

Telephone presentation February 3, 2017, 14:00 CET

Please call +46 8213 091 (international call)

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# Welcome to HEXPOL

## Year-end 2016 and Q4 2016 report update

CEO Georg Brunstam  
CFO Karin Gunnarsson

February 3, 2017



# Agenda

- Introduction to HEXPOL
- Q4 2016 – HEXPOL Group
- Q4 2016 – Business areas
- Full year 2016 – Key figures
- Q4 2016 – Summary
- Q & A



# HEXPOL – Fast growing with strong margins

*HEXPOL is a world-leading polymers group with strong global positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for forklift and castor wheel application (Wheels).*



# Our vision guides us

*HEXPOL's vision is to be market leader, number one or two, in selected technological or geographical segments, to generate profit, growth and shareholder value.*



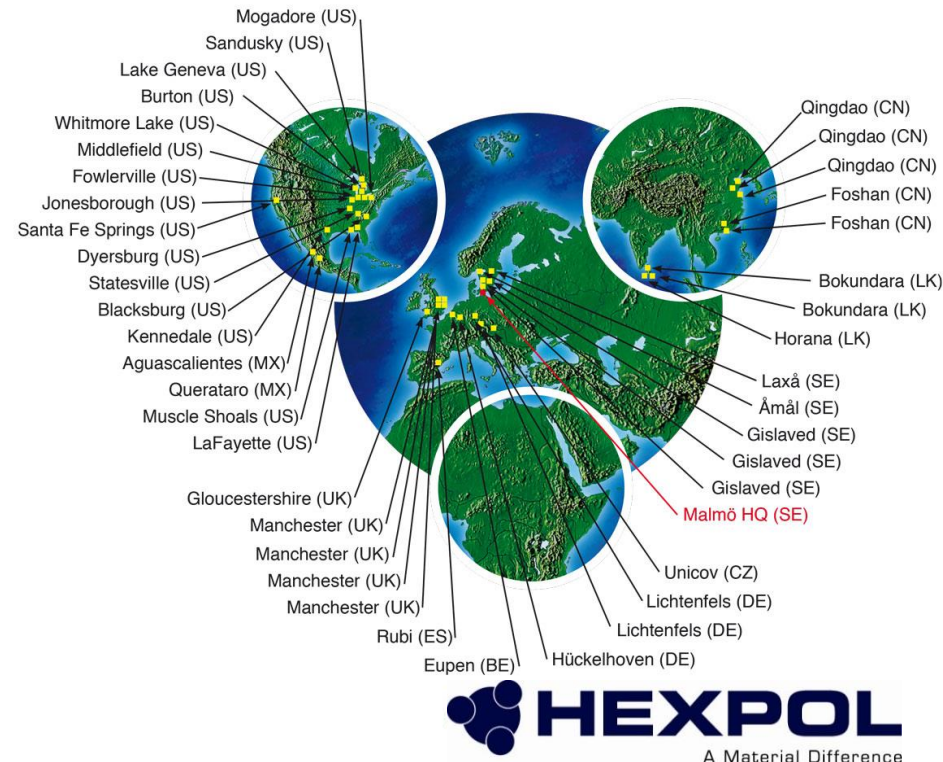
# HEXPOL – A well positioned Group

- Two business areas
  - HEXPOL Compounding
  - HEXPOL Engineered Products
- Strong global market positions
  - Global leading position for Rubber Compounding
  - Strong European position in Thermoplastic Elastomer Compounding (TPE)
  - Strong US position for reinforced Polypropylene Compounding
  - Global leading position in Gaskets for plate heat exchangers (PHEs)
  - Global market coverage in Wheels for fork lift trucks and castor wheels
- Global presence with production at 41 units in 10 countries (≈4,100 employees)
- 97% of sales outside Sweden
- Head office in Malmö, Sweden
- Shares listed on Large Cap segment of the NASDAQ OMX Nordic Exchange



