



# Press release from ÅF

## ÅF and Epsilon to merge, creating one of Northern Europe's leading technology consulting companies

**The Boards of Directors of ÅF AB (publ) ("ÅF") and Epsilon Holding AB (publ) ("Epsilon") today announce the merger of ÅF and Epsilon (the "Transaction"). The merger will create one of Northern Europe's leading technology consulting companies. The merger is driven by a strong industrial logic, since ÅF and Epsilon largely share a common culture and complement each other in terms of technical expertise, service offering, customer base and geographical presence. Over the last twelve months, the new ÅF Group would have had annual sales of approximately SEK 7.8 billion<sup>1</sup>.**

- ÅF and Epsilon are two of the leading technology consulting companies in the Nordic countries and the merger will further strengthen ÅF's offering within industrial processes and production automation (Industry), as well as creating the leading supplier of advanced product development (Technology) in its market.
- The merger will enable the companies to combine and thus strengthen their offering to existing and new customers within attractive growth areas such as technical calculations and embedded systems.
- Over the last twelve months, Epsilon's sales have totalled approximately SEK 2.1 billion, while its operating profit has amounted to some SEK 200 million. Since 2009, the average annual growth in sales has been approximately 32 per cent, organically.
- The earning per share effect for the new ÅF Group would, over the past nine months, have been approximately 12 per cent<sup>2</sup>, irrespective of synergies. ÅF and Epsilon estimate that the synergies will exceed SEK 100 million.
- The merger will be effected by ÅF acquiring Epsilon. The consideration consists of an initial purchase price of approximately SEK 1,700 million (enterprise value), consisting partly of SEK 850 million in cash and partly of 5,985,915 newly issued class B shares in ÅF. There will also be an additional purchase price amounting to a maximum of SEK 1,100 million<sup>3</sup>. The cash part of the initial purchase price is subject to net debt adjustment.
- In connection with the Transaction, Dan Olofsson and family<sup>4</sup>, who are the sole owners of Epsilon, will become the second largest owner in ÅF in terms of votes with 11.0 per cent of the votes and the largest owner in ÅF in terms of capital with 14.9 per cent of the capital.

<sup>1</sup> The figure relates to 1 October 2011 – 30 September 2012 including ÅF's acquisition of Advansia. The combined financial information is only an aggregation of this financial information for the various businesses in order to provide an indication of the new ÅF Group's sales and earnings under the assumption that the businesses had been included in the same group from the beginning of each period, and should not be viewed as a pro forma.

<sup>2</sup> Assumptions: tax rate of 26.3 per cent and a customary market interest.

<sup>3</sup> For information regarding the conditions for the additional purchase price, see below in the *Consideration* section.

<sup>4</sup> Through Danir AB ("Danir").



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- Epsilon's current CEO, Mats Boström, will take up the position as Head of the ÅF Technology division and will be a member of ÅF's Group Management.
- The completion of the Transaction is conditional upon approval by the relevant competition authorities and approval by the ÅF Extraordinary General Meeting, which will be held on 19 November 2012.
- Ångpanneföreningens Forskningsstiftelse and CapMan, which together hold 21.8 per cent of the capital and 45.0 per cent of the votes in ÅF, have stated their support for the Transaction and have also undertaken to vote in favour of required decisions at the ÅF Extraordinary General Meeting.

Press conference today at 11.00 (CET) at ÅF's Headquarters at Frösundaleden 2 in Solna.

*"Today is a great day for all employees of ÅF and Epsilon. Together we are creating one of Northern Europe's leading technology consulting companies with a strong platform for future profitable growth. Over the years, we at ÅF have come to know Epsilon well, and we are very impressed with the company's business and management. We complement each other well and largely have a common culture, which we will now be able to develop further. The Transaction means that we, as a combined company, will be a stronger supplier to our customers and a better, more stimulating workplace for our employees. This is a transaction which is logical from an industrial perspective for both parties, with both parties being able to take advantage of each other's strengths. From ÅF's perspective, the transaction means that we will now also be number one in Technology. Thus we will be number one or two in all focus areas on the Scandinavian market, and will have a good balance between the Group's divisions",* says Jonas Wiström, CEO and President of ÅF.

*"I am very glad to be able to participate in this structural transaction between two successful companies. For many years I have been very familiar with ÅF and its management, and my impressions are very positive. After building Epsilon for 26 years, I see a value in this new development phase for the company. It is the industrial logic – the fact that we complement each other well – which has formed the foundation of the transaction. It will allow us to create stronger offerings for customers, a healthy development environment for our employees and value for our shareholders. The companies' managements have had an extensive dialogue. The conclusion from this is that the merger has a very good basis for success. As future long-term owners in ÅF, my family and I look forward with great confidence to our continuing journey together. I am convinced that, together with all our committed employees who can see the opportunities, we can create something even better from two great companies,"* says Dan Olofsson, owner of Epsilon.

