

Telephone presentation October 23, 2015, 16:00 CET

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and enter meeting code 917 840

# Welcome to HEXPOL

## Q3 2015 report update

CEO Georg Brunstam  
CFO Karin Gunnarsson

October 23, 2015



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# Agenda

- Introduction to HEXPOL
- Q3 2015 – HEXPOL Group
- Q3 2015 – Business areas
- January – September 2015 – Key figures
- Q3 2015 – 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.*



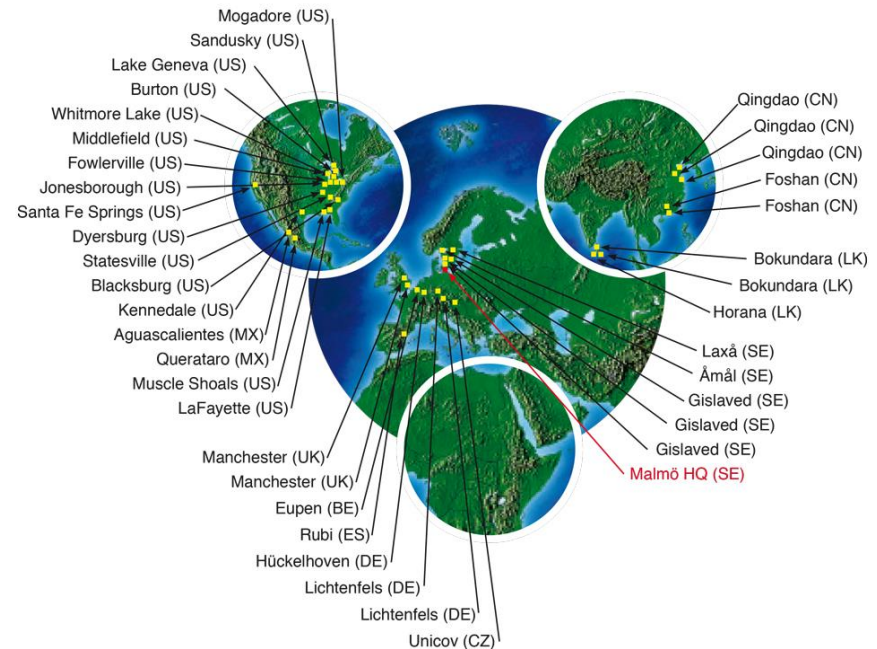
# HEXPOL – A well positioned Group

- Two business areas
  - HEXPOL Compounding
  - HEXPOL Engineered Products
- Strong global market positions
  - Global leader for rubber compounding
  - Strong European position in Thermoplastic Elastomer Compounding (TPE)
  - Strong US position for reinforced Polypropylene Compounding
  - Global leader in Gaskets for plate heat exchangers (PHEs)
  - Global market coverage in Wheels for fork lift trucks and castor wheels
- Global presence with production at 38 units in 10 countries (≈3,900 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

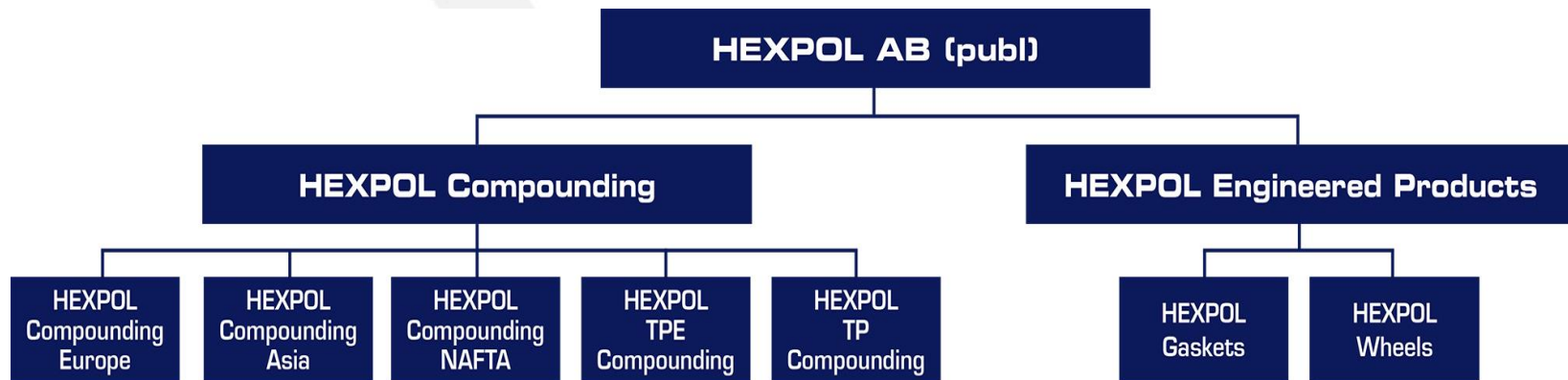
- True global footprint – 11 of 38 production units in growth markets
- Historical strong sales growth and good profitability
- Well invested and strong cash flow
- Long industrial history with highly experienced and dedicated management and board
- Acquisition oriented – major acquisition within Polymer Compounding:
  - 2010: Elasto, Excel Polymers
  - 2012: Müller Kunststoffe, Robbins
  - 2014: Kardoes, Vigar Rubber Compounding, Portage Precision Polymers
  - 2015: RheTech Thermoplastic Compounding
- Acquired 23 units with sales, development and production since 2010



