

17-Sep-2024

SKF AB (SKF.B.SE)

Business Update Call

CORPORATE PARTICIPANTS

Sophie Arnius

Head-Investor Relations, SKF AB

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

OTHER PARTICIPANTS

James Moore

Analyst, Redburn Atlantic

John Kim

Analyst, Deutsche Bank AG (UK)

Andrew Wilson

Analyst, JPMorgan Securities Plc

Timothy Lee

Analyst, Barclays Capital Securities Ltd.

MANAGEMENT DISCUSSION SECTION

Sophie Arnius

Head-Investor Relations, SKF AB

A warm welcome to this call focusing on today's historical announcement, where the Board of SKF has decided to initiate a separation of our Automotive business, with the intention of a stock market listing. The aim is to unlock the full value of both parts of SKF, creating two independent, global leading companies fit-for-purpose when it comes to accelerate growth and profitability.

My name is Sophie Arnius. I'm heading up Investor Relations and I will also be joined by our CEO and President, Rickard Gustafson; and CFO, Niclas Rosenlew. There will, of course, be opportunities to ask questions and there are two ways to do that. [Operator Instructions]

So, let's zoom in on today's exciting news. It started already early 2022, when we announced our new strategy, where portfolio management is a key element. And we were clear at that time that we wanted to create a more autonomous and independent Automotive business. The aim was to make sure where we have strategic flexibility going forward, and now we are ready to take the next step and embark on this journey.

So, there are several differences between the Automotive and Industrial businesses looking at business dynamics, the end markets and success drivers. So, by creating standalone companies, they will have the opportunity to focus on their distinct opportunities and to increase customer value and competitiveness, as well as improve efficiency and also increase transformation speed. All-in-all, equipped to accelerate growth and profitability.

The decision today from the Board is to start the separation process, and the aim is to list the Automotive business on Nasdaq Stockholm during first half of 2026 via Lex Asea distribution to SKF shareholders.

And it's now a great pleasure to hand over to Rickard, who will take us through the rationale and provide more details. Over to you.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

Thank you, Sophie, and warm welcome. Good afternoon to everyone. Thank you for joining us on this exciting and historical day, as you heard Sophie mentioned already. By doing this transaction, by separating our Automotive business, we truly believe that we will be able to create two even stronger independent businesses that has the potential to further enhance their competitiveness and their value creation, customer value creation in their different segments; and thereby, driving additional profitable growth.

So, that's kind of the overall rationale and you heard Sophie already mention some of that, but this slide indicates why we truly believe that there are some strategic logic to this. So, how to split the businesses? They do have very different business dynamics with automotive being a rapidly transformative industry, driven by the electrification part, while industrial is more focused on accessibility and speed, are the key drivers there to win in a very competitive landscape.

But also from manufacturing processes, customers and customer point of view and sales processes and type of contracts, there are profound differences that makes it logic and the strategic rationale behind the split of these two entities. [indiscernible] (04:58) main driver for why we believe that this is a fantastic idea that will drive further value and unlock the full potential both for Automotive and Industrial; and that is the key to this whole transaction.

What would then drive the value? Well, we truly believe that establishing two fit-for-purpose independent companies will accelerate growth and profitability. And why is that? Well, there are a number of drivers for this. Clearly, we do believe that improved management focus and resource allocation will drive efficiencies and further value in both businesses, making sure that we have dedicated teams focusing on winning in their respective industrial verticals and different business segments.

We believe that the focus would drive increased efficiency. As you saw on the previous slide, the manufacturing capabilities, some processes looks a bit different from large batches to small batches, really driving more efficiency by focusing and creating fit-for-purpose value chains across our both business units.

We believe that the focus will create even further enhanced end user experiences by being very close to our customers. Our Automotive business be close to their customers in their transformation, driven by electrification. And for our Industrial businesses, stay tuned with our customers and make sure that we have a superior accessibility and availability to serve those customers. That's going to drive their opportunities to win and drive further growth.

We believe that this will also provide better capital deployment. Clearly, this will enable for both the Industrial (sic) [Automotive] (06:55) business and the Industrial business to may be even more proactive in the acquisition space, to go after additional growth opportunities that could strengthen the respective businesses and its increased responsiveness. We do live in a highly volatile world. We have experienced a very volatile situation in terms of geopolitical, in terms of the cost inflation, in terms of difficulties in logistics.