# HEXPOL – A well positioned Group

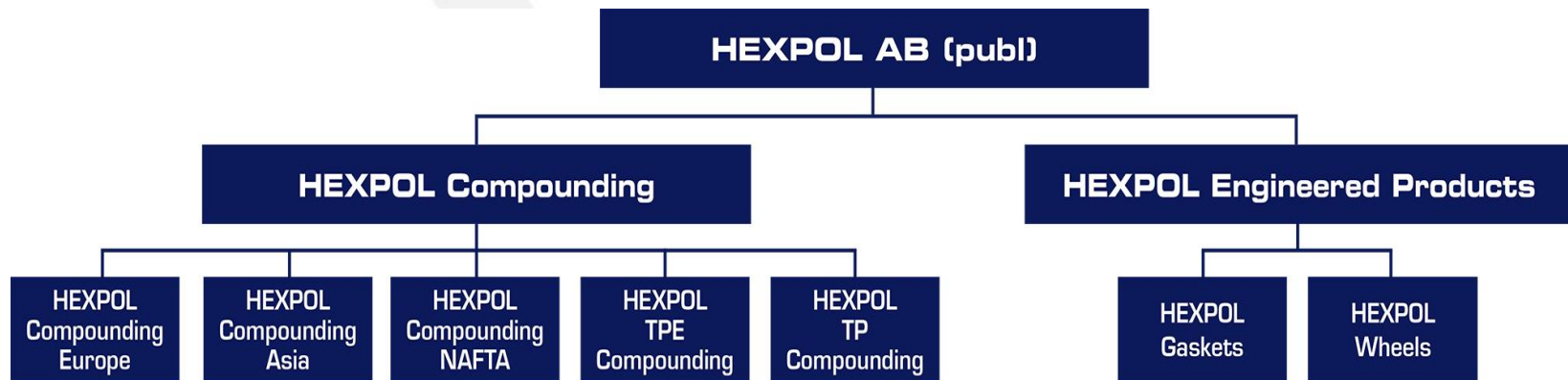
- True global footprint
- Historical strong sales growth and good profitability
- Well invested and strong cash flow
- Long industrial history with highly experienced and dedicated management and board
- Acquisition oriented – major acquisition within Polymer Compounding:
  - 2010: Elasto, Excel Polymers
  - 2012: Müller Kunststoffe, Robbins
  - 2014: Kardoos, Vigar Rubber Compounding, Portage Precision Polymers
  - 2015: RheTech Thermoplastic Compounding (RheTech, RheTech Colors and RheTech Engineered Plastics)
  - 2016: Berwin Group (Berwin Rubber Co Ltd, Berwin Industrial Polymers Ltd and Flexi-Cell (UK) Ltd)
- Acquired 26 units with sales, development and production since 2010



# HEXPOL – With a stable organisation

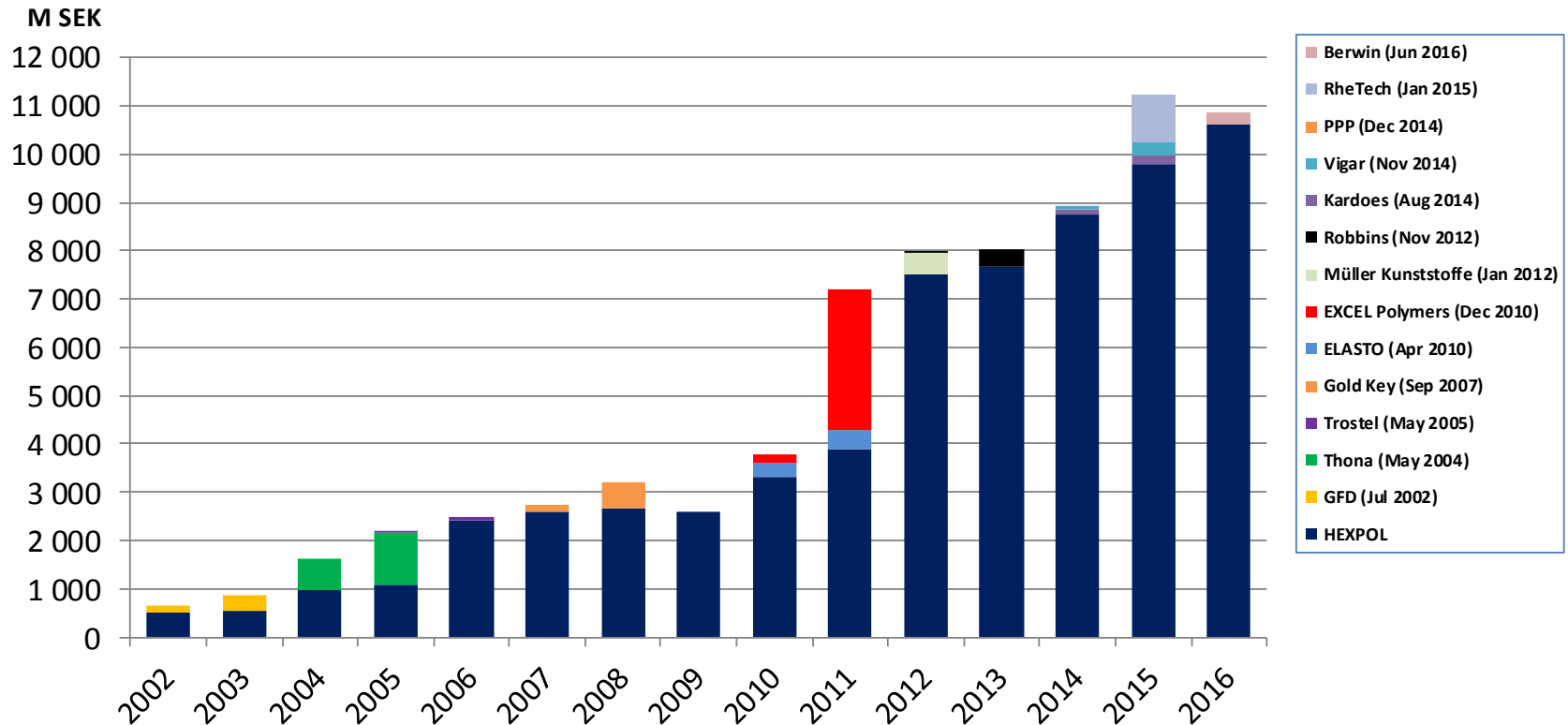
## Two business areas

- HEXPOL Compounding (92% of sales)
- HEXPOL Engineered Products (8% of sales)