## Rationale for the merger

ÅF's long-term goal is to reach sales of approximately EUR 1 billion in 2015, which would mean an average growth of some 16 per cent per year. In addition, the company aims to be the most profitable company among its comparable peers in the sector, with an operating margin of 10 per cent over a business cycle, as well as net indebtedness not exceeding 40 per cent of equity over time.

In order to achieve its long-term goals, ÅF has set out a strategy to become number one or number two in the markets where it operates. The growth is to be driven equally by acquisitions and organic growth.

Hence the merger between ÅF and Epsilon is very much in line with ÅF's strategy. The merger will enhance ÅF Industry's market position, while ÅF Technology will become a leading player in its market. ÅF and Epsilon operate on a market where ÅF foresees good long-term market growth.



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The customer base is becoming broader, and the number of overlapping customers is limited. The companies' areas of expertise complement each other well, and the merger will enable the new ÅF Group to have a more comprehensive offering of services and expertise for the combined existing customer base as a whole, as well as for new customers.

In recent years, Epsilon has developed its business model by launching a concept for sub-consultants called the partner concept (the "Partner concept"). The Partner concept is a network of sub-consultants linked to Epsilon through collaboration, and it offers advantages for the company, the customers and the sub-consultants. The Partner concept has been very successful and has enabled Epsilon to quickly adapt to increased demand with limited risk and capital. The concept is a fully integrated part of Epsilon's business and offering to its customers. By continuing to develop the Partner concept and integrating it into ÅF's business, the customers will be offered a broader range of expertise in order to be able to handle large volumes and at short notice. This is expected to increase ÅF's opportunities for growth. Epsilon has about 1,600 employees and some 14,000 partners. Altogether, this provides a powerful capacity to deliver, which drives growth. Since 2010, the Partner concept's revenue on a rolling three month basis has increased more than fivefold. The combined concept has meant that, since 2009, Epsilon has had annual average organic growth of some 32 per cent and EBIT-margin has during the same period been 8,9 percent in average.

In summary, the management and Boards of Directors of both ÅF and Epsilon consider that the merger will strengthen the company's market position and competitiveness. Furthermore, the new ÅF Group will be able to deliver a more complete and improved offering of services to its customers. The Transaction is expected to create significant shareholder value through increased earnings per share.

## The new ÅF Group

Over the last twelve months, the new ÅF Group's sales would have amounted to approximately SEK 7.8 billion<sup>5</sup>, with the company having some 6,800 employees in total. The company will strengthen its geographical position, primarily in Sweden.

Around 80 per cent of Epsilon's consulting business will be integrated into the Technology division, while the remainder will be included in the Industry division.

The Partner concept will be introduced into all of ÅF's divisions.

### Management

Mats Boström, CEO of Epsilon since 2004, will take up the position as Head of the Technology division. He will also be responsible for the cross-divisional Partner concept. Mats Boström will be part of the ÅF Group's Management and will report directly to ÅF's CEO and President, Jonas Wiström.

### Synergies

ÅF and Epsilon estimate that synergies will amount to more than SEK 100 million. Of these synergies, some SEK 50 million are expected to be realised through cost savings. In addition to the cost savings, substantial positive effects are expected through the realisation of sales synergies and through Epsilon's Partner concept being integrated into ÅF. The realisation of the synergies will be aided by the companies' geographical and cultural proximity, as the majority of

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<sup>5</sup> The figure relates to 1 October 2011 – 30 September 2012 including ÅF's acquisition of Advansia. The combined financial information is only an aggregation of this financial information for the various businesses in order to provide an indication of the new ÅF Group's sales and earnings under the assumption that the businesses had been included in the same group from the beginning of each period, and should not be viewed as a pro forma.



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the consultants within the divisions in question are employed in Sweden. ÅF's and Epsilon's Management teams have through prior experience and good knowledge of each other's company and market segment.

The full effect of synergies is expected to be obtained within three years. The integration costs for the realisation of the synergies are expected to amount to some SEK 30 million and will primarily burden earnings during 2013.

Costs relating to the Transaction are estimated at around SEK 20 million, which will burden earnings during 2012.

## Financial information

The financial information presented below has not been audited or otherwise reviewed by either company's auditor. The information has been retrieved from each company's financial reporting, which may imply that there are differences in respect to accounting policies. The combined financial information is only an aggregation of this financial information for the various businesses for the different time periods, in order to provide an indication of the new ÅF Group's sales and earnings under the assumption that the activities had been included in the same group from the beginning of each period.