All of this, by being close to our customers and dedicated management teams, will enhance our responsiveness. And altogether, we do believe that this can accelerate growth and profitability for both businesses which is absolutely vital, and thereby enhance value for customers, for employees, and also hopefully for our shareholders. I'm trying to click and then it worked.

To give you kind of a flavor what this could look like, then we used – here on this page, we used the full year 2023 as a reference point. We see here that if we use those numbers, the Automotive business would be a sizable business of some SEK 30 billion, with an adjusted operating margin between 5% and 6%, some 4,000 employees and have a strong balance sheet.

The Industrial business would be north of SEK 70 billion, kind of 15% to 16% operating margin, 34,000 employees. And clearly, these are sizable businesses really tailored for the different market, but this is not what we think the full potential will be either for Automotive or Industrial. By doing this, we do believe that there are opportunities to further accelerate growth and also further enhance profitability by driving these focus based on those drivers that I presented just a minute ago.

So with this in mind, I like to start by handing over to Niclas to share some more insights what's going to happen to the Automotive business, why do we believe that there's further upside and potential in the Automotive business? And then, I will come back and try to convey the same message for the Industrial business.

So with this, Niclas, take over Automotive.

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

Thank you, Rickard, and hello, everyone. And as you just heard from Rickard and Sophie, we are embarking on an exciting journey to create two very strong companies, two world-leading companies. And that's also true now for Automotive and then, as Rickard said, Rickard will come back and comment on Industrial.

So, to start off with kind of the landscape we live in. When we think about what's happening in the Automotive business, it's a profound transformation that the industry is going through today. And of course, in this profound transformation, where things evolve very, very quickly, the speed, adoption is absolutely critical and here we believe it's even better within an independent automotive company or even easier, faster for an independent automotive company.

And this transformation applies, of course, to us as SKF and the future automotive company, but across everything within the Automotive business. It's a change when it comes to manufacturers, to suppliers, very much engineering and technologies and also supply chain. So, this sets the framework for why we think it's even better, even stronger to act independently.

If we look a bit closer at the Automotive business, we have a very, very good starting point. We did set the strategy back in 2022, as Sophie was commenting on; and we have been executing that strategy. We are focusing within Automotive on three segments. We are focusing on powertrain, wheel end, and vehicle aftermarket. These are actually, as you can see, equally strong, roughly the same size. So, it's a good balanced portfolio. When it comes to powertrain, we are going through a shift to EVs. The whole market is going through a shift, and we already back in 2022 said that we are going to focus on EVs.

We have a leadership position already today, and we believe we can strengthen it even further by, for instance, launching new, innovative, exciting products. What comes to wheel end? We have a very strong position in the market. And again, within EVs and within the transforming business, low friction has become an even more important thing, both within commercial vehicles and in passenger vehicles. And that's a strength that we plan to leverage even further going forward.

Vehicle aftermarket is an important part of the business. Also here, we see an opportunity to expand our presence, expand our service levels to customers both through portfolio expansion and also market expansion. Here we, of course, are leveraging our strong brand, engineering and supply chain. So, strong starting position, very good position with our customers in the market and we see an opportunity to expand even further.

Then finally, why do we think it makes sense to act separately as an independent company, as a listed company for Automotive. Rickard commented on the focus, and here we can see it internally within SKF that Automotive has been held back a bit. Also, Industrial has been held back a bit. Sometimes, decisions have not been optimal from an Automotive perspective. And we see that a focused, dedicated management team for Automotive can actually let the business loose and achieve even more.

We talked about the ability to adapt to market changes, which is absolutely vital. And here, the speed of innovation, speed of transformation in the market is just going to accelerate. So being able to adapt and be proactive in this sort of market environment, we also believe will be easier as an independent company. Of course, the cost profile, profitability management is an important part of any Automotive business and also our Automotive business. And also, here we see opportunities for an independent automotive company to excel.