# HEXPOL – A fast growing Group

Contribution to sales made by acquisitions in the past years (acquisition month in parenthesis)



# HEXPOL – A fast growing Group

- Product Development
  - New segments (for example: flame retardant)
  - New products in existing segments (for example: weight saving)
  - Application oriented
- Increased market share
- Acquisitions mainly within Polymer Compounding
  - Existing geographical markets (Kardoes and Portage Precision in US, Vigar Rubber Compounding in Germany and Berwin Group in UK)
  - New geographical markets (Vigar Rubber Compounding in Spain)
  - New chemistry (Portage Precision/silicon compounding, RheTech Thermoplastic Compounding/specialized TP compounding)
  - New end user segments
  - Existing end user segments
- Capacity investments in Mexico
- Capacity investments in TPE Compounding

# HEXPOL – A fast growing Group

HEXPOL Compounding, value chain\* (example):



## Business model:

- “Glocal” (local production/JIT)
- Application focused (often end user specified)
- Customized made to order

## The market:

- Fragmented market – few global players – many local players
- Few industrial consolidators
- Few vertically integrated companies

# HEXPOL – A well positioned Group

Fragmented market in polymer compounding with few global competitors

Examples of polymer compounders:

- AirBoss
  - Kraiburg
  - Dynamix
  - Preferred Rubber
  - PTE
  - Unica
  - SPC
  - *Müller Kunststoffe (acquired in 2012)*
  - *Kardoes (acquired in 2014)*
  - *Portage Precision Polymers (acquired in 2014)*
  - *Vigar Rubber Compounding (acquired in 2014)*
  - *Berwin Group (acquired in 2016)*
  - Customers who own rubber compounding facilities
  - Many local national compounders
- Teknor Apex
  - Multibase
  - GLS
  - A.Schulman
  - Alpha Gary
  - PolyOne
  - Washington Penn



# HEXPOL – A well positioned Group

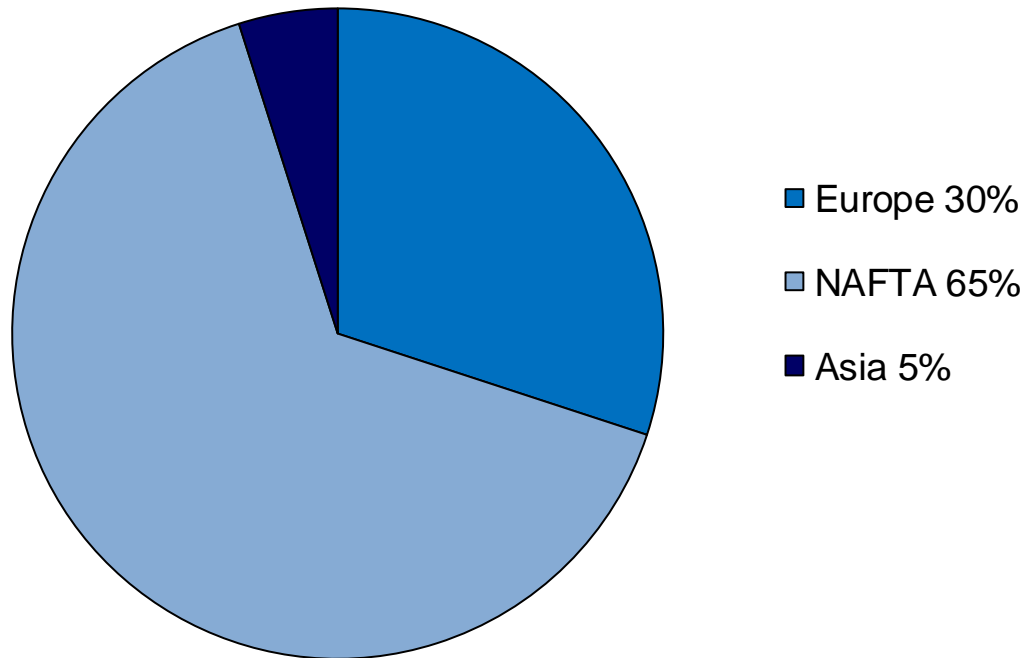
## Main customer segments:

- Strong automotive industry
  - Growth to automotive industries but today lower share of total Group sales thanks to strong growth in other segments
  - Automotive sales around 40% 2016
- Engineering and general industry
- Construction and infrastructure
- Energy, oil and gas sector
- Cable and water treatment industries
- Consumer industries
- Medical equipment industries
- Manufacturers of plate heat exchangers
- Manufacturers of forklifts and castor wheels

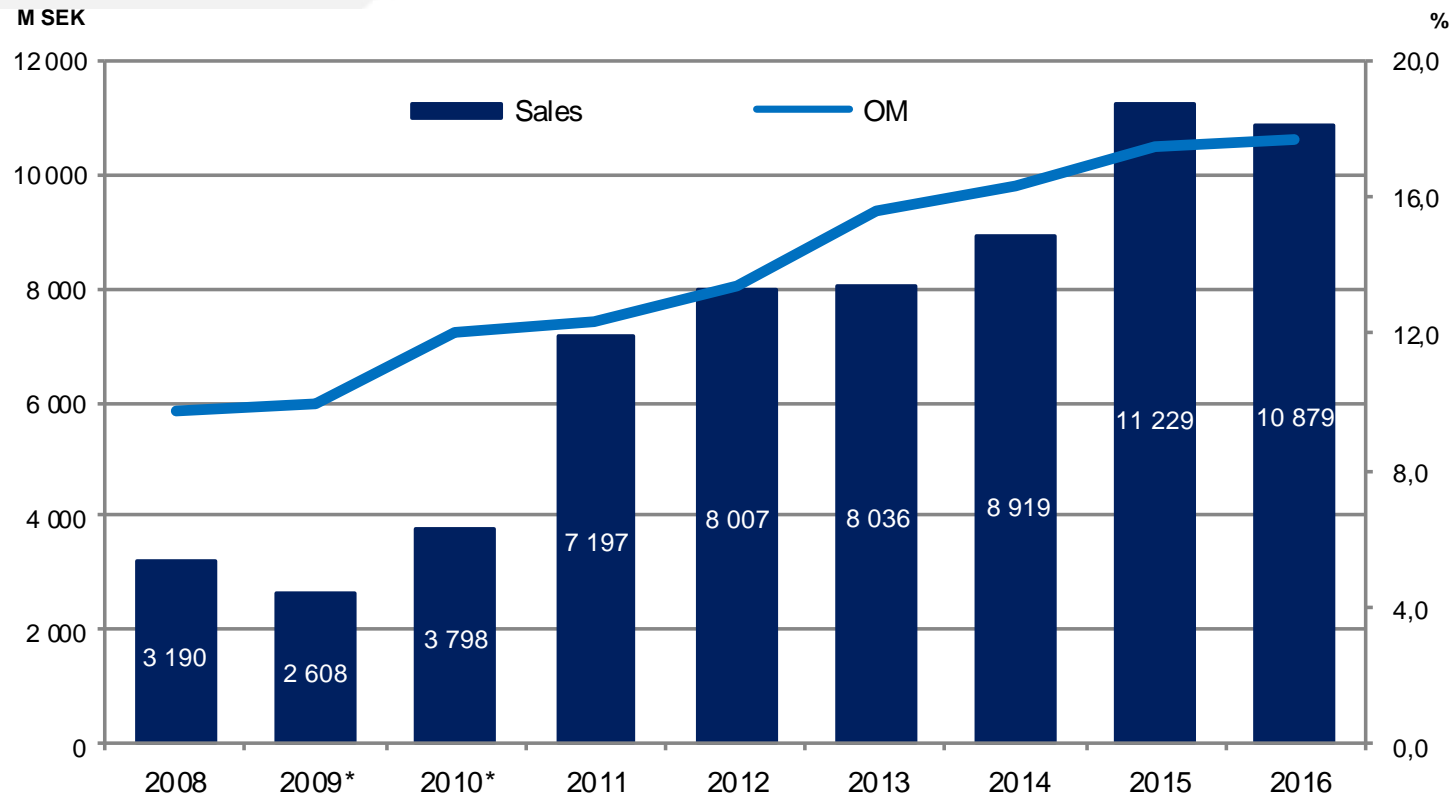


# HEXPOL – favorable sales distribution

Sales per geographic area 2016



# A fast growing Group with strong margin development



\*Adjusted for items affecting comparability

# Acquisition oriented

## Major acquisitions within Polymer Compounding

- Elasto (April, 2010) – TPE Compounding
  - Units in UK and Sweden
- Excel Polymers (Nov, 2010) – Rubber Compounding
  - Units in U.S., Mexico, UK and China
- Müller Kunststoffe (Jan, 2012) – TPE Compounding
  - Units in Germany
- Robbins (Nov, 2012) – Rubber Compounding
  - Units in U.S.
- Kardoes (Aug, 2014) – Rubber Compounding
  - Unit in U.S.
- Vigar Rubber Compounding (Nov, 2014) – Rubber Compounding
  - Units in Spain and Germany
- Portage Precision Polymers (Dec, 2014) – Rubber/silicon Compounding
  - Unit in U.S.
- RheTech Thermoplastic Compounding (Jan, 2015) – Specialized Thermoplastic Compounding
  - Units in U.S.
- Berwin Group (June, 2016) – Rubber Compounding
  - Units in UK

