

Johan Forssell AGM Speech 2017

Dear shareholders, dear guests,

I would also like to welcome all of you to Investor's annual general meeting 2017. It is great to see so many of you here and I hope that you have had the chance to get acquainted with some of our holdings just outside this room.

It is now time to close the books on 2016. It was an eventful year for Investor, not only because we celebrated our 100th anniversary, but also from a pure business perspective.

But before I focus on Investor, please let me say a few words about the world. 2016 was characterized by continued political and macroeconomic uncertainty. The year started out with significant concerns about the Chinese economy, which affected stock markets worldwide. Politically, Brexit and the U.S. Presidential election were of course the two major events. The long-term effects remain to be seen, but I hope that the EU takes necessary action and implements structural reforms that are needed to strengthen the union and its competitiveness.

I also hope that the U.S. and the rest of the world realize that we need more cooperation, not less, in order to manage future challenges. In a few days, there is the second round of the French Presidential election and later this year, Germany will go to vote as well. There is certainly no lack of suspense and challenges within politics.

Turning to the macro economy instead, towards the latter part of 2016 we started to see more signs of rising economic activity, and this has continued so far during this year as well. This bodes well for growth within companies. At the same time, the stock market has performed strongly and valuations have increased. It is not unlikely that we will see a tug of war between growing profits and contracting multiples going forward. Who ends up winning such a tug of war remains to be seen.

That the world and the economic development are uncertain is something we need to learn to accept. I think that the only thing we can do is to realize this and always try to do the best of the situation, rather than hoping for rapid improvement. From a business perspective, the key is to always be flexible, constantly improve efficiency, increase the customer focus and develop the offering in order to always perform a little better than before.

My view is that our companies are generally well positioned to manage times of uncertainty thanks to strong market positions, flexible business models and solid balance sheets.

Let me now talk about Investor's strategy. It is actually fairly simple. We shall grow our net asset value, operate efficiently and pay a steadily rising dividend. This is how we shall generate an attractive total shareholder return. To grow net asset value, we need to be a good owner and invest our capital wisely.

What defines a good owner? For us, it is all about being long-term, knowledgeable and engaged. Our ambition is that our companies shall be best-in-class in their respective industries when it comes to growth, profitability, quality and sustainability. We focus on what we believe is best for each individual company. They all have their individual opportunities and challenges.

However, our long-term perspective must never be an excuse for the lack of short-term performance. If you do not succeed short-term, there is a clear risk that you will never experience the long-term.

Lastly, our models builds on a clear division of responsibilities and great individuals. Strategies and models can be very advanced, but at the end of the day, individuals are doing the work.

Therefore, the individual is highly important. As an owner, we devote a lot of time trying to recruit the best possible board members to our companies.

One of the board's most important tasks is to recruit a strong CEO and ensure that there is a good succession plan in place. Then it is the CEO's responsibility to, together with his or her coworkers, make sure that the company is run efficiently in line with the strategic direction. All these individuals are crucial for the success and value creation in our companies over time.

Even if our companies operate in different industries they have some things in common of course. Short-term, it is about constantly work with efficiency and ensure that they are flexible to manage rapid change.

At the same time, they must never lose focus on the long-term value creation. This could be ab out geographic expansion, bringing forward new offering through continuous innovation, increase the service content, focus on sustainability and adapt to the technologic change that is going on.

Managing both short-term and long-term challenges in a rapidly changing world is no easy task, but it is necessary in order to secure competitiveness and to become a winner long-term.

Let me now say a few words about sustainability, something that becomes ever more important as customers, employees and other stakeholders put higher demands on companies to act responsibly and ethically.

If you want to be successful long-term, you have to be able to offer the best products and services and recruit the best employees.

Therefore, sustainability must permeate the entire operations. I have said it before but it is worth repeating, sustainability can never be viewed as an obstacle. On the contrary, it is a prerequisite.

During the year, Investor took large steps forward by integrating sustainability in a more structured way in our value creation plans for our holdings. Our work will continue, both as an owner and as an employer. However, the most important contribution to society is when our companies strengthen their competitiveness

through innovative products and services that reduce the consumption of resources and improve human conditions, while at the same time become more profitable.