And finally, when it comes to capital deployment, here this can be fitted even better to the exact business to Automotive business, as Rickard said, whether it's M&A or whether it's other investments, R&D and so on and so on. And we are not starting from scratch. We have seen a good progress when it comes to our performance, when it comes to our profitability from 2022 to 2023, 2024; and we see even more potential now going forward and also driven by the independence.

So with that, Rickard, hand back to you.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

Excellent. Thank you very much, Niclas. And then, moving on to the Industrial part of our business. You'd probably seen this before. This statement that some 20% of the global energy is actually wasted through friction. And for us, that's a good thing, because that's really the heart of what we do. Our products and our capabilities constantly aim to help our customers to reduce friction and enhance energy efficiency.

On top of it, we have also experienced that some of the key megatrends that's sweeping across the globe, like sustainability and the energy transition, provides excellent amplitude for further accelerated growth opportunities for our Industrial business. That was the driving force behind our strategic framework, intelligent and clean, and that remains the driving force also now than we focus even more into our Industrial business.

The way we see it, how we're going to drive and value in our Industrial business rests based on the same pillars as we talked about before. But with this setup, we believe we can further accelerate our execution. We do believe that these megatrends will help us to really drive growth in the clean and intelligent applications such as within rail and electrical drives. Although today, there is roughly some 20% of our Industrial sales volume resides in that bucket.

But also, by leveraging our attractive core industries such as food and beverage, aerospace, agri, just to mention a few, there are further growth opportunities to go after and this is roughly 30% of our portfolio today. But also exciting to get even more attention to our important part of the end users and distributor market, where we also have a lot of service offerings that account for some 50% of our sales today. There are also more opportunities to go after there and leverage a more focused organization.

The enablers here are clearly that we need even further to align our technology investments, to make sure that we constantly drive innovation to support growth in these three buckets, and really focus our R&D capacity towards that is going to be key. And then I mentioned also that the focus will provide further opportunities to drive operational efficiency, to really align our value chain and manufacturing footprint to be as effective as it can be, to support these customers; and also on the commercial excellence side, further enhance our speed to market, our availability to serve our customers which we know is key to drive – to win in a highly competitive market.

And we will continue to leverage the key strength, the strong legacy that our Industrial business rests upon. We do have a strong track record of innovation. And we know that our application engineering capabilities are second to none in the market. We want to continue to develop those and drive those further. We have a well-established global footprint and global reach that we will continue to leverage. And we do have a very, very strong brand and a fantastic reputation across many industrial verticals that we also will continue to build upon.

So, why do you believe that this can create further value? And you recognize some of the same things that Niclas mentioned about when it comes to Automotive, also echoes when we talk about Industrial business. We truly believe that focus is a good thing, that focus will drive efficiencies, and focuses can accelerate execution capacity in our business. We do believe that we can further optimize our commercial execution and operations as I described before.

We do believe that being even close to our customers would further enhance our value creation and value proposition, as we engage with our customers. And also for Industrial, to make sure that they have a – their capital deployment is really tailored for those opportunities that we believe are the best opportunities to drive our Industrial business forward. It could be in R&D, it could be in further driving regionalization or accelerating M&A activities.

Even here, we've seen a positive trajectory in terms of our profitable growth over the last few years, even though in 2024 [indiscernible] (20:35) negative growth territory due to slower demand. But if we look into the operating margin, our Industrial business has continued to improve in 2023. As a reference point, as I said before, we're just north of 15%. And we don't believe that 15% is the ultimate full potential of our Industrial business.

We believe that there are bigger and more opportunities. Exactly what those are, we are bit too early and premature to share today. But rest assured that, as we progress on this journey, we will come back with more information and also share new financial target, both for the Industrial business and the Automotive business. But that's for a later call into the future.

To sum this up, as you heard before, the intention is to create an independent, a separated Automotive business. We believe that to do the carve-out internally is going to take us until the end of 2025. Then, the ambition is to put our Automotive business and list it on the Nasdaq Stockholm Exchange, and that's [ph] with the (21:53) intention to do that during the first half of 2026. And also, as you heard Sophie mentioned, it's based on the Lex Asea which means there will be no tax implication for our existing shareholders.

So before I hand over to Sophie and open up for the Q&A session, you heard Sophie used the word kind of historical decision that's been made. And I think there's a merit to that. When we think about our business and when we read the history book, we found that in 1926 those who were in charge of SKF back then, they did a similar thing. They spun off their Automotive business that then became the Volvo Group.