The aggregation is based on a hypothetical situation and should not be viewed as pro forma, since only a rough adjustment has been made for the acquisition. No adjustments have been made for the effects of various accounting standards and transaction costs.

Future synergies have not been taken into account.

### Income statement

In millions of SEK	ÅF	Epsilon	Adjustment	Combined
<b>January – September 2012</b>				
Net sales	3,949	1,555		5,504
EBITDA	364	151		515
EBITDA-margin, %	9.2	9.7		9.4
EBITA	331	149		480
EBITA-margin, %	8.4	9.6		8.7
EBIT	324	149	-15	458
EBIT-margin, %	8.2	9.6		8.3
<b>October 2011 – September 2012</b>				
Net sales	5,406	2,072		7,478
EBITDA	527	202		729
EBITDA-margin, %	9.7	9.7		9.7
EBITA	481	200		681
EBITA-margin, %	8.9	9.6		9.1
EBIT	472	200	-20	652
EBIT-margin, %	8.7	9.6		8.7

On 7 September 2012, ÅF announced through a press release the acquisition of the Norwegian company Advansia AS ("Advansia"), with operations within infrastructural projects. The transaction was closed on 1 October 2012, and is thus not factored into the figures above.



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A merger equivalent to the above, taking into account the acquisition of Advansia, would result in combined net sales of SEK 7,817 million, a combined EBITA of SEK 740 million and a combined EBIT of SEK 709 million for the last twelve months, i.e. 1 October 2011 – 30 September 2012.

ÅF's net gearing ratio (net debt to equity) will, upon completion of the Transaction and after the acquisition of Advansia, amount to approximately 30 per cent. This is well in line with ÅF's long-term goal of a net gearing not exceeding 40 per cent over time. As of 30 September 2012, ÅF had a net cash position amounting to SEK 191 million.

### Ownership structure

Following the completion of the Transaction and the Issue in kind<sup>6</sup>, Ångpanneföreningens Forskningsstiftelse will hold 13.6 per cent of the capital and 36.4 per cent of the votes. Danir will hold 14.9 per cent of the capital and 11.0 per cent of the votes, and other shareholders will hold 71.5 per cent of the capital and 52.6 per cent of the votes. The table below shows the five largest shareholders as of 28 September 2012, adjusted for the Issue in kind.

Dan Olofsson and family's intention is to remain long-term owners in ÅF. ÅF Group's management and Board of Directors welcome this.

Shareholder	Class A shares	Class B shares	% of capital	% of votes
Ångpanneföreningens Forskningsstiftelse	1,602,876	3,832,576	13.6	36.4
Dan Olofsson and family		5,985,915	14.9	11.0
Swedbank Robur fonder		2,866,027	7.2	5.3
Nordea fonder		2,092,948	5.2	3.8
CapMan Oyj		2,000,000	5.0	3.7
Other shareholders	6,000	21,658,575	54.1	39.8
<b>Total</b>	<b>1,608,876</b>	<b>38,436,041</b>	<b>100</b>	<b>100</b>

### Transaction in brief

#### Merger

On 17 October 2012, ÅF and Danir entered into an agreement to create one of Northern Europe's leading technology consulting companies. The merger will be effected by ÅF acquiring all shares in Epsilon from Danir.

#### Consideration

The consideration will consist of an initial purchase price of approximately SEK 1,700 million and an additional purchase price, which will amount to a maximum of SEK 1,100 million.

The initial purchase price shall be paid partly through a cash amount of SEK 850 million, the amount to be adjusted for Epsilon's net indebtedness, and partly through 5,985,915 newly issued class B shares in ÅF corresponding to an amount of SEK 850 million, based on a price per share of SEK 142 in accordance with the acquisition agreement ("the Issue in kind"). ÅF's Board of Directors will propose that an Extraordinary General Meeting authorises the Board of Directors to decide on the Issue in kind, in order for 5,985,915 new class B shares in ÅF to be issued to Danir as payment for Danir's shares in Epsilon. The new class B shares that will be issued will correspond to approximately 14.9 per cent of the capital and 11.0 per cent of the votes in ÅF post the Issue in kind.

<sup>6</sup>See definition below in the *Consideration* section.



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The size of the additional purchase price is mainly dependent on the size of EBIT 2014 for the ÅF Technology and ÅF Industry divisions, in which Epsilon will be included, as well as Epsilon's EBIT for 2012. The additional purchase price will be paid in cash in February 2015.

