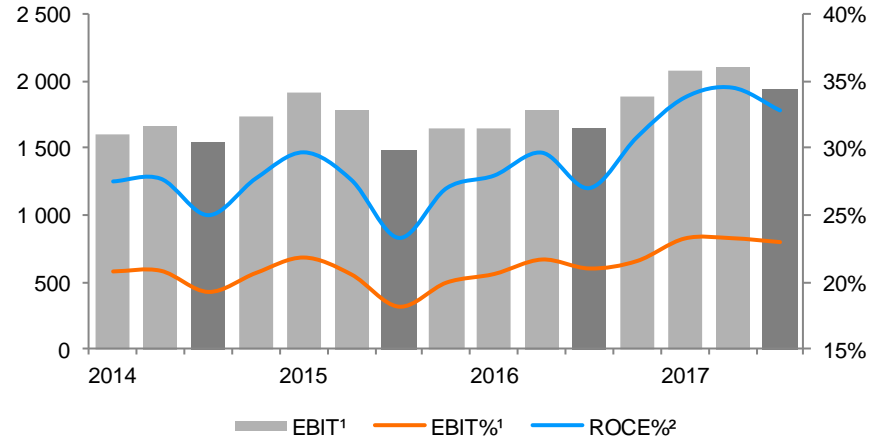
## EARNINGS AND MARGIN IMPROVEMENT

- 25% earnings growth excluding negative FX
- Support from revenue growth and structural efficiency measures
- Slight build-up in inventory support margin by +0.5% year-on-year

MSEK	Q3 2016	Q3 2017	CHANGE
ORDER INTAKE	7 776	8 450	+11%*
REVENUES	7 859	8 488	+10%*
OPERATING PROFIT	1 650	1 949	+18%
% OF REVENUES	21.0%	23.0%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT



# SANDVIK MINING AND ROCK TECHNOLOGY

## STRONG CUSTOMER ACTIVITY

- Strong development in replacement equipment
- Strong growth in aftermarket business
- Gold, silver and zinc strongest commodities
- Copper improved

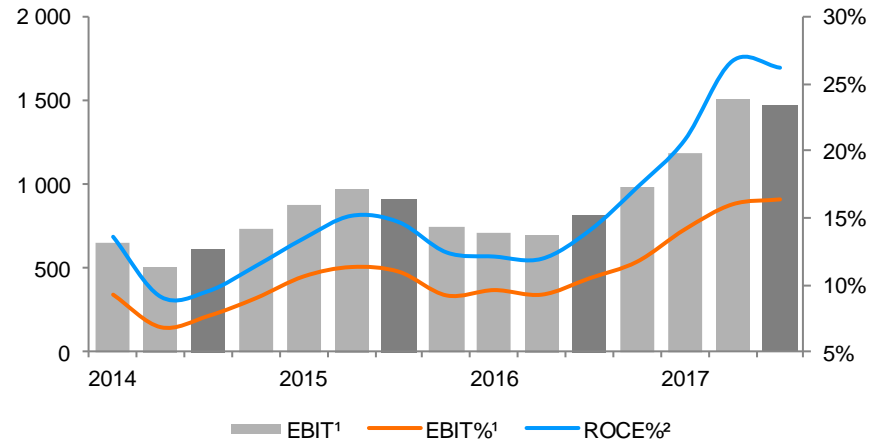
## SIGNIFICANT EARNINGS AND MARGIN GROWTH

- Earnings primarily supported by significant revenue growth and efficiency measures
- Previous year period impacted by some costs related to the merger of Sandvik Mining and Sandvik Construction

MSEK	Q3 2016	Q3 2017	CHANGE
ORDER INTAKE	7 936	9 191	+18%*
REVENUES	7 791	8 987	+17%*
OPERATING PROFIT	817	1 472	+80%
% OF REVENUES	10.5%	16.4%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT





# SANDVIK MATERIALS TECHNOLOGY

## INCREASED ORDERS ALBEIT UNFAVORABLE MIX

- Large order for capex O&G ~250MSEK
- Stabilization in demand for short-cycle offering but high competitiveness

## MIX DETERIORATION IMPACT OPERATING PROFIT

- Underlying revenues +2% excl. alloy surcharges
- Unfavorable product mix, less umbilicals and nuclear
- Unfavorable mix in core- and standard tubular offering

