



# Q3 2014 Interim Report

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24 October 2014

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# Agenda



- **Highlights for Q3 2014** **DW**
- **Summary of financial results** **DB**
- **Q4 2014 Outlook** **DW**
- **Q&A** **DW & DB**

# Highlights for Q3 2014



- Overall our experience is that the global market for our products has remained stable during Q3. However, within certain territories and end markets we have seen some variations.
- European end-markets have softened slightly in a number of sectors - most recently Medium/Heavy Trucks has moved back.
- US markets have fared a little better than European markets but they are not showing continued growth.
- We announced during Q3 a significant new contract to supply transmission pumps for a global OEM of heavy trucks.
- First nine months of 2014 compared positively to 2013:
  - Sales were up 3% y-o-y, after adjusting for currency (+5%) and LICOS (+3%)
  - Operating income margin increased to 16.0% (14.8%)

# Highlights for Q3 2014 (continued)



- Q3 2014 v Q3 2013:
  - Sales were down 3% y-o-y, after adjusting for currency (+8%)
  - Operating income margin increased to 16.4% (15.1%)
- Conversion of income into cash remained strong:
  - Cash flow from operating activities for Q3 was MSEK 84 (55)
  - Own share buy backs in Q3 amounted to MSEK 48, taking the cumulative buy backs to MSEK 98 over the last two quarters
- Gearing ratio was reduced to 49% (104)



# Summary of financial results

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# Q3 & YTD 2014 Results



## MSEK

	Jul-Sep			Jan-Sep		
	2014	2013	Change	2014	2013	Change
Net Sales before IFRS 11	562	526	36	1,663	1,477	186
Net Sales <sup>(1)</sup>	520	496	24	1,543	1,390	153
<i>Δ adjusted for LICOS &amp; FX <sup>(1)</sup></i>	-3%	3%		3%	-11%	
Gross income	141	128	13	421	364	57
Operating income <sup>(1)</sup>	86	75	11	247	206	41
<b>Operating margin <sup>(1)</sup></b>	<b>16.4%</b>	<b>15.1%</b>		<b>16.0%</b>	<b>14.8%</b>	
Earnings before tax	84	66		233	182	
Net income	64	49		177	130	
Basic EPS (SEK)	1.47	1.10		4.08	2.96	
ROCE <sup>(1)</sup>	26.5%	21.2%				
ROE	30.9%	23.2%				
Net debt	414	604				
<b>Gearing (Debt/Equity)</b>	<b>49%</b>	<b>104%</b>				

<sup>(1)</sup> Restated under IFRS 11 amendments to account for Alfdex AB under equity method

EV of  
SEK 4.1bn  
based on  
30-Sep-14  
share price  
SEK 85.25

# Market development

## Key messages



- Latest market indices show 3%\* growth y-o-y for first nine months, compared with Concentric's actual sales which were up 4% y-o-y for first nine months including Alfdex sales, after adjusting for currency and LICOS.
- Published indices were broadly in line with Concentric's actual sales order experience across all end-markets and regions with the exception of hydraulic product sales in North America, which remained down in Concentric in contrast to the market data.
- North American production for diesel engines remained positive, with medium/heavy trucks showing the strongest growth.
- European end-markets seemed to weaken, particularly diesel engines for medium/heavy trucks and hydraulic products for the construction equipment market.
- Market forecasts for the full year have been revised down with no growth anticipated during the second half of 2014 (up 2%\* y-o-y).

*\* Blended growth rate using Concentric's sales mix by end-market and customer location*

# Q3 & YTD 2014 Results

## Americas Region



	Q3		YTD	
	2014	2013	2014	2013
<i>Amounts in MSEK</i>				
External net sales	267	251	775	743
Operating income	41	35	118	99
Operating margin %	15.1	14.0	15.2	13.3
Return on capital employed %	49.4	36.2		

### Engine product growth offset by weak hydraulic product sales

- Sales in constant currency were flat for Q3 and up 2% for first nine months y-o-y. The improvements experienced across all end-markets for diesel engine products have been partially eroded by the fall in demand for hydraulic products.
- Average sales on a working day basis were MSEK 4.2 (4.1) for Q3 and MSEK 4.1 (4.0) YTD.

### Operating margins continue to improve

- The operating margin was up to 15.2% for first nine months, reflecting a drop-through rate of c. 60% on the y-o-y additional sales.



