AGM 2014 – CEO speech

Dear shareholders,

Welcome to the Annual General Meeting for Investor AB. I hope that you have met with our great employees, and that you have acquainted yourselves with, and perhaps even done some shopping, from the holdings present here today. Those of you who have not, perhaps you parcitipated in the Investor Dialog here in the room instead. The investor Dialog, an informal question and answer session, is something that we may repeat. We will await any feedback from you regarding this.

Our clear vision as a long-term owner are to actively build and develop le companies. We are long-term owners of our companies. This means that we do not have any exit horizon. We simply do not buy to sell. Instead, we work to develop the holdings to make sure that they are successful long-term. This is a model that has been in place since we were founded and it has served us well. Sometimes however, we actually do sell. We do not do that to score points with the capital markets, but because we believe that we are no longer the best owner of the company and that it would be better of long-term in another structure. Sometimes, we return to the stronger company, like we did in NASDAQ OMX. This company has a world leading position in its field. Our starting point is always to do what we deem is in the best interest of the individual company from a long-term, industrial point of view.

Let me take the merger between Swedish Orphan and Biovitrum as an example. The idea was for Swedish Orphan's existing sales to provide support for the development of Biovitrum's pipeline. It has been a rough ride, but during last year, the company could publish positive data from its studies within hemophilia, and the value of the company increased strongly. Our work with the companies builds on the model in which the owners focus on ownership questions, the boards on strategic issues and monitoring, and the management on the daily business. Given this, our most important task is to make sure that we have the right boards in our companies. In this context, our network is of the utmost importance. We actively work with composing boards with the right competence and relevant experience. The balance between men and women in boards is an important question, not because it is a popular subject, but because mixed groups perform better, and also 100 percent of the talent pool can be used. Moreover, a broader range of experiences will benefit the companies. This is why we are for equality, but against legislative affirmative action. The government does not know what is right for each company, and that the owners have the right to decide over their companies is a fundamental principle.

In our Swedish listed companies, we have now reached slightly more than one third when it comes to women on the boards, according to EU's definition. This is above average on the stock exchange and we also increased the proportion a bit faster then the stock market did in general last year, but we still have some way to go.

Successful companies benefit everybody: shareholders, customers, employees and society as a whole. Companies exist to satisfy customers' needs. Profit maximization cannot be the ultimate vision. At the same time, companies have to be protitable to contribute to society. A loss-making company actually shows that its customers are not willing to pay the cost for producing the good or service. An entrepreneur identifies a customer need, comes up with an innovative solution to meet this need. If this is done the right way, the company will make money and grow, and employ more people. Jobs are created that generate revenue for the company, for the individual and for society. Without a successful industry, there are no tax revenues to finance education and other services provided by society. And without good education, the industry will not get access to the competence it needs in the future. This interaction between companies and society is like an eternal circulation, and it requires companies to be profitable, regardless of which business they are active in. But profitabilty can never be the goal in itself, but rather a receipt of the company doing things right.

For Investor, applying a broader perspective on companies' responsibilities towards socierty is an integral part of our business. We are convinced that focusing on sustainabilitry is important when building strong companies over time. It is not an obstacle to long-term growth, it is a prerrequisite. Given this, joining the UN "Global Compact" initiative was a natural step. Since before, we also follow the OECD Guidelines for Multinational Enterprises. At Investor, we take these fundamental principles about responsible investments when we work with our holdings. Let me get back to Investor's vision.

It is to, as a long-term owner, actively build and develop leadning companies. Over time, this allows us to create attractive returns to our shareholders. To achieve this, we work to increse our net asset value, by owning good companies and being the best owner of them, operate efficiently and pay a steadily rising dividend. Hisrtory is no guarantee for the future, but an investor who invested SEK 1,000 in Investor shares 20 years ago would have SEK 12,500 today, including reinvested dividends. The same investment in the total return index would be worth SEK 9,600 today.

Before I go into Investor's 2013, a few words about the world. Ever since the financial crisis, the macro pundits have played the leading roles. Central banks have conducted expansionary monetary policy and interest rates have been pushed substantially lower. For many companies, borrowing conditions are almost as being today as they were in 2006-2007. This has certainly created bubbles here and there. The problem with bubbles however, is that they rarely become clearly visible until they burst. At the moment, focus is shifting from macro economics to geopolitics. What is happening in the Ukraine? What happens in the relation between North and South Korea? What is the impact of China investing heavily in Africa? There are many questions, but I am convinced that geopolitics will impact the global economy significantly. For sure, the uncertainty surrounding our export companies will increase and affect many investment plans.

Now, let me talk about Investor's portfolio. Our net asset value, including dividend added back, rose by 27 percent last year, in line with the overall market. The total return for Investor's shareholders exceeded the overall market's by 7 percentage points. Our listed hloldings generally perform well in a challenging environment, and many of them strengthened their positions during 2013.Let me give a few examples.