# HEXPOL – A well positioned Group with a stable organisation

## Two business areas

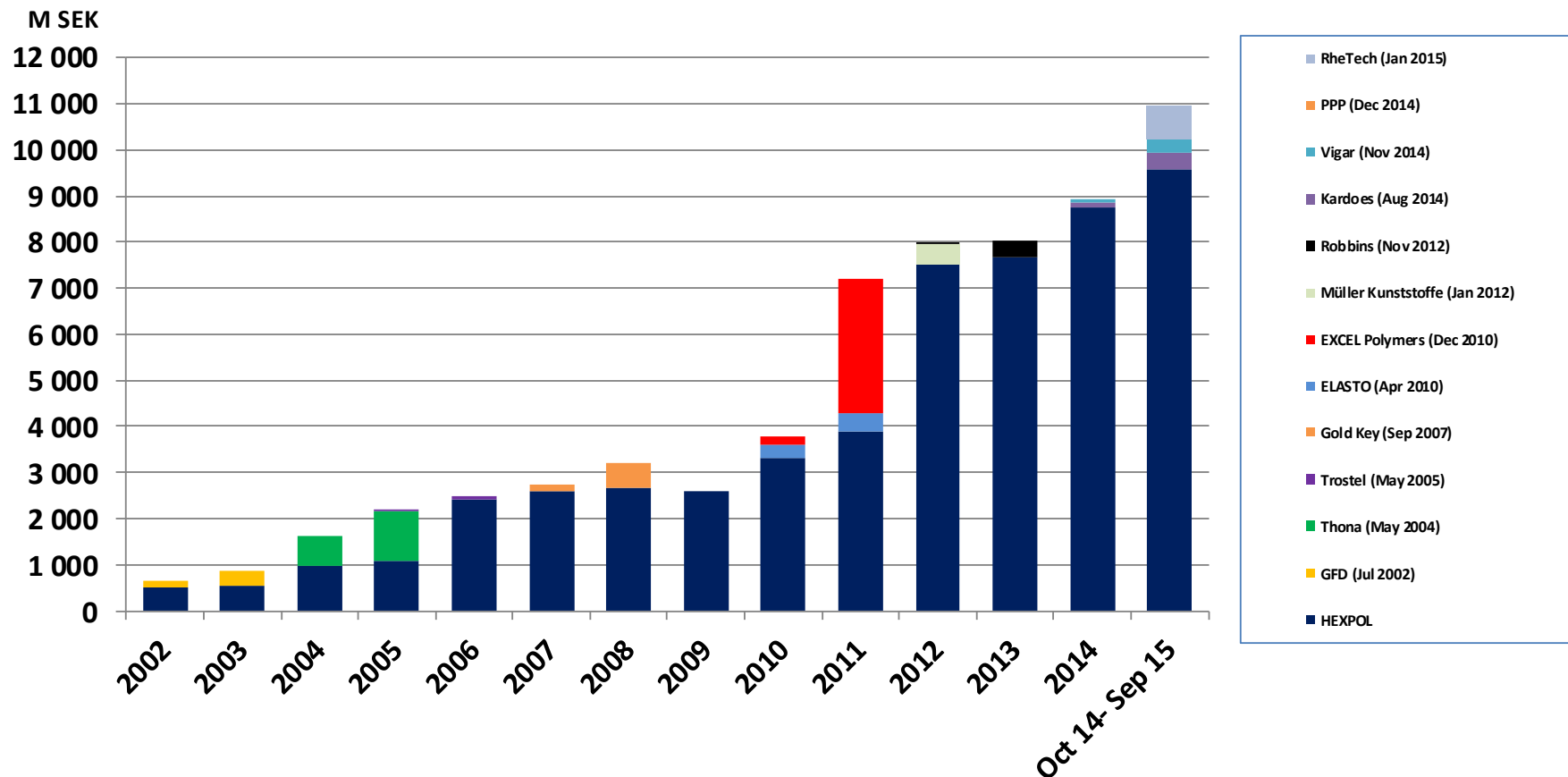
- HEXPOL Compounding (93 % of sales)
- HEXPOL Engineered Products (7 % of sales)