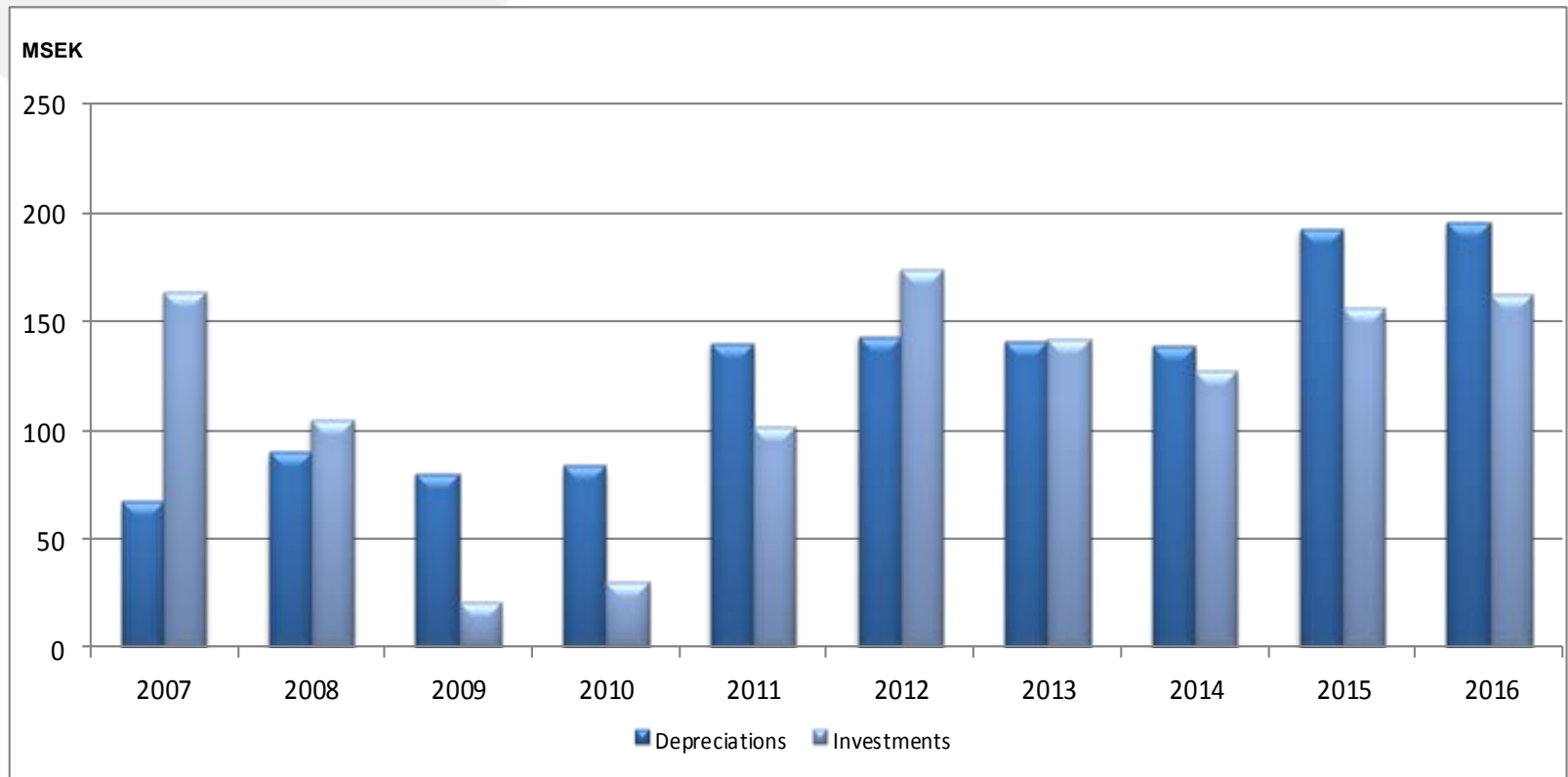


# HEXPOL acquired Berwin Group in June 2016



- Berwin Group (Berwin Rubber Co Ltd, Berwin Industrial Polymers Ltd and Flexi-Cell (UK) Ltd) have two manufacturing facilities in Manchester, UK and one in Gloucestershire, UK.
- Estimated annual turnover of around 40 MGBP
- Around 200 employees

# Depreciations & investments\*



- Investments in line with/ or below depreciations
- 2016: Mainly capacity investments in Mexico and maintenance investments