If EBIT 2014 in the ÅF Technology and ÅF Industry divisions, in which Epsilon will be included, does not amount to SEK 626 million, the outcome of the additional purchase price will amount to a maximum of SEK 340 million, which may be reduced depending on the outcome of Epsilon's EBIT 2012.

If EBIT 2014 in the ÅF Technology and ÅF Industry divisions amounts to SEK 626 million, the outcome of the additional purchase price will total SEK 400 million. This corresponds to EBIT growth of SEK 144 million<sup>7</sup>, or some 30 per cent (i.e. an average annual growth of approximately 12 per cent).

The additional purchase price will amount to a maximum of SEK 1,100 million. The maximum additional purchase price will be paid if the combined EBIT 2014 for the ÅF Technology and ÅF Industry divisions amounts to SEK 823 million, which corresponds to an organic increase of some SEK 341 million<sup>8</sup> or approximately 71 per cent (i.e. average annual growth of approximately 27 per cent).

### **Conditions for the completion of the Transaction**

The completion of the Transaction is conditional upon the ÅF Extraordinary General Meeting approving a change in the Articles of Association to enable the Issue in kind, approving the Board of Directors' decision to acquire Epsilon, authorising the Board of Directors of ÅF to decide on the Issue in kind and electing Dan Olofsson and Johan Glennmo (Dan Olofsson's son and currently chairman of the Board of Directors of Epsilon) as new board members of ÅF from the time that ÅF comes into possession of the Epsilon shares up until the next Annual General Meeting. In addition, the Transaction is conditional upon approval by the relevant competition authorities. The Extraordinary General Meeting in ÅF will be held on 19 November 2012 (please refer to separate press release regarding the summons to the Extraordinary General Meeting).

### **Financing in connection with the Transaction**

In connection with the Transaction, ÅF intends to raise new debt, from Handelsbanken and SEB, totalling SEK 900 million, with maturity in 3 years.

### **Extraordinary General Meeting**

ÅF's Board of Directors has decided to convene an Extraordinary General Meeting on 19 November 2012. It is proposed that the Extraordinary General Meeting approve the Board of Directors' proposal regarding changing the Articles of Association in order to enable the Issue in kind, approve the Board of Directors' decision regarding the acquisition of Epsilon, and authorise the Board of Directors of ÅF to decide on the Issue in kind. The Board of Directors of ÅF unanimously recommends the shareholders of ÅF to resolve in accordance with the Board of Directors' proposal.

As a consequence of the changes in the ownership structured as a result of the Issue in kind (please see *Ownership* structure above) ÅF's Board of Directors has determined that it would be beneficial if the owners of Epsilon would be represented in the Board of Directors of ÅF. The

<sup>7</sup> Compared to EBIT LTM, which for Epsilon as of 30 September 2012 amounted to SEK 200 million and EBIT LTM for ÅF Technology, which as of 30 September 2012, amounted to SEK 89 million, as well as EBIT LTM for ÅF Industry which, as of 30 September 2012, amounted to SEK 194 million.

<sup>8</sup> Compared to EBIT LTM, which for Epsilon as of 30 September 2012 amounted to SEK 200 million and EBIT LTM for ÅF Technology, which as of 30 September 2012, amounted to SEK 89 million, as well as EBIT LTM for ÅF Industry which, as of 30 September 2012, amounted to SEK 194 million.



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nomination committee has decided not to submit any proposal to the Extraordinary General Meeting in respect of the election of new board members, on the basis that the shareholders have not yet voted on the Transaction and the limited period of time until the General Meeting.

Against this background, Ångpanneföreningens Forskningsstiftelse and CapMan, which together hold 21.8 per cent of the capital and 45.0 per cent of the votes in ÅF have proposed, subject of ÅF's completion of the acquisition of Epsilon, that ÅF's Board of Directors be increased by two members by proposing that Dan Olofsson and Johan Glennmo be elected as new members of the Board of Directors of ÅF.

For further information, please refer to the separate press release regarding the summons to the Extraordinary General Meeting.

### **Support from shareholders**

Ångpanneföreningens Forskningsstiftelse and CapMan, which together hold 21.8 per cent of the capital and 45.0 per cent of the votes in ÅF, have stated their support for the Transaction and have also undertaken to vote in favour of the above stated proposals at the Extraordinary General Meeting. In addition, Ångpanneföreningens Forskningsstiftelse has made an undertaking to Danir – if the nomination committee of ÅF so proposes – to vote for two persons nominated by Danir to be elected as board members by the subsequent ÅF General Meetings up to and including the company's Annual General Meeting 2013.