# 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 (e.g. Kardoes and Portage Precision in US, Vigar Rubber Compounding in Germany)
  - 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 China and 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

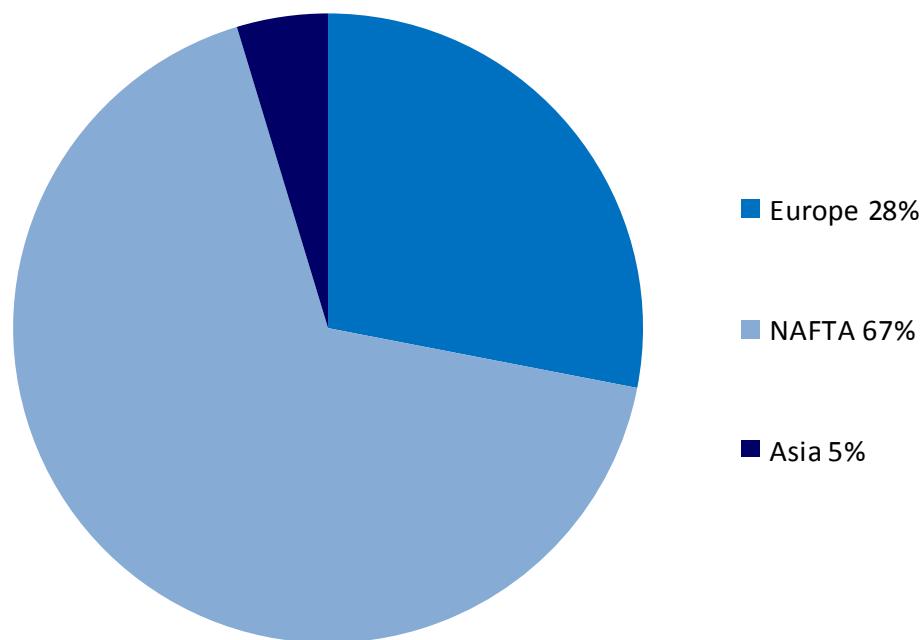
## Main customer segments:

- 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 37% 2014 (2008 60%).
- 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

