

INTERIM REPORT THIRD QUARTER 2019



SUMMARY Q3

SLOWDOWN IN EARLY-CYCLE COMPENSATED FOR BY ROBUST ACTIVITY IN LATE-CYCLE SEGMENTS

- ORDER INTAKE -1%
- SMRT IN SOLID GROWTH +5%
- MAJOR ORDERS IN SMT ~700 MSEK (~500 MSEK LAST YEAR)

EARNINGS SUPPORTED BY FX TAILWIND

- ADJUSTED EBIT MARGIN AT 18.3%

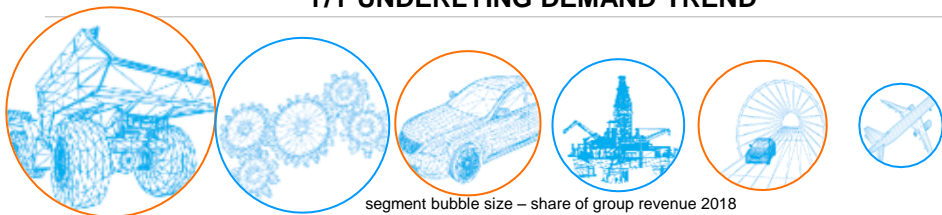
EFFICIENCY MEASURES INITIATED – HIGHER AMBITION

STRONG CASH FLOW – SECOND BEST EVER



MARKET DEVELOPMENT

Y/Y UNDERLYING DEMAND TREND



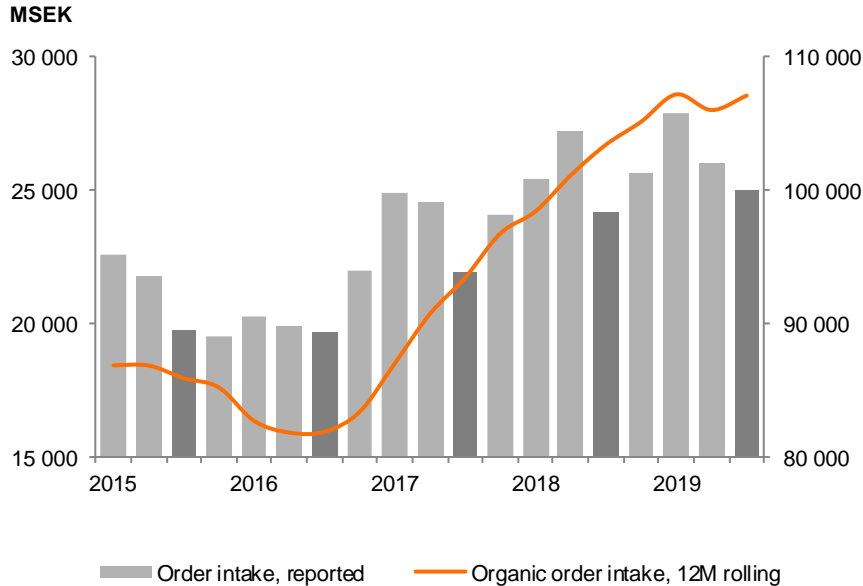
segment bubble size – share of group revenue 2018

	% of group revenue FY18	Y/Y order intake	Y/Y UNDERLYING DEMAND TREND						Sequential underlying demand trend (Q2/Q3)
EUROPE	38%	-10%	→	↓	↓	→	→	→	↓
NORTH AMERICA	21%	+7%	→	→	↓	↓	→	→	↓
ASIA	20%	-5%	→	↓	↓	→	→	→	↓
AFRICA/MIDDLE EAST	9%	+33%	→	↓					→
SOUTH AMERICA	5%	-0%	→						→
AUSTRALIA	7%	-1%	→						→

