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**SKF AB** (SKF.B.SE)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

### Sophie Arnius

*Head-Investor Relations, SKF AB*

### Rickard Gustafson

*President, Chief Executive Officer & Director, SKF AB*

### Niclas Rosenlew

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

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## OTHER PARTICIPANTS

### Daniela Costa

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### Andre Kukhnin

*Analyst, UBS AG (London Branch)*

### Andreas Koski

*Analyst, Exane BNP Paribas SA (Sweden)*

### Erik Golrang

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### Benjamin Heelan

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### Timothy Lee

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## MANAGEMENT DISCUSSION SECTION

### Sophie Arnius

*Head-Investor Relations, SKF AB*

A warm welcome to SKF's Earnings Call for the Third Quarter of 2024, where we continue to deliver solid margin despite weak markets. Strategic portfolio management was clearly a theme for this quarter and is a key element in building an even stronger SKF.

My name is Sophie Arnius. I'm heading up Investor Relations, and I will also be joined by our CEO, Rickard Gustafson; and CFO, Niclas Rosenlew. And there will, of course, be opportunities to ask questions after their presentations. And there are two ways to do that. And I'm sure for those that have been part of this call before, you are aware of those, but let me remind you. [Operator Instructions]

And it's now time to get this started. And it's a great pleasure to hand over to you, Rickard.

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### Rickard Gustafson

*President, Chief Executive Officer & Director, SKF AB*

Thank you so much, Sophie. And a warm welcome everyone to this quarterly earnings call, and thank you so much for joining us this morning. Well, as Sophie mentioned in her opening remarks, the journey continues. As you can see on this chart, we're still navigating through some rather tough economic environment with a rather weak demand across other geographies. I will come back to that shortly with more details. But despite that, we

are holding our profitability levels, and our adjusted operating margin at a rolling 12-month basis, as you can see, is holding up pretty well despite these tough headwinds in the market situation.

And this comes from what we have talked about in the last few quarters, our diligence in terms of cost management, portfolio activities and also price/mix activities. And all of this I will share shortly. But as you also heard, this quarter is also a quarter really moving us forward in our strategic portfolio transformation. We have a number of exciting things that have actually happened in this quarter, both related to new bolt-on acquisitions, some divestments, and clearly also how we see the future for our Industrial and Automotive business. And all of this clearly I will cover in the next few minutes.

But let's take a look at the third quarter in isolation. Organic growth, a negative organic growth of some 4%. Clearly, a little bit lower than what we anticipated walking into this quarter, but also reflecting throughout the quarter through a number of leading external macro indicators, showing that the global demand has taken a turn. And for us in the quarter, primarily China and Automotive came out weaker than what we anticipated in the beginning of the quarter.

But despite this, as I said, we have done a good job in continuing to adopt to these circumstances and we have driven effective cost management. We continued to have positive price/mix, and we also continue to drive a number of portfolio-related activities and effectiveness activities, enabling us to hold up the operating margin, adjusted operating margin to just shy of 12%, which is [ph] actually (03:56) an improvement versus the same quarter last year despite these negative headwinds. And cash flow, as you can see on this chart, came in very strong in the quarter, SEK 3.6 billion, also slightly north of what we had the same quarter last year.

Taking a look at our geographies. And I start on the right-hand side with India & Southeast Asia, where you see the – it's the exception in the quarter with a small positive organic growth, primarily driven by strong industrial distribution business and light vehicles in that area. But otherwise, you see we are in the negative organic growth territory across our geographies.

EMEA is going through a tough period. I don't think this may be any surprise, but some of the key industrial countries in Europe, such as Germany, Italy and France, they do have a rather tough economic situation at the moment, reflecting in our numbers. And we have also noticed that this quarter a number of our OEM customers, they actually closed their factories longer during their vacation period than they normally do, also impacting the growth in the quarter.

Americas, somewhat less negative, some 3% negative organic growth. Here, I believe there's a lot of uncertainty related to the ongoing elections that is actually having an impact here. But by industry, we see strong growth in aero and industrial distribution, while we continue to have a challenge when it comes to agriculture and the vehicle aftermarket in Americas.

China & Northeast Asia, really driven by China's significant negative organic growth, close to 9%. By industry, it's again wind and industrial distribution that takes this number down a bit. This is a reflection, especially on industrial distribution, I think the main issue there right now is customer confidence; customer and SME confidence about where the economy is going.