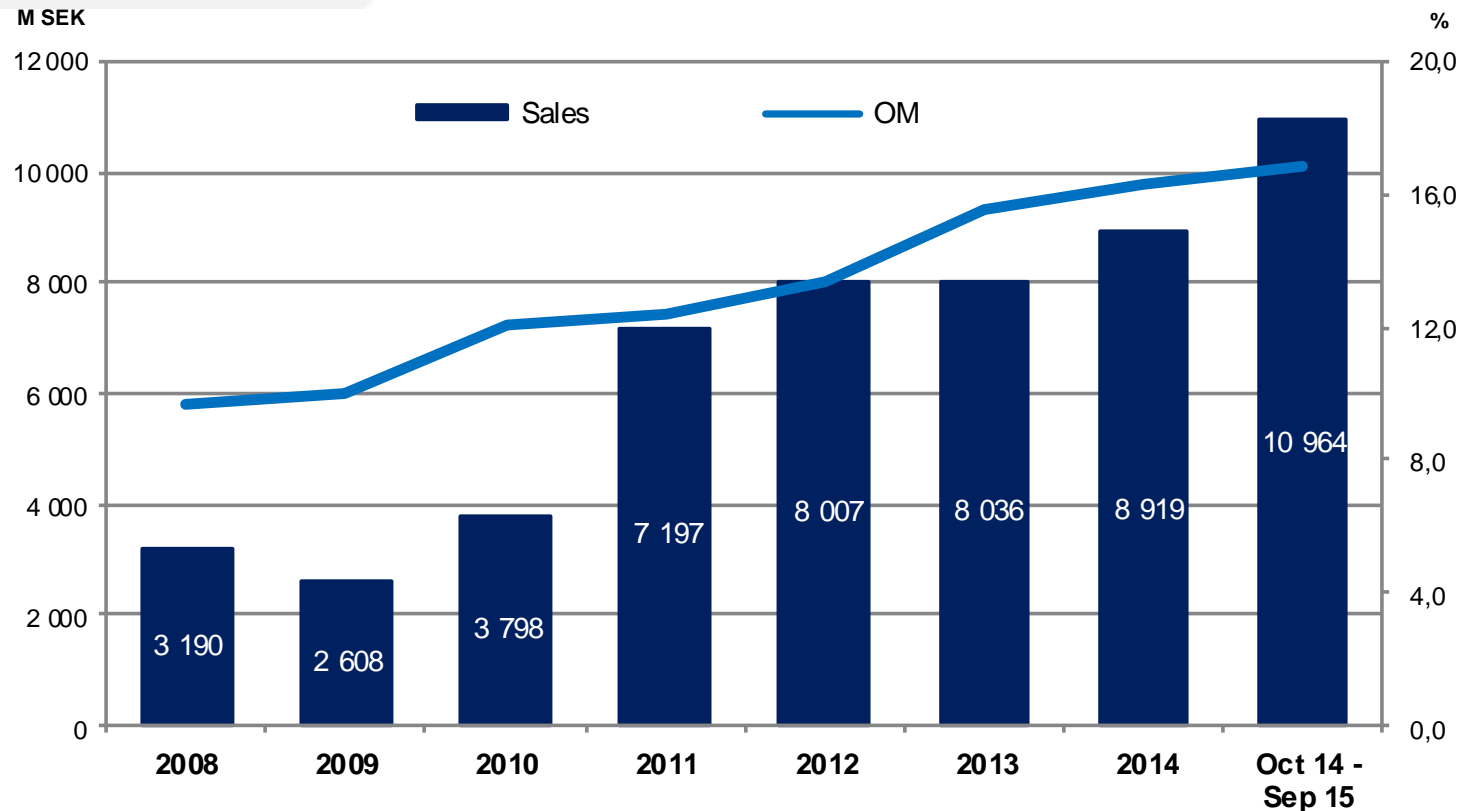


# HEXPOL — A well positioned Group with favorable sales distribution

Sales per geographic area Jan - Sep 2015



# HEXPOL — A well positioned Group with strong margin development



# Q3 2015 – Continued strong growth and strong margins

- Strong growth mainly thanks to acquired units and positive currency effects
- Volume and sales increases in all geographical regions except Asia
  - Sales negatively affected by considerably lower sales prices due to considerably lower raw material prices

<b>MSEK</b>	<b>2015 Q3</b>	<b>2014 Q3</b>	<b>2015 Q2</b>	
Net Sales	2,772	2,312	2,910	+ 20%
Operating Profit, EBIT	505	388	508	+ 30%
Operating Margin, %	18.2	16.8	17.5	
Profit after tax	358	280	357	
Earnings per share, SEK	1.04	0.81	1.04	+ 28%
Operating cash flow	503	460	640	

