

Swedish Electromagnet Invest AB (publ.)

559153-6510

Year-End Report and Interim Report

January – December 2019



Group overview

The Swedish Electromagnet Invest AB (publ) Group ¹, SEM Invest, is a leading supplier of highly engineered mission critical powertrain components for heavy duty commercial vehicles (“HDCV”). Core product segments includes a range of ignition systems, injector stators and sensors, primarily used for natural gas (“NG”) and diesel powered HDCVs as well as ignition systems for handheld professional power tools. The group sells its products through own sales channels worldwide and customers include well known OEM’s, Tier 1 and Tier 2 suppliers to the industry.

¹ Swedish Electromagnet Invest AB (publ) Group is the ultimate Parent Company and serves as a holding company for the intermediary holding company Swedish Electromagnet Holding AB Group containing of SEM AB in Sweden, SEM Technology (Suzhou) Co., Ltd in China, SEM Technology Inc. in USA and Senfusion AB in Sweden.

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Reporting period, January – December 2019 ¹⁾

- Net sales amounted to 372 419 (15 449) KSEK.
- The operating profit/loss amounted to 45 578 (299) KSEK.
- The cash flow from operating activities amounted to 41 670 (-418) KSEK.

Fourth quarter, October – December 2019 ¹⁾

- Net sales amounted to 93 181 (15 449) KSEK.
- The operating profit/loss amounted to 9 306 (299) KSEK.
- The cash flow from operating activities amounted to -3 633 (-418) KSEK.

¹⁾ The comparative figures only include result from half a month (11th to 31st of December 2018). The accounting year is between the 26th of March to 31st of December since the Parent Company was formed on March 26, 2018, but no operations were conducted until Swedish Electromagnet Holding Group was acquired on December 11, 2018. For more information see Annual Report 2018.

Development in the fourth quarter and full year 2019 ¹⁾

All amounts are stated in thousand SEK (KSEK) unless stated otherwise.

The figures below are equivalent to the operations in SEM Invest Group the fourth quarter and the period 1st January – 31st December 2019 and the fourth quarter and the period 26 March – 31 December 2018.

Key figures and ratios

KSEK	Jan – Dec 2019	Q4 2019	26 th Mar – 31 st Dec 2018	Q4 2019
Net sales	372 419	93 181	15 449	15 449
EBITDA	80 542	17 939	1 179	1 179
Adjustment to EBITDA ²⁾	2 671	600	-	-
EBITDA (adj.) ²⁾	83 213	18 539	1 179	1 179
Operating profit	45 578	9 306	299	299
Net result for the period	7 851	-2 140	-816	-816
Net Debt ³⁾	307 102	307 102	321 272	321 272
Return on equity ⁴⁾ , %	4,5%	0,5%	-0,5%	-0,5%
Return on total assets ⁴⁾ , %	5,5%	1,1%	0,0%	0,0%
Equity/assets ratio, %	39,2%	39,2%	40,0%	40,0%

¹⁾ The comparative figures only include result from half a month (11th to 31st of December 2018). The accounting year is between the 26th of March to 31st of December since the Parent Company was formed on March 26, 2018, but no operations were conducted until Swedish Electromagnet Holding Group was acquired on December 11, 2018. For more information see Annual Report 2018.

²⁾ Adjustments include non-recurring figures to enable better comparison of underlying development in the business.

Adjustments during the period Jan - Dec including 577 KSEK implementation of IFRS, 1 038 KSEK costs in accordance with the bond being quoted on the stock market, 600 KSEK concerning structure/financing and 456 KSEK others.

³⁾ End of period.

⁴⁾ Figures regarding quarter four and the period Jan – Dec 2019 and corresponding periods 2018. Please see “Definitions” for further details.

