

Comments from the CEO

2022 was an exceptionally turbulent year with widespread economic uncertainty, though this has not slowed the pace of our continuing transformation. Today's Nordstjernan is different to the investment company that many have known in previous decades.

At times such as this, the advantages of a principal owner such as the Axel and Margaret Ax:son Johnson Foundation for Public Benefit become apparent, an owner with a perpetual investment horizon.

“In 2022, we completed six investments that fit in well with our new strategy. The year’s investments total more than SEK 3 billion.”

LONG-TERM OWNERSHIP SOLUTION FOR NCC

A large portion of our work is active value creation among our existing holdings. We never enter into an investment with a limited time perspective. Our main task is to develop companies and be an active and long-term owner, but over time it may become apparent that a company would develop better with another owner or through a partnership.

One transaction that received much attention at the end of 2022 was our divestment of a block of shares corresponding to 6.5 percent of the capital and 23.1 percent of votes in NCC to the Norwegian housing developer OBOS. OBOS is an excellent partner to help realize the long-term value creation that we can see in the company. It is a solution that will benefit NCC.

We will put even more energy into communicating our new strategy, which is now reshaping Nordstjernan. Today, we have five sectors: Industry & Trade, Health, Construction & Real Estate, Growth & New technology and Credit investments.

The construction sector, which has always been a large part of our operations, now accounts for about one tenth of the portfolio. In parallel, we are clearly growing in the Health and Industry & Trade sectors. More than 60 percent of the current portfolio comprises unlisted holdings. More mature companies have, for some time, been complemented with smaller growth companies in the Growth & New technology sector.

In 2022, we completed six investments that fit in well with our new strategy. We invested in Norva24, which provides underground infrastructure maintenance (UIM). We also invested in engcon, a world-leading manufacturer of tiltrotators for excavators. We acquired the diagnostics company Aidian and became principal owner of Momentum

Group when the company was separately listed from Alligo. The Growth & New technology sector invested in the technology company Mentimeter and became a minority shareholder of the payment solutions company Zimpler. The year's investments total more than SEK 3 billion.

SECTOR FOCUS BEARS FRUIT

The growth of the new Nordstjernan is progressing in line with the strategy we developed two years ago, where we have intentionally grown the portfolio in the Health and Industry & Trade sectors. We can see how our choice of sectors has been important in building a stronger Nordstjernan. The investments contributed to significant profit growth where profit in Industry & Trade has risen by 55 percent since 2020 and in Health by a full 83 percent. This was fueled by a combination of growth, margin improvements, add-on acquisitions and new investments.

Each sector has a clear strategy and clearer investment criteria. We are also evolving our model for our long-term and active ownership control.

As CEO of a company with exciting holdings, I find the value-creating work particularly enriching. On pages 9–10 of the Annual Report, we have described a few examples of how we systematically create value through long-term active ownership, both in a listed and unlisted setting.

CHALLENGING MARKET FOR CERTAIN HOLDINGS

Today's Nordstjernan has 21 holdings with total sales of SEK 136 billion. Adjusted for Nordstjernan's share of equity in each holding, sales are SEK 39 billion.

During the year, Nordstjernan's companies have been impacted to varying degrees by inflation and the economic downturn that has dominated the economy and the macro environment. In 2022, our total return was -27 percent, which is naturally something we are not pleased about. At the same time, profit in our total portfolio, which we measure as each company's profit multiplied by our share of equity, was SEK 3 billion. This is at a historically high level. It is our conviction that a long-term healthy value trend requires good underlying earnings growth.

With 21 companies in the portfolio, there are some companies that are facing challenges. Listed companies are also, together with Nordstjernan as owner, subject to external criticism when they do not perform in line with their financial targets and with market expectations. We can only agree. We are not satisfied until all of our holdings are performing in line with what we jointly pledged to achieve. This issue is therefore naturally a top priority in our board agendas and we are supporting the work by the boards and management teams to improve profitability.

The journey of change we started in 2020 is not over. We will continue to develop our holdings and to see how we can create more value, or alternatively conclude that some holdings would develop better with another owner or in partnership. This does not change our fundamental ambition with a perpetual time horizon, but with greater sector knowledge we can also see several excellent opportunities for new investments.

2023 – STEPPING UP THE PACE OF RENEWAL

From the current situation with economic uncertainty, we still believe in the longer term that global trends driven by demographics, major technological shifts and sustainability will be important. All companies must reflect on how today's changed world will influence their future strategy.

Based on the strategy development Nordstjernan has pursued over the past two years, we have created a good foundation to step up the pace of renewal in 2023. If Nordstjernan is to remain successful, we must own the right companies and be good company builders and owners of the companies in which we have holdings, and renew our portfolio through new value-creating investments. Our agenda also includes the ability to drive change, methods for long-term successful value creation but also how we can invest in new solutions that are more resource-efficient and can therefore respond to demand in a more long-term and sustainable manner. Through our strong financial position, we want to capitalize on business opportunities and continue the long-term development of our portfolio in companies and sectors where we identify sustainable, strong structural market trends.

Let me conclude by applauding those that deserve applause – the employees in our companies who in these somewhat troubled times are working hard and with passion to address the challenges, and identify new opportunities, that can take our companies to new levels. Together with our principal owner, the Axel and Margaret Ax:son Johnson Foundation for Public Benefit, we can combine the best of two worlds. A profit-generating part combined with a non-profit, public benefit part. We are well positioned despite the uncertain times in the world around us.

Stockholm, March 28, 2023

Peter Hofvenstam
President and CEO

Translation from Nordstjernan's 2022 annual report.