\* tangible fixed assets

# Q4 2016 – Increased sales and improved result

Our best fourth quarter to date

- Sales increased 6%
- Sales once again negatively affected by considerably lower sales prices due to lower raw material prices
- During the quarter, the prices on many of our raw materials have increased

| MSEK                    | 2016<br>Q4 | 2015<br>Q4 | 2016<br>Q3 |       |
|-------------------------|------------|------------|------------|-------|
| Sales                   | 2,753      | 2,596      | 2,742      | + 6%  |
| Operating profit, EBIT  | 484        | 456        | 475        | + 6%  |
| Operating margin, %     | 17.6       | 17.6       | 17.3       |       |
| Profit after tax        | 374        | 326        | 339        |       |
| Earnings per share, SEK | 1.09       | 0.95       | 0.98       | + 15% |
| Operating cash flow     | 567        | 562        | 585        |       |

# Q4 2016 – Increased sales and improved result

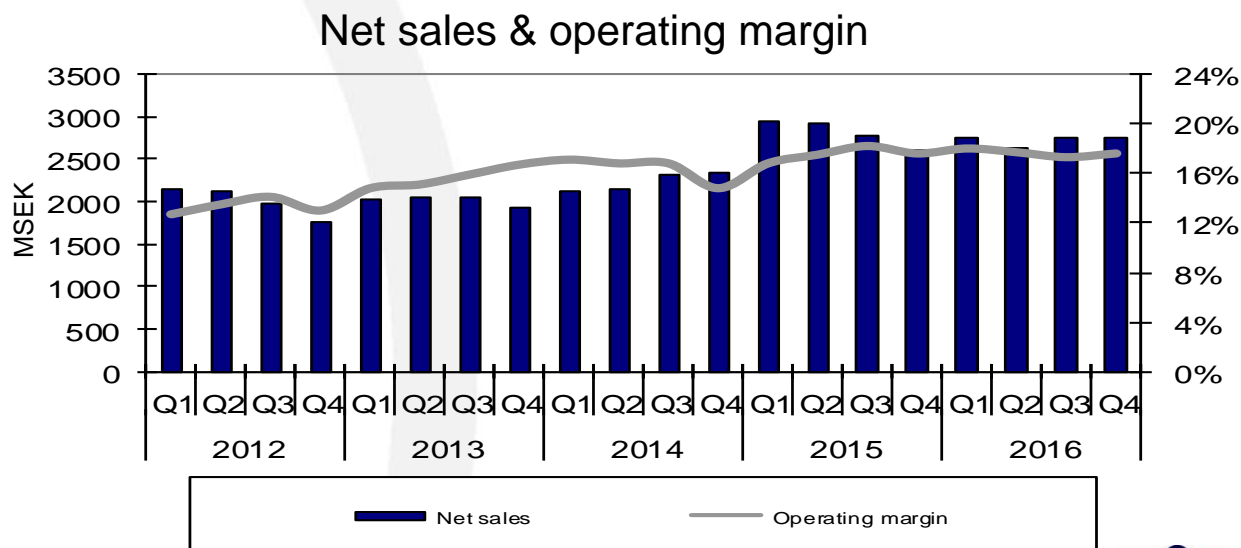
## Our best fourth quarter to date

- Sales increased 6% to 2,753 MSEK (2,596)
  - Sales once again negatively affected by considerably lower sales prices due to lower raw material prices
  - Positive volume development
  - Positive currency effects
- NAFTA increased sales by 2%
  - Continued strong sales to automotive related customers
  - Continued low demand from mining, agriculture and oil and gas segment
- Europe increased sales (including Berwin Group) by 14%
  - Continued strong sales to automotive related customers
- Asia increased sales by 11%
  - Higher sales to automotive related customers in China
- Operating profit increased 6% to 484 MSEK (456)
- The acquired Berwin Group, a well-known leading Rubber Compounder in the UK market, have been integrated in HEXPOL Compounding

# Q4 2016 – Increased sales and improved result

## Our best fourth quarter to date

- Net sales increased 6% to 2,753 MSEK (2,596)
- Operating profit increased 6% to 484 MSEK (456)
- Operating margin amounted to 17.6% (17.6), improved from 17.3% in Q3 2016
- Return on capital employed, R12 amounted to 26.8% (28.6)
- Earnings per share increased 15% to 1.09 SEK (0.95)
- Operating cash flow rose to 567 MSEK (562)
- Strong Balance Sheet
  - Equity/assets ratio 77% (72)
  - Net cash 1,268 MSEK (454)



# Q4 2016 – Increased sales and improved result

- Strong balance sheet, well equipped for further expansion
- Strong cash flow

| <b>MSEK</b>             | <b>2016<br/>Q4</b> | <b>2015<br/>Q4</b> | <b>2016<br/>Q3</b> |
|-------------------------|--------------------|--------------------|--------------------|
| Sales                   | 2,753              | 2,596              | 2,742              |
| Operating profit, EBIT  | 484                | 456                | 475                |
| Operating margin, %     | 17.6               | 17.6               | 17.3               |
| Profit after tax        | 374                | 326                | 339                |
| Earnings per share, SEK | 1.09               | 0.95               | 0.98               |
| Operating cash flow     | 567                | 562                | 585                |
| Net cash                | 1,268              | 454                | 759                |
| Equity/assets ratio, %  | 77                 | 72                 | 73                 |

# Dividend

- Strong operating cash flow and net cash of 1,268 MSEK provides scope for continued acquisition driven expansion and an increased dividend.
- The Board of Directors proposes a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share (1.70) and a special dividend of 3.00 SEK per share.



# Q4 2016 – Increased sales and improved result

| MSEK                                | Quarter 4    |              |            | Full-year     |               |            |
|-------------------------------------|--------------|--------------|------------|---------------|---------------|------------|
|                                     | 2016         | 2015         | Growth     | 2016          | 2015          | Growth     |
| <b>Sales</b>                        | 2 753        | 2 596        | 6%         | 10 879        | 11 229        | -3%        |
| Currency                            | -142         |              | -5%        | -110          |               | -1%        |
| <b>Ex. Currency</b>                 | <b>2 611</b> | <b>2 596</b> | <b>1%</b>  | <b>10 769</b> | <b>11 229</b> | <b>-4%</b> |
| Acquisition                         | -110         |              | -5%        | -259          |               | -2%        |
| <b>Ex. Currency and acquisition</b> | <b>2 501</b> | <b>2 596</b> | <b>-4%</b> | <b>10 510</b> | <b>11 229</b> | <b>-6%</b> |

# Q4 2016 – Business areas

Increased sales and improved result

| MSEK                       | Net Sales  |            |            | Operating Profit |            |            | Operating Margin, % |            |            |
|----------------------------|------------|------------|------------|------------------|------------|------------|---------------------|------------|------------|
|                            | 2016<br>Q4 | 2015<br>Q4 | 2016<br>Q3 | 2016<br>Q4       | 2015<br>Q4 | 2016<br>Q3 | 2016<br>Q4          | 2015<br>Q4 | 2016<br>Q3 |
| HEXPOL Compounding         | 2 533      | 2 393      | 2 531      | 454              | 428        | 444        | 17.9                | 17.9       | 17.5       |
| HEXPOL Engineered Products | 220        | 203        | 211        | 30               | 28         | 31         | 13.6                | 13.8       | 14.7       |

- HEXPOL Compounding

- Increased sales
- Positive volume development, excl. contract manufacturing to the tire industry
- Sales negatively affected by considerably lower sales prices due to lower raw material prices
- Continued price pressure
- The acquired Berwin Group, a well-known leading Rubber Compounder in the UK market, have been integrated in HEXPOL Compounding

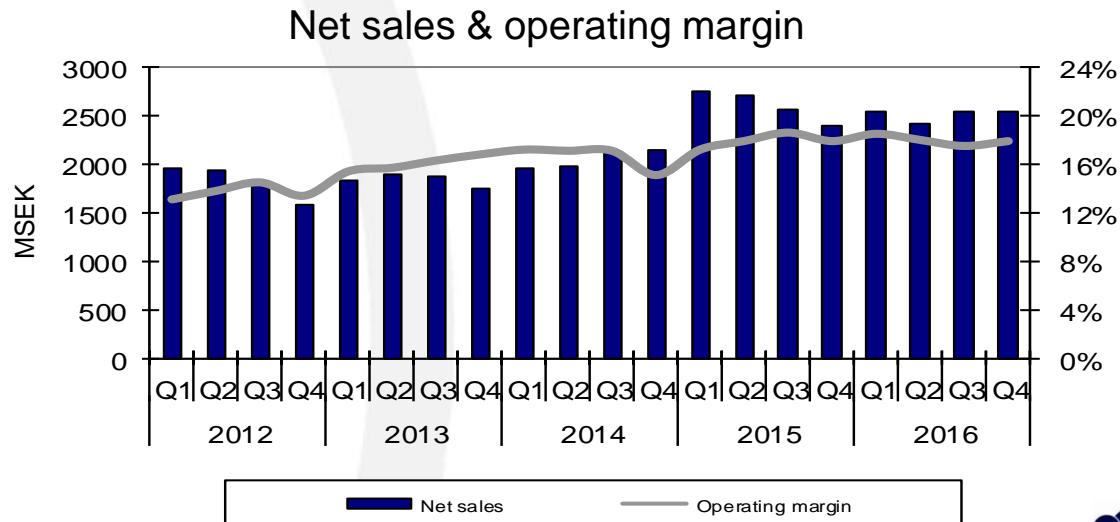
- HEXPOL Engineered Products

- Higher sales and profit

# Q4 2016 – HEXPOL Compounding

## Increased sales and improved result

- Sales increased by 6% to 2,533 MSEK (2,393)
  - Sales negatively affected by considerably lower sales prices due to lower raw material prices
  - Positive volume development, excl. contract manufacturing to the tire industry
  - Higher volumes in Europe, continued strong volumes to automotive related customers
  - Slightly higher volumes in NAFTA, with continued strong volumes to automotive related customers
  - Volumes in Asia increased, mainly thanks to higher sales to automotive related customers in China
  - Continued price pressure on all markets
  - The acquired Berwin Group have been integrated in HEXPOL Compounding
- Operating profit increased to 454 MSEK (428)
  - Operating margins remained strong at 17.9% (17.9), improved from 17.5% in Q3 2016