Comments from the CEO

The fourth quarter has contained both positive and negative challenges. Our development projects have continued to develop positive and with high speed, while we have been forced to reduce production due to slow-down in the economy. The heavy-duty vehicle industry has worked at full steam for a long time, but now the economy has slowed down and sales have declined. This reduction in the order backlog led to a reduced order placement at SEM with the consequence that SEM gave notice to 14 employees at the Åmål factory. Negotiations were initiated and completed, resulting in 12 employees being laid off.

The project operations continued to be very good and three new white-collar posts were advertised and two were contracted during the quarter.

Furthermore, work on the new epoxy potting equipment has continued and a FAT (Factory Acceptance Test) has been successfully completed. The installation is completed and is awaiting customer approval. We are also awaiting some automation equipment that is scheduled to be in place at the beginning of the second quarter. Production start for a complete sensor line is scheduled for the summer 2020.

Tom Gustavsson
CEO

Financial overview

Sales and profit fourth quarter and the period Jan – Dec 2019

Sales in fourth quarter 2019 totalling SEK 93 181 (15 449) thousand and in the period Jan – Dec to SEK 372 419 (15 449) thousand. Adjusted EBITDA totalling SEK 18 539 (1 179) thousand in fourth quarter and SEK 83 213 (1 179) thousand in the period Jan – Dec 2019.

The comparative figures only include result from half a month (11th to 31st of December 2018). The accounting year 2018 is between the 26th of March to 31st of December since the Parent Company was formed on March 26th, 2018, but no operations were conducted until Swedish Electromagnet Holding Group was acquired on December 11th, 2018. For more information see Annual Report 2018. For information and comments on net sales and results for the sub-group acquired, see *Note 9 Net sales and profit January – December 2018 Swedish Electromagnet Holding AB Group*.

Investments

In fourth quarter 2019 the group have made total investment of SEK 3 731 (59 049) thousand which mainly consists of investments in a welding equipment and a test equipment for the new sensor line.

During the period Jan – Dec 2019 the group has made total investments of SEK 12 303 (59 049) thousand. The main investments consist of residual value of two bought out leasing objects, a replacement investment for the Stator line at the Åmål factory and test equipment for the new sensor line.

Balance sheet items

IFRS 16 Leases

The Group have applied the simplified transition method, which implies that rights of use are valued at an amount corresponding to the leasing debt of the 1st January 2019 (adjusted for prepaid and accrued leasing fees). The transition to IFRS 16 has, therefore, not had any impact of equity for the Group.

The adoption of the new IFRS 16 leasing standard has resulted in rights of use assets at start of period amounting to SEK 33 574 thousand and lease liabilities at start of period amounting to SEK 33 574 thousand.

Final valuation of the intangible assets

The final valuation of the intangible assets identified separately from goodwill was completed during the second quarter. This has led to additional intangible assets in the form of customer relationships and trademarks and deferred tax liability in the balance sheet as well as additional costs in the form of amortisation of customer relationships, which have affected the profit for the period. For information, see note 6 Final purchase price allocation regarding previous acquisitions.

Measurement of deferred tax assets in connection with loss carryforwards - interest deduction

Following the introduction of the new rules on interest deduction limitations in Sweden, the Group recorded a non-deductible interest in the financial statements in 2019. This non-deductible interest means an increased tax payment in 2020 of SEK 3.2 million for the Group. There is a future possible tax credit on the same amount. Given that there are time constraints in the possibility of utilizing the future tax credit, the Group has, for prudence, chosen not to record the future tax credit but will be taking the positive tax effects at the rate that the tax credit is utilized. This has resulted in a higher tax expense in the annual accounts for 2019.

Test of impairment of goodwill and trademarks

The President assesses the operating performance based on the Group as a whole. Goodwill and trademarks are monitored by the President, based on the Group as a whole.

Residual values for cash generating units are established through the calculation of the value in use. The calculation of the value in use is based on estimated future cash flows before tax based on a financial budget approved by Company management and which cover a period of five years. The calculation is based on management experience and historical data. The long-term sustainable growth rate is assessed based on industry forecasts. The President has deemed that sales growth, EBITDA, discount rate and long-term growth rate are the most significant assumptions in the impairment test. A discount rate before tax of 13% (13%) has been used in the present value calculation of estimated future cash flows. Discounted cash flows have been extrapolated with a long-term growth rate of 2% (2%) after the forecast period of 5 years.