And I think there is some hesitation from consumers and small enterprises to drive consumption and drive investments. The incentive programs that are being pushed now by the Chinese government, I'm sure, are designed to help and to boost confidence again. But for us, it's a bit too early to tell what the implications might

be. But so far in this quarter, we had a rather significant headwind in terms of demand and organic growth, as you can see.

But despite this, as I said, we're holding the fort. And looking into our Industrial business, I think it's a pretty impressive number to be able to report a 15% adjusted operating margin, significantly better than the same quarter last year where it was 13.6%, despite almost 5% negative organic growth. Clearly, the activities and our ability to adopt to this environment has really played out during the quarter.

And to some extent, that also goes for our Automotive business. They had a negative 4% organic growth and holding the margin at around 5%. They had a more kind of a volatile situation at the end of the quarter where a number of our customers there changed their orders and reduced some of their orders given what you probably already know what's happened in the automotive market in the third quarter is also reflected here.

Looking forward, you're going to hear Niclas talk about our outlook for the fourth quarter, which is coming down a bit, which means that we are – we'll continue to work hard to mitigate these headwinds from a volume decline through active cost management, continued portfolio management, price/mix activities, and really driving efficiencies across our business as we have done throughout the last few quarters. So, that journey will continue. And we are convinced that we're tracking according to our strategic framework, we are improving our business, and we'll be in a strong position once demand turns back up again.

Moving on to the strategic part of this conversation today this morning, and looking into what we have done in creating a stronger SKF longer term by active portfolio transformation. And here I'm pleased to say that we're actually doing what we said that we're going to do. We have said that – when we started our transformation, we said we don't have capacity to drive a lot of small bolt-on acquisitions.

We have mentioned in the last few quarters that we now come to a point where we're ready to pick that up. And I'm pleased to note that in the quarter, we did sign a deal with John Sample Group, a small but accretive bolt-on acquisition for us in the lubrication space, really enhancing our presence in the important markets of Australia and Indonesia.

We said that we're going to do a strategic review of Aerospace a few years back. We concluded that review that we wanted to retain the majority of that business, but there were some interesting non-strategic assets that we were keen to try to find another home for. And as some of you have seen, last night we announced something in that regard, and I will come back to more details on that shortly.

And thirdly then, already back in 2022, we did say that we wanted to create a more autonomous Automotive business and that has led to the initiative that we announced a month ago, our ambitions to actually create two stand-alone entities, one Industrial business and one Automotive business, with the intention to also list our Automotive business in the first half of 2026.

But the last two, I'd like to give you some more flavor on, starting with Aerospace. We have signed a deal to divest our Aerospace Hanover business in the US. This is an exciting, small business related to rings and seals. Clearly, a strong business and an interesting business, but it does not really fit into the core business of Aerospace that we are keen to retain and further develop and grow. And this is a growing business.

We're pleased to announce that we have found a good home for this business, a home that will be beneficial for our customers, our employees and I'm sure also for the future owner of this company. And a business of some

SEK 700 million in revenues, we [ph] actually really proceed some (11:14) – we sold that for some SEK 2.3 billion. So, that gives an indication of maybe the quality of this business, of our Aerospace business.

But as you also can see on this chart, aerospace remains a key industry. And after distribution or industrial distribution, this is probably one of the largest industrial verticals that we have in our portfolio at the moment, representing some 9% of our business. And this is a strong and growing business that has a strong tailwind and pickup still after the COVID closedown a few years ago. So, clearly, a strong growth and exciting business that we now can use these proceeds to further invest into our strategic part of this business. So, we feel good about this thing. And, again, this is in line what we said that we're going to do.

And finally and just to reinforce some of the key messages I sent a month ago when we announced the separation of Automotive and Industrial into two different entities. And the rationale for it, we are convinced are still there. They represent two very different business structures and different business logics, where the Automotive business is really now impacted by a rapid transformation driven by electrification, while the Industrial business is more about market exposure, being close to the customers, and drive accessibility and speed is the key to win in that market.

There are different manufacturing processes where in Automotive is more characterized by large batches, few variants, while the Industrial business is the opposite, smaller batches, more variants, agility and speed is key to succeed there. Customers, clearly, there is a very well-defined set of customers in the Automotive space and a very well-defined set of – and broad set of customers in the Industrial space. And also from a sales and contracts point of view, these businesses, they do differ, and therefore we felt that we're probably going to be able to create two world-leading entities and stronger entities, driving profitable growth and value as separated through dedicated focus.

