

RATOS

Business environment and strategy

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Macro 2012 – end of the world (as we know it)?

- 2012 is the end of the story (in its present form)...
- ...21 December key date
- Many prophets of doom (still)
- Euro behaves in this way
- Maya calendar!...
- ...but experts disagree about this as well!

Macro 2012 – TOW (1)

- Sub par growth
 - Euro area heading for recession
 - other major economies weak to modest growth
 - growth in the global economy
 - risks on the downside
- No inflation
 - deflation still major threat
 - deleveraging creates continued problems for monetary policy
 - unemployment prevents salary inflation

Macro 2012 – TOW (2)

- Continued low interest rates
 - extremely easy monetary policy 2012-2013
 - ECB and PBOC moving towards more easy monetary policy
- Currencies – no winner in sight so far!
 - euro down at start of the year
 - favourites: GBP, SEK, NOK, CAD, AUD
 - dollar in between
- Commodities
 - oil price stable high level
 - industrial commodities: low level but cyclically dependent

Macro 2012 – TOW (3)

■ Risks

- never so much uncertainty, so many key issues at the same time
- Europe
- election year in countries that account for 50% of global GDP
- geopolitics
- populist movements

Macro 2012 – TOW (4)

- TOW – Tug-Of-War
 - monetary policy vs. fiscal policy
 - stimulus vs. austerity
 - continued high volatility
 - continued gigantic risks
 - continued conservative strategy

Financial strategy (1)

- Autumn 2011: Spreading rumours!
 - 6 months to go until dividend...
 - stupid sources (or in some cases downright lies)
- Paradox: Ratos and then!
 - on the agenda and communicated since Lehman
 - strengthened operational focus – weekly (AR 2011!)
 - fully under control

Financial strategy (2)

- PEC (long-term) a company among all others
 - cf “Volvo”
- Short-term difference
 - financing flows in batches
 - more binary
- “Borrow for dividend”
 - loan vs. bridge financing
 - spring 2011!!!

Financial strategy (3)

- Created smorgasbord
 - cash
 - dividends/refinancings (multi-year plans)
 - exits
 - credit lines
 - new issue mandate
 - additional ongoing projects

Financial strategy (4)

- Dividend strategy
 - aggressive dividend policy
 - growth reflects Ratos's long-term development
 - stability sought after
 - not controlled by net cash!
 - annual review
 - strategic balance

Private Equity Conglomerate (PEC)

- Long-term owner perspective
 - foundations and family
 - other long-term owners
 - short-term owners welcome along the way
- Goal/purpose to create
 - “perpetual” sustainable business model
 - “perpetual” (value) growth
 - profitability vital and essential for survival

PEC – Private Equity Conglomerate

Ratos



PE

PEC

C

Success factors, diversified company (1)

- Transaction orientation
 - acquisition-driven
 - exit when time is right
 - profitability requirements
 - propensity to change over time
- Effective capital allocation
 - profitability more important than growth
 - systematic efforts to turn (or sell) unprofitable, value-destroying units
 - steadily increase proportion of capital invested in value-creating units
 - clear and consistent portfolio strategy

Success factors, diversified company (2)

- Leadership development and skills transfer
 - company university
 - support from incentive structures
- Lean organisation with clear division of responsibility
 - few hierarchical levels

Success factors, diversified company (3)

- Central strategic initiatives
 - often CEO-driven
- Fundamentalist work with corporate culture
 - value system in focus
- Strictly conducted corporate governance
 - often clear principal owner
 - strategic dialogue with principal owner
 - independent, external board members in an effective and motivated board
 - transparent (open and honest) reporting

Success factors, diversified company (4)

- Capital market *guidance*
 - not submission!
- Financial and fiscal optimisation
 - no excesses!

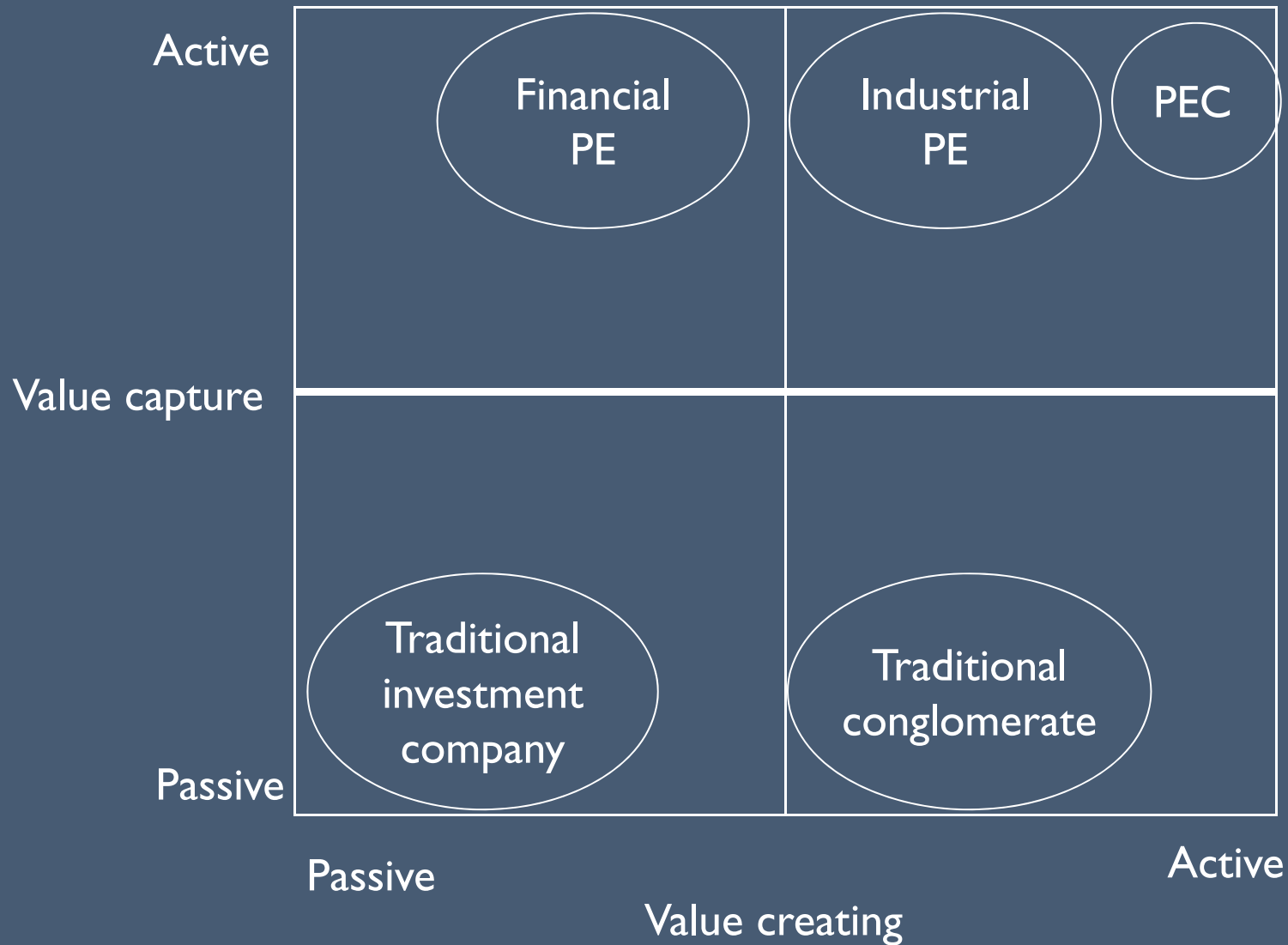
Strategic consequences (1)

- Pure PE (short-term/financial) not “permanent” persistent model
 - industrial development and build up work requires (often) a long time and “linking”
 - e.g. Camfil, Haglöfs, Hägglunds Drives, Inwido
- Classic conglomerate not a “permanent” persistent model
 - lack of exit strategy
 - lack of financial optimisation
 - (certain) industry focus/dependence

Strategic consequences (2)

- PEC ultimate solution!
 - makes use of the best of both worlds
 - avoids downsides and pitfalls
 - does not require over-smart timing

PEC – Private Equity Conglomerate



PEC – more common than you might think

- General Electric (et al)
- Warren Buffet
- Bonnier
- A.P. Møller-Maersk
- Asia!
- Swedish companies (ABB, Electrolux, Sandvik, et al)
- stock exchange!!!

Fire support

- *“Private-equity funds are the conglomerates of this era”* (Jeff Immelt, GE, Financial Times 2007)
- *“You have to regard the stock exchange as living material that constantly changes”*
“The venture capital companies we see today had their equivalents before in Electrolux, Trelleborg, Skrinet and others, where buyouts were a business concept”
(Björn Wilke, DI 30 April 2011, “My 40 years on the stock exchange”)

Conglomerate valuation (1)

- Conglomerate often valued at a premium
 - hidden in average figures
 - major regional differences

Conglomerate valuation (2)

(%)	MV/NAV	Discount share	Premium share
Global index	./5.5	35	27
CEE	./11.7	NA	NA
Western Europe	./10.2	41	21
North America	./9.9	36	26
Asia (ex Japan)	./9.0	34	26
Japan	+2.6	33	31
Latin America	+12.1	27	26

(Citigroup, April 2011)

Ratos's DNA (1)

- Owner companies cannot be compared with operating companies!
 - not same type of business
 - repetitiveness, strategy in two dimensions
- Strategy much larger part of operations
 - retail 5/95, industry 10/90, PEC 30/70
 - structural capital, everything in its place key parameters

Ratos's DNA (2)

- (Far too many) Any-old-how companies
 - is what it is due to lack of strategic compass
 - lack of strategic fundamentalism
 - not learning organisations (structural capital)
 - recreational football team vs. North Korea vs. Barcelona
- Individual vs. industrial collective (with individuals)
 - Barcelona, skilled conglomerate

Ratos's DNA (3)

- Project is core in this
 - further develop AM
 - further develop individuals
 - structure/repetitiveness (RIC)

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