The residual value exceeds the carrying amount of goodwill and trademarks. This is also valid for assumptions if:

- the discount rate before tax had increased with 10% (10%), so to say, had been 14,3%
- the estimated growth rate to extrapolate cash flows beyond the 5-year period had been 1% (1%) or 50% lower,
- the estimated EBITDA decreases with 10% (10%)

Cash flow

KSEK

Period January – December 2019

Cash flow from operating activities 41 670 (-418).

Cash flow from investing activities -12 303 (-59 049).

Cash flow from financing activities -9 480 (97 562).

Cash flow for the period 19 887 (-).

Quarter 4 2019

Cash flow from operating activities -3 633 (-418).

Cash flow from operating activities -3 731 (-59 049).

Cash flow from financing activities -2 753 (97 562).

Cash flow for the period -10 118 (-).

Cash flow from investing activities for the period January- December 2019, SEK , - 12 303 (-59 049) thousand, mainly consists of investments in residual value of two bought out leasing objects, a replacement investment for the Stator line at the Åmål factory and test equipment for the new sensor line.

Cash flow from financing activities for the period January- December 2019, SEK -9 480 (97 562) thousand consist of instalment of debt for financial leasing.

Cash flow from investing activities for quarter 4, SEK -3 731 (-59 049) thousand, mainly consists of investments in a welding equipment and a test equipment for the new sensor line.

Cash flow from financing activities for quarter 4, SEK -2 753 (97 562) thousand consist of instalment of debt for financial leasing.

Cost regarding salaries, social security and pension

The personnel cost for salary, social security and pensions amounted to SEK 25 865 (3 889) thousand during the fourth quarter and SEK 102 935 (3 889) thousand during the period Jan – Dec 2019. During the fourth quarter the cost split with SEK 21 300 thousand in Sweden, SEK 4 195 thousand in China and SEK 370 thousand in USA. During Jan - Dec the split was SEK 81 178 thousand in Sweden, SEK 20 211 thousand in China and SEK 1 546 thousand in US.

At the end of the period the number of fulltime employees (FTE) in the group amounted to in total 202 (227) off which 55% (56%) women and 45% (44%) men.

Parent Company

The ultimate parent company Swedish Electromagnet Invest AB (publ) ("SEM Invest") was established on 26th March 2018. SEM Invest became operative on 11th December, 2018 through the acquisition of Swedish Electromagnet Holding AB ("SEH Group"). The comparative figures shown in the tables concern business between the 11th and 31st of December 2018.

Swedish Electromagnet Invest AB (publ) Group is the ultimate Parent Company and serves as a holding company for the intermediary holding company Swedish Electromagnet Holding AB Group containing of SEM AB in Sweden, SEM Technology (Suzhou) Co., Ltd in China, SEM Technology Inc. in USA and Senfusion AB in Sweden.

The Parent Company's net result totalled SEK 20 002 (- 1 465) thousand in fourth quarter 2019 and SEK 7 967 (-1 465) thousand in the period Jan – Dec 2019. The Parent Company's net sales consist entirely of services to group companies. The Parent Company's operations include certain group-wide functions regarding management, strategy and financing.

Parent Company assets totalled SEK 688 590 (668 602) thousand, mainly consisting of shares in subsidiaries and internal receivables from a short-term loan to Swedish Electromagnet Holding AB. The Parent Company received during fourth quarter a group contribution from SEM AB, corporate identity number 556023-5748, of SEK 40 000 thousand.

The Parent Company is mainly financed by a bond issued in 10th of December 2018 to a nominal amount of SEK 350 000 thousand.