# Q3 2015 – Continued strong growth and strong margins

## - Volume and sales increases

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

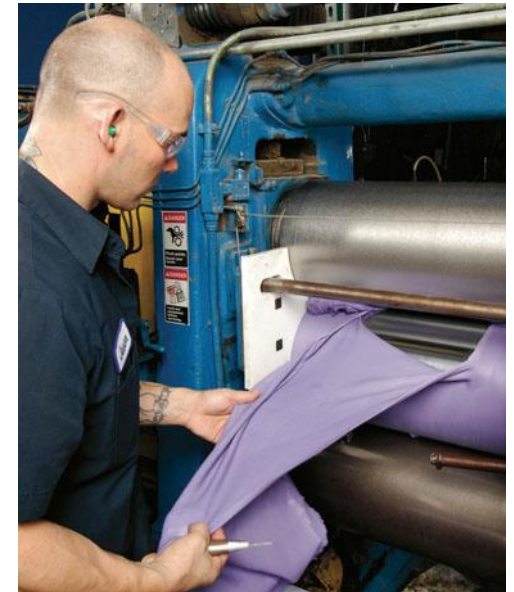
- Sales increased by 20% to 2,772 MSEK (2,312)
  - Strong growth mainly thanks to acquired units and positive currency effects
  - Sales growth (adjusted for currency effects) amounted to 6%
- Sales and volume in NAFTA well above last year
  - Sales increased by 26%
  - Continued positive development to automotive related customers
  - Major downturn in mining, export industry, agriculture and oil and gas segment
- Sales and volume in Europe well above last year
  - Sales increased by 12%
  - Continued positive development to automotive related customers
- Volume and sales in Asia below last year
  - Sales decreased by 3%
- Operating profit increased by 30% to 505 MSEK (388)
- Integration of units acquired in 2014 and 2015 completed according to plan, already in first half year of 2015





# Acquisitions 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 (Oct, 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.



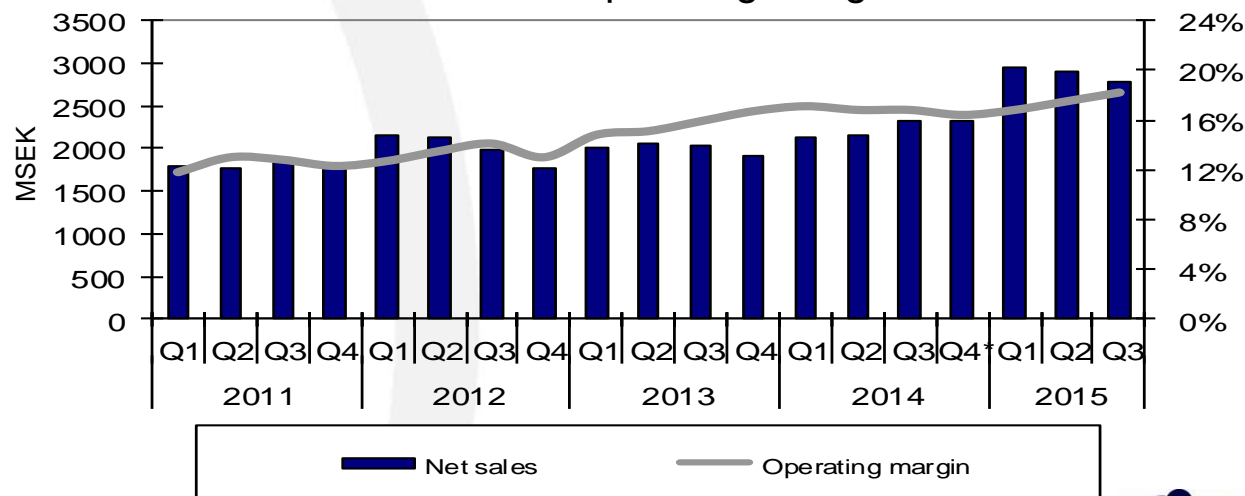
# Q3 2015 – Continued strong growth and strong margins

## Volume and sales increases in all geographical regions except Asia

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

- Net sales increased to 2,772 MSEK (2,312)
  - Increase by 20 %
- Operating profit increased to 505 MSEK (388)
  - Increase by 30 %
- Operating margin amounted to 18.2% (16.8)
- Return on capital employed (Oct 2014-Sep 2015) amounted to 28.2%
- Earnings per share increased by 28% to 1.04 SEK (0.81)
- Strong operating cash flow, increased to 503 MSEK (460)
- Strong Balance Sheet
  - Equity/assets ratio 67% (64)
  - Net cash 39 MSEK (net debt 36)

Net sales & operating margin



# Q3 2015 – Continued strong growth and strong margins

- Volume and sales increases in all geographical regions except Asia
- Sales negatively affected by considerably lower sales prices due to considerably lower raw material prices

MSEK	Quarter 3			Jan-Sep		
	2015	2014	Growth	2015	2014	Growth
<b>Sales</b>	2 772	2 312	20%	8 633	6 588	31%
Currency	-317		-14%	-1 154		-17%
<b>Ex. Currency</b>	2 455		6%	7 479		14%
Acquisition*	-334		-14%	-1 166		-18%
<b>Organic Growth</b>	<b>2 121</b>	2 312	-8%	<b>6 313</b>	6 588	-4%

\* Excl. effects from transferred volumes

# Q3 2015 – Continued strong growth and strong margins

- Strong balance sheet, well equipped for further expansion

<b>MSEK</b>	<b>2015 Q3</b>	<b>2014 Q3</b>	<b>2015 Q2</b>
Net Sales	2,772	2,312	2,910
Operating Profit, EBIT	505	388	508
Operating Margin, %	18.2	16.8	17.5
Profit after tax	358	280	357
Earnings per share, SEK	1.04	0.81	1.04
Operating cash flow	503	460	640
Net cash	39	-36	-313
Equity/assets ratio, %	67	64	61

# Q3 2015 – Business areas

Continued strong growth and strong margins

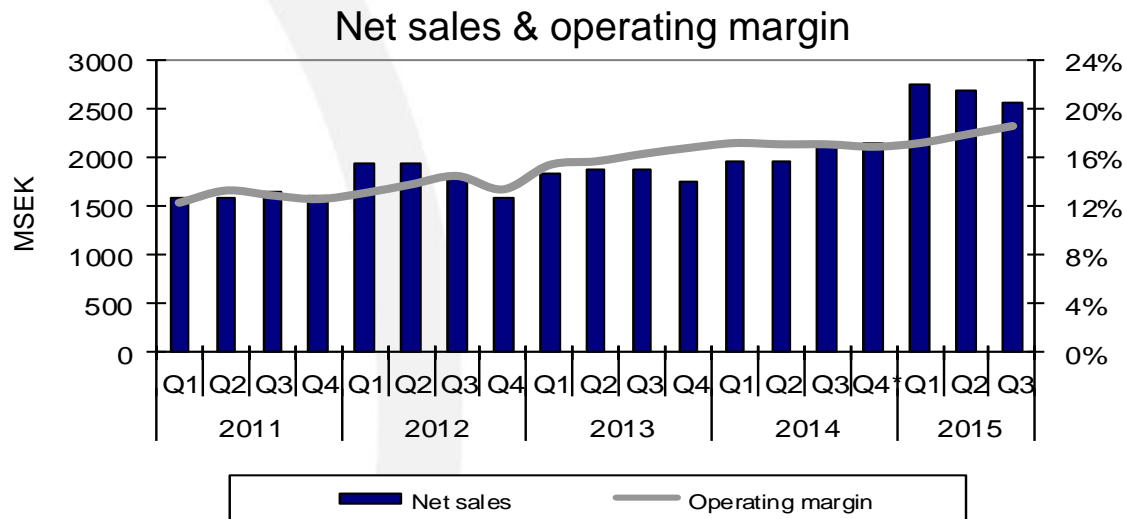
MSEK	Net Sales			Operating Profit			Operating Margin, %		
	2015 Q3	2014 Q3	2015 Q2	2015 Q3	2014 Q3	2015 Q2	2015 Q3	2014 Q3	2015 Q2
HEXPOL Compounding	2 566	2 125	2 699	476	364	482	18.6	17.1	17.9
HEXPOL Engineered Products	206	187	211	29	24	26	14.1	12.8	12.3

- Strong growth in HEXPOL Compounding
  - Strong growth mainly thanks to acquired units and positive currency effects
  - Sales negatively affected by considerably lower sales prices due to considerably lower raw material prices
  - Integration of units acquired in 2014 and 2015 completed according to plan, already in first half year
  - Increased price pressure during the quarter
- Sales and profit increased in HEXPOL Engineered Products

# Q3 2015 – HEXPOL Compounding

## Continued strong growth and strong margins

- Sales increased 21% to 2,566 MSEK (2,125):
  - Strong growth mainly thanks to acquired units and positive currency effects
  - Sales negatively affected by considerably lower sales prices due to considerably lower raw material prices
  - Volume increases in all geographical regions except Asia
  - Stable volumes, adjusted for acquired units
- Operating profit increased to 476 MSEK (364)
  - Improved thanks to increased volumes, continued improvement of performance and efficiency in operations and positive currency effects



\* Excluding acquisition, integration and restructuring costs (Vigar)