### **Agreement between Ångpanneföreningens Forskningsstiftelse and Danir**

On 17 October 2012, Ångpanneföreningens Forskningsstiftelse and Danir entered into an agreement regarding shares in ÅF. Through the agreement Ångpanneföreningens Forskningsstiftelse has made an undertaking to Danir, under certain conditions, to exchange class A shares in ÅF for class B shares in ÅF (although not more than 78,000 class A shares over a period of 7 years), if Danir's holding in ÅF were to be below 10 per cent of all the votes in ÅF for any reason other than Danir selling shares in ÅF. If Danir, after the completed exchange, wishes to sell class A shares in ÅF, such class A shares must first be offered by pre-emption to Ångpanneföreningens Forskningsstiftelse.

### **Indicative timetable**

The indicative timing of the Transaction is shown below.

19 November 2012	Extraordinary General Meeting in ÅF
23 November 2012	Approval from the relevant competition authorities is anticipated
30 November 2012	Anticipated closing date for the Transaction and the Issue in kind to Danir

### **Advisors**

Handelsbanken Capital Markets is the financial advisor and Mannheimer Swartling Advokatbyrå is the legal advisor to ÅF in relation to the Transaction. HDR Partners is the financial advisor and Advokatfirman Vinge is the legal advisor to Danir in relation to the Transaction.

Stockholm 18 October 2012

**ÅF AB (publ)**

*The information contained in this press release is such that ÅF is required to disclose pursuant to the Swedish Financial Instruments Trading Act and/or the Swedish Securities Markets Act. The information was submitted for publication on 18 October 2012 at [08.00] CET.*



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## Press conference today, Thursday 18 October 2012 at 11.00 (CET) for additional information

ÅF will hold a press conference today, Thursday 18 October 2012, at 11.00 (CET) at ÅF's Headquarters, Frösundaleden 2, Solna with Ulf Dinkelspiel, Chairman of the Board of Directors of ÅF, Jonas Wiström, CEO and President of ÅF as well as Dan Olofsson, owner of Epsilon and Mats Boström, CEO and President of Epsilon.

### For further information:

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### ÅF in brief

ÅF Group is a leader in technology consulting, with expertise founded on more than a century of experience. ÅF Group offers highly qualified services and solutions for industrial processes, infrastructure projects and the development of products and IT systems. Today, ÅF Group has approximately 5,000 employees. Its base is in Europe, but its business and clients are found all over the world. Over the last twelve months, i.e. 1 October 2011 – 30 September 2012, net sales have totalled approximately SEK 5.4 billion. ÅF is listed on NASDAQ OMX Stockholm. For further information, please visit [www.afconsult.com](http://www.afconsult.com)

### Epsilon in brief

Epsilon is one of Scandinavia's leading consulting companies within research and development with particular focus on product development for leading Swedish export companies. With its approximately 1,600 employees and approximately 14,000 independent partners in various networks, Epsilon offers services and solutions across a range of sectors, including energy, automotive, telecoms, pharmaceuticals, medical devices, IT, life sciences, the offshore sector and other industries. Epsilon operates in the Scandinavian countries with its 26 offices in Sweden and two in Norway. Over the last twelve months, i.e. 1 October 2011 – 30 September 2012, Epsilon's net sales have totalled some SEK 2.1 billion.

In the Partner concept, Epsilon works with a broad network of sub-consultants consisting of independent partners and specialists. In respect of the Partner concept, Epsilon is the sole contractor to the customer and engages in its turn members from the network. This business model enables Epsilon to offer the customer a broad range of specialised consultants. The broad range of competences offered and access to the right consultant in the right place have historically resulted in high growth for the Partner concept, which currently accounts for some 36 per cent of Epsilon's sales.

For further information, please visit: [www.epsilon.nu](http://www.epsilon.nu)



## Important notice

### **Forward-looking statements**

This press release contains certain forward-looking statements that reflect ÅF's current views or expectations with respect to future events and financial and operational development, including statements relating to the Transaction and the Issue in kind and statements relating to guidance, plans, prospects and strategies. The words "intend", "estimate", "expect", "plan", "anticipate", "may" and similar expressions regarding indications or forecasts of future developments or trends and which are not statements based on historical facts, constitute forward-looking information. Although ÅF believes that these statements are based on reasonable assumptions and expectations, ÅF cannot give any assurances that such statements will materialise. As these forward-looking statements involve both known and unknown risks and uncertainties, the outcome could differ materially from the information set out in the forward-looking information. The forward-looking statements included in this press release speak only as of the date of the press release and are subject to change without notice. ÅF undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or applicable stock market regulations.

*This press release has been published in Swedish and English. In the event of any discrepancy in content between the language versions, the Swedish version shall prevail.*