The number of shares totalled 2 000 000 as at 31th of December 2019. The main shareholder is Procuritas Capital Investors V L.P. with 91,5% of votes and capital.

Significant events during the fourth quarter and the period January – December 2019

During the period and after informing the trade unions, SEM AB ("SEM") has given notice to 14 collective agreement affiliated employees at the manufacturing unit in Åmål, where SEM also has its head office. SEM has entered into negotiations with the trade union IF Metall regarding the notification. The reason for the notification is redundancy, as SEM's large customers in the commercial vehicles segment have significantly reduced their order forecasts to SEM regarding the end of 2019 and full year 2020.

During the period January - September, the owners, together with the Board of directors, initiated a process to evaluate various strategic alternatives for the company. No decisions have been made but may include a wide range of alternatives, but not limited to, acquisitions, divestments of parts or the entire group.

Events after the reporting period

After a planned Christmas break, the business has started up without any problems. Most of the staff who were laid off during the fall have left the company from the end of January. Additional costs for the company were small in this context and amounted to SEK 295 thousand, which is a mixture of costs for garden leave and pension payments for agreements with soon to be retirees.

Project operations continue to be at high pressure.

The order backlog, as mentioned earlier, continued downwards during the fourth quarter, but has turned up somewhat and we see a more positive picture compared to the one we saw at the end of the fourth quarter.

The corona virus has to some extent affected us with a delayed start of our business in Suzhou, China. Operations started on the 13th February with approximately 45% of the staff. The rest of the staff will start work as the quarantine expires for those who returned to Suzhou after the Chinese New Year. As far as we can see now, we have not caused problems for our customers, nor have we had major problems with the supply chains. However, it is still too early to say that everything is back to normal as many subcontractors have not yet started their operations.

Outlook

The SEM Invest Group does not provide forecasts due to the nature of its business.

Significant risks and uncertainties

The risks and uncertainties that primarily affect the Group have not changed during the period. These risks are described in detail in the annual report for 2018.

Financial reports

Condensed consolidated Income Statement

The condensed consolidated Income Statement corresponds to the period from 1st January 2019 – 31st December 2019. The comparative figures only include result from half a month (11th to 31st of December 2018). The accounting year is between the 26th of March to 31st of December since the Parent Company was formed on March 26, 2018, but no operations were conducted until Swedish Electromagnet Holding Group was acquired on December 11, 2018. For more information see Annual Report 2018.

KSEK	1 st Jan 2019 – 31 st Dec 2019	1 st Oct 2019 – 31 st Dec 2019	26 th Mar 2018 – 31 st Dec 2018	1 st Oct 2018 – 31 st Dec 2018
Net sales	372 419	93 181	15 449	15 449
Cost of goods sold ¹⁾	-249 428	-66 112	-11 526	-11 526
Gross profit	122 991	27 069	3 923	3 923
Selling expenses	-18 896	-4 903	-456	-456
Administrative expenses	-28 804	-5 485	-1 521	-1 521
Research and development costs	-29 872	-7 389	-1 614	-1 614
Other operating income	159	14	5	5
Other operating costs	-	-	-38	-38
Operating profit (loss)	45 578	9 306	299	299
Financial income	34	24	2	2
Financial expenses	-28 869	-6 487	-1 337	-1 337
Interest expenses from lease liabilities ¹⁾	-2 075	-1 151	-	-
Net financial items	-30 910	-7 614	-1 335	-1 335
Profit (loss) after financial items	14 668	1 692	-1 036	-1 036
Profit (loss) before tax	14 668	1 692	-1 036	-1 036
Income tax	-6 817	-3 833	220	220
Net result for the period	7 851	-2 141	-816	-816

¹⁾ IFRS 16 Leases is applied from 1st January 2019. Interest expense on lease liabilities and depreciation of right-of-use assets are replacing nearly all lease costs for premises as from 2019.