If we do this and if we list this by 2026, 100 years after the previous one, we do this one. And we are as excited about these opportunities and we truly believe that this is then way to unlock the full potential, both for our Industrial business and our Automotive business.

So, thank you for your attention, and Sophie, please, Q&A session.

QUESTION AND ANSWER SECTION

Sophie Arnius

Head-Investor Relations, SKF AB

A

Yes. Thank you, Rickard and Niclas. And it's time for a Q&A then, and we are happy to take your questions. [Operator Instructions] And let's start with a question from the telephone line, and it's from [ph] Meihan Yang (23:45) from Goldman Sachs. Please go ahead.

Q

Thank you for taking my question. I'm just having a quick one. What are the other options when you consider spinning off for Automotive business, and the reason why you choose to list it separately? Thank you.

Sophie Arnius

Head-Investor Relations, SKF AB

A

Rickard, do you want to comment on that one?

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

Yeah. As we've been through this, we truly believe that the best way to unlock the full value of both our Industrial business and our Automotive business is to do a full spin of the Automotive business, clearly because there are dependencies between the businesses and it will simplify things by doing this.

And clearly, I also believe that as a starting point, the Automotive business and the Industrial business will have some smaller commercial collaboration agreements and also that will be simplified if it's done in this way rather kind of in a divestment. And again, both me as representing group management and I know that also the Board of Directors, they truly believe that going down this path is the best way to create the most shareholder value and value for our customers and employees.

Sophie Arnius

Head-Investor Relations, SKF AB

A

And we have some questions regarding costs here from our webcast audience. So, I will start with one from Rizk Maidi from Jefferies. And it's about, if we can estimate the cost related to the separation and – because the understanding is that both businesses have untangled manufacturing.

And Niclas, this is a question for you.

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

Sure. Sure. And we have done a fair amount of homework here. And I think the overall logic here, through belief, is that the benefits far exceed any costs here. Anyhow, you are absolutely right that, of course, there are cost splits to consider. Some cost will remain with Industrial; some cost will go to the Automotive business. And that's a piece of work that we need to go through here in the near future. And as we wrap up both the kind of benefits side where can we take the companies, what's the full potential, and then also the cost side will, of course, come back to you.

Sophie Arnius

Head-Investor Relations, SKF AB

A

And continuing on the cost thing here, we have a question from Magnus Kruber at Nordea. If we can expect any reduction in group overheads from the separation.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

Do you want to take that?

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

Yeah, sure, sure.

Sophie Arnius

Head-Investor Relations, SKF AB

A

[ph] Yes, please (26:47).

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

No. Good. Really good point here. Good question. I think reduction, whether it's in group overhead, whether it's somewhere else, it's of course our duty to look at anyway. And as you know, we have been working on cost management in the past few years and also shared quite a lot of details and taken out quite a lot of cost.

The way we see it is that, that needs to continue anyhow. But of course, a separation that we are now embarking on is an additional trigger really to take care of costs that are not potentially needed. So, yes, it will be a focus area and part of the separation as well.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

Yes, we'd agree.

Sophie Arnius

Head-Investor Relations, SKF AB

A

And we will continue with a question from the telephone line, and it's from James Moore at Redburn. Please go ahead.

James Moore

Analyst, Redburn Atlantic



Hi, Rickard, Niclas, Sophie. Thanks for the time. I've got two questions, if I could. One on the dis-synergies and one on unlocking value. I guess, it's the cost and the benefit. But just maybe, when your predecessor and the Board looked to do the same eight years ago, they chose not to separate concerned over the dis-synergies on a number of fronts that Automotive shared some R&D is often the first to market with new technologies that it might lift costs in Industrial because you do share a lot of fixed cost on purchasing overheads, finance, and also a driver of manufacturing standards in Industrial and some shared production.

And I know that over the last few years, you've done something to make the two businesses a bit more autonomous. Could you say how much of that shared cost or shared production line capacity has changed? And how much there is today? That's really the first question.