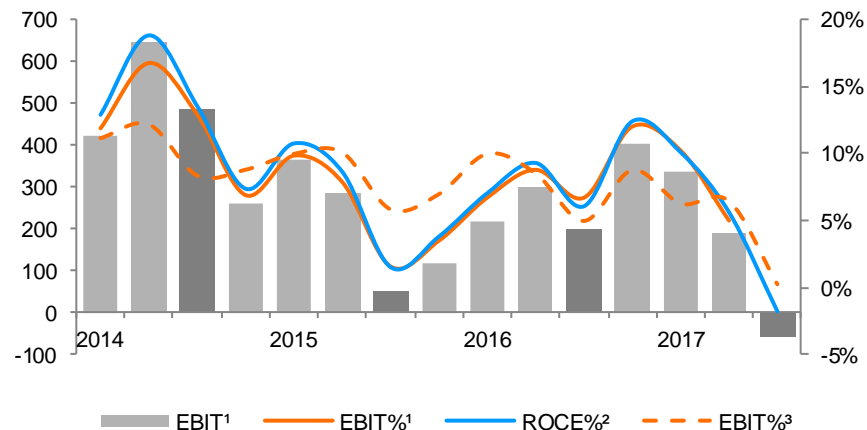
## COST SAVING INITIATIVES BEING IMPLEMENTED

- Notice of lay-offs: 210 FTEs

MSEK	Q3 2016	Q3 2017	CHANGE
ORDER INTAKE	2 851	3 045	+9%*
REVENUES	2 945	2 980	+3%*
OPERATING PROFIT	197	-57	n/a
<i>% OF REVENUES<sup>1</sup></i>	6.7%	-1.9%	
<i>UNDERLYING MARGIN<sup>3</sup></i>	5.0%	0.2%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT





# TOMAS ELIASSON

## CFO



# FINANCIAL SUMMARY Q3

## GROWTH, %

	ORDER REVENUES INTAKE	
ORGANIC:	+13	+12
CURRENCY:	-2	-2
STRUCTURE:	0	0
<b>TOTAL</b>	<b>+11</b>	<b>+10</b>

MSEK	Q3 2016	Q3 2017	CHANGE %	Q1-3 2016	Q1-3 2017	CHANGE %
ORDER INTAKE	19 700	21 888	+13 <sup>1</sup>	59 868	71 338	+15 <sup>1</sup>
REVENUES	19 715	21 648	+12 <sup>1</sup>	59 735	66 968	+9 <sup>1</sup>
ADJ. OPERATING PROFIT <sup>2</sup>	2 623	3 344	+28	7 741	10 572	+37
<i>% OF REVENUES</i>	13.3	15.4		13.0	15.8	
NWC % <sup>3</sup>	28.6	25.4		28.0	24.4	
CASH FLOW <sup>4</sup>	4 342	3 725	-14	8 308	10 010	+20
ROCE % <sup>3</sup>	13.9	18.0		17.6	18.2	
EPS ADJ. CONT. OPS., SEK	1.29	1.88	+46	3.80	5.70	+50
EPS ADJ. GROUP TOTAL, SEK	0.49	1.91	n/a	2.91	5.74	n/a

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

<sup>2</sup> Profit adjusted for items affecting comparability of -450 million SEK in Q2 2017

<sup>3</sup> Quarterly calculation i.e. annualized adj. EBIT or revenues and 1Q average CE or NWC

<sup>4</sup> Cash flow before acquisitions and disposals, financial items and taxes

# BRIDGE ANALYSIS

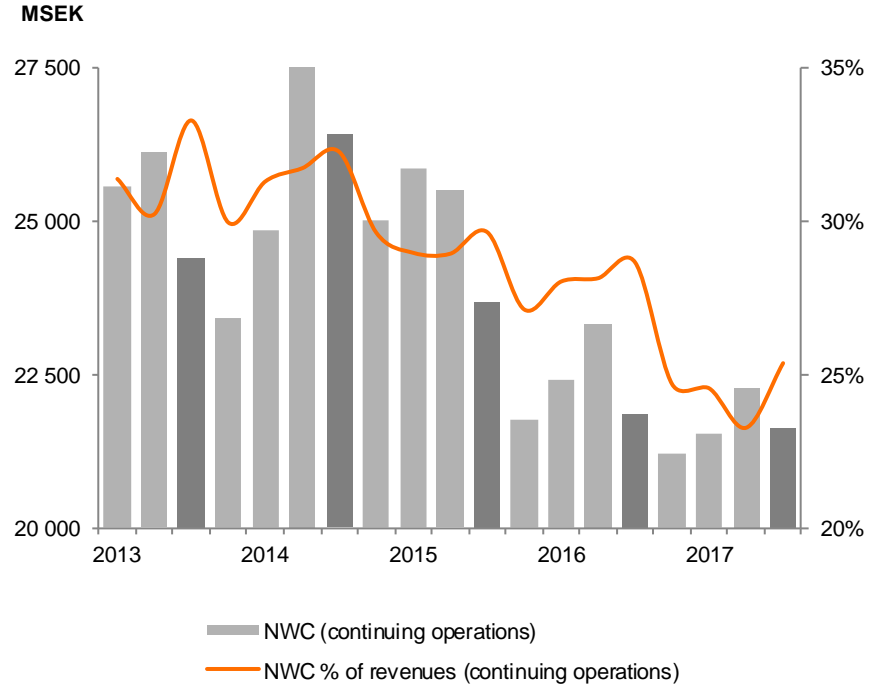
## SANDVIK GROUP

MSEK	Q3 2016	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	Q3 2017
REVENUES	19 715	2 300	-400	32	21 648
ADJUSTED EBIT	2 623	1 080	-244	-115	3 344
ADJUSTED EBIT MARGIN	13.3%	47%	-	-	15.4%
MARGIN ACCRETION / DILUTION		+3.5%	-0.8%	-0.6%	