Other comprehensive income

KSEK	1 st Jan 2019 – 31 st Dec 2019	1 st Oct 2019 – 31 st Dec 2019	26 th Mar 2018 – 31 st Dec 2018	1 st Oct 2018 – 31 st Dec 2018
Items that may be reclassified to profit or loss				
Exchange differences from translation of foreign operations	403	-2 566	-93	-93
Items that will not be reclassified to profit or loss				
Revaluation of the net pension obligation	-388	-388	-373	-373
Income tax attributable to the above item	80	80	77	77
Other comprehensive income for the period, after tax	95	-2 874	-389	-389
Total comprehensive income for the period	7 946	-5 015	-1 205	-1 205

Profit (loss) for the period and total comprehensive income are, in their entirety, attributable to shareholders of the Parent Company.

Condensed consolidated Balance Sheet

KSEK	31 st Dec 2019	31 st Dec 2018
ASSETS		
Non-current assets		
<i>Intangible assets</i>		
Customers relationships	159 973	168 417
Trade name	143 633	143 633
Goodwill	257 024	257 024
Capitalised expenditure for development activities	3 093	-
Expenditure for patents	88	555
Total intangible assets	563 811	569 629
<i>Tangible assets</i>		
Plant and machinery	10 285	8 026
Right-of-use assets	51 609	-
Equipment, tools, fixtures and fittings	25 243	51 665
Total tangible assets	87 137	59 691
<i>Financial assets</i>		
Deferred tax assets	-	1 948
Total financial assets	-	1 948
Total non-current assets	650 948	631 268
Current assets		
<i>Inventories</i>		
Raw materials and consumables	30 086	33 318
Work-in-progress	1 563	2 978
Finished goods and goods for resale	18 295	16 102
Total inventories	49 944	52 398
<i>Current receivables</i>		
Trade receivables	73 257	80 926
Current tax asset	1 249	917
Other receivables	1 745	4 360
Accrued income - not yet invoiced	1 600	-
Prepaid expenses and accrued income	9 569	2 672
Cash and cash equivalents	58 069	37 999
Total current receivables	145 489	126 874
Total current assets	195 433	179 272
TOTAL ASSETS	846 381	810 540

Condensed consolidated Balance Sheet

KSEK	31 st Dec 2019	31 st Dec 2018
EQUITY		
Equity attributable to Parent Company's shareholders		
Share capital	500	500
Other contributed capital	325 000	325 000
Reserves, exchange differences from translation of foreign operations etc	310	-93
Retained earnings/Losses carried forward (incl. profit/(loss) for the period)	5 995	-1 548
Total equity attributable to the shareholders of the Parent Company	331 805	323 859
LIABILITIES		
Non-current liabilities		
Bond loan	343 453	342 771
Lease liabilities	36 140	-
Provisions for pensions and similar obligations	5 156	5 226
Deferred tax liabilities	65 585	66 403
Other provisions	950	950
Total non-current liabilities	451 284	415 350
Current liabilities		
Lease liabilities	14 071	-
Trade payables	25 471	31 293
Other current liabilities	4 366	21 228
Invoiced income - not yet accrued	1 960	-
Accrued costs and prepaid income	17 424	18 810
Total current liabilities	63 292	71 331
Total liabilities	514 576	486 681
TOTAL EQUITY AND LIABILITIES	846 381	810 540

Consolidated statement of changes in equity

Consolidated statement of changes in equity

Amounts in KSEK	Attributable to shareholders of the Parent Company				
	Share capital	Other contributed capital	Reserves Exchange differences from translation of foreign operations	Losses carried forward/ Retained earnings, including profit (loss) for the period	Total shareholders equity
Closing balance as at 31 st December 2018	500	325 000	-93	-1 112	324 295
Adjustment after final purchase price allocation	-	-	-	-436	-436
Adjusted closing balance as at 31st December 2018	500	325 000	-93	-1 548	323 859
Net profit for the period Jan - Dec 2019	-	-	-	7 851	7 851
Other comprehensive income for the period	-	-	403	-308	95
Total comprehensive income for the period	-	-	403	7 543	7 946
Closing balance as at 31 st December 2019	500	325 000	310	5 995	331 805

Consolidated Cash Flow Statement

The consolidated Cash Flow Statement corresponds to the period from 1st January 2019 – 31st December 2019.