And the second question is on the benefits. I was listening to Christer Gardell today talking about unlocking the full value potential and listening to you on enhancing that. I understand that there's the capital allocation acquisition [ph] currency paid (28:57) benefit of having two different multiples or two different enterprises, but more on the potential multiple for industrial. Have you done any maths on what you think the multiple appreciation could be on new industrial co versus SKF? And whether we can add a point or two points and how you see that?

Sophie Arnius

Head-Investor Relations, SKF AB



So, should we start with the first question?

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB



I'll do that and then maybe, Niclas, you can take the second.

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB



Yeah.

Sophie Arnius

Head-Investor Relations, SKF AB



Yeah.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB



All right. Well, you're right in what you said. You have to go back to 2022 when we embarked on this journey, and we said that we wanted to create a more autonomous Automotive business. And since then, as you're probably aware, we have done a number of investments both into our manufacturing footprint, into driving our regionalization efforts, into enhancing and building further strength and resilience in our value chains.

Whilst we have done those investments, we also have had the lens in front of us assessing how can we do this and also create more autonomous-ness for the Automotive business. So, we have come a long way. I can't give an exact number how far we come, but clearly, we moved the needle quite a bit from 2022 until today. There's still

more work to be done. That's also why we have foreseen kind of a separation process that will take us to the end of 2025 to complete. Because it is true, we still have some overlap in our manufacturing capacity.

There are overlaps in supply chain and so forth that we have assessed and we have identified a path how we will disentangle it and that we believe it's doable in a way that also Niclas described that, even though there are some costs and dis-synergies, but the value significantly outweighs any one-off costs or dis-synergies. So, that's really what we're going after.

The only thing I can say as a reference point, if I recall correctly and I hope I do, back in 2022 I got a similar question and how long will it take to create a fully autonomous Automotive business? And I think I said something like, if the Board of Directors would ask us today to do what we [ph] now announced (31:24) as of today, if we say – if the question came two years ago, I think I said that it was going to take us four to five years to do that. I guess, that still holds.

Now, we're doing this and we intend to hopefully complete this transaction by the end of 2025 and with the listing in the first half of 2026. So, that as far as I can go in sharing how far have we come, but it's been a journey and the journey will continue.

So Niclas, maybe you take [indiscernible] (31:56).

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

Sure. James, on the multiple expansion, I mean you are much better at kind of looking into that. Of course, we have done some homework there as well. The way we see it is that, of course, our job, our task is to ensure that we really get the full benefits out of both businesses. We serve our customers super well and, therefore, see an acceleration in profitable growth essentially and then cash flow, and so on.

So, that's our task. And there we are firm believers that by doing this transaction, we can add a notch of speed, a notch of performance to both businesses. Then it's, of course, up to our owners, shareholders to judge how well we are doing, but we see significant potential here. Yeah.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

And if I may also...

James Moore

Analyst, Redburn Atlantic

Q

Thanks very much.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

...come back a little bit to your question about R&D. I don't fully agree that R&D is primarily been driven out to automotive, if that was kind of where you're coming from. We have equally enough true innovation being driven out of the Industrial that have been applied in Automotive activities and vice versa. What's going to happen going forward?

There will be dedicated resources in both entities, but I truly believe that some of the basic research, there still will be some collaboration between the two companies going forward. So, there will be some leverage there as well. And that's something that we need to nail during the separation process. But both will have strong innovation capacity on their own merit – as their own merit, so to say.

James Moore

Analyst, Redburn Atlantic

Q

Thank you very much. Appreciate it.

Sophie Arnius

Head-Investor Relations, SKF AB

A

Thank you, James. We will continue with a question from the chat here and it's from Erik Golrang at SEB. And will this spun-off asset be Automotive asset 100% looks today? Or are there potential parts that could stay in Industrial? Or are there assets from Industrial that are going to be moved into Automotive? And that's a question for you, Rickard.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

I guess so. It's a bit too early to draw the hard line. We have done our feasibility study. We have an idea how this will play out. And the reason why I also provide you the reference for 2023 [ph] how our (34:48) business segments, because they are fairly relevant. That's roughly what you should expect. If there are some movements to this, they might occur as we move forward during the separation process.

But for the big theme here, I think you should expect that would be kind of the outcome. Clearly, as we continue down this path, as we do our detailed homework around this, there might be some nuances to this. Then we'll come back and share those as they emerge. But roughly, this is what you should expect.