And focus is key. Focus, we believe, will really unlock significant value for these businesses. It will provide better resource allocation, it will drive further efficiencies, it will make sure that we continue to stay close to our customers and drive innovation and development even closer with our customers. We can have a better capital deployment by separating the entities and we will have an increased response and hopefully even closer and even faster in our response and our interaction with our customers.

So, all of this is something that we are very keen to go forward. It's a hard work that we had ahead of us, but we have clearly now started to build our organization to make sure that the majority of us, we stay very tuned and very focused on delivering our existing business. That's our main priority. And then we ring-fence a smaller part of our organization to really now enter into all the detailed work to also create this unlocking and split of these two entities. So, that work is now being in the planning phase. And as we said before, the aim is to list the Automotive business on the Nasdaq Stockholm by the first half of 2026.

And I know that many of you have a lot of questions and would like to have more details on the value creation, on cost related to this transaction and so forth. And here I need to ask to hold your horses. We will come back to you. The intention is that we will host a Capital Markets Day in the fourth quarter of 2025 where we're going to, for both businesses, share the value creation that we see in more detail, we're going to share the financial targets we will set for these businesses, and we will also clearly go through what are the related cost to unlock this value. And all of that will be in a combined effort at the Capital Markets Day in the Q4 next year.

So, with that, it's time for me to hand over to Niclas to give you more details on the numbers. So, Niclas, please.

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## Niclas Rosenlew

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

Thank you, Rickard. So, good morning and good afternoon. Let's kick off with sales and provide some additional details on top of what Rickard already mentioned. We had an organic – we had a sales of SEK 23.7 billion in the quarter. This was down from SEK 25.8 billion last year. So, quite a significant reduction actually. As Rickard commented, we had a broad-based, I could say, soft demand in the world, but at the same time, there were some nice green shoots, such as India, Aerospace and, for instance, magnetics.

What comes to the growth percentages, we had an organic sales decline of 4.4%. This was driven very much by lower volumes and then, as Rickard mentioned, a good performance, continuous performance when it comes to price and mix. We also continued pruning or looking at our portfolio, taking action when it comes to lower-margin business. And that also had an impact here. Currency was negative at 3.6%. So, all in all, a soft market that we saw experienced in Q3.

On that note, we had solid and good performance when it comes to profitability. We had an adjusted operating profit of SEK 2.8 billion, down slightly from last year's SEK 3 billion. But in margin terms, actually an improvement where we had – this year, we had 11.9% compared to 11.5% last year. So, very good performance, very good actions taken by the teams across SKF.

Currency was negative by SEK 284 million weakening and – or strengthening, actually, sorry. And on the organic side, we had said weak sales, but on the other hand, this was nicely offset by price and mix. And when it comes to costs, overall also a good performance in the quarter, cost management, inflation not so much of an issue anymore. Besides on the kind of people side, where we continue to see a relatively high inflation, but this is then offset by our mitigating actions. So, all in all, a solid performance when it comes to profitability in the quarter.

Cash flow in the quarter was strong, SEK 3.6 billion, actually up a notch from last year's SEK 3.4 billion. Operating profit at similar levels compared to last year. And then we had a positive contribution, small positive contribution from net working capital. Here I just want to comment on net working capital, as you know, we've been talking about this for some time. We have significant potential when it comes to inventories. Our inventory levels are still on the high side. So, that's an area we continue to push.

Also, as a reminder, we do have historically a seasonality where cash flow typically is stronger in the second half compared to the first half. And then it's actually vice versa when it comes to margins, i.e. margins typically lower in second half compared to first half. So, all in all, a strong cash flow in Q3.

Also, balance sheet continues to be strong. We have a net debt of SEK 9.3 billion. Now, this is excluding pensions. That's a notch improvement or better than last year, SEK 9.8 billion. And it has a net debt to EBITDA, this is somewhat below 1 times excluding pensions, and then including pensions slightly above 1 times. Return on capital employed continues to be stable around 15%, a notch below 15%.

If we then turn to outlook and guidance, what comes to our expectations on Q4? We expect a mid-single-digit organic sales decline, very much as Rickard commented on here, relatively soft demand, which we see continuing also going into Q4. And as a consequence, for the full year, we also expect then a mid-single-digit organic sales decline. Currency is expected to be negative also in Q4.

So, with that, Rickard, I hand back to you.