# Q3 2015 – HEXPOL Compounding

## Continued strong growth and strong margins

- Sales negatively affected by considerably lower sales prices due to considerably lower raw material prices
- Europe – sales and volumes well above last year
  - Strong quarter in Europe
  - Sales increased to automotive related customers
  - Integration of Vigar Rubber Compounding completed according to plan already in first half of 2015, incl. closure of German manufacturing unit
  - Positive volume development excl. acquired units
- NAFTA – sales and volumes well above last year
  - Sales increased to automotive related customers
  - Considerably weaker volumes to oil and gas, mining, agriculture and exporting industries
  - Acquired RheTech Thermoplastic Compounding has developed according to plan
  - Lower volumes excl. acquired units
- Asia – sales and volumes lower than last year
  - Lower sales to automotive related customers in China
- HEXPOL TPE Compounding – stable development
- Increased price pressure during the quarter

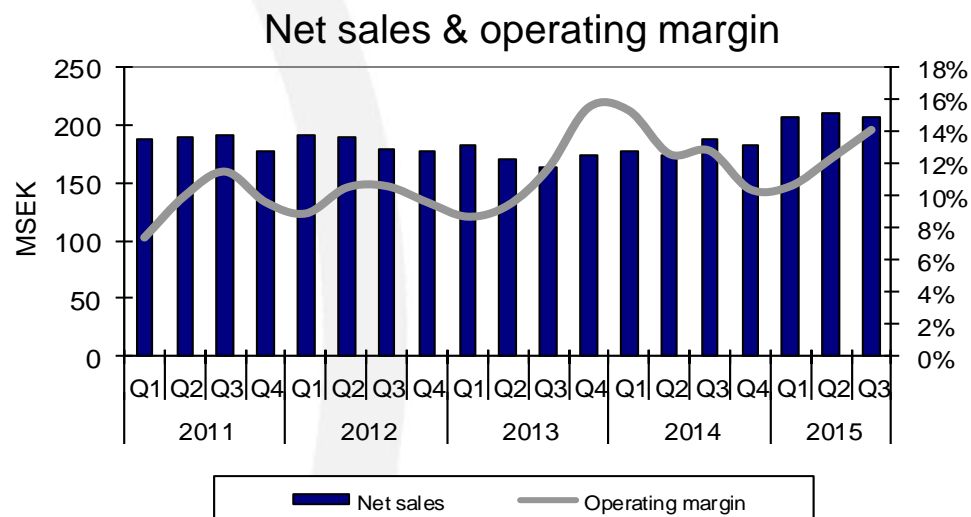




# Q3 2015 – HEXPOL Engineered Products

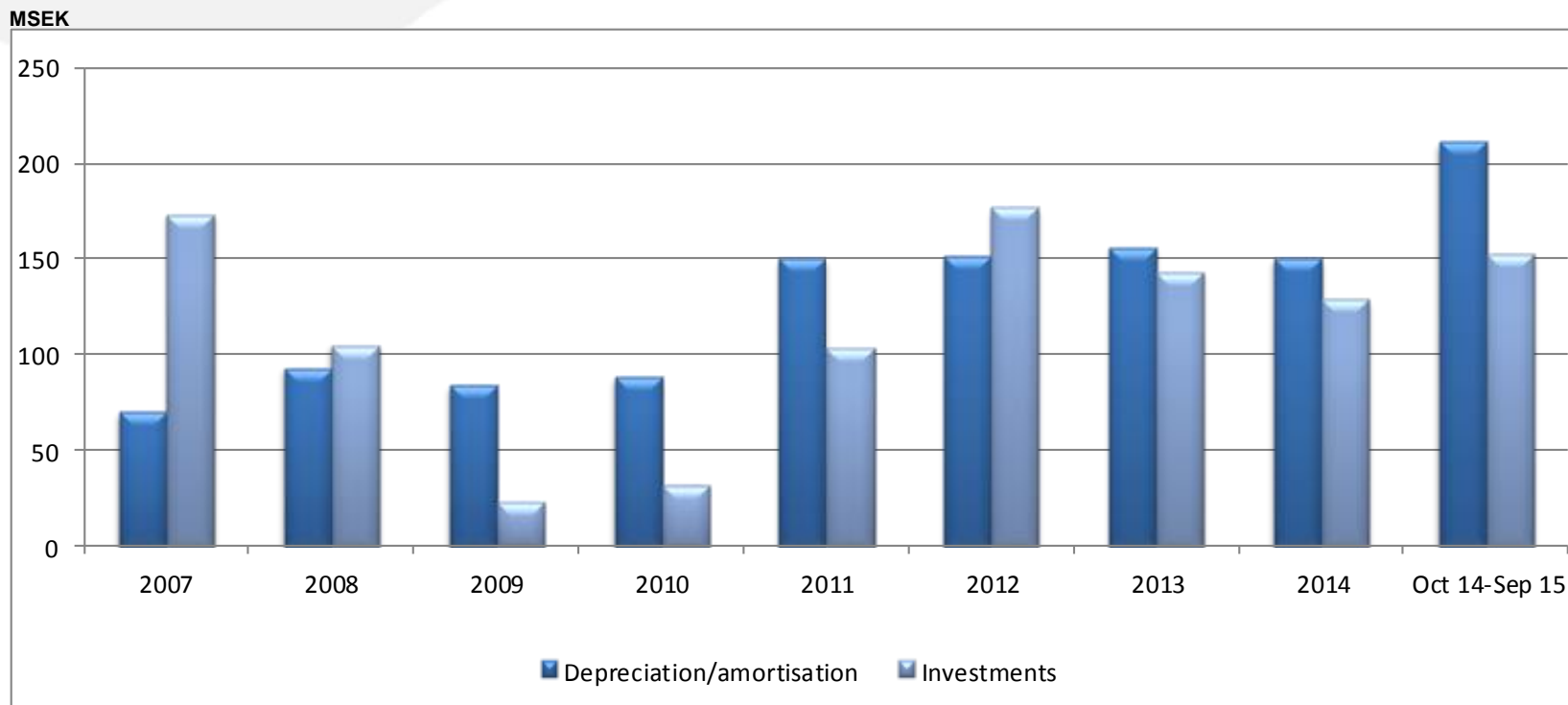
## - Sales and profit improvement

- Net sales increased by 10% to 206 MSEK (187)
  - Stable sales development for HEXPOL Gaskets
  - Positive sales development for HEXPOL Wheels with continued positive development in US
- Continued price pressure
- Operating profit increased 21% to 29 MSEK (24)
- Operating margin 14.1% (12.8)



# HEXPOL Group

## Depreciations/amortisations & Investments



- Investments in line with depreciations/amortisations
- Mainly capacity investments in Mexico and within TPE Compounding
- Maintenance investments primarily in the U.S.

# Jan - Sep 2015

Very strong growth and strong margins

MSEK	Jul-Sep		Jan - Sep		Full year	
	2015	2014	2015	2014	2014	Oct 2014- Sep 2015
Net Sales	2,772	2,312	8,633	6,588	8,919	10,964