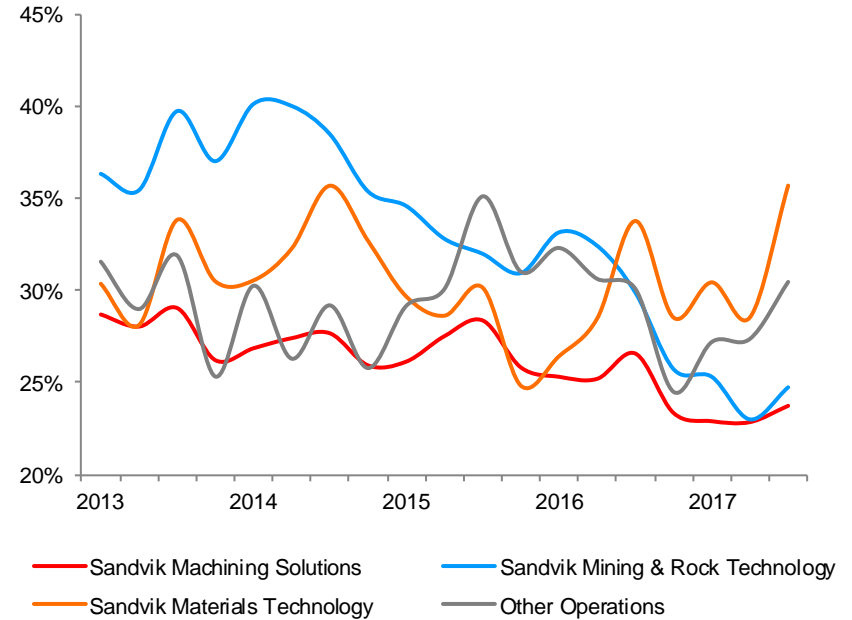
- Includes metal price effects within Sandvik Materials Technology of +35 MSEK in alloy surcharges on revenues and -115 MSEK in metal price effect on EBIT (+51 Q3 2016 vs. -64 Q3 2017). Structure +1MSEK topline for SMS and -4MSEK for SMT, 0 on EBIT.