Atlas Copco acquired Edwards and broadened its exposure in the vacuum area. Ericsson maintained its position as technology leader and leading within telecom related services. Husqvarna accelerated its turnaround programs, and SEB continued to focus on its core business, resulting in strong customer ratings and good cost control.

During 2013, we received SEK 5.4 bn. In dividends from our listed holdings. This year, we expect dividends of SEK 6.2 bn., a 15 percent increaste compared to last year. Transactions affect more investors than ourselves. Given that, please let me say a few words about AstraZeneca. As you surely know, Pfizer has approached the company with the intention of acquiring it. The AstraZeneca board of directors has rejected the bid as it does not reflect the value of the company. We definitely support the board's view and believe that it is doing a good job in this process. AstraZeneca's prospects of progressing well as a standalone company are good.

Now over to our subsidiaries. In these we can create value only benefitting our own shareholders. Mölnlycke Health Care continued to develop well with good growth and profitability. By injecting additional equity, we created a debt structure with lower interest rates. Mölnlycke's balance sheet is very strong, and the company could distribute capital already today. However, given the very attractive return on invested capital in the company, we prefer it to invest in its existing business as well as in acquisitions with synergies. We also chose to de-lever Aleris by investing additional equty. The company is currently undergoing a substantial restructuring, including reorganization, consolidation of units, efficiency measures and continued investments in quality. These restucturing measures are necessary and will strengthen Aleris long-term.

We do not expect any material earnings improvements until late 2015. We will never compromise on the quality on the business. It is only through a high-quality service offering that Aleris can meet a need in the market. The measures taken made us lower our medium-term earnings forecast for Aleris, which resulted in a SEK 1 bn. write-down of the value last year. Despite this, we remain convinced about the long-term potential in Aleris. There are two main factors driving demand for healthcare and care serivces. First, needs increase with an ageing population. The number of people older than 65 years increases from 1.9 million today to 2.4 million 2030. Second, the richer we get, the more we spend on healthcare and care services. In other words, several factors indicate a substantially growing demand over time. This will lead to major challenges for society's funding of welfare services. Either, taxes will have to be raised significantly, or avaliability will have to be rationed. The alternative is to improve productivity in the system. We believe this is the way forward. Improving productivity is an natural task for private entrepreneurs who are creative and can develop innovative, high-quality working methods that benefit both patients and society. We are not the only ones believing in more private healthcare and care services. According to a recent survey in Dagens Samhälle, politicians do too.

But the healthcare sector is broader than that in Investor's portfolio. At last year's AGM, we had just completed the acquisition of Permobil, a world-leading manufacturer of advanced powered wheelchairs. Our value creation plan for Permobil focuses on continuing to increase sales, invest in products and put more "feet on the street". In this context, I would like to briefly touch upon how we report our subsidiaries.

We focus on increasing each company's fundamental value, i.e. the net present value of all future expected cash flows. In our reported net asset value, the value is represented as our share of reported book equity. Due to this, our reported value differs from the fundamental value. Often, it appears that the subsidiaries' contribution to our net asset value is limited, even negative, for quite some time after we have invested. Put simply, the companies are loss-making at the net profit line. This is largely due to accounting. When a company is acquired, a surplus value, often called goodwill, arise. This surplus value has to be distributed across various assets and amortized. For example, inventory has to be valued at market. Given this, initial sales is made at very low or even zero gross margins.

These amortizations impact the net profits and the book equity does not increase. Hence, growth of our reported value becomes weak.This, however, has little to do with the company's real performance.

Let me take an example, Mölnlycke Health Care. Sales have increased steadily over the past few years and profits have continued to improve. Simultaneously, the strong cash flow has reduced debt levels significantly. Since 2011, the company has generated about SEK 4 bn. in cash flow after interest payments.The net profit, i.e. the increase in our reported value, has only increased by SEK 2 bn. during the same period. This is largely explained by the amortizations of surplus value in the accounting.

Our reporting is backward-looking and does not capture the value of the company's rising profits and growth in future cash flow. This pattern will be the same for any new unlisted investments and therefore, their contribution to our net asset value growth will be limited in the early years.So why have we chosen this method? Well, the future expected cash flows are, expected. Of course, we have a view of our own, but that is only one view. We believe that the market is better off making its own forecasts as there is no absolut truth, only projections.To illustrate how the companies perform, we provide a number of key ratios in our reports that the market can use to create its own view of the future. In the case of Mölnlycke for example, most analysts covering Investor believe that the company is worth much more than our SEK 21 bn. reported value.