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## Rickard Gustafson

*President, Chief Executive Officer & Director, SKF AB*

Thank you, Niclas. And let me just try to wrap this up before we go into the Q&A session. And I like to end where I started with the same page. Again, the story continues. We are driving efficiencies. We are driving our price/mix activities. We are driving our portfolio activities. And we continue to invest in our future in terms of regionalization and footprint optimization.

All of these things that we have talked about in the last couple of quarters, and they continue at high pace in the organization, and that has enabled us to, once again, mitigate a rather soft demand environment and hold our operating margin at a fairly stable level. And we believe that as another proof point that we are transforming our company into a more competitive and profitable company long term that is really well positioned to benefit from when the demand turns back up again.

And in the quarter, as you heard, we also like to pinpoint a number of highly important activities related to our long-term transformation of our portfolio that we have made some progress on in the quarter, both when relates to M&A and bolt-on acquisitions, small bolt-on acquisitions with the John Sample Group, as I mentioned, that we are concluding our strategic review of Aerospace with a very positive outcome, enabling us to continue to focus on this highly attractive Aerospace segment of ours. And then clearly, a lot of emphasis and a lot of work has already got into it and will go into it as we move into Q4 and into 2025 on the activities related to dividing the company into two strong independent entities, one Industrial business and one Automotive business.

So, with this, I end the formal part of the presentations for this quarterly or earnings call, and I will hand back to Sophie to help manage the Q&A session.

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## Sophie Arnius

*Head-Investor Relations, SKF AB*

Thank you, Rickard and Niclas, for your presentation.



## QUESTION AND ANSWER SECTION

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

And it's now time for a Q&A session to start. And before we do that, let me just run through the practicalities. [Operator Instructions] So, let's start with a question from the telephone line. And it's from Daniela Costa at Goldman. Daniela, please go ahead.

**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

Hi. Good morning. Thank you. Sorry, I don't know if I've missed the instruction, but I have two, if possible. But the first one is, just can you elaborate a bit given the current macro volatile environment, where are we on inventories at your customers, and also how that tallies with how you think about pricing at the moment and going forward?

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Let's start with that. And, Niclas, please.

**Niclas Rosenlew**

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

A

Sure. Sure. Good morning, Daniela. So, nothing particular really to say about the inventories. Same story as before. We don't see excessive inventories generally. Then there's pockets with exceptions. Rickard talked about China distribution being a bit weak, that's maybe not fully an inventory, too much inventories topic, but anyway related. And in the US, we've talked about also in previous quarters about inventories on the OEM side. But broadly speaking, nothing particular.

When it comes to pricing, we continue with selective price increases. It's not as broad-based as we saw a year ago, for instance, clearly not. But we continue to work with value-based pricing. We continue to, for instance, in connection with new product launches to work with pricing and higher prices.

**Daniela Costa**

*Analyst, Goldman Sachs International*

Q

Thank you. My second question is just related to the format of the divestments. So, for the aero-related ones, you've considered sales. Just curious, like on autos, why you're only considering listing and why it's sort of like a dual track or for potential sale, not something that you flag on your communication?

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Yeah. Rickard, do you want to...

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

Yeah.



**Sophie Arnius**

*Head-Investor Relations, SKF AB*

...comment on that one?

A

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

I'd be happy to. Good morning, Daniela. When it comes to our Automotive separation, as you know, it is rather entangled in parts with our Industrial business. So, if I simplify things, two-thirds of the Automotive business is fairly easily disentangled from our business. One-third is more problematic. So, it requires some significant work.

But to answer your question, once we have done the analysis and the groundwork for the announcement of our intention to separate these two entities and create two strong separate entities, my belief and also I know that I have a very unified board behind me on this one are convinced that the best value to be created, both for employees, customers and shareholders is to go through the listing process rather than the divestment process for the Automotive business. That's our belief and that's what we are working towards.

A

**Daniela Costa**

*Analyst, Goldman Sachs International*

Got it. Thank you very much.

Q

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Thank you, Daniela. And let's continue with questions from our telephone audience. And the next comes from Andre Kukhnin at UBS. Please go ahead.

A

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Yes. Good morning. Thank you very much for taking my questions. I'll stick to two as well. Could you please talk about the overproduction of – or underproduction dynamics in the quarter? Was there any meaningful impact on operating profit and margin from this given the note there was SEK 1.5 billion outflow to inventory on the cash flow statement?

Q

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

I know, Niclas, you are eager to comment on this one.