# NET WORKING CAPITAL

## SEASONAL UPTICK IN NWC-RATIO

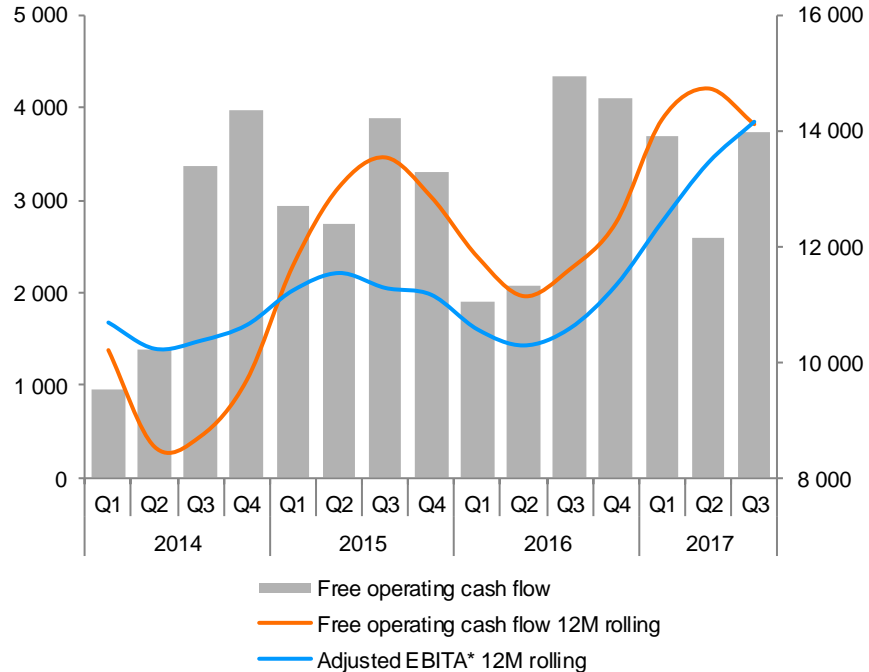


# RELATIVE NWC BY BA



# FREE OPERATING CASH FLOW

MSEK



MSEK

Q3 2016

Q3 2017

Δ

EBITDA + non cash

3 556

4 676

+1 120

NWC change

1 790

-48

-1 838

Capex\*

-1 004

-903

+101

FOCF\*\*

4 342

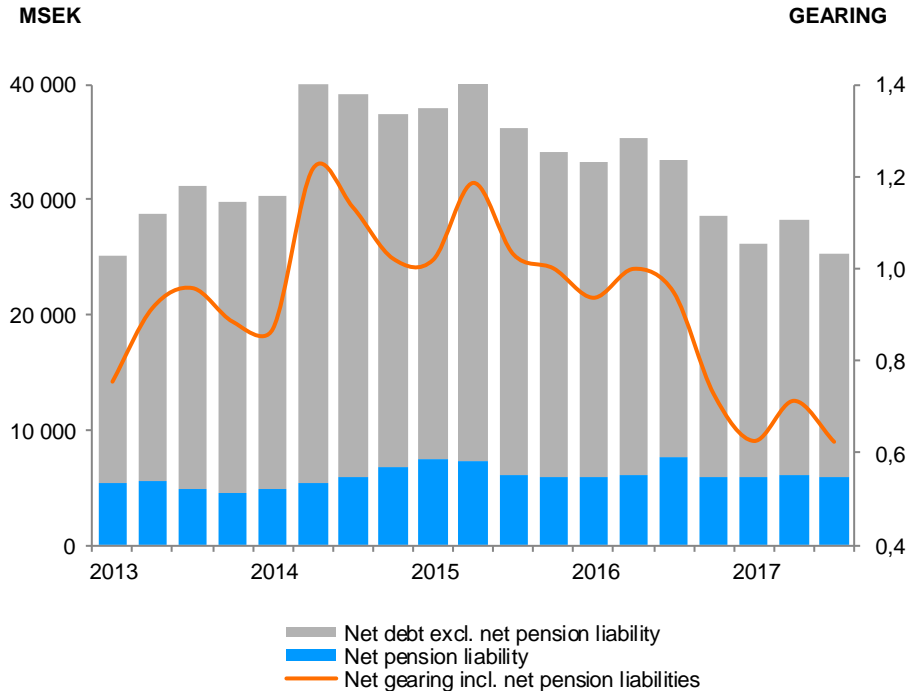
3 725

-617

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

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

# FINANCIAL NET DEBT



- LOWEST NET DEBT LEVEL IN AT LEAST FOUR YEARS, ~25 BSEK
- NET GEARING 0.6
  - IN LINE WITH TARGET OF <0.8

# OUTCOME AND GUIDANCE

## Q3 2017

Underlying currency effect (MSEK):	-155	(~0)
Total currency effect (MSEK):	-244	
Metal price effect in quarter (MSEK):	-64	(-100)

## Q4 2017

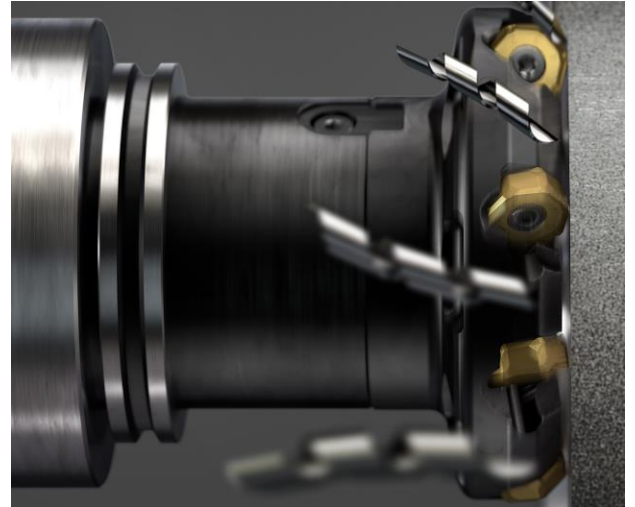
Underlying currency effect (MSEK):	-450*	
Metal price effect in quarter (MSEK):	~0**	

## FULL YEAR 2017

Capex (BSEK):	~3.7	(YTD: 2.3)
Net financial items (BSEK):	-1.2 to -1.3	(YTD: -0.8)
Tax rate (%):	26-28	(YTD: 26.7)

\*Based on currency rates end of September 2017

\*\*Based on currency rates, stock levels and metal prices at the end of September 2017