Let me now talk about our companies, and start with Listed Core Investments. The total shareholder return was strong and amounted to 14 percent, primarily driven by Atlas Copco and ABB.

Activity was high in all companies. There is not time today to go through them all, but let me go through some of them.

Sobi successfully launched two hemophilia products, Elocta and Alprolix. The company has generated strong growth over the past few years. In 2014, sales amounted to SEK 2.6 bn. For 2017, sales of SEK 5.8-6.0 bn. are expected.

During the past three years, Husqvarna has worked hard with internal improvement. This work has clearly contributed through operational improvement and an operating margin that has increased from approximately 5 percent to 9 percent.

Three out of four business areas are now profitable enough to focus on growth, while one still needs to focus on profitability.

Ericsson is working in a very tough market and has had a number of internal challenges, which has been reflected in the share price for quite some time. During 2017, there was a change of CEOs when Börje Ekholm took over and in March, a new, focused strategy to improve profitability and revitalize its technology and market leadership, was presented.

We fully support this strategy as we believe that Ericsson needs to improve efficiency, while at the same time identifying and investing in strategic areas in which the company can be a long-term winner.

We believe that Ericsson, with a new organization and a focused strategy, will be able to gradually realize the potential of the company.

Within Atlas Copco, Vacuum Solutions has grown very fast and has now become a business area of its own. Early 2017 the company announced its decision to divest its business within road construction, and the board presented a proposal to split the company into one company focusing on the industrial operations and one focusing on the mining and civil engineering business. We believe this is a natural and logical step, creating two focused, market-leading companies with strong platforms for continued profitable growth. Assuming that the split proposal will be approved by Atlas Copco's annual general meeting 2018, both companies will be listed core investments of Investor.

During 2016, we invested a total SEK 1.5 bn. in Ericsson, Wärtsilä and Atlas Copco at share price levels that we find attractive long-term. On the slide you can see the share price performance of these companies and the orange line shows our average purchase prices.

Now over to Patricia Industries. The organic sales growth was strong in general, which you can see on this slide. Several companies also grew through acquisitions, for instance Aleris, which acquired the Norwegian company Curato.

Focusing a bit extra on Mölnlycke, the largest company, the performance was strong. Sales grew by 6 percent organically in constant currency. The operating profit and the cash flow grew even faster, which allowed for a EUR 300 m. distribution to Patricia Industries, despite significant reinvestments in the operations. Going forward, we see good opportunities for continued growth, both organically and through acquisitions, in both existing and new markets.

During the third quarter, the Canadian medical technology company Laborie was acquired for approximately SEK 4.7 bn. Laborie is, among other things, market-leading within equipment for diagnostics and treatment of urological diseases. The company is highly profitable and we see strong potential for long-term growth. Focus within Patricia Industries is to further develop the existing companies, but also to add more platform companies, both in the Nordics and in North America. At the same time, the work continues to divest financial investments to release resources that can be reinvested in new subsidiaries over time.

In conjunction with our first quarter report 2017, we expanded the information about Patricia Industries by adding estimated market values for our major wholly-owned subsidiaries and 3 Scandinavia as supplementary information.

This supplementary information makes the valuation of our listed core investments and our unlisted companies more comparable and it simplifies the evaluation of our net asset value.

These estimated market values do not necessarily reflect our view of the long-term, intrinsic values, but they reflect how the stock market prices similar companies. Based on these estimated market values, the total value of Patricia Industries, excluding its cash position, amounts to approximately SEK 97 bn., representing a quarter of our adjusted asset value. These SEK 97 bn. can be compared to the almost SEK 55 bn. that we report in book value for these holdings. The largest difference is explained by Mölnlycke.

For EQT, 2016 was another active year. Several new funds were closed and a large number of new investments and exits were made. The value increase of our investments in EQT amounted to 10 percent in constant currency, and the net cash flow to Investor amounted to SEK 1.0 bn. Given the strong track record and return potential, we will continue to invest in EQT funds.

Investor has a strong, underlying cash flow, which allows us to pay a good dividend and invest in both existing and new companies.