A

**Niclas Rosenlew**

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

Yeah, favorite.

A

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Yeah.

A

**Niclas Rosenlew**

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

Hey, Andre. Favorite topic.

A

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Usually.

Q

**Niclas Rosenlew**

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

But, no – nothing significant there affecting the profitability or margin, normal fluctuation.

A

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

And you said...

A

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Great. Thank you very much.

Q

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

...Andre, you had another question.

A

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Yes, please. I just wanted to check if you could give us any indication on the level of profitability of the business that you announced the disposal of yesterday, the ring and seal non-core aerospace business. Any ballpark number of where that business sits versus your current Industrial business profitability or versus any of the peers will be quite helpful given the high multiple of sales that you manage to achieve in it?

Q

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

Right.

A

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Rickard, do you want to comment on this one?

A

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

Yes, please. And I guess I'm going to disappoint you. I won't disclose any details on this. But what I can say, though, is that this business that we now are about to divest, from a margin point of view, it does not stand out and differ from the remaining Aerospace business. So, it's roughly the same. But we don't disclose where we are

A

on the margins on our Aerospace business in general, and I won't disclose the margin on this business, but it does not stand out.

**Andre Kukhnin**

*Analyst, UBS AG (London Branch)*

Q

That's helpful. Thank you very much both of you – all of you.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Thank you. And we will continue with a question or questions from Andreas Koski at BNP Paribas. Please go ahead.

**Andreas Koski**

*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Thank you, Sophie, and yeah, good morning to all of you. So, can I just follow up on Andre's question about the inventory buildup of SEK 1.5 billion or the cash outflow of SEK 1.5 billion? Does that mean that it was mostly related to a raw material buildup and not related to a buildup of finished goods?

**Niclas Rosenlew**

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

A

Correct.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Yes.

**Niclas Rosenlew**

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

A

Raw material and not finished goods.

**Andreas Koski**

*Analyst, Exane BNP Paribas SA (Sweden)*

Q

And then the second one, because it is, I guess to some of us, a very strong margin in the quarter, and in Q2, you gave some comment that we would see inefficiencies from the regionalization. Did that happen in the quarter? And is it now on the level where we should expect it to be also in Q4 and going into next year? Or will we see further inefficiencies in the coming quarter?

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Rickard, I will let you comment on this one.

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

Okay. Yes, you're right. We did make that comment last quarter and we are on a journey with a significant transformation of, what we call, our manufacturing footprint within SKF. It relates to a consolidation in Europe. It relates to buildup of capacity in other regions, such as Mexico and India, as example.

And that is a journey that's ongoing. We have had some SEK 5 billion there or thereabout in investments in the last few year, driving and investing in our regionalized footprint. And that work is ongoing. We're not done yet. We have taken a further step in this quarter. This will continue for another few quarters.

And as we said in Q2, once you build up a new production site, you don't get to 100% efficiency day one. It takes some time. And therefore, you have some headwinds, while you do that in terms of cost efficiency. So, that has been the case in Q3 as well. I think we've been able to manage it in a very good way. We're going to do our utmost to try to manage it also in Q4 and into 2025 because this is a journey that's going to continue for at least another year, I would guess.

If it will have a direct impact, not, it's hard to judge, but clearly, there are some inefficiencies, short-term inefficiencies that we have to manage as we go through this transformation process. But we're doing it for the right reasons. It will create an even stronger and more effective SKF geared for growth once demand turns back up again.

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**Andreas Koski**

*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Thanks, Rickard. And then lastly if that's okay, your comment about demand taking a turn at the end of this quarter or at the end of the third quarter, was that mainly related to the Automotive business and to China? Or did you see sequential weakness also in Europe and North America on the Industrial side during the quarter? Thank you.

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**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Rickard is eager to comment on this one. Yeah.

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**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

Yeah. I'm too eager. Sorry. Sorry, Sophie, for messing up your process here. No, you're right. It was primarily related to Automotive and the Industrial distribution in China that did not develop as we anticipated. And clearly, in the end of the quarter, it actually further deteriorated a bit. Automotive, I guess you're all pretty familiar with, you have seen other companies kind of announce pretty harsh actions in order to cope with this.

The macro production indexes globally, I guess, are also pointed in the same direction. And for the distribution business in China, as I mentioned, I think this is a consequence of some low business confidence, in general, in China. And hopefully, we'll see that those incentive schemes that are now put in place by the Chinese government are there to address that and build confidence again, and then hopefully we'll see a stronger activity level on the distribution side as well. But it's too early to tell.