# SUMMARY

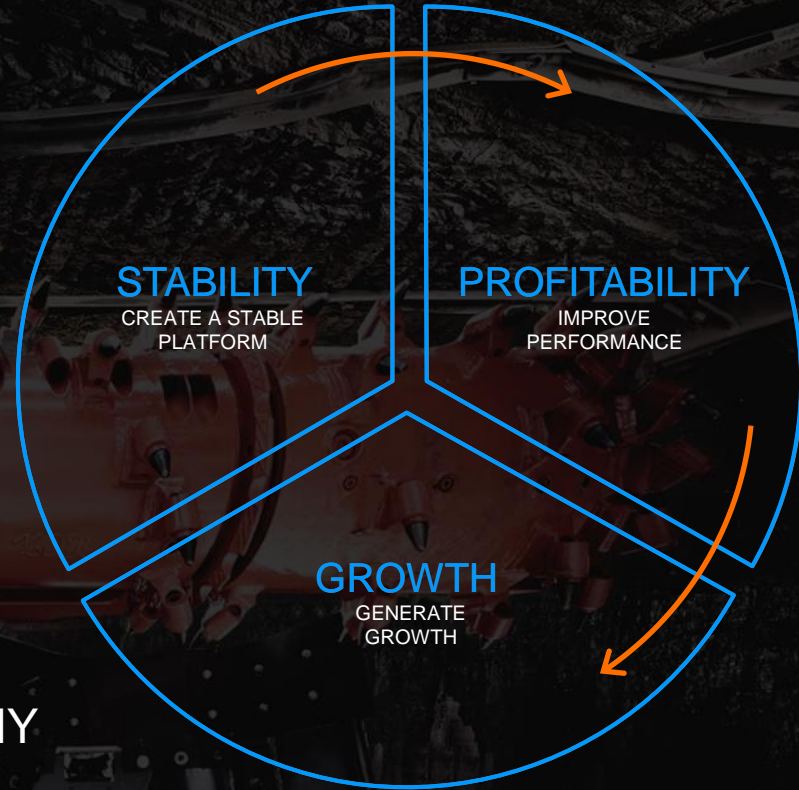
## REVENUE GENERATION ON BACK OF RECENT STRONG ORDER INTAKE

REVENUE GROWTH +12%  
TWO MAJOR ORDERS

## IMPROVED PERFORMANCE

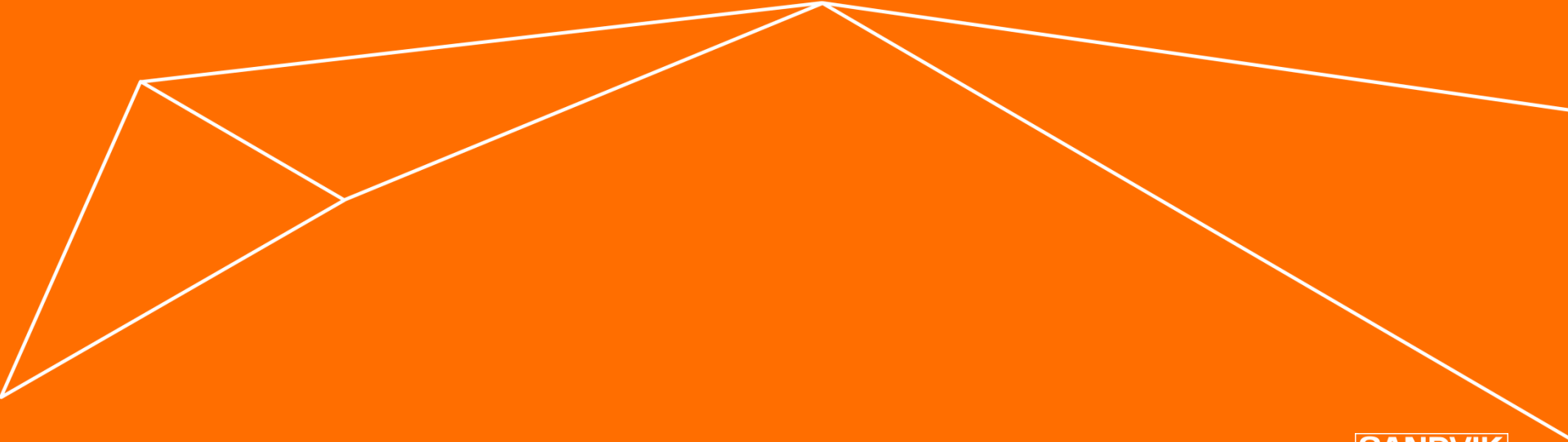
MARGIN AT 16.8 EXCL. METALS AND CURRENCY