Operating Profit, EBIT	505	388	1,508	1,112	1,456	1,852
Operating Margin, %	18.2	16.8	17.5	16.9	16.3	16.9
Profit after tax	358	280	1,067	800	1,048	1,315
Earnings per share, SEK	1.04	0.81	3.10	2.32	3.05	3.83
Operating cash flow	503	460	1,623	1,159	1,676	2,140
Net cash			39	-36	259	
Equity/assets ratio, %			67	64	69	
Return on capital employed, %					28.5	28.2

+ 31%

+ 36%

# Q3 2015 – Continued strong growth and strong margins

- Strong growth mainly thanks to acquired units and positive currency effects
  - Sales increased by 20% to 2,772 MSEK (2,312)
    - Sales negatively affected by considerably lower sales prices due to considerably lower raw material prices
  - Sales and volumes developed positively in all geographical regions except Asia
    - Sales and volumes in NAFTA well above last year
    - Sales and volumes well above last year in Europe
    - Sales and volumes below last year in Asia
  - Operating profit increased by 30% to 505 MSEK (388)
  - Integration of units acquired in 2014 and 2015 completed according to plan already in first half of 2015
  - Strong operating cash flow, 503 MSEK (460)
  - Increased price pressure during the quarter
  - Strong financial position
    - Well equipped for continued expansion



# Updated financial target

HEXPOL's financial targets have been revised to the following:

- Equity/assets ratio is to exceed 30 per cent

Measured at a yearly average over a business cycle:

- Sales growth (adjusted for currency effects) is to exceed 10 per cent.
- The operating margin (adjusted for items affecting comparability) is to exceed 17 per cent.

The previous targets measured at a yearly average over a business cycle were as follows:

- Sales growth (adjusted for currency effects) is to exceed 10 per cent.
- Operating margin (adjusted for items affecting comparability) is to exceed 12 per cent.

# Q & A