Sophie Arnius

Head-Investor Relations, SKF AB

A

Let's continue with a question from the telephone line from Andy Wilson at JPMorgan. Please go ahead.

Andrew Wilson

Analyst, JPMorgan Securities Plc

Q

Hi. Good afternoon. Thanks for taking my question. I wanted to ask, with regards to the Automotive profitability, I think in Niclas comments you sort of alluded to greater potential in that business as it stands alone. And I guess, I just want to try and frame that comment in the context of the 8% margin target you have for 2025 for Auto. And also, given that I assume you're going to incur even if it's just the listing costs.

So I guess, just trying to sort of calibrate that because obviously the 8% is already a decent step-up and then it's perhaps more visible for me that you're going to incur some higher cost rather than necessarily the benefits at least initially. So, just trying to sort of get some of the building blocks on how that profitability actually goes up maybe over the next couple of years as a standalone asset?

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

Sure.

Sophie Arnius

Head-Investor Relations, SKF AB

Niclas, do you want to comment on that?

A

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

Yeah. Yeah, I'll take that. So, our plan that we've communicated earlier when it comes to Automotive with the ambition of 8% in 2025, that holds, that stands. No change there. And as we've communicated today, we talk about the listing first half 2026. So, 2025 targets and focus on the business here now stands, no change there.

Then you're absolutely right that there will be costs from the separation planning, and those we will then record and report as one-off costs or IAC. So, we'll keep those separate. But no change to the target, no change to the kind of the strategy of Automotive. What we then do foresee is that with the additional accountability, with the additional flexibility, capital allocation, there's potential beyond then for the listed entity.

A

Sophie Arnius

Head-Investor Relations, SKF AB

And Andy, did you have...

A

Andrew Wilson

Analyst, JPMorgan Securities Plc

Thank you. Can I just...

Q

Sophie Arnius

Head-Investor Relations, SKF AB

...an additional question there?

A

Andrew Wilson

Analyst, JPMorgan Securities Plc

Yeah. I did. Thank you [indiscernible] (37:42). Yeah. It's maybe a simple one. I appreciate [indiscernible] (37:47) on this. But just when we think about the cash flow and the cash conversion on the Industrial and the Automotive side, is there anything particularly different in the profile of the two businesses? Or are they similar enough to not be a focus?

Q

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

Well, first of all, let's come back in a – a bit later when we've gone through the – a bit more in terms of the detail planning and really describe the full potential, how we see it, also the cash generation profile and so on. But as Rickard commented here earlier, first of all, the intention is that we do create two strong companies that stand on two stable feet and can actually do what the business needs those businesses to do for years to come.

And of course, there we get into then the debt profile, debt cash, also cash generation, and so on. But the intention – it's not a good answer I know, but the intention is to create two good businesses, which can really execute on their plans going forward. And also, cash flow generation...

A

Andrew Wilson

Analyst, JPMorgan Securities Plc

[indiscernible] (39:03)

Q

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

Cash flow generation, what we see today is that, yes, we have a solid cash flow generation from both parts already today. But then, let's come back to exactly how it looks like going forward.

A

Andrew Wilson

Analyst, JPMorgan Securities Plc

Thank you.

Q

Sophie Arnius

Head-Investor Relations, SKF AB

We will continue with a question from John Kim at Deutsche Bank. Please go ahead.

A

John Kim

Analyst, Deutsche Bank AG (UK)

Hi. Good afternoon. Thanks for the opportunity. I'm wondering if you could speak a bit about how your newer factories could be allocated between the two companies. From memory, you spent quite a bit of time and effort ramping the hub in Monterrey, Mexico; the newer factory in China; and I believe you're moving production in Poland? Is there a sense on how those might allocate between Industrial and Automotive co? Thanks.

Q

Sophie Arnius

Head-Investor Relations, SKF AB

Rickard, Please.

A

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

The answer is yes. Yes, we have done the feasibility study. We have been through our manufacturing footprint and we do have an hypothesis how this will work. And that hypothesis also implies that this could be doable in the timeframe that we have shared today.