Let me say a few words about our Financial Investments. Both EQT and IGC performed well, generarting considerable value increases and cash flows to Investor. Lindorff and 3 Scandinavia also developed well. 3 Scandinavia has started to generate positive cash flow and amortize on its external loans, reducing our guarantees. During the year, we also completed the divestment of Gambro. Within Financial Investments, we have also built a limited portfolio of smaller holdings over the past few years. We continue the gradual wind-down of the IGC-portfolio. However, some of its holdings have potential that we do not think would be reflected in the value should they be divested today. Given this, we have chosen to hold on to them.

What else is important for us to create value to you, our shareholders? Operating efficiently is important. During 2013, our management costs amounted to SEK 359 m. our ambition is to keep annual management costs in the SEK 360-380 m. range, subject to adjustments for general inflation. This corresponds to roughly 0.2 percent of our net asset value, less than half of the fees charged by most funds. We also focus on paying a steadily rising dividend. This year, the board proposes a SEK 8 dividend per share, an increase from the SEK 7 paid last year. The dividend is important for the total return, and together with low management costs, it often contributes to a lower net asset value discount. Recently, we have had a welcome discussion about the short term vs. the long term. In a world with focus being increasingly short-term, companies – and shareholders – may be tempted to make decisions that generate fast profits. The problem is that these decisions not necessarily maximize long-term value creation.To invest in R&D, new manufacturing facilities and expansion of sales forces builds value over time, although costs typically come first and profits much later. We have no problems with this. As a long-term owner, we encourage our holdings to invest, even if this hampers profitability near-term, as long as we are convinced that it is the right thing to do from the industrial point of view.

This is the type of investments that builds long-term value and makes companies stronger. We like that! If the companies do not find any investment opportunities, then excess cash shall be handed back to the owners. Having a sound capital structure must always be an integral part in any strategy. A long-term perspective goes hand in hand with perserverance. An example of this is Electrolux and its acquisition in Egypt. Of course times are difficult today given the political situation, but over time, we argue that this acquisition can really help establish Electrolux as the leader in Africa, a market that will be as big as Europe in the future. Companies like these rarely become available, and when they do, one has to act.

Another example is Saab's efforts to sell the Gripen fighter jet. Here we are talking about sales cycles of 15 years or more. A long-term view however, must never be an excuse for ignoring short-term performance. a long-term view consists of many short-term views. If there is no short-term view, there may in ways not be any long-term view either. This is why Investor always strives to be long-term in our visions, but impatient in the follow-up.

So, how do we look at the future? To survive and thrive, as any other company, we also have to invest in our own business. It is our ability to adapt our holdings and our portfolio to new conditions that has ensured Investor's success during almost 100 years. To renew the portfolio requires taking risk, but that is part of our business, even if the wrong decisions will be made occassionally. The only way to avoid mistakes is to do nothing. An airplane is safest parked at the gate of course, but it is not what it its made for. To be able to invest in our own renewal is important. During the past few years, we have worked to establish a platform that can generate a strong cash flow. Our cash flow allows us to invest in existing or new holdings, thereby developing and renewing our business, and pay a good dividend at the same time. A proprietary strong cash flow also enables us to delink investment decisions from divestment decisions. Buying and selling at the same time is seldom good timing.

Dividends from our listed core investments make up the foundation of our cash flow, and as you can se, they have grown substantially during the past few years. The cash flow in our subsidiaries has also increased. As earnings have grown and debt has been reduced, it has increased substantially and almost reached SEK 2 bn. the past year.

Finally, we also have strengthened our cash flow from our Financial Investments. During a number of years, this business has been built up, consuming cash flow. Now it has matured and cash flow has turned positive. On average over the past few years, net cash flow to Investor from Financial Investments has amounted to SEK 2-2.5 bn. per year, a level that should be sustainable. In recent years, we have invested in new holdings, but also in existing ones. If we make new investments, we prefer to do them when we have a competitive advantage, i.e. in industries we know, like capital goods, healthcare, technology and financial services, and preferably close to home geographically. During the past couple of years, we have added Wärtsilä and Permobil. We have also reduced our leverage as well as the leverage in our subsidiaries. As a consequence, leverage in the entire Investor system is now lower. Our leverage of around 9 percent today is de facto lower than what 9 percent would have been a year ago.

The conclusion of my remarks can be made simple. At the end of the day, everything we do, we do to continue to build world-leading copmpanies, thereby creating value for you, our shareholders. Our strategy has created attractive total returns to you, and I am convinced that we have a strong platform enabling us to continue doing that by growing our net asset value, operate efficiently and paying a steadily rising dividend.

To conclude, I would like to thank Investor's fantastic employees, the foundation of all our work. I would also like to thank all of you, our shareholders, for trusting us to grow your capital over time. We will continue to work relentelessly.

Thank you!