

## Weak earnings require increased rate of improvement



The company portfolio showed improved earnings for the first nine months but sales and earnings weakened in the third quarter. We are continuing our collaboration with the companies to improve earnings levels and to create value. The Ratos Group's profit before tax improved for the first nine months.

The divestments of Nebula and Serena Properties, transactions with higher returns than our financial target, were completed in the third quarter and the exit gains from these divestments are included in profit for the period.

In September, GS-Hydro was declared bankrupt. Although Ratos supported the company during a considerable period of time with action programmes and capital injections, we concluded it was no longer possible to reverse the trend.

### Earnings trend

For the first nine months of 2017, the portfolio showed unchanged sales while EBITA rose 7% from SEK 938m to SEK 1,006m, pro forma and adjusted for Ratos's holdings. Bisnode accounted for most of the EBITA improvement.

In the third quarter of 2017, the portfolio showed a 5% decrease in sales, and EBITA declined 18%, from SEK 245m to SEK 202m, pro forma and adjusted for Ratos's holdings. The weaker performance was mainly due to Diab, which faced a weak market combined with high commodity costs and negative currency effects. Also, Plantasjen has had a weaker development where a cold spring and summer has been countered by price cuts to manage stocks. TFS earnings were impacted by a lower service sales trend, negative currency effects and costs for ongoing recruitments. Jøtul's earnings improved due to measures implemented to increase productivity and operational efficiency.

The Ratos Group's profit before tax totalled SEK 1,255m (-2,220) for the first nine months of 2017, and SEK 741m (-2,227) for the third quarter. In the third quarter of 2016, the impairment of book values affected the comparative figures. The earnings improvement includes total exit gains of SEK 594m from the divestments of Nebula and Serena Properties.

### Development in company portfolio

Several of our companies are continuously focusing on undertaking operational initiatives. HENT received a new order in Sweden and the order book is growing. During the quarter, Plantasjen opened another small-format store in Norway. In the third quarter, Aibel was awarded a contract by Teekay to complete the production vessel Petrojarl I and Speed entered a collaboration agreement with Nefab, which offers complete packaging solutions. In September, Aibel's three modules were successfully combined in the Johan Sverdrup project in Klosterfjorden, outside Haugesund. Important recruitments of senior key personnel are ongoing in Oase

Outdoors, TFS and airteam to reinforce the organisations and enable expansion.

### Divestments

In the third quarter, we completed the divestment of Nebula to Telia Company, which generated an exit gain of SEK 515m, an internal rate of return (IRR) of 37% and a money multiple of 3.3x. We also completed the divestment of Serena Properties to Fastighets AB Balder, which generated an exit gain of SEK 79m, an internal rate of return (IRR) of 26% and a money multiple of 1.4x.

The trend and market outlook for GS-Hydro remained strained in the third quarter and the company was declared bankrupt in September. Together with the company's Board and management, Ratos has implemented extensive action programmes in recent years, combined with considerable capital injections. Following a careful evaluation, however, we concluded that it was no longer possible to reverse the trend. The consolidated value of GS-Hydro had already been written down to zero.

### Focus on earnings and development

In the third quarter, the portfolio's earnings performance was unsatisfactory. To achieve higher earnings, we need to continue increasing the rate of improvement.

Operational management costs are continuing to decline and we estimate that the cost level is about SEK 150m on a yearly basis.

We see a continued strong transaction market with good opportunities for Ratos to benefit from our unique profile, flexible ownership horizon and clear investment strategy. Our current cash and bank balance provides readiness and opportunities to act.

Magnus Agervald, Chief Executive Officer