

Telephone presentation July 19, 2017, 12:00 CET

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# Welcome to HEXPOL

## Q2 2017 report update

CEO Mikael Fryklund  
CFO Karin Gunnarsson

July 19, 2017



July 19, 2017

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# Agenda

- Introduction to HEXPOL
- Q2 2017 – HEXPOL Group
- Q2 2017 – Business areas
- January – June 2017 – Key figures
- Q2 2017 – 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 forklifts and castor wheel applications (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.*



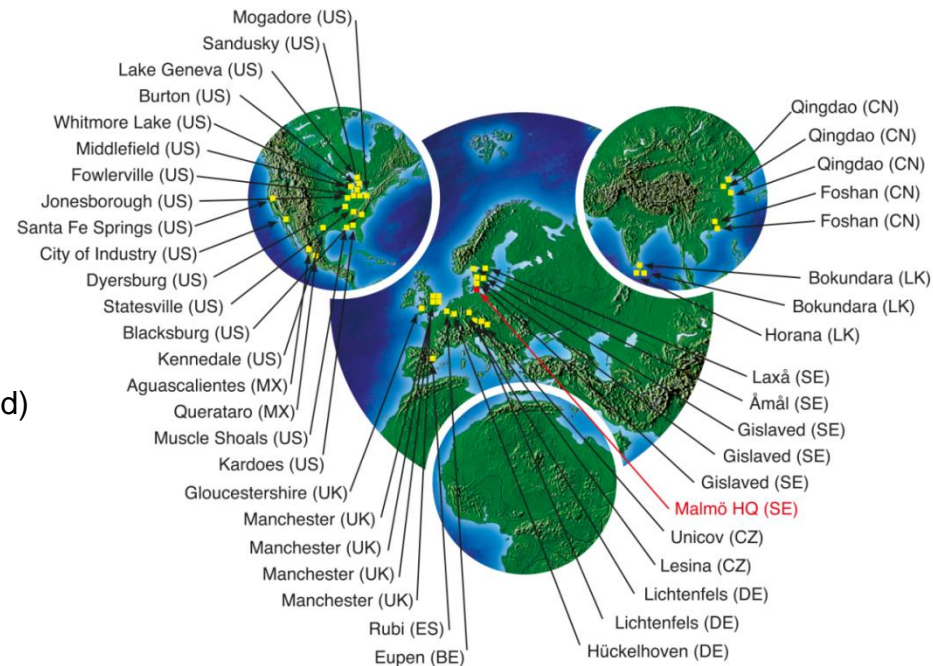
# HEXPOL – A well positioned Group

- 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 43 units in 10 countries (≈4,400 employees)
- 97% of sales outside Sweden
- Head office in Malmö, Sweden
- Shares listed on NASDAQ Stockholm, Large Cap



# HEXPOL – A well positioned Group

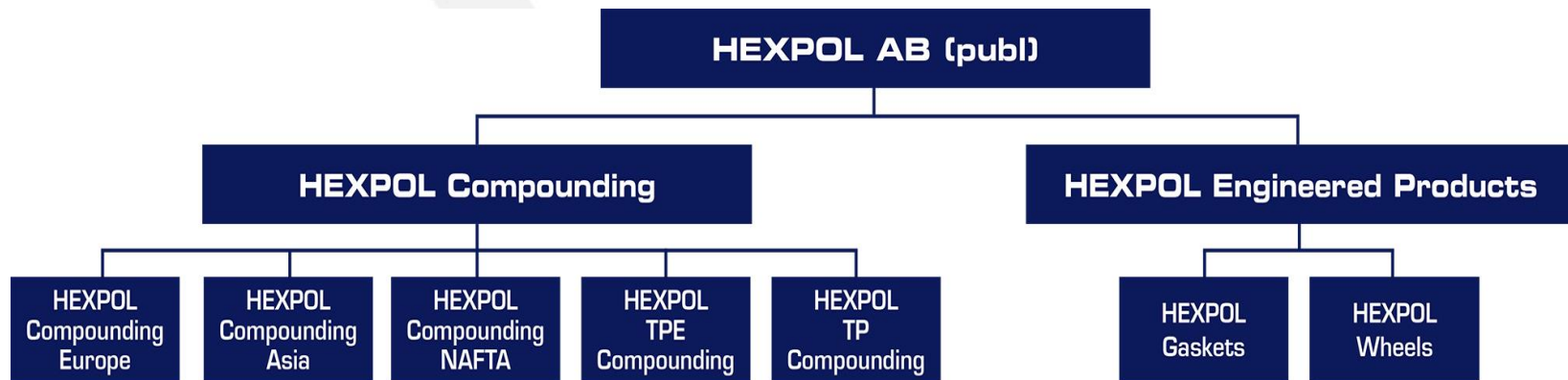
- True global footprint
- Historical strong sales growth and good profitability
- Well invested and strong cash flow
- Long industrial history with highly experienced and dedicated management and board
- Acquisition oriented – major acquisition within Polymer Compounding:
  - 2010: Elasto, Excel Polymers
  - 2012: Müller Kunststoffe, Robbins
  - 2014: Kardoes, 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)
  - 2017: Trelleborg Material & Mixing Lesina s.r.o, Valley Processing
- Acquired 28 units with sales, development and production since 2010