Let me say a few words about the cash flow. During the past two years, 2015-2016, we have generated approximately SEK 30 bn. in cash flow, of which some 50 percent is made up by dividends received from our listed core investments, almost 30 percent is distribution from Mölnlycke, 3 Scandinavia and Permobil, and 15-20 percent is net cash flow from EQT. Roughly half of this cash flow has been used to fund our own dividend. A quarter has been used for investments in ABB, Ericsson, Wärtsilä and

Atlas Copco, and the last quarter has financed Patricia Industries' acquisitions of the two North American subsidiaries BraunAbility and Laborie.

Despite these significant investments, our balance sheet remains strong. Over the past couple of years, our leverage has actually decreased from 7 percent to 5 percent. This improvement depends partially on strong value growth, but also on divestitures of financial investments.

Certainly, two years are not very much, but I still believe that this shows that we have a strong platform for generating and investing cash flow. So how do we plan to use this cash flow going forward?

Within Listed Core Investments, we will continue to gradually increase our ownership in selected holdings when we find it attractive. We are also ready to participate in rights issues, for example to finance larger growth initiatives and acquisitions. When it comes to new investments, we prioritize unlisted investments, but we are of course pragmatic, should any attractive listed opportunities arise.

Within Patricia Industries, focus is on add-on acquisitions within existing companies, but we also look for new platform investments both in the Nordics and in North America.

And, as I said, we will continue to invest in EQT funds.

However, the competition for assets is tough. Many investors are chasing the most attractive assets, so you have to be disciplined. Which are Investor's main competitive advantages? We have a focused organization and deep knowledge within our prioritized areas. We have a strong balance sheet and a wide international network. In addition, we are a long-term, engaged, owner, which makes us a prioritized counterpart to the seller in some cases.

Our strategy is to invest in good companies which we can help becoming great companies over time. As Warren Buffett says: "it's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price". This is really true. For us as a long-term owner, who will live with our companies for decades, it is important that we invest in strong, market-leading companies. Acquiring companies with weak positions, bad culture and low quality at what might look like a cheap price on paper, usually turns out to be very expensive.

The second building block of our strategy is to operate efficiently. Continuous improvement is part of our culture and we always try to find ways to work a little bit smarter and make sure that we focus on the right things. We keep our costs down in order to maximize cash flow and minimize leakage. That said, we must not keep our costs so low that we miss opportunities. For example, if we believe that we need to expand our investment organization in order to manage both existing and new investments, we will of course do that. As always, it is about getting the balance right.

The last building block in our strategy is to pay a steadily rising dividend over time. For 2016, the board proposes SEK 11 per share in dividend, a 10 percent increase over the year before.

Let me now summarize 2016 for Investor. Our net asset value growth and total shareholder return both amounted to 13 percent, thereby exceeding the SIXRX Return Index, which gained 10 percent. We maintained our focus on efficiency and we propose a dividend increase once again.

As you have seen, this positive development has continued so far in 2017. During the first quarter, our net asset value grew 10 percent and our total shareholder return was 11 percent, while the stock market was up 6 percent.

But a single year is far too short for evaluation, so let us have a look on some longer periods, 5, 10 and 20 years respectively. On this slide, you see Investor's average annual total shareholder return as blue bars and the total return of the market as yellow bars. The dotted line marks our return requirement of 8-9 percent per year. During the last 20 years, Investor's annual total shareholder return has averaged approximately 12 percent, while the market has averaged some 10 percent. We are of course happy about this performance, but after more than 22 years at Investor, I know that things go up and down.

For us at Investor, the same things apply as in our companies. We have to be prepared, flexible and ready to act in all market conditions.

Finally, let me summarize our strategic priorities. Within Listed Core Investments we will work to have more of our companies being best-in-class and we will continue to gradually increase our ownership in selected holdings over time.

Patricia Industries will continue to focus on generating profitable growth in the existing companies and on adding new subsidiaries in the Nordics and in the U.S. We will also continue to invest in EQT.

Our strategy is firm and we will work hard to execute it in order to be able to continue to pay a steadily rising dividend and generate an attractive total return to you, dear shareholders.

Thank you.