The comparative figures only include result from half a month (11th to 31st of December 2018). The accounting year is between the 26th of March to 31st of December since the Parent Company was formed on March 26, 2018, but no operations were conducted until Swedish Electromagnet Holding Group was acquired on December 11, 2018. For more information see Annual Report 2018.

KSEK	1 st Jan 2019 – 31 st Dec 2019	1 st Oct 2019 – 31 st Dec 2019	26 th Mar 2018 – 31 st Dec 2018	1 st Oct 2018 – 31 st Dec 2018
Cash flow from operating activities				
Operating profit (loss)	45 578	9 306	299	299
<i>Adjustment for non-cash items</i>				
- Other non-cash items	-807	-3 170	-174	-174
- Depreciation of tangible and intangible assets	34 964	8 633	1 117	1 117
Interest received	34	24	2	2
Interest paid	-29 213	-6 957	-1 337	-1 337
Income taxes paid	-5 985	3 715	2 928	2 928
Cash flow from operating activities before changes in working capital	44 571	11 551	2 835	2 835
Cash flow before changes in working capital				
Increase/decrease of inventories	2 454	692	1 042	1 042
Increase/decrease of trade receivables	7 669	-9 513	1 998	1 998
Increase/decrease of other current receivables	-5 882	-280	-6 171	-6 171
Increase/decrease of trade payables	-5 822	-9 176	554	554
Increase/decrease of other current payables	-1 320	3 093	-676	-676
Total changes in working capital	-2 901	-15 184	-3 253	-3 253
Cash flow from operating activities	41 670	-3 633	-418	-418
Cash flow from investing activities				
Acquisitions of subsidiaries, after adjustments for acquired cash and cash equivalents	-	-	-55 259	-55 259
Investment in intangible assets	-3 183	-3 183	-	-
Investment in property, plant and equipment	-9 120	-548	-3 963	-3 963
Investments in other financial assets	-	-	173	173
Cash flow from investing activities	-12 303	-3 731	-59 049	-59 049
Cash flow from financing activities				
Share Issuance	-	-	500	500
Issuance of bond loan	-	-	342 771	342 771
Repayment of debt	-	-	-248 064	-248 064
Repayment of leasing debt	-9 480	-2 753	2 355	2 355
Cash flow from financing activities	-9 480	-2 753	97 562	97 562
Decrease/increase of cash and cash equivalents				
Opening cash and cash equivalents	37 999	68 004	38 095	38 095
Net cash flow during the period	19 887	-10 118	-	-
Exchange rate differences in cash and cash equivalents	183	183	-96	-96
Closing cash and cash equivalents	58 069	58 069	37 999	37 999

Parent Company Income Statement

The Income Statement corresponds to the period from 1st January 2019 – 31st December 2019.

The comparative figures only include result from half a month (11th to 31st of December 2018). The accounting year is between the 26th of March to 31st of December since the Parent Company was formed on March 26, 2018, but no operations were conducted until Swedish Electromagnet Holding Group was acquired on December 11, 2018. For more information see Annual Report 2018.