# HEXPOL – With a stable organisation

## Two business areas

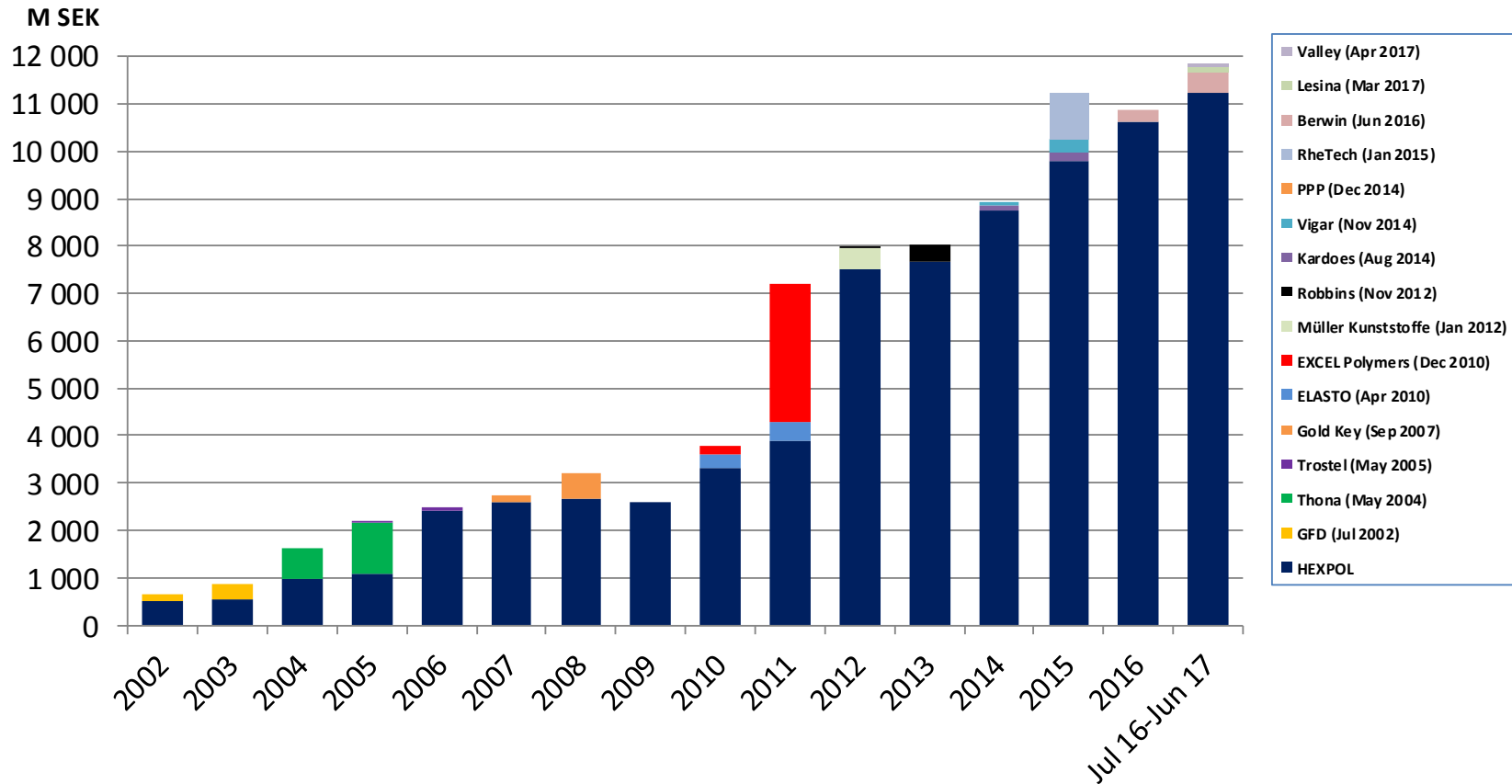
- HEXPOL Compounding (93% of sales)
- HEXPOL Engineered Products (7% of sales)





# 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, Portage Precision and Valley Processing in US, Vigar Rubber Compounding in Germany, Berwin Group in UK and Trelleborg Material & Mixing Lesina in Czech Republic)
  - 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 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:

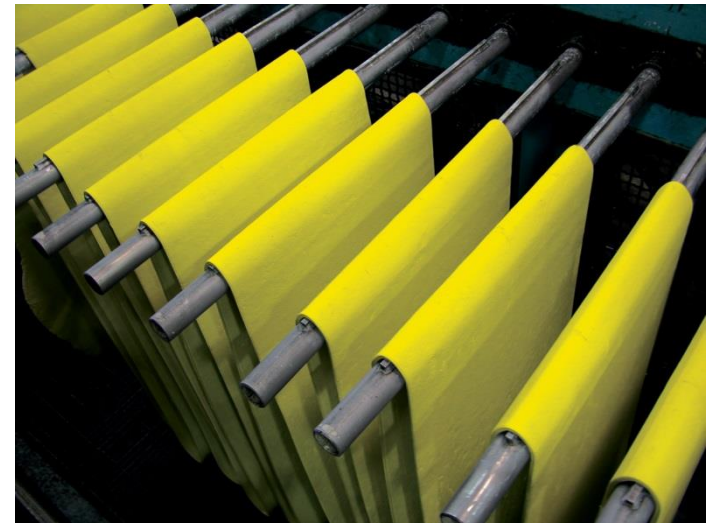
- Fragmented market – few global players – many local players
- Few industrial consolidators
- Few vertically integrated companies

# 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)*
- *Trelleborg Material & Mixing Lesina (acquired in 2017)*
- *Valley Processing (acquired in 2017)*
- 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

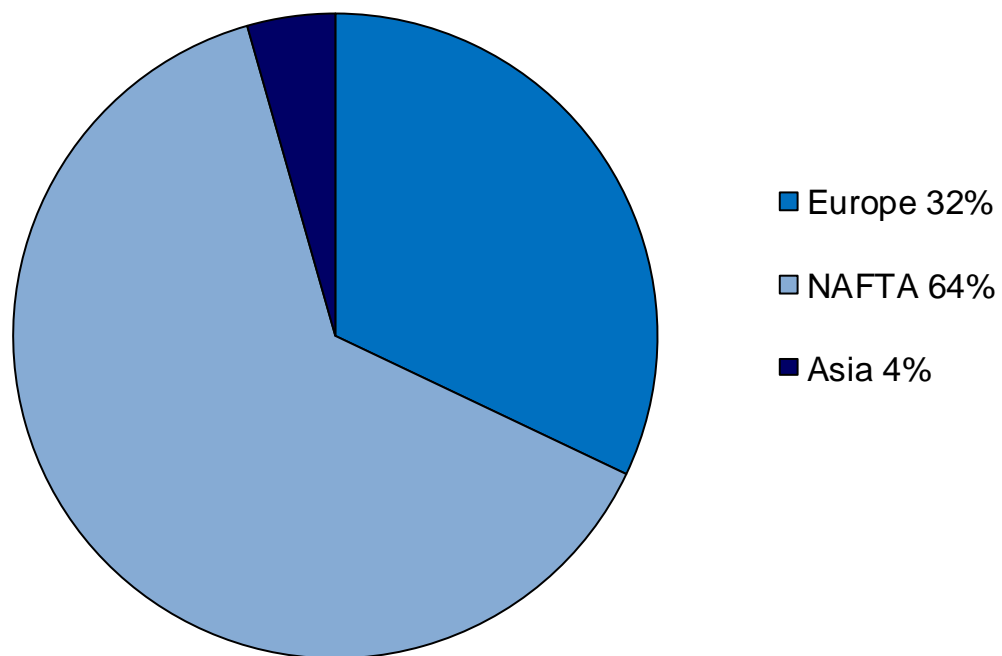
## Main customer segments:

- 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
- Building and construction
- 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

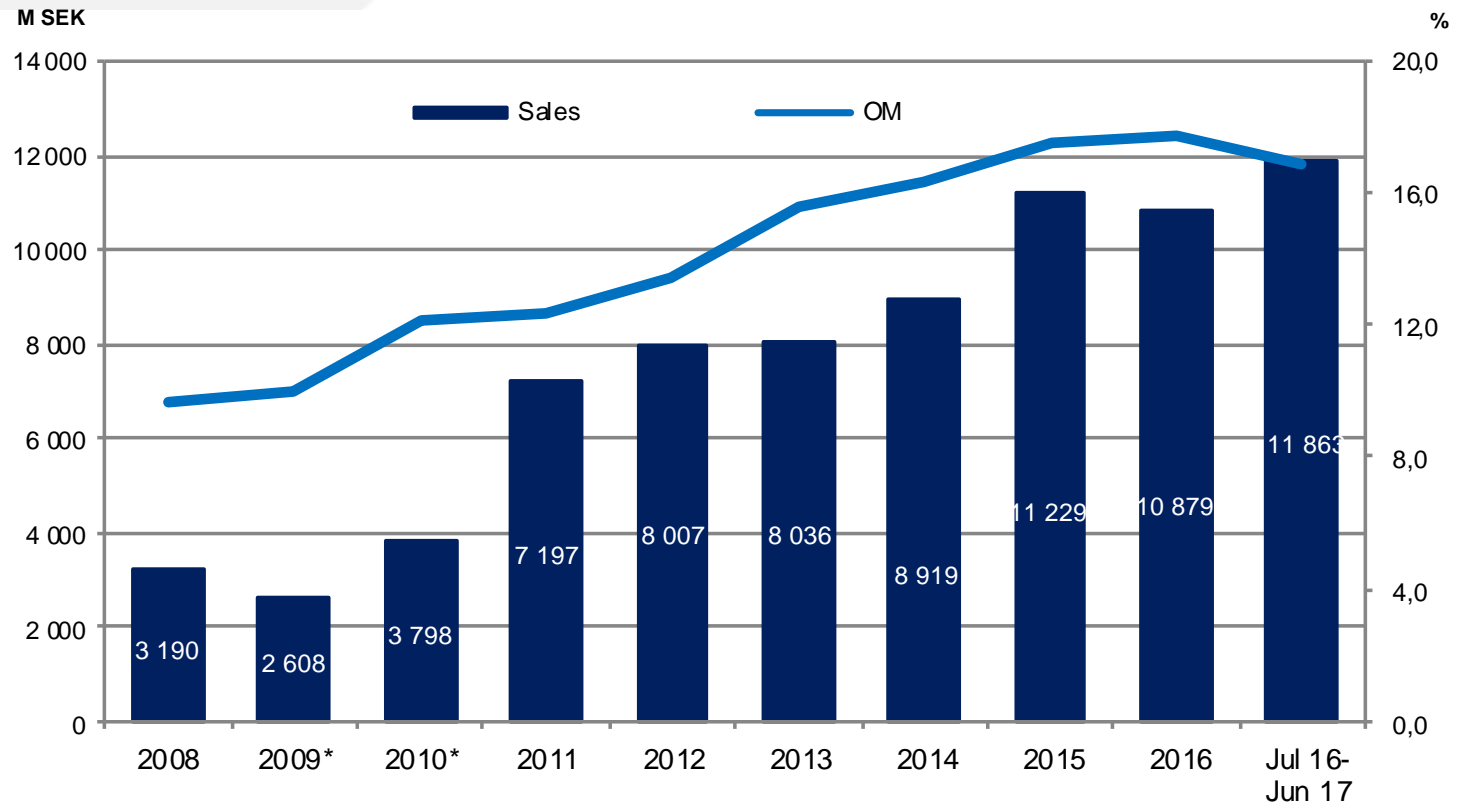


# HEXPOL – sales distribution

Sales per geographic area Jan-Jun 2017

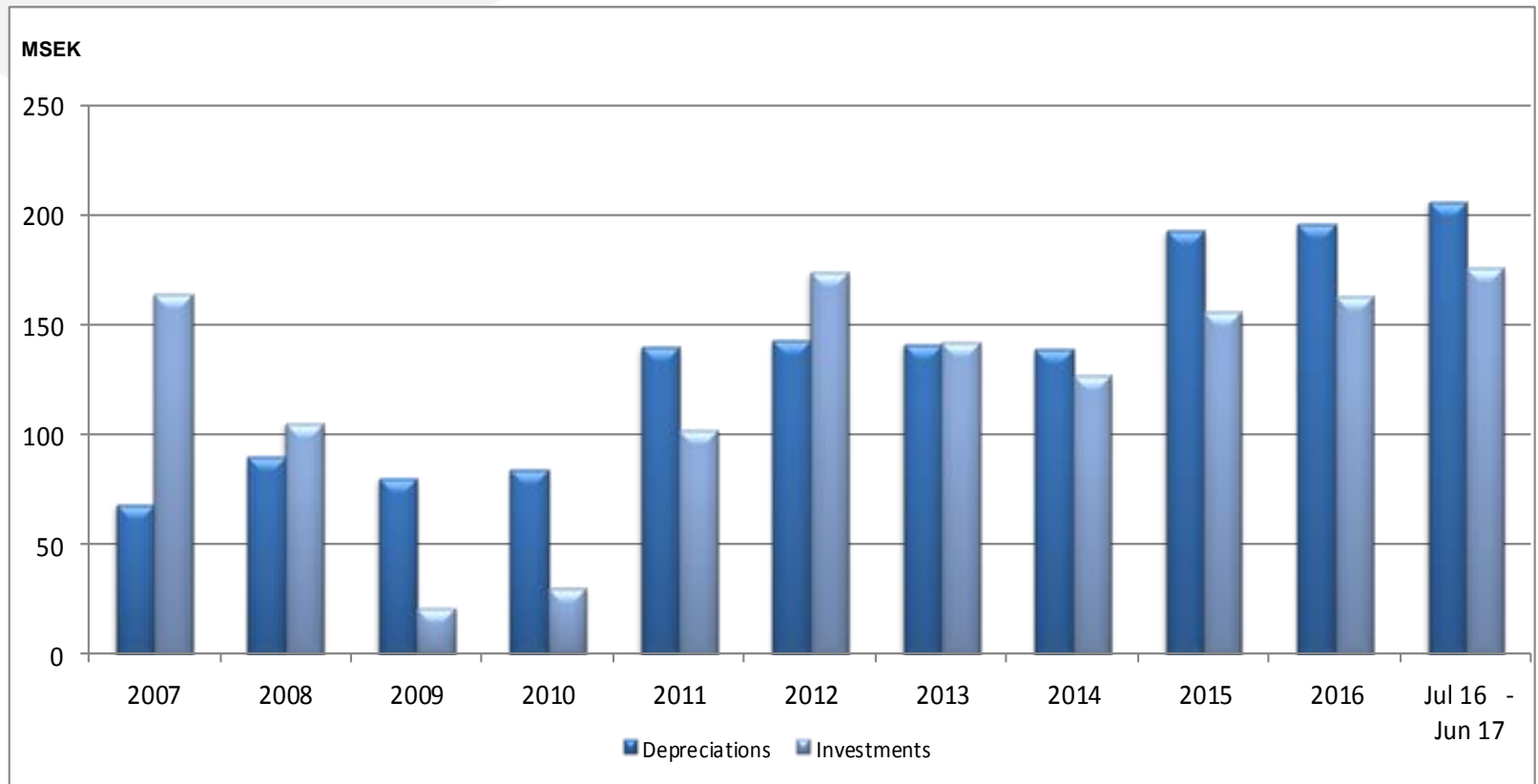


# A fast growing Group with strong margin development



\*Adjusted for items affecting comparability

# Depreciations & investments\*



- Investments in line with/ or below depreciations
- Jul 16 – Jun 17: Mainly capacity investments in Mexico and maintenance investments

\* tangible fixed assets



# 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 US, Mexico, UK and China
- Müller Kunststoffe (Jan, 2012) – TPE Compounding
  - Units in Germany
- Robbins (Nov, 2012) – Rubber Compounding
  - Units in US
- Kardoes (Aug, 2014) – Rubber Compounding
  - Unit in US
- Vigar Rubber Compounding (Nov, 2014) – Rubber Compounding
  - Units in Spain and Germany
- Portage Precision Polymers (Dec, 2014) – Rubber/silicon Compounding
  - Unit in US
- RheTech Thermoplastic Compounding (Jan, 2015) – Specialized Thermoplastic Compounding
  - Units in US
- Berwin Group (June, 2016) – Rubber Compounding
  - Units in UK
- Trelleborg Material & Mixing Lesina (March 2017) – Rubber Compounding
  - Unit in Czech Republic
- Valley Processing (April, 2017) – Rubber Compounding
  - Unit in US

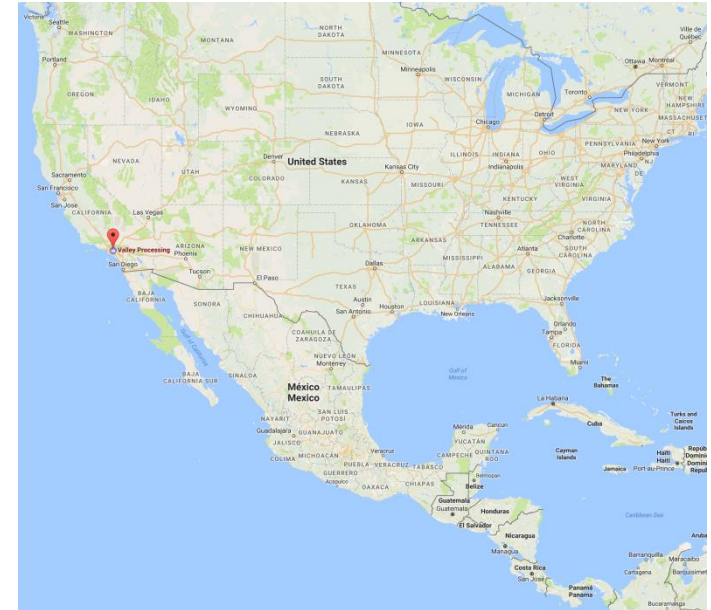


# HEXPOL acquired Trelleborg's Rubber Compounding unit in Czech Republic end of March, 2017



- Trelleborg Material & Mixing Lesina s.r.o. with a manufacturing facility in Lesina, Czech Republic
- A well-known Rubber Compounder in Central Europe
- Had an annual turnover of around 40 MEUR in 2016
- Around 125 employees

# HEXPOL acquired Valley Processing April 2017



- Valley Processing, with a manufacturing facility in California, US
- A well-known US Rubber Compounder
- Had an annual turnover of around 34 MUSD in 2016
- Around 90 employees