# Q3 & YTD 2014 Results

## Europe & RoW Region



	Q3		YTD	
	2014	2013	2014	2013
<i>Amounts in MSEK</i>				
External net sales <i>(including Alfdex sales)</i>	293	275	886	735
Operating income	48	41	133	110
Operating margin %	16.2	14.9	15.0	15.0
Return on capital employed %	22.6	22.3		

### Demand has weakened in Europe during Q3

- Sales were down 1% in Q3 and up 8% in the first nine months y-o-y, including our 50% share of Alfdex sales, after adjusting for the impact of currency and the acquisition of LICOS.
- Average sales on a working day basis were MSEK 4.7 (4.4) for Q3 and MSEK 4.8 (3.9) YTD.

### Operating margins have started to improve

- The operating margin increased to 16.2% for Q3, maintaining the operating margin achieved for the first nine months at 15.0%.
- The additional benefits from the consolidation of the European hydraulics business have started to be realised in Q3 2014.

# Robust Financial Position



<i>Amounts in MSEK</i>	30 Sep		<i>Comments</i>
	2014	2013	
<b>Balance Sheet</b>			
Working Capital <sup>(1)</sup>	92	70	Working capital remained slightly high due to consolidation of our hydraulics business in Europe.
<i>As % of annualised sales</i>	4.6%	3.6%	
Capital Employed <sup>(1)</sup>	1,244	1,161	
Net Debt <sup>(1)</sup>	414	604	Cash reserves and undrawn credit facilities amounted to c. MSEK 370.
Shareholders' equity	841	617	
<i>Gearing ratio</i>	49%	104%	In line with new min target of 50% after own share buy-backs
<i>(1) Restated under IFRS 11 amendments</i>			
<b>Cash Flow</b>			
	YTD-14	YTD-13	
EBITDA <i>(including Alfdex)</i>	314	269	
Cash inflow from op activities	243	120	
Net investments	-15	-127	2013 includes MSEK -105 re: LICOS.
Cash outflow from financing	-245	-141	Includes MSEK 121 (110) dividends paid and MSEK 98 (nil) own share buy-backs.
Net cash flow for period	-17	-148	



# Q4 2014 Outlook

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- Orders received during the third quarter of 2014 were in line with sales, adjusted for the fewer working days in the fourth quarter, again indicating that end customer demand has stabilised.
- Structural growth from the LICOS acquisition and other Euro 6 EPA 2013 contracts continues but has not fully offset the softening in the European markets seen during the third quarter of 2014 .
- The long-term market drivers to reduce CO<sub>2</sub>/fuel consumption will continue to drive business growth through the increased use of both efficient and variable flow pump technology.
- Concentric remains well positioned, both financially and operationally, to fully leverage our market opportunities.



Any Questions?

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# Appendix - Market Data

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# Q3 & YTD 2014 Market Data

## End-markets & Regions



	Q3-14 vs. Q3-13			YTD-14 vs. YTD-13		
	North America	Europe	China/India	North America	Europe	China/India
<b>Agricultural machinery</b>						
Diesel engines	2%	-1%	-17%	3%	2%	-7%
<b>Construction equipment</b>						
Diesel engines	-7%	-1%	-37%	8%	1%	-12%
Hydraulic equipment	9%	-37%	n/a	11%	-23%	n/a
<b>Truck</b>						
Light vehicles	1%	n/a	n/a	0%	n/a	n/a
Medium/Heavy vehicles	15%	-8%	-12%	14%	-8%	6%
<b>Industrial applications</b>						
Other Off-highway	5%	1%	1%	4%	-1%	19%
Hydraulic lift trucks	12%	9%	n/a	14%	6%	n/a

Source: Based on Power Systems Research, Off-Highway Research and International Truck Association Q3 2014 update

# Q3 & YTD 2014 Market Data Applied to Concentric



	Q3-14 vs. Q3-13			YTD-14 vs. YTD-13		
	North America	Europe & RoW	Group	North America	Europe & RoW	Group
<b>Blended market rates</b>	7%	-7%	0%	7%	-2%	3%
<b>Concentric actual rates</b>	0%	-2%	-1%	2%	6%	4%

*Source: Based on Power Systems Research, Off-Highway Research and International Truck Association Q3 2014 update*

- Applying our sales mix by end-market and customer location to these indices, the blended market growth rate for Q3 was flat and for the first nine months it was 3%. In comparison, Concentric's actual sales were down 1% in Q3 and up 4% for the first nine months y-o-y in constant currency, including the sales from Alfdex but excluding LICOS.
- The latest market indices have revised the year-on-year growth down to 2% for the full year 2014, blended across our end-markets.
- As noted in previous quarters, movements in the market indices tend to lag our order intake experience by 3-6 months.