# Q4 2016 – HEXPOL Compounding

## Increased sales and improved result

Sales negatively affected by considerably lower sales prices due to lower raw material prices

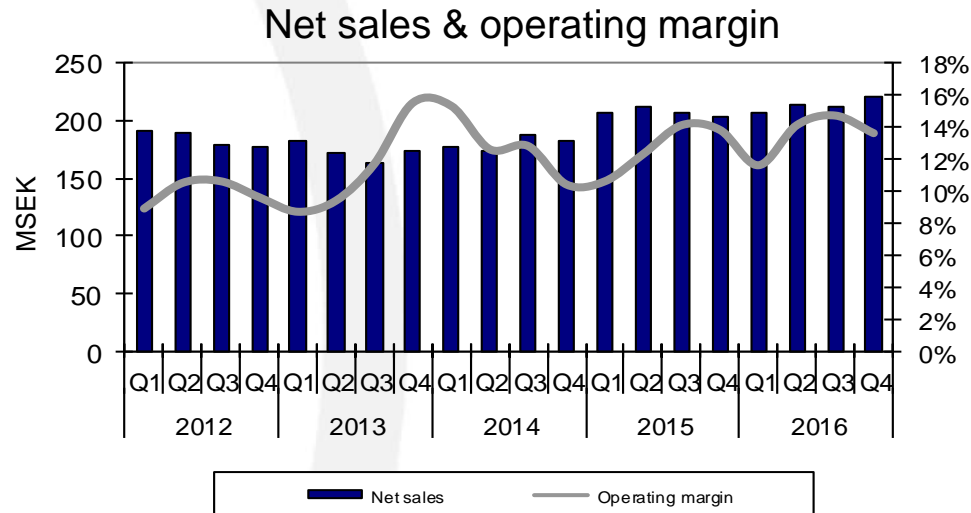
- Europe – increased volumes
  - Continued strong volume development to automotive related customers
  - Positive development in HEXPOL TPE Compounding
  - The acquired Berwin Group have been integrated
- NAFTA – slightly increased volumes
  - Slightly increased volumes, excl. contract manufacturing to the tire industry
  - Continued strong volumes to automotive related customers
  - Continued low demand from mining, export industry, agriculture and oil and gas sector
  - Acquired RheTech Thermoplastic Compounding had a continued positive development
- Asia – increased volumes
  - Higher sales to automotive related customers in China
- Continued price pressure on all markets



# Q4 2016 – HEXPOL Engineered Products

## Higher sales and improved operating profit

- Net sales increased by 8% to 220 MSEK (203)
  - Sales increased for both HEXPOL Gaskets and HEXPOL Wheels
  - Positive development in China for both HEXPOL Wheels and HEXPOL Gaskets
- Continued weak sales to project related operations and continued price pressure in HEXPOL Gaskets
- Operating profit increased by 7% to 30 MSEK (28), mainly thanks to increased volumes and continued efficiency improvements in operations
- Operating margin amounted to 13.6% (13.8)



# Jan-Dec 2016

Positive volume development and strong result, in terms of earnings our best year so far

- Sales once again negatively affected by considerably lower sales prices due to considerably lower raw material prices
- Continued price pressure on all markets
- Strong balance sheet

| MSEK                                | Jan-Dec |        |
|-------------------------------------|---------|--------|
|                                     | 2016    | 2015   |
| Sales                               | 10 879  | 11 229 |
| Operating profit, EBIT              | 1 921   | 1 964  |
| Operating margin, %                 | 17.7    | 17.5   |
| Profit after tax                    | 1 397   | 1 393  |
| Earnings per share, SEK             | 4.06    | 4.05   |
| Operating cash flow                 | 2 057   | 2 185  |
| Net cash                            | 1 268   | 454    |
| Equity/assets ratio, %              | 77      | 72     |
| Return on capital employed, % (R12) | 26.8    | 28.6   |

Strong operating cash flow and net cash of 1,268 MSEK provides scope for continued acquisition driven expansion and an increased dividend.

The Board of Directors proposes a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share (1.70) and a special dividend of 3.00 SEK per share.

# Q4 2016 – Increased sales and improved result

## Our best fourth quarter to date

- Sales increased by 6% to 2,753 MSEK (2,596), but sales were once again negatively affected by considerably lower sales prices due to lower raw material prices
- Positive volume development
- Operating profit increased by 6% to 484 MSEK (456)
- Earnings per share rose by 15% to 1.09 SEK (0.95)
- Continued price pressure
- Strong financial position, net cash 1,268 MSEK
  - Well equipped for continued expansion
  - Proposed dividend, total 4.75 SEK/share
- The acquired Berwin Group have been integrated in HEXPOL Compounding



# Q & A