# Q2 2017 – Increased sales and higher profit

- Sales increased 23%
- Positive volume development
- Slightly higher raw material prices, but stable compared to Q1 2017
- Continued price pressure on all markets

| MSEK                    | 2017<br>Q2 | 2016<br>Q2 | 2017<br>Q1 |       |
|-------------------------|------------|------------|------------|-------|
| Sales                   | 3,230      | 2,627      | 3,138      | + 23% |
| Operating profit, EBIT  | 517        | 465        | 532        | + 11% |
| Operating margin, %     | 16.0       | 17.7       | 17.0       |       |
| Profit after tax        | 366        | 329        | 379        |       |
| Earnings per share, SEK | 1.06       | 0.96       | 1.10       | + 10% |
| Operating cash flow     | 423        | 580        | 435        |       |

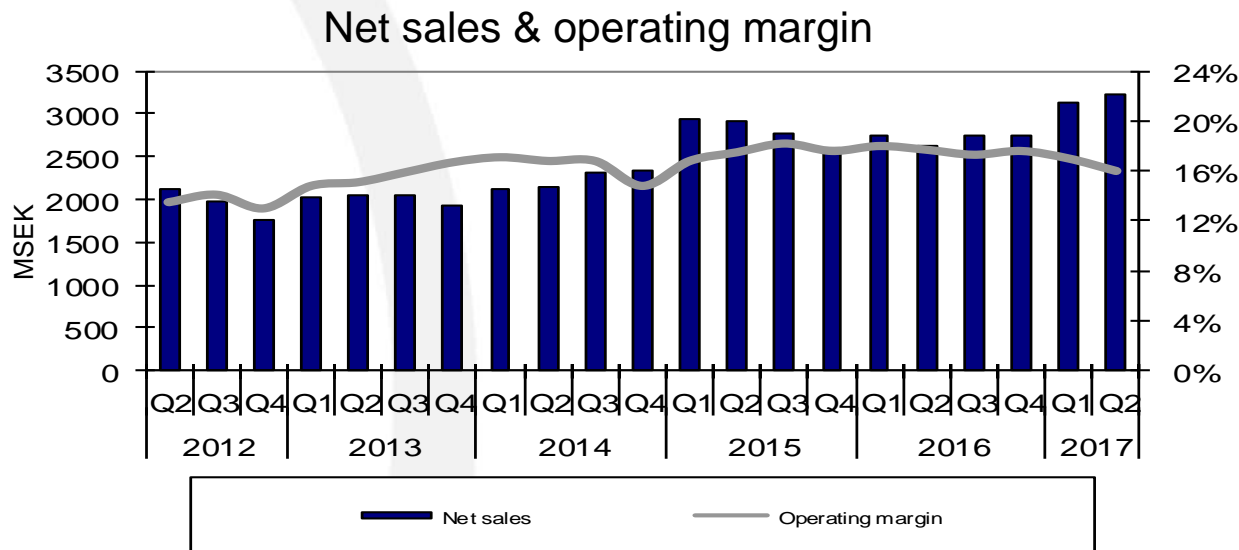


# Q2 2017 – Increased sales and higher profit

- Sales (including acquisitions) increased 23% to 3,230 MSEK (2,627)
  - Positive volume development
  - Slightly higher raw material prices, but stable compared to Q1 2017
  - Price pressure continued strong on all markets
  - Positive currency effects
- NAFTA increased sales (including Valley Processing) by 20%
  - Continued good sales to automotive related customers, slightly lower demand at the end of the quarter
  - Improved sales to building and construction, engineering and general industry
- Europe increased sales (including Berwin Group and Trelleborg Material & Mixing Lesina) by 29%
  - Continued good sales to automotive related customers
  - Improved sales to building and construction, engineering and general industry
- Asia increased sales by 20%
  - Increased sales mainly to automotive related customers in China
- Operating profit increased 11% to 517 MSEK (465)
- The acquired Trelleborg's Rubber Compounding unit in Czech Republic, a well-known Rubber Compounder in Central Europe, has been integrated
- In early April, Valley Processing, a well known US Rubber Compounder, was acquired

# Q2 2017 – Increased sales and higher profit

- Net sales increased 23% to 3,230 MSEK (2,627)
- Operating profit increased 11% to 517 MSEK (465)
- Operating margin amounted to 16.0% (17.7)
- Return on capital employed, R12 amounted to 26.3% (27.9)
- Earnings per share increased 10% to 1.06 SEK (0.96)
- Operating cash flow amounted to 423 MSEK (580)
- Strong Balance Sheet
  - Equity/assets ratio 59% (69)
  - Net debt 948 MSEK (net cash 234)



# Q2 2017 – Increased sales and higher profit

- Strong balance sheet, well equipped for further expansion

| MSEK                    | 2017<br>Q2 | 2016<br>Q2 | 2017<br>Q1 |
|-------------------------|------------|------------|------------|
| Sales                   | 3,230      | 2,627      | 3,138      |
| Operating profit, EBIT  | 517        | 465        | 532        |
| Operating margin, %     | 16.0       | 17.7       | 17.0       |
| Profit after tax        | 366        | 329        | 379        |
| Earnings per share, SEK | 1.06       | 0.96       | 1.10       |
| Operating cash flow     | 423        | 580        | 435        |
| Net cash                | -948       | 234        | 981        |
| Equity/assets ratio, %  | 59         | 69         | 75         |