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**Andreas Koski**

*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Thank you very much.

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**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Thank you. We will continue with a question from Erik Golrang at SEB. Erik, please go ahead.

**Erik Golrang**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you. Good questions so far, so let's see what I have left. Oh, yeah, on the cost side, SEK 180 million positive in the bridge in the quarter. What are the key variables there for the fourth quarter, please?

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Niclas, it's your name on this question.

**Niclas Rosenlew**

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

A

[ph] Oh, no (35:03). Thank you for that. Let me comment on Q3 rather than Q4. But costs, in general, as I said, I mean we've seen no surprises there, moderation of inflation in general, but we do still have inflation. Materials is down year-on-year. Energy is down year-on-year, although it's a pretty small component in our cost. But anyway, logistics is a bit up.

And then salary inflation, we do still see and at reasonably high levels, 5%, 6%, something in that neighborhood year-on-year. But as said, we have worked pretty diligently and pretty well on offsetting that with efficiencies. So, all in all, yes, it was a small positive, but call it [ph] a wash (36:03), similar levels as last year driven by these multiple factors.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Thank you.

**Erik Golrang**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

And no trend expected Q4?

**Niclas Rosenlew**

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

A

Yeah. I mean, I don't – we don't foresee any major change in trends just between September and October and the next two months. So, I guess you can see it as a trend.

**Erik Golrang**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Thank you. We will continue with a question from the web audience here, and it's from Marius Therkelsen at Centra Group. And it's about the margin development historically with the seasonality that in the last six years between 2016 and 2021, the sequential development of the EBIT margin between Q3 and Q4 has always been a negative. In the last two years, sequential development was positive then in Q4. And if we could elaborate on why this. And, Niclas, I think you are...

**Niclas Rosenlew**

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

A

Yeah. Yeah. Yeah. No, correct in terms of math and as I mentioned before also, we do have – typically, we do have this seasonality if we look a number of years back where margins first half are stronger and then somewhat lower or weaker in second half. And what comes to Q3 and Q4, a number of drivers, but maybe the simplest way to put it is holiday season, July, August, December also now in this sort of an environment there could be customer factory closedown. So, it's not just our holidays, it's holidays in general also with our customers. So, lower demand while, of course, then we as a manufacturing company still have our fixed costs, which continue to run. So, that pushes down second half margins a bit.

And it's not like it has to be like this every year. As you said, last year, for instance, was a bit of an exception. But in general, Q4 is lower than Q3, if you just average a number of years. And then like last year, for instance, we had a strong contribution from pricing actions going up at that point in time. So, I don't know whether that helped you at all, but hopefully.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Yes. Otherwise, please let us know at our Investor Relations. We will continue with questions from the telephone line and it comes from John Kim at Deutsche Bank. Please go ahead.

**John Kim**

*Analyst, Deutsche Bank AG (UK)*

Q

Hi. Good morning everybody. I'm wondering if you could speak a little bit about Boeing. The timing of the strike was quite late in your Q3 reporting period. I'm wondering what you're seeing in Q4 in terms of activity levels, stock, customer behavior and your supply – related supply chains.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Yes. Rickard, do you want to comment on the Boeing strike on the impact for us here within Aerospace?

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

Yeah. Clearly, we have a rather diversified Aerospace portfolio and we work with all the main aerospace manufacturers. That has also enable us to have a rather limited impact from this situation given that the demand situation is so strong and the order book is pretty full. So, we have been able to shift focus to some other customers, and therefore we have not seen any real implication for our Aerospace business due to this. So, again, our diversified portfolio has helped us here.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Thank you.

**John Kim**

*Analyst, Deutsche Bank AG (UK)*

Q

Fantastic.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

John, any more questions from your side?

A

**John Kim**

*Analyst, Deutsche Bank AG (UK)*

Yes. Thank you. Thank you, Sophie. One question on head count ambitions. Now, I know you're dealing with tough market environments here. Can you give us a sense on how we should think about headcounts into next year? And within the head count movement in the quarter, was it early or late in the quarter? So, do your margins reflect the lower head count or was that very late in the quarter? Thank you.

Q

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Niclas, do you want to talk about this...

A

**Niclas Rosenlew**

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

Yeah. I think, I mean, the head count – so, first of all, if we take a step back, last year we had an efficiency program, which we successfully concluded in December 2023, and that, of course, then has a bit of a tail year-on-year impact or you see it still having a bit of a impact on head count or, in particular, on the costs related to head count.

A

But then exactly as you said, the teams have successfully continued to manage our business in this current climate. And, of course, it has also had an impact on head count. So, we continue to go down in head count. I don't think there was any particular movements kind of early or late in the quarter per se. It's been more of a trend throughout the year. And I don't think we want to comment on head count development going forward as such. But, of course, we continue to work on adapting to the environment we are in.

**John Kim**

*Analyst, Deutsche Bank AG (UK)*

Okay. Thanks so much.

Q

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Thank you. And the next question comes from Ben Heelan at Bank of America. Please go ahead, Ben.

A

**Benjamin Heelan**

*Analyst, BofA Securities*

Yeah. Thank you, and good morning. I had two. The first one was on price/mix. I'm assuming there's a fairly even split between what is the price component and what is the mix component. And you've talked about pricing already. Can you talk a little bit about mix and how much further is that to go in some of these contract renegotiations or portfolio adjustments that you've been making? Is this something that can continue to be a tailwind into 2025? That would be the first one.

Q

And then secondly, it looks as though wind in China has continued to be a significant drag for you in the quarter and it was obviously down significantly in Q3 last year. So, have you continued to see strong sequential



pressure? Or is this just the final quarter where there's a negative comp impact? Just any color on that would be helpful. Thank you.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Let's start with price and mix. And, Niclas, if you can comment on this.

**Niclas Rosenlew**

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

A

Sure. Sure. Sure. I think, I mean, yes, price/mix, we're quite pleased with it, how it's continued to develop. And as I said, it was a positive in Q3. Pricing, naturally, we come from high comps, has a smaller impact, and then mix also has an impact. We don't want to go into details exactly of how it's split up, but you have both positive price and mix in that positive price and mix.

Pricing is something we continue to work on and it really depends on the industry. For instance, in Aerospace, longer contracts, which we have been working on and so on. But I think as mentioned going forward, the focus is on new product launches, addressing certain segments rather than broad-based price increases.

And mix very much, as Rickard also commented on earlier, the two components, both the tactical here and now, how do we address lower-performing businesses versus the better-performing businesses from a margin perspective, that's a focus area. And then, of course, more the kind longer-term shift towards high growth segments that we are working on, which should drive positive mix also going forward.

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

And if I may add one more thing.

**Niclas Rosenlew**

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

A

Yeah.

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

In the quarter, we also had had a positive contribution on mix related to the fact that our OEM business have had a tougher organic growth development versus our distribution business that has been more flattish on a global basis or holding up better on a global basis, I should say. And that kind of mix has a positive impact on the mix as well. And if that continues into fourth quarter, that would also have a boost on to the mix.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

And, Rickard, do you want to continue commenting on the wind question here we got from Ben, which also Douglas Lindahl from DNB have the same question.

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

Sure. Happy to. Yes. Wind, as you know, has been a headache in China for quite some time. And not just for us, but for all our international players have seen a significant shift in our wind presence in – starting actually about this time last year. So, I don't see that it's deteriorated further at this stage. So, I would rather dare to say that it's more flattening out now and we are entering into territory where the comparables will be somewhat easier in that regard. So, no further deterioration, but rather flattening out at a fairly low level.

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**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Thank you.

A

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**Benjamin Heelan**

*Analyst, BofA Securities*

Okay. Very clear. Thank you.

Q

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**Sophie Arnius**

*Head-Investor Relations, SKF AB*

We will continue with a question from the web audience. It's from Rizk Maldi at Jefferies. And it's about if we can comment about exit rate of auto given demand weakened towards end of the quarter. And how should we think about the mid-single-digit decline outlook then for Q4 between Industrial and Automotive? And, Niclas, do you want to start with this one?

A

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**Niclas Rosenlew**

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

Sure. Sure. So, auto, just a reminder, our focus, as part of the strategy announced two years back, is to be more focused and shift towards EVs, and then also reduce our exposure when it comes to combustion, continue to work with commercial vehicles or trucks, and then also continue to further strengthen our aftermarket business where we have continued to have significant potential. So, that's a shift that we are working on and the teams have done an excellent job there and continue on that path.

A

And, of course, when we do that, go through that, we also leave some businesses and that has an impact on growth rates. We believe it's good for the business and it's fully aligned with our plans. I don't want to comment on exit rates exactly, but we see a soft environment generally for Automotive like many other companies have commented on as well and, as Rickard said, saying that we continue to have a good run in EVs and continue to push our strategy.