ORDER INTAKE

SLOWDOWN IN EARLY-CYCLE DEMAND

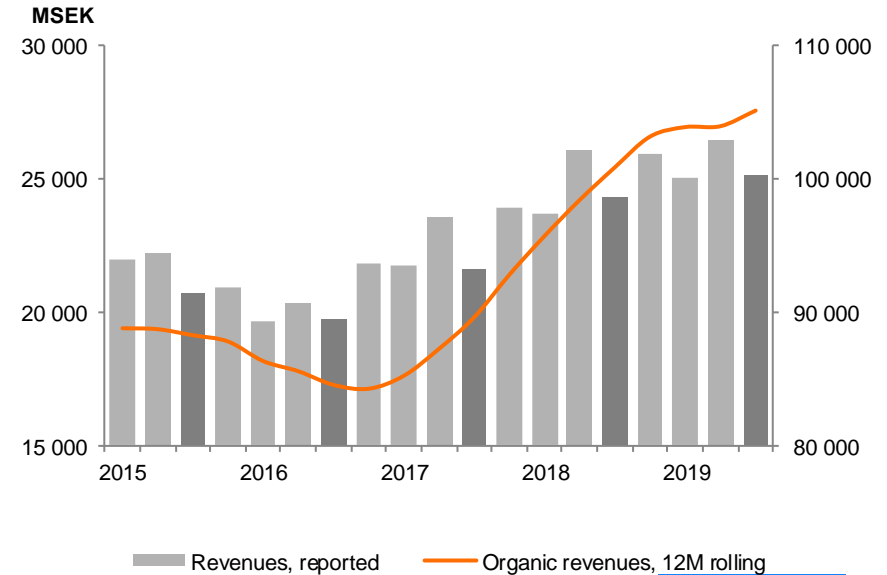
REPORTED P/V
24 992 **-1%**



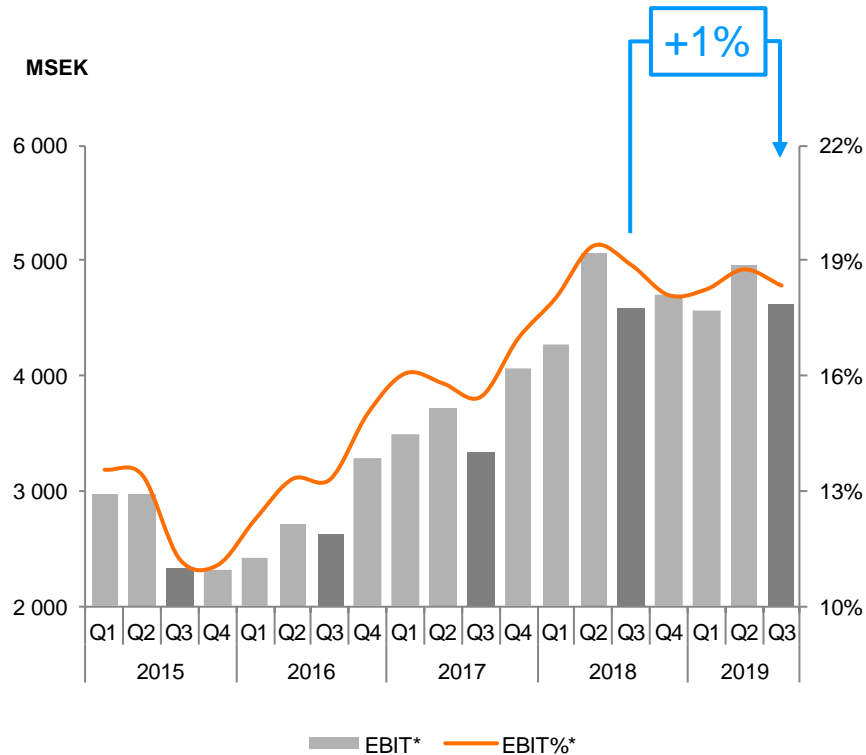
REVENUES

SUPPORTED BY BACKLOG IN SMRT

REPORTED P/V
25 163 **-1%**



EBIT DEVELOPMENT



ADJUSTED EBIT

4 617

MSEK

ADJUSTED EBIT %

18.3

- DECLINE OF -11% EXCLUDING FX, STRUCTURE AND METALS
- IMPACTED BY UNDERABSORPTION OF FIXED COSTS IN SMS

*Adjusted for items affecting comparability





SANDVIK MACHINING SOLUTIONS

WEAK DEMAND IN IMPORTANT SEGMENTS

- Decline in large segments; general engineering and automotive
- Cutting tools underlying at about -8% with some prolonged summer closures among customers
 - Tungsten powder business impacted negatively by -2%
 - Working day impact +1%

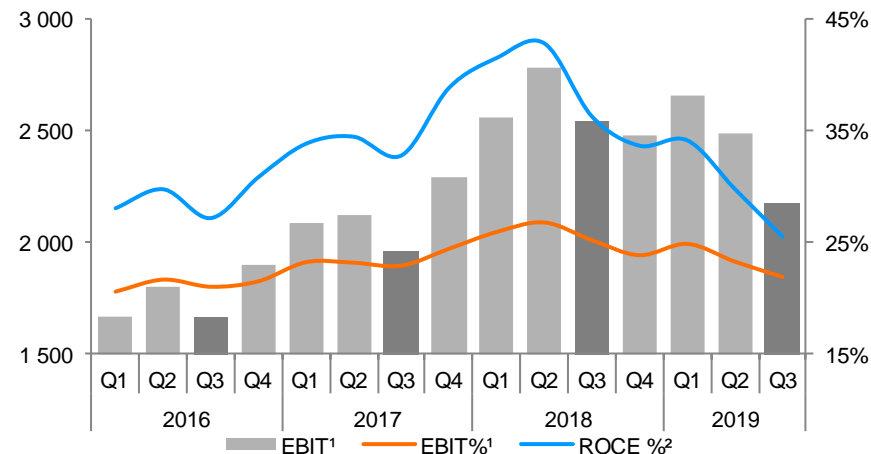
MARGIN IMPACTED BY LOWER VOLUMES AND PRODUCTION RATES

- Negative impact by ~200 bps due to volume drop including a negative impact from tungsten powder business partially off-set by savings
- Destocking vs. restocking last year impacted negatively by -190 bps but to some extent off-set by favorable FX

MSEK	Q3 2018	Q3 2019	CHANGE
ORDER INTAKE	10 047	9 609	-9%*
REVENUES	10 100	9 927	-7%*
ADJ. OP PROFIT	2 543	2 173	-15%
% OF REVENUES	25.2%	21.9%	

*At fixed exchange rates for comparable units

EBIT & ROCE DEVELOPMENT





SANDVIK MINING AND ROCK TECHNOLOGY

DEMAND ON HIGH LEVEL

- Mid-single digit growth for equipment on easy comparables
- Aftermarket in mid-single digit growth reaching record level

RECORD EARNINGS AND MARGIN

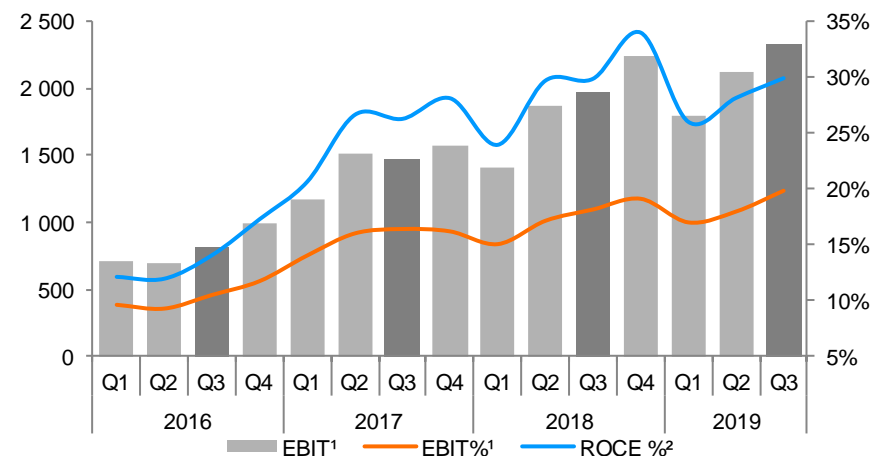
- Earnings primarily supported by FX and revenue growth
- Excluding FX earnings improved by 2%

GOOD RECEPTION OF NEWLY LAUNCHED PRODUCT LINE FOR SURFACE DRILLING

MSEK	Q3 2018	Q3 2019	CHANGE
ORDER INTAKE	10 468	11 516	+5%*
REVENUES	10 838	11 754	+3%*
ADJ. OP PROFIT	1 966	2 329	+18%
<i>% OF REVENUES</i>	18.1%	19.8%	

*At fixed exchange rates for comparable units

EBIT & ROCE DEVELOPMENT



¹Adjusted for items affecting comparability

²ROCE: EBIT adj. annualized, CE 1Q avg.



SANDVIK MATERIALS TECHNOLOGY

SLOWDOWN IN EARLY-CYCLE BUSINESS

- Slowing demand across regions and segments for early-cycle product offering
- Large orders booked ~700 MSEK in capex-related energy segment (~500 MSEK last year)

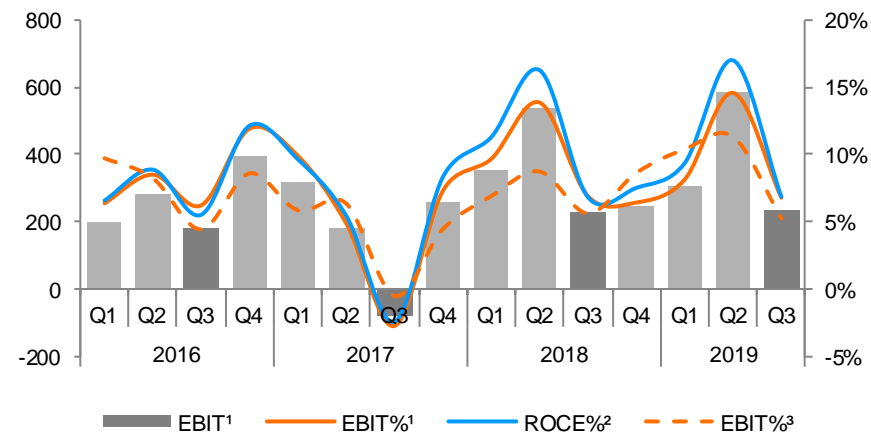
UNFAVORABLE MIX IMPACTED EARNINGS

- Lower volumes in standardized offering as well as Kanthal more than off-set favorable development in capex oil and gas
- Ongoing efficiency measures

MSEK	Q3 2018	Q3 2019	CHANGE
ORDER INTAKE	3 677	3 867	+4%*
REVENUES	3 344	3 482	+3%*
ADJ. OP. PROFIT	230	236	+2%
<i>% OF REVENUES</i>	6.9%	6.8%	
<i>UNDERLYING MARGIN³</i>	5.6%	5.2%	

*At fixed exchange rates for comparable units

EBIT & ROCE DEVELOPMENT



¹Adjusted for items affecting comparability

²ROCE: EBIT adj. annualized, CE 1Q avg.

³EBIT adj. for items affecting comparability and metal prices

TOMAS ELIASSON
CFO

= 13

= 7

= -10

= 7

FINANCIAL SUMMARY Q3 AND 9M

GROWTH Q319, %

	ORDER REVENUES INTAKE	
ORGANIC:	-1	-1
CURRENCY:	+4	+4
STRUCTURE:	+0	+0
TOTAL	+3	+4

MSEK	Q3 2018	Q3 2019	CHANGE %	Q1-3 2018	Q1-3 2019	CHANGE %
ORDER INTAKE	24 192	24 992	-1 ¹	76 812	78 897	+0 ¹
REVENUES	24 283	25 163	-1 ¹	74 104	76 655	+1 ¹
ADJUSTED OPERATING PROFIT	4 587	4 617	+1	13 925	14 152	+2
<i>% OF REVENUES</i>	<i>18.9</i>	<i>18.3</i>		<i>18.8</i>	<i>18.5</i>	
FINANCE NET	-140	-198	-42	-659	-963	-46
UNDERLYING TAX RATE	26.1	25.8		26.3	25.7	
NWC % ^{2 3}	27.2	28.3		24.1	25.8	
CASH FLOW ³	+4 679	+5 840	+25	+8 983	+11 348	+26
ROCE % ^{2 3}	21.7	20.6		22.6	21.3	
ADJUSTED EPS CONT. OPS.	2.62	2.61	-1	7.81	7.92	+2

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

GROUP
LEVERAGE:

N/A

SANDVIK GROUP

MSEK	Q3 2018	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE/ METAL IMPACT	Q3 2019
REVENUES	24 283	-206	+994	+92	25 163
ADJUSTED EBIT	4 587	-518	+584	-35	4 617
ADJUSTED EBIT MARGIN	18.9%	N/A	-	-	18.3%

MARGIN ACCRETION / DILUTION

-2.0%

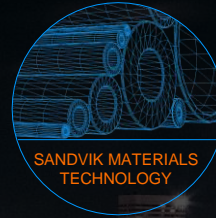
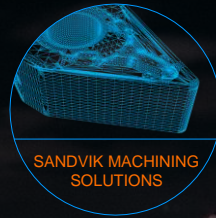
+1.7%

-0.3%

- Includes metal price effects within Sandvik Materials Technology of -4 MSEK in alloy surcharges on revenues and -11 MSEK in metal price effect on EBIT (+43 Q3 2018 vs. +54 Q3 2019). Structure SMT -66 MSEK on topline and -9 MSEK on EBIT (Stainless wire). Structure SMS +83 MSEK on topline and -5 MSEK on EBIT (Dura-Mill, Wetmore & OSK). Structure +79 MSEK SMRT on topline and -33 MSEK on EBIT for Artisan & Newtrax.

COST SCRUTINY

MORE TO DO



TOTAL COSTS

1 571

MSEK, BOOKED IN Q3 2019

TOTAL ESTIMATED SAVINGS

~1 710 

MSEK, MAJORITY ACHIEVED BY MID-2020

PAYBACK TIME, YEARS **0.9**

IMPLIED REDUCTION OF PERSONNEL

~2500* 

25% INCREASE
COMPARED WITH ORIGINAL PLAN

930

323

278

40

980

440

220

70

* 450 people already left the company as of end of Q2 2019 however savings are to filter through in H2 2019 (Sandvik Machining Solutions)