CMD NOVEMBER 21 IN TÜBINGEN, GERMANY





# BACK-UP SLIDES

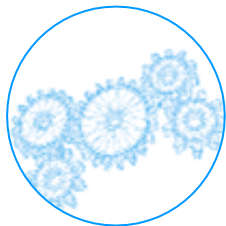




**MINING**  
(27%)



**ENERGY**  
(12%)



**GENERAL  
ENGINEERING**  
(23%)



**CONSTRUCTION**  
(12%)



**AUTOMOTIVE**  
(14%)



**AEROSPACE**  
(6%)

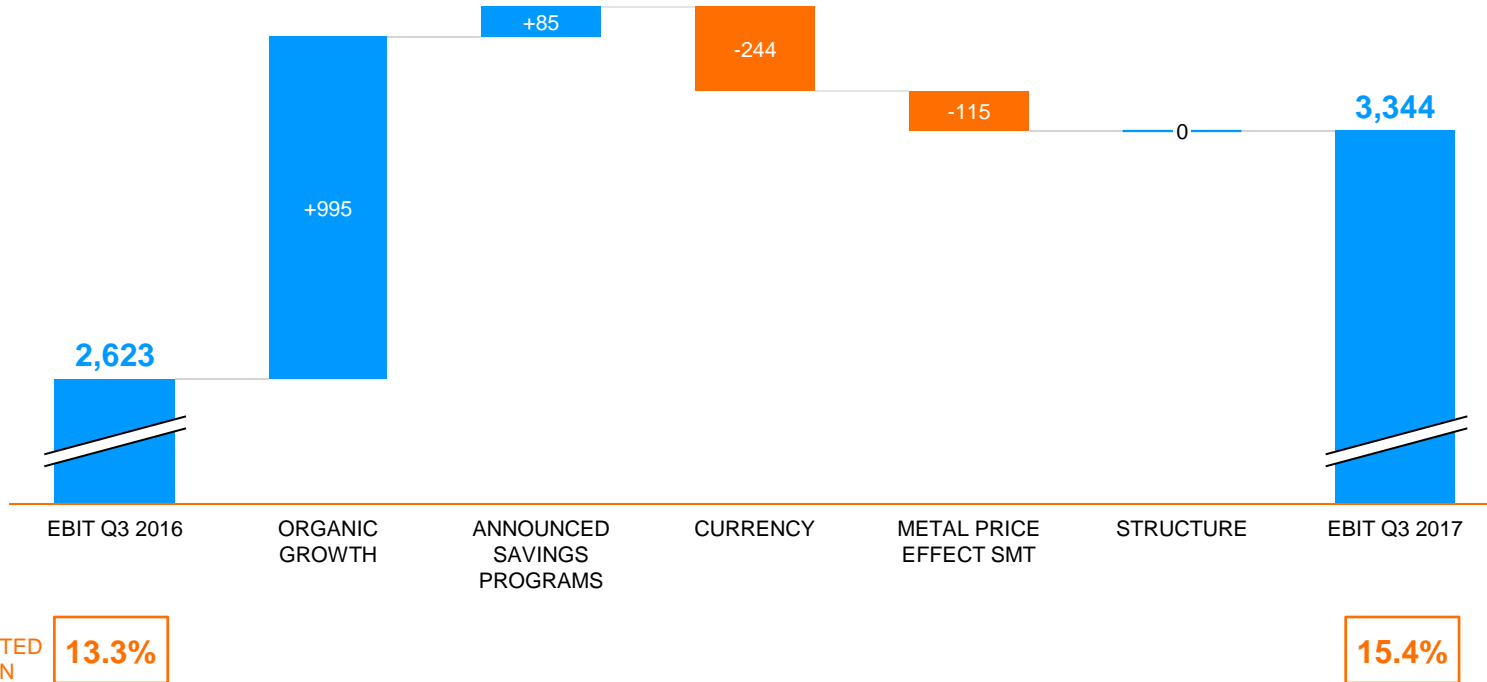
## END-CUSTOMER SEGMENTS

*(% of group revenues 2016 excl. Mining systems; Other e.g. consumer goods, electronics, chemical and miscellaneous was 6%)*

# PROFITABILITY DEVELOPMENT

GROUP  
LEVERAGE:

**+47%**







# BRIDGE ANALYSIS

MSEK	Q3 2016	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	Q3 2017
<b>MACHINING SOLUTIONS</b>					
REVENUES	7 859	793	-165	1	8 488
EBIT	1 650	412	-113	0	1 949
EBIT MARGIN	21.0%	+52%	-	-	23.0%
<b>MINING AND ROCK TECHNOLOGY</b>					
REVENUES	7 791	1 340	-144	-	8 987
EBIT	817	746	-91	-	1 472
EBIT MARGIN	10.5%	56%	-	-	16.4%
<b>MATERIALS TECHNOLOGY</b>					
REVENUES	2 945	62	-58	31	2 980
ADJUSTED EBIT	197	-152	13	-115	-57
ADJUSTED EBIT MARGIN	6.7%	n/a	-	-	-1.9%

\* Includes metal price effects in SMT, bottom line: +51 in Q3 2016 vs. -64 in Q3 2017, alloy surcharges topline: +35MSEK. Structure SMT -4MSEK. Structure SMS: topline: 1MSEK and bottom line: 0