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**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Thank you. [Operator Instructions] We will continue with a question from our telephone line, and it comes from Tim Lee at Barclays. Please go ahead, Tim.

A

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**Timothy Lee**

*Analyst, Barclays Capital Securities Ltd.*

Hi. Thanks for taking my questions. [ph] Actually couple of them have already picked in (49:22). So, I have a follow-up on the margin side. So, as you mentioned, there will still be some impact from the relocation of the factories. Could you quantify a little bit what's the impact from that move on the EBIT margin performance in the

Q

third quarter and how should we think about the impact in the coming quarters from that relocation? I think that would be super helpful.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Niclas, do you want to continue with the margin here and the discussion we just had?

**Niclas Rosenlew**

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

A

Yeah, maybe a bit repetitive, Rickard...

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Yeah.

**Niclas Rosenlew**

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

A

...you said it, but we have a pretty big initiative actually now and which has been there for some time, shifting production, very much aligned with the strategy, very much aligned with our view on what's important for our customers in the future, being closer to the customer, and also kind of region for region. And as Rickard said, when we go through that, we ramp down in one place, we ramp up in another place.

We put in place a new site, maybe a production line, and that means that there's inefficiency because ramping down in one place, inefficiency; ramping up in another place, it takes a while to get up and running and fully efficient. So, that has a margin impact. It's pushing down the margin for the moment. Again, nothing per se new just for this quarter or next quarter, but short term, it is a headwind for us. And by the way, also maybe to add to that, it also means that, in some cases, we are building what we call safety stock just to manage our customer relationships and make sure that our customers do not suffer, but rather benefit from the shift.

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

Yeah, but we don't disclose any details [ph] on that yet (51:35).

**Niclas Rosenlew**

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

A

No, no, no, we don't give an exact number.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Thank you, Tim.

**Timothy Lee**

*Analyst, Barclays Capital Securities Ltd.*

Q

Thank you very much.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Thank you. And we have the final question then from Erik Golrang at SEB. Please go ahead, Erik.

**Erik Golrang**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Yeah. Thank you. It's a follow-up on the EV comments you made and concerns China, I think a couple of years back, I think you said you had a good position with the local China OEMs in terms of market share. Could you give an update on that? What's your sort of market position with the local OEs compared to the non-locals? Thank you.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

A

Niclas – or sorry, Rickard, this is your question.

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

A

Sure. Sure. I'll be happy to take this one. I'm very pleased to report that our presence in the Chinese EV market remains extremely strong. We don't disclose market shares or anything like that, but we can reinforce that our position has not weakened. It continues to be, we continue to be the leading in that space.

Our ceramic bearings or hybrid bearings, you can call these things many things, but just so clarification. Bearings where we have replaced the steel rolling elements with ceramic rolling elements, they are in high demand and really important for the electrification of the fleets. So, EV maintains a significant growth area also in this quarter for us, globally and in particular in China. So, I think that's kind of what I can disclose. But our position has not weakened in EVs in China.

**Erik Golrang**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you.

**Sophie Arnius**

*Head-Investor Relations, SKF AB*

Thank you. And that was our last question for this earnings call. And before we end, I would like to hand over the word to Rickard again for final comments.

**Rickard Gustafson**

*President, Chief Executive Officer & Director, SKF AB*

Thank you very much. And again, thank you for joining us on this call. We really appreciate it. To summarize this quarter, what I hope that you take with you in this quarter is the fact that we continue to do what we said that we're going to do. We are managing hard in a world with a soft – characterized by soft demand. It is what it is.

We are taking measures to make sure that we safeguard our margins. We continue to drive our cost efficiency, we drive our portfolio activities, we drive innovation, and we drive further productivity measures to make sure that we stay on top of this and navigate through this period of low demand.

But at the same time, we continue to do the heavy lifting in the background. You heard us talk about this today, about we continue with the regionalization efforts, streamlining our manufacturing footprint, we are doing some significant changes, strategic changes into our portfolio with the prime example of the Automotive/Industrial split up that we foresee in the next years. And we're doing all of these things because we believe that this will create an even stronger, more competitive and profitable SKF. And we are convinced that the measures that we take now will pay dividend once demand turns positive again.

So, with this, I thank you so much for your attention, and I wish you a wonderful day.

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