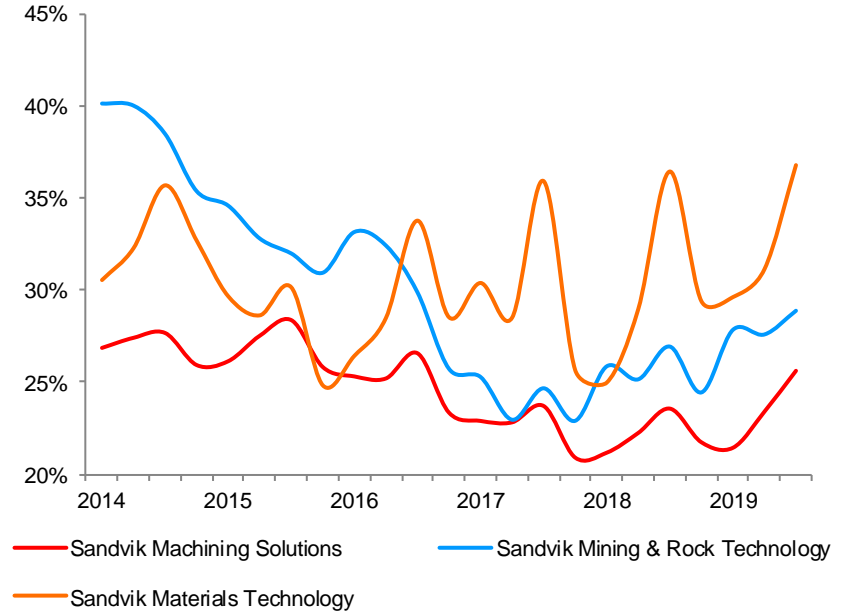
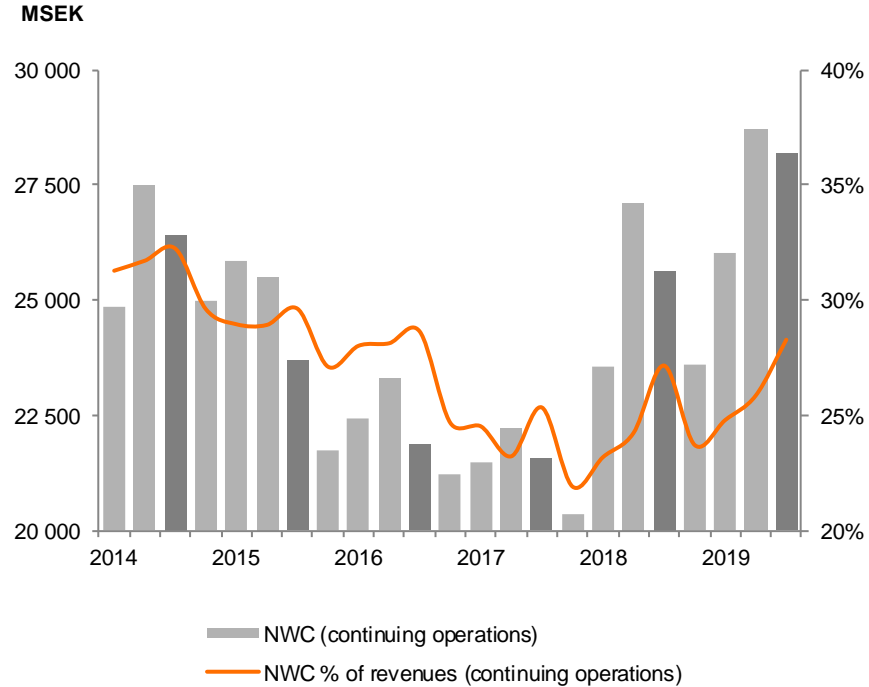
NET FINANCIALS

MSEK	Q3 18	Q3 19
Underlying interest net	-150	-99
Pension	-32	-35
Bank charges	-13	-7
Other fin income & costs	-10	-5
IFRS16		-27
FX & other asset classes	+65	-25
Total	-140	-198

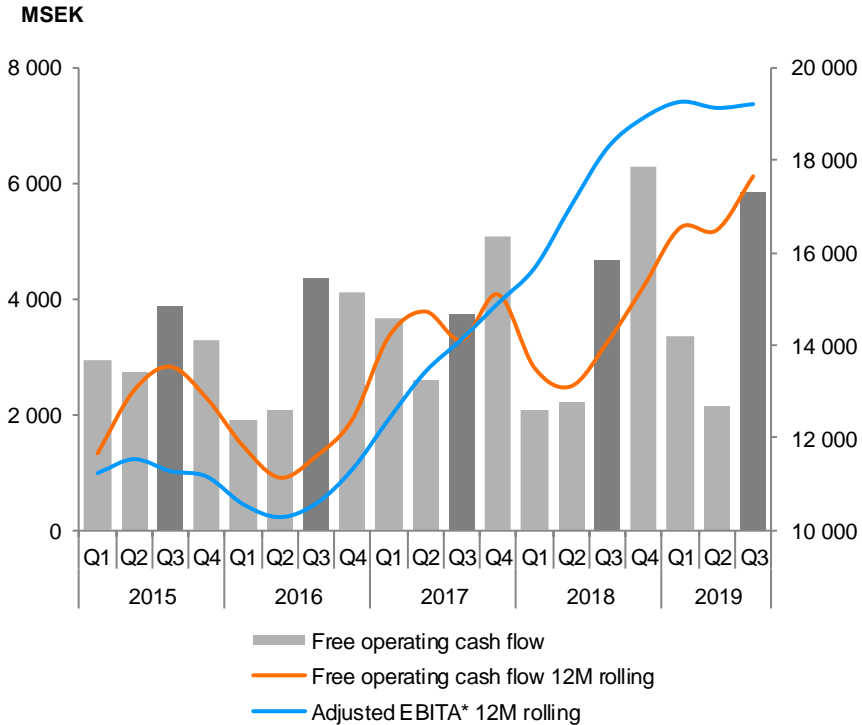
- INTEREST NET LOWERED
- NEGATIVE IMPACT FROM DERIVATIVES
- GUIDANCE ~1.2 BSEK FOR FULL 2019

NET WORKING CAPITAL RELATIVE NWC BY BA

SEASONAL STOCK REDUCTION IN SMS AND SMT



FREE OPERATING CASH FLOW



MSEK

Q3 2018

Q3 2019

EBITDA + non-cash*

5 534

5 533

NWC change

+220

+1 392

Capex**

-1 074

-1 085

FOCF***

4 679

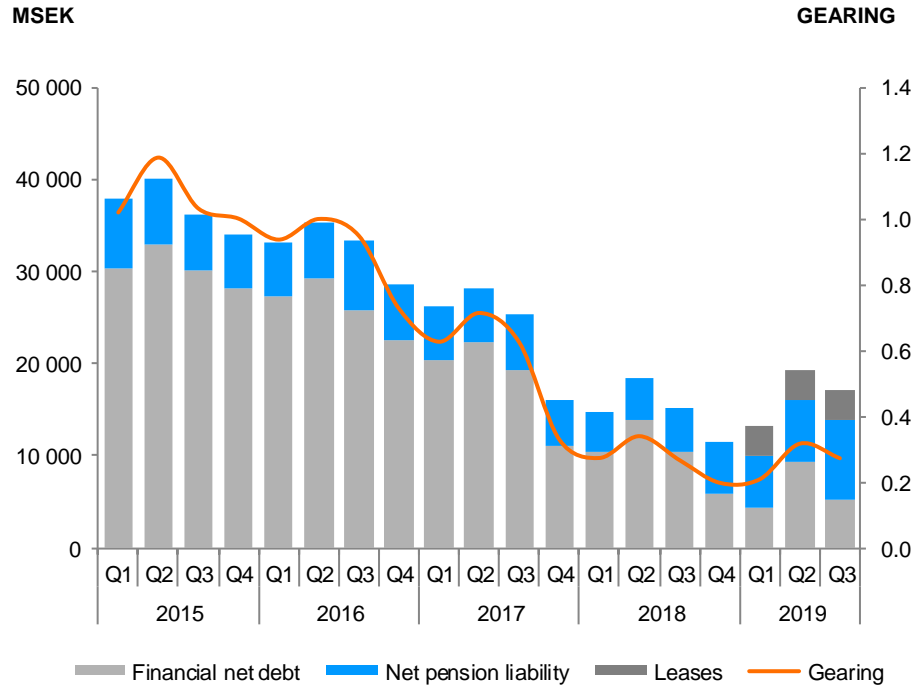
5 840

*Including amortization of lease liabilities and IFRS adoption

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

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

NET DEBT



- GEARING AT 0.27
- INCREASE IN NET PENSION LIABILITIES

OUTCOME Q3 AND GUIDANCE

Q3 2019

Underlying currency effect (MSEK):	+376	(~300)
Total currency effect (MSEK):	+584	
Metal price effect in quarter (MSEK):	+54	(-20)

Q4 2019

Underlying currency effect (MSEK):	+400*
Metal price effect in quarter (MSEK):	+300**

FULL YEAR 2019

Cash capex (BSEK):	<4	(Q3: 1; 9M: 2.8)
Net financial items (BSEK):	~1.2 (UPDATED)	(Q3: 0.2; 9M: 1)
Underlying tax rate (%):	25-27	(Q3: 25.8; 9M: 25.7)

*Based on currency rates end of September 2019

**Based on currency rates, stock levels and metal prices at the end of September 2019

17

SANDVIK: Interim Report on the third quarter 2019

Comments and numbers refer to continuing operations unless otherwise stated.



SUMMARY Q3

A nighttime photograph of a city skyline, likely New York City, featuring several prominent skyscrapers with their windows illuminated. The scene is dark, with the city lights providing the primary illumination.

SHARP SLOWDOWN IN EARLY-CYCLE DEMAND

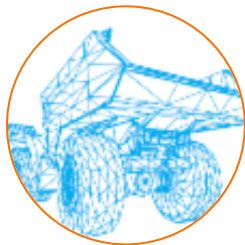
EFFICIENCY MEASURES ONGOING

STRONG CASH FLOW – SECOND BEST QUARTER EVER

PROGRESS ON INTERNAL SEPARATION OF SMT

BACK-UP SLIDES

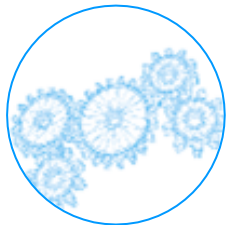




MINING
(34%)



ENERGY
(11%)



**GENERAL
ENGINEERING**
(23%)



CONSTRUCTION
(9%)



AUTOMOTIVE
(12%)



AEROSPACE
(6%)

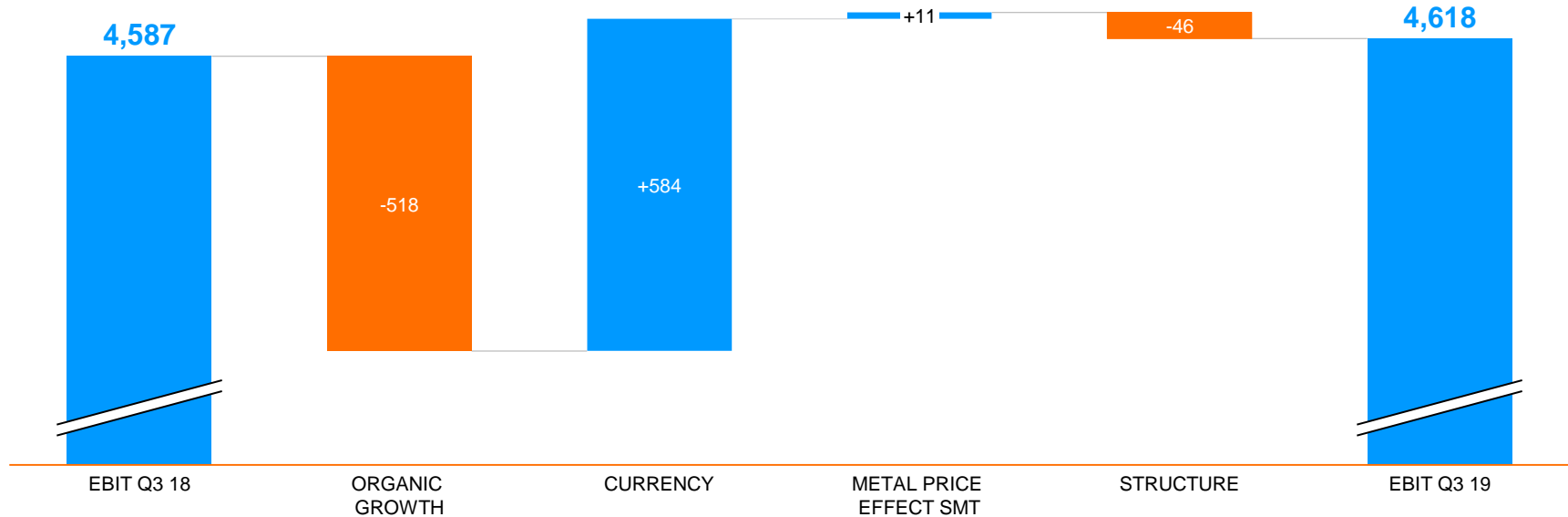
END-CUSTOMER SEGMENTS

% of group revenues 2018 excl. Mining systems; Other e.g. consumer goods, electronics, chemical and miscellaneous was 5% .

PROFITABILITY DEVELOPMENT

GROUP
LEVERAGE:

N/A



ADJUSTED
EBIT MARGIN

18.9%

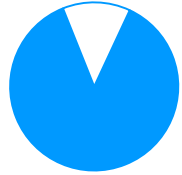
18.3%

BRIDGE ANALYSIS

MSEK	Q3 2018	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	Q3 2019
MACHINING SOLUTIONS					
REVENUES	10 100	-664	+408	+83	9 927
ADJUSTED EBIT	2 543	-557	+192	-5	2 173
ADJUSTED EBIT MARGIN	25.2%	-84%	-	-	21.9%
MINING AND ROCK TECHNOLOGY					
REVENUES	10 838	362	+475	+79	11 754
ADJUSTED EBIT	1 966	67	+329	-33	2 329
ADJUSTED EBIT MARGIN	18.1%	+19%	-	-	19.8%
MATERIALS TECHNOLOGY					
REVENUES	3 344	96	+112	-70	3 482
ADJUSTED EBIT	230	-50	+54	+2	236
ADJUSTED EBIT MARGIN	6.9%	n/a	-	-	6.8%

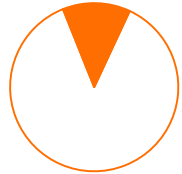
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LOAN AND DURATION PROFILE



LONG TERM
87%

	AMOUNT MSEK	AVERAGE DURATION
US Private Placement	0	-
Fin institutions, EIB, NIB	0	-
Swedish MTN	3 648	2 years
European MTN	11 776	7 years
Bank loans	82	1 year
Share swap	-	-