# CREATING A LEANER COMPANY

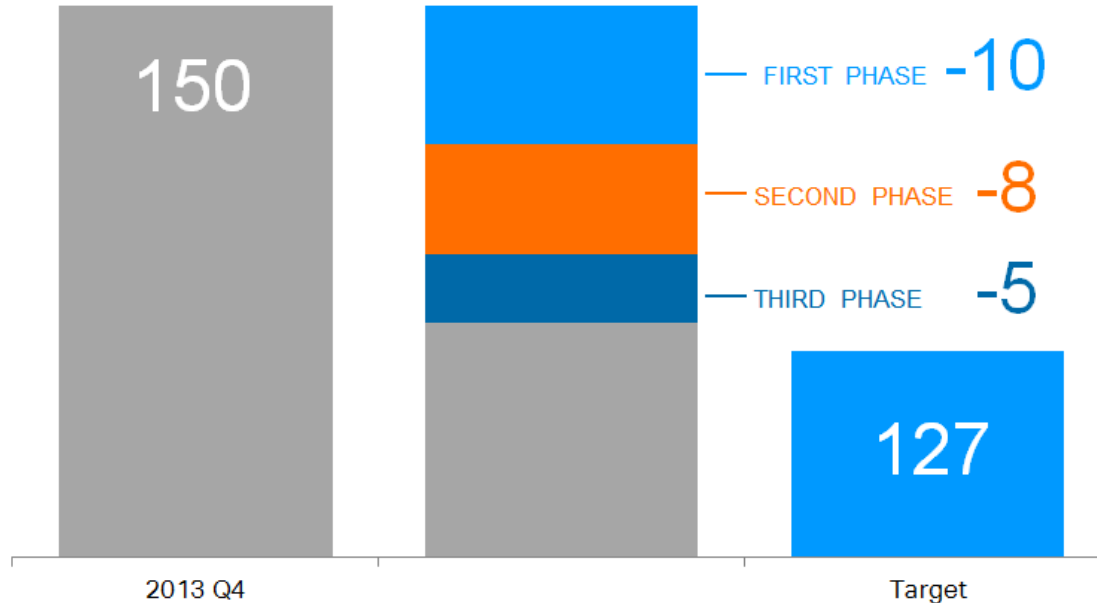
## SAVINGS ANNUAL RUN-RATE (MSEK) VS. LAST YEAR AND TOTAL

	 SANDVIK MACHINING SOLUTIONS	 SANDVIK MINING AND ROCK TECHNOLOGY	 SANDVIK MATERIALS TECHNOLOGY	GROUP ACTIVITIES	TOTAL ANNUAL RUN-RATE VS. LAST YEAR	 TARGET 2.1 BSEK
						SAVINGS ANNUAL RUN-RATE
SUPPLY CHAIN OPTIMIZATION	185	0	14	0	199*	1 180 (1 333)
ADJUST OF COST BASE/ RIGHT SIZING	133	0	3	0	136	743 (762)
<b>TOTAL</b>	<b>318</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>335*</b>	<b>1 923 (2 095)</b>

\*Other operations contributed by 0 MSEK on annual run-rate compared with previous year to the supply chain optimization program

# 21 PRODUCTION UNITS CLOSED END OF Q3

## SUPPLY CHAIN OPTIMIZATION PROGRAM CONTINUING OPERATIONS



### FIRST PHASE

- FINALIZED AT END Q4 2015
- RUN-RATE SAVINGS  
600 MSEK END OF Q4  
(out of 690 MSEK target)

### SECOND PHASE

- 8 UNITS IN SCOPE  
(7 UNITS CLOSED)
- TARGET SAVINGS 320MSEK  
ACHIEVED at year end 2016

### THIRD PHASE

- 5 UNITS IN SCOPE  
(4 UNITS CLOSED)
- TARGET SAVINGS 323 MSEK  
at year end 2017





# OTHER OPERATIONS

## NON-STRATEGIC ASSETS

### CARVE-OUT FOR PROCESS SYSTEMS DEVELOPING ACCORDING TO PLAN

- Expected closure no later than Q1 2018

### STRONG UNDERLYING DEMAND

- Underlying demand developed positively for both Hyperion and Process Systems
- Some timing issues for Process Systems

### EARNINGS IMPACTED BY TRANSACTION RELATED COSTS

- Earnings growth off-set by about -20MSEK in transaction related costs
- Underlying margin at 12.0%





SHARE OF REVENUES 2016

6%

# OTHER OPERATIONS

## NON-STRATEGIC ASSETS

ORDER INTAKE

1 203

MSEK

REVENUES

1 194

MSEK

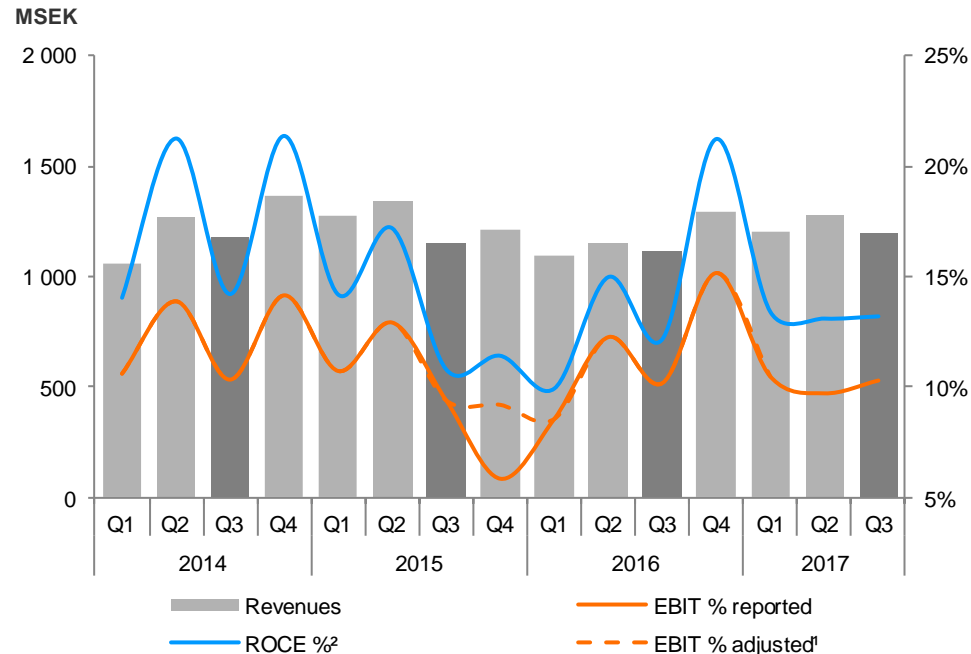
EBIT

123

MSEK

ROCE

13.2%



<sup>1</sup>Adjusted for items affecting comparability

<sup>2</sup>ROCE: EBIT adj. annualized, CE 1Q avg.



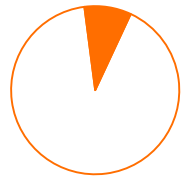


# LOAN AND DURATION PROFILE



LONG TERM  
**91%**

	AMOUNT MSEK	AVERAGE DURATION
US Private Placement	4,733	3 years
Fin institutions, EIB, NIB	1,707	6 years
Swedish MTN	5,660	4 years
European MTN	10,495	9 years
Bank loans	2,766	1 year
Share swap	-	-



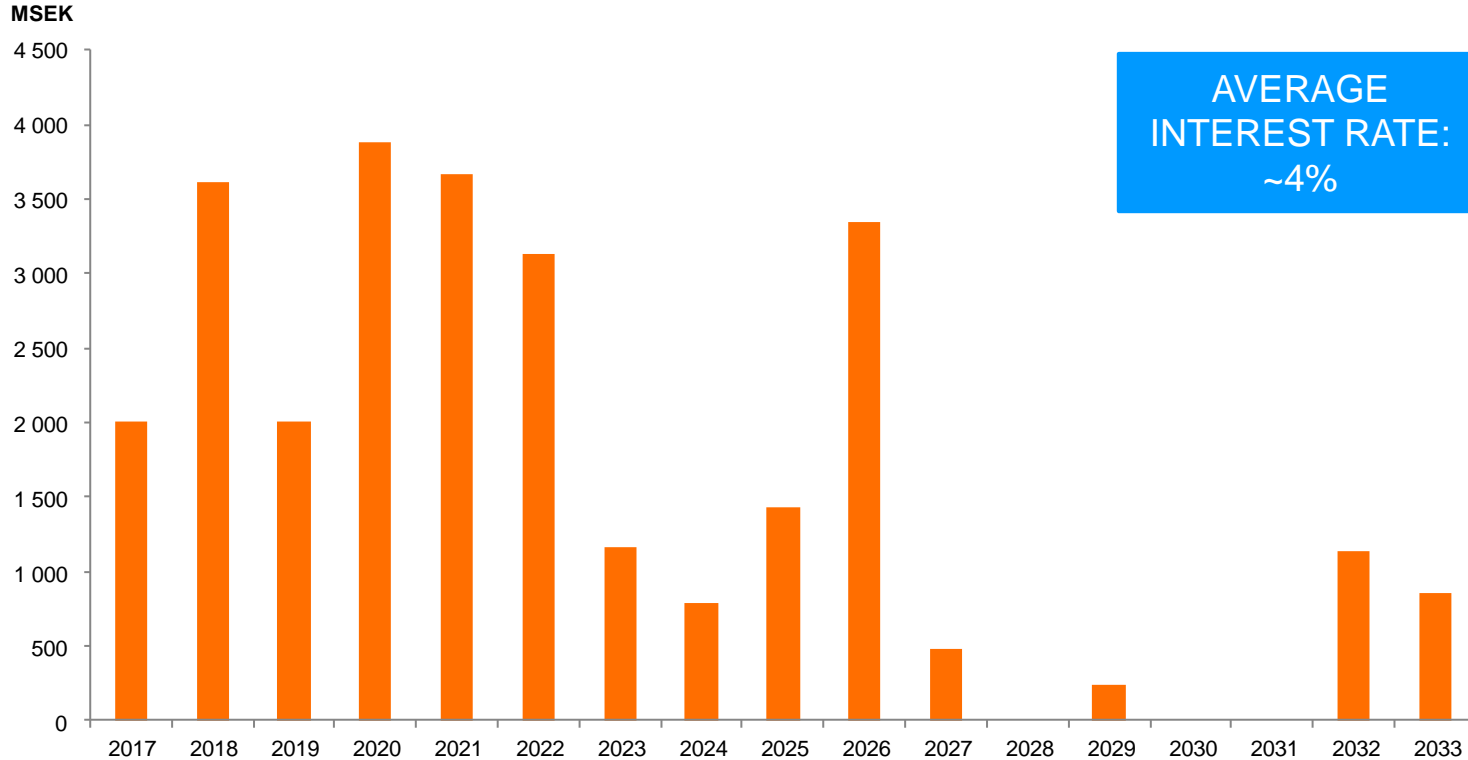
SHORT TERM  
**9%**

US Private Placement	891	0 month
Fin institutions, EIB, NIB	341	0 month
Swedish MTN	1,268	2 months
Bank loans	68	1 month
Share swap	-	-

Cash position	<b>8,565 MSEK</b>
Revolving Credit facilities	<b>9,100 MSEK</b>

<b>TOTAL</b>	<b>27,930</b>	<b>5 years</b>
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# LOAN MATURITY PROFILE



# GUIDANCE

## CAPEX

Estimated at about 3.7 BSEK for 2017

UPDATED

## CURRENCY EFFECTS

Given currency rates at end of September 2017 the effect on operating profit from transaction and translation would be -450 MSEK for Q4 2017

## METAL PRICE EFFECTS

Given currency rates, stock levels and metal prices at the end of September 2017, it is estimated that effect on operating profit in Q4 2017 will be neutral

## NET FINANCIAL ITEMS

Net financial items is estimated to be between -1.2 to -1.3 BSEK for 2017

UPDATED

## TAX RATE

The tax rate is estimated to about 26–28% for 2017

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.

# DISCLAIMER STATEMENT

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