A

I can't go into all the details yet because we want to do the groundwork now and initiate the workstreams internally and really nail this, and come back at the later stage with a clear definition how this is going to work. And then also be transparent on the value that we believe that we can create and also the potential cost that would come to create that value.

Clearly, there are some parts of our footprint that is pretty simple, especially when it comes to the wheel hubs. They are manufacturing dedicated automotive factories today, and has been part of this autonomous-ness that we have created over the last few years. So, some is pretty straightforward, some will require some work, and potentially there might be also some collaboration needed at a small overlap.

But all of those details will have to come back to later on. The due diligence that we done and the work so far that is the foundation for this decision gives us comfort that this is doable in the timeframe that we set out.

John Kim

Analyst, Deutsche Bank AG (UK)

Q

And just a quick follow up on that. When you communicate to the street next, is that something you're hoping to do this year at full year results, or would it be later in 2025? Thank you.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

Good. Yeah.

Sophie Arnius

Head-Investor Relations, SKF AB

A

We have to come back to that. But definitely, more information will follow. But let's come back to exactly when. But we will inform you well in time. So, let's continue with the next question here from Timothy Lee at Barclays. Please go ahead, Timothy.

Timothy Lee

Analyst, Barclays Capital Securities Ltd.

Q

Hi. Thanks for taking my questions. I have two questions. So, the first one is a little bit of follow-up on the first question with all the different options that we have for this separation. Can I ask a bit why you didn't choose to dispose the business, [ph] but if you (42:31) choose to do the separation of the business? That's the first question.

And second is about the portfolio management. So, obviously right now we have a very big project on the table. How can we expect the portfolio management activities in the other parts of the business? Shall we expect this is something that we will focus on and we will put probably most resources on this separation so that the portfolio management of the audit business activities will slow down a little bit, or you will continue to focus on the management of the other parts of it? There'll still be some other projects that we can expect in the coming future. Just wanted to hear [ph] your thoughts (43:23)?

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

Right.

Sophie Arnius

Head-Investor Relations, SKF AB

A

Rickard, do you want to comment on both questions?

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

A

Yeah, I can take that. Again, as I said before, when it comes to why we decided to go down this path is because we truly believe that it's the right path to create the outmost value and really unlock the full potential for both the Industrial and Automotive business.

So, basically the same answer as I gave before, we truly believe that this is a more attractive path for both businesses and, therefore, also create the best long-term value for our employees, customers and shareholders. And when it comes to kind of will we – how will we ensure focus in our day-to-day activities?

I think that's really something that is key for us. We have had, as you can probably guess, a number of internal communication sessions here within SKF today, to share these news with all our 40,000 plus employees globally. And that's kind of our key message. Yes, we will initiate a number of workstreams that would drive this project forward, this way to unlock or separate the Automotive business. It will require some dedicated resources that we need to allocate to this project.

But the vast majority of us, including myself and including my management team, it's to stay true to our day-to-day business, stay focused on existing customers and solve their problems today, and drive our strategic agenda forward as we planned before. So, that's really how we need to drive this, to try to earmark a small team that will drive these different workstreams forward.

And then the rest of us, we need to stay focused on the day-to-day activities and then we're going to keep everybody informed as they evolve. And this includes also how we're going to inform the market on our progress. And as we alluded to, even though we haven't set a certain date, we foresee that at some point we will host a Capital Markets Day both for our Industrial business and for our Automotive business, to share with you the progress, the details, and also the potential cost of the separation.

Sophie Arnius

Head-Investor Relations, SKFAB

Thank you. That was the final question we have time for this call. So Rickard, any concluding remarks here?

Rickard Gustafson

President, Chief Executive Officer & Director, SKFAB

Yeah. Thank you, and thank you for joining us at this call. As you can tell, we are excited about this. We truly believe that this will further enhance our success in the market and really unlock the full potential of both our Industrial business and our Automotive business. We truly believe that by doing this, we will create two even stronger business segments or business units in their respective areas.

So, we are humble. We know there's a lot of work, but we have a faith that we have done the groundwork and have an idea how to execute this within the timeframe that we set out. So, more to come. But today, I hope that you can join us in this excitement that we see for these businesses.

So again, thank you so much for joining us and we'll keep you posted.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.