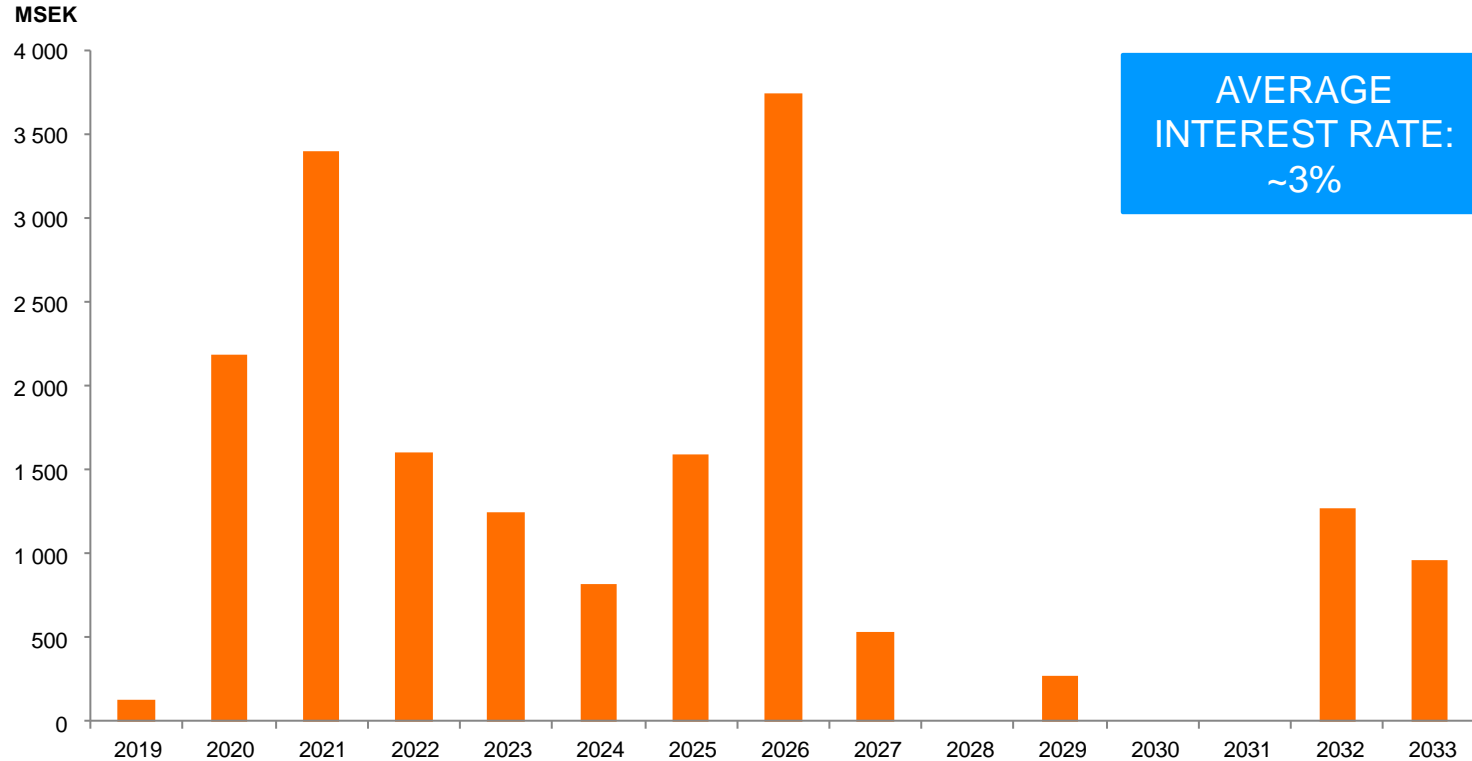
SHORT TERM
13%

US Private Placement	0	-
Fin institutions, EIB, NIB	0	-
Swedish MTN	2 001	1 month
Bank loans	232	4 months
Share swap	-	-

Cash position **8 168 MSEK**
Committed Credit facilities **12 541 MSEK**

TOTAL	17 738	5 years
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LOAN MATURITY PROFILE



GUIDANCE

CASH CAPEX

Estimated to **<4 BSEK for 2019**

CURRENCY EFFECTS

Given currency rates at end of September 2019 the effect on operating profit from transaction and translation would be **+400 MSEK for Q4 2019**

METAL PRICE EFFECTS

Given currency rates, stock levels and metal prices at the end of September 2019, it is estimated that effect on operating profit in **Q4 2019 will be +300 MSEK**

NET FINANCIAL ITEMS

Net financial items is estimated at about **1.2 BSEK for 2019**

TAX RATE

The tax rate is estimated to **25-27% for 2019**

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.”