## Q2 2017 – Increased sales and higher profit

| MSEK                                | Quarter 2    |              |            | Jan - Jun    |              |            |
|-------------------------------------|--------------|--------------|------------|--------------|--------------|------------|
|                                     | 2017         | 2016         | Growth     | 2017         | 2016         | Growth     |
| <b>Sales</b>                        | 3 230        | 2 627        | 23%        | 6 368        | 5 384        | 18%        |
| Currency                            | -162         |              | -6%        | -280         |              | -5%        |
| <b>Ex. Currency</b>                 | <b>3 068</b> | <b>2 627</b> | <b>17%</b> | <b>6 088</b> | <b>5 384</b> | <b>13%</b> |
| Acquisition                         | -286         |              | -11%       | -414         |              | -8%        |
| <b>Ex. Currency and acquisition</b> | <b>2 782</b> | <b>2 627</b> | <b>6%</b>  | <b>5 674</b> | <b>5 384</b> | <b>5%</b>  |

# Q2 2017 – Business areas

Increased sales and higher profit

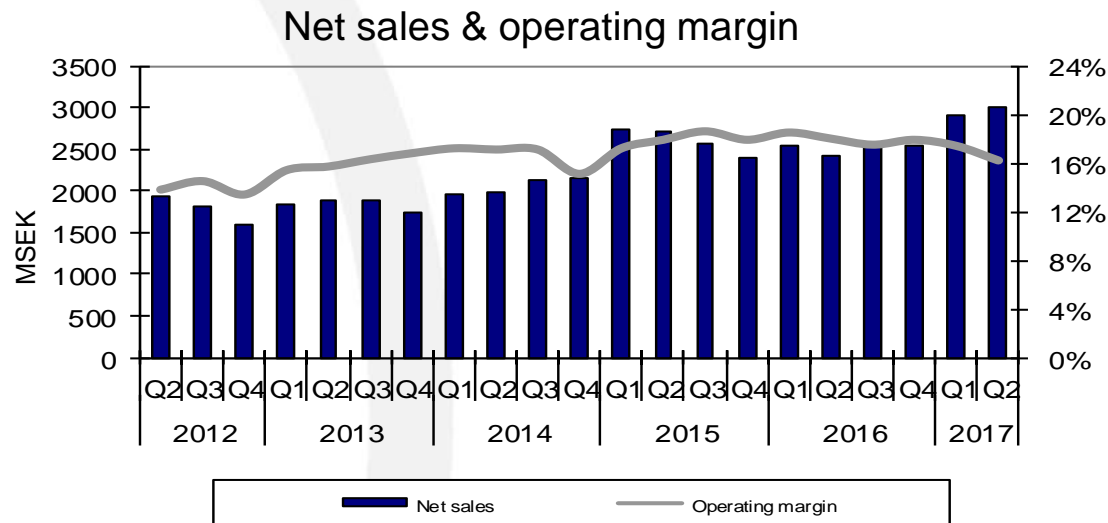
| MSEK                       | Net Sales  |            |            | Operating Profit |            |            | Operating Margin, % |            |            |
|----------------------------|------------|------------|------------|------------------|------------|------------|---------------------|------------|------------|
|                            | 2017<br>Q2 | 2016<br>Q2 | 2017<br>Q1 | 2017<br>Q2       | 2016<br>Q2 | 2017<br>Q1 | 2017<br>Q2          | 2016<br>Q2 | 2017<br>Q1 |
| HEXPOL Compounding         | 2 999      | 2 414      | 2 910      | 487              | 435        | 505        | 16.2                | 18.0       | 17.4       |
| HEXPOL Engineered Products | 231        | 213        | 228        | 30               | 30         | 27         | 13.0                | 14.1       | 11.8       |

- HEXPOL Compounding
  - Increased sales
  - Positive volume development
  - Slightly higher raw material prices, but stable compared to Q1 2017
  - Price pressure continued strong on all markets
- HEXPOL Engineered Products
  - Increased sales

# Q2 2017 – HEXPOL Compounding

## Increased sales and higher profit

- Sales increased 24% to 2,999 MSEK (2,414)
  - Positive volume development
  - Price pressure continued strong on all markets
- Operating profit increased 12% to 487 MSEK (435)
  - Operating margins amounted to 16.2% (18.0), affected by price pressure and lower margin in acquired units



# Q2 2017 – HEXPOL Compounding

## Increased sales and higher profit

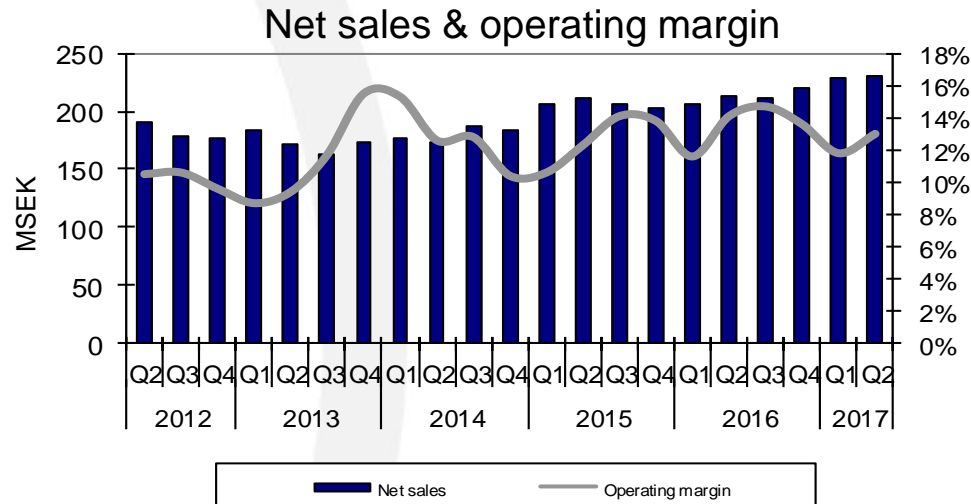
- HEXPOL Compounding NAFTA – increased sales
  - Continued good sales to automotive related customers, slightly lower demand at the end of the quarter
  - Improved sales to building and construction, engineering and general industry
- HEXPOL Compounding Europe – increased sales
  - Continued good sales to automotive related customers
  - Improved sales to building and construction, engineering and general industry
- HEXPOL Compounding Asia – developed positively
  - Increased sales mainly to automotive related customers in China
- HEXPOL TPE Compounding – increased sales
- Acquired RheTech Thermoplastic Compounding had a continued positive development
- Continued price pressure on all markets
- The acquired Trelleborg's Rubber Compounding unit in Czech Republic, a well-known Rubber Compounder in Central Europe, has been integrated
- In early April, Valley Processing, a well-known Rubber Compounder in western US, was acquired



# Q2 2017 – HEXPOL Engineered Products

## Increased sales

- Net sales increased 8% to 231 MSEK (213)
  - Sales increased for HEXPOL Wheels while HEXPOL Gaskets was in line with last year
  - Positive development in China for HEXPOL Wheels and HEXPOL Gaskets
- Operating profit amounted to 30 MSEK (30)
- Operating margin amounted to 13.0% (14.1)



# Jan – Jun 2017 – Increased sales and higher profit

- Sales increased 18%
- Operating profit increased 9%
- Earnings per share increased 9%
- Strong balance sheet

| MSEK                              | Apr -Jun<br>2017 | 2016  | Jan-Jun<br>2017 | 2016  | Full year<br>2016 | Jul 16-<br>Jun 17 |      |
|-----------------------------------|------------------|-------|-----------------|-------|-------------------|-------------------|------|
| Net Sales                         | 3,230            | 2,627 | 6 368           | 5 384 | 10 879            | 11 863            | +18% |
| Operating Profit, EBIT            | 517              | 465   | 1 049           | 962   | 1 921             | 2 008             | +9%  |
| Operating Margin, %               | 16.0             | 17.7  | 16.5            | 17.9  | 17.7              | 16.9              |      |
| Profit after tax                  | 366              | 329   | 745             | 684   | 1 397             | 1 458             |      |
| Earnings per share, SEK           | 1.06             | 0.96  | 2.16            | 1.99  | 4.06              | 4.23              | +9%  |
| Operating cash flow               | 423              | 580   | 858             | 905   | 2 057             | 2 010             |      |
| Net cash                          |                  |       | -948            | 234   | 1 268             |                   |      |
| Equity/assets ratio, %            |                  |       | 59              | 69    | 77                |                   |      |
| Return on capital employed, % R12 |                  |       | 26.3            | 27.9  | 26.8              |                   |      |

Strong balance sheet provides scope for continued expansion.

The dividend of 1,635 MSEK resolved at the Annual General Meeting was paid in May corresponding to a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share and a special dividend of 3.00 SEK per share.

# Q2 2017 – Increased sales and higher profit

- Sales increased by 23% to 3,230 MSEK (2,627).
- Positive volume development
- Operating profit increased by 11% to 517 MSEK (465)
- Earnings per share rose by 10% to 1.06 SEK (0.96)
- Continued price pressure
- The acquired, Trelleborg's Rubber Compounding unit in Czech Republic, a well-known Rubber Compounder in Central Europe, has been integrated
- In early April, Valley Processing, a well known US Rubber Compounder, was acquired
- Mikael Fryklund appointed president and CEO, started July 1
- Georg Brunstam was elected to Chairman of the Board for HEXPOL AB (publ.) at the Annual General Meeting April 28, 2017





# Q & A