KSEK	1 st Jan 2019 – 31 st Dec 2019	1 st Oct 2019 – 31 st Dec 2019	26 th Mar 2018 – 31 st Dec 2018	1 st Oct 2018 – 31 st Dec 2018
Net sales	11 040	2 760	-	-
Gross profit	11 040	2 760	-	-
Administrative expenses	-3 774	-1 706	-240	-240
Other operating income	-	-	-	-
Other operating costs	-	-	-	-
Operating profit (loss)	7 266	1 054	-240	-240
Profit (loss) from financial items				
Financial income	-	-	-	-
Financial expenses	-28 841	-7 317	-1 624	-1 624
Net financial items	-28 841	-7 317	-1 624	-1 624
Profit (loss) after financial items	-21 575	-6 263	-1 864	-1 864
Change in accrual fund	-4 143	-4 143	-	-
Group contribution	40 000	40 000	-	-
Profit (loss) before tax	14 282	29 594	-1 864	-1 864
Tax for the period	-6 315	-9 592	399	399
Net result for the period	7 967	20 002	-1 465	-1 465

In the Parent Company, there are no items recognized as other comprehensive income, consequently, total comprehensive income corresponds to profit (loss) for the period.

Parent Company Balance Sheet

KSEK	31 st Dec 2019	31 st Dec 2018
ASSETS		
Non-current assets		
<i>Financial assets</i>		
Participation in Group companies	420 893	420 893
Deferred tax assets	-	399
Total financial assets	420 893	421 292
Total non-current assets	420 893	421 292
Current assets		
<i>Current receivables</i>		
Receivables from Group companies	263 677	246 476
Current tax asset	48	-
Other current receivables	-	325
Prepaid expenses and accrued income	3 488	-
Total current assets	267 213	246 801
Cash and bank	484	509
Total current assets	267 697	247 310
TOTAL ASSETS	688 590	668 602

Parent Company Balance Sheet

KSEK	31 st Dec 2019	31 st Dec 2018
EQUITY AND LIABILITIES		
EQUITY		
Restricted equity		
Share capital	500	500
Non-restricted equity		
Retained earnings	323 535	325 000
Profit/(loss) for the period	7 967	-1 465
Total equity	332 002	324 035
UNTAXED RESERVS		
Accrued fund	4 143	-
Total untaxed reservs	4 143	-
LIABILITIES		
Non-current liabilities		
Bond loan	343 453	342 771
Total non-current liabilities	343 453	342 771
Current liabilities		
Trade payables	324	1 719
Liabilities to Group companies	-	77
Current tax liabilities	5 916	-
Other liabilities	818	-
Accrued expenses and prepaid income	1 934	-
Total current liabilities	8 992	1 796
Total liabilities	352 445	344 567
TOTAL EQUITY AND LIABILITIES	688 590	668 602

Notes to the interim report

General

Swedish Electromagnet Invest AB (publ), corporate identity number 559153-6510, is a limited company, registered in Sweden and domiciled in Åmål. The address of the head office is: Swedish Electromagnet Invest AB (publ), c/o SEM Aktiebolag, Box 30, 662 21 Åmål, Sweden. The operations of the Parent Company and its subsidiaries comprise of development, manufacturing and marketing of highly engineered mission critical powertrain components for heavy duty commercial vehicles (“HDCV”). Core product segments includes a range of ignition systems, injector stators and sensors, primarily used for natural gas (“NG”) and diesel powered HDCVs as well as ignition systems for handheld professional power tools. The group sells its products through own sales channels worldwide and customers include well known OEM’s, Tier 1 and Tier 2 suppliers to the industry.

Note 1 Accounting policies

This Interim Report is presented in accordance with IAS 34 Interim Financial Reporting. The group’s consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations of these standards from IFRS Interpretations Committee (IFRS IC) as adopted by the European Commission. The accounting also follows the Annual Accounts Act (1995:1554).

In addition, the Supplementary Accounting Rules for Groups (RFR 1) from the Swedish Financial Reporting Board have been applied.

The Parent Company’s interim report has been prepared in accordance with the Annual Accounts Act and Recommendation RFR 2 *Financial Reporting for Legal Entities* of the Swedish Financial Reporting Board.

Applied accounting principles are in accordance with those described in Swedish Electromagnet Invest AB’s annual report for 2018, except that the Group applies IFRS 16 Leases from January 1, 2019. Implementation of the standard has effected the financial reports mainly by adding items in the income statement and balance sheet. For information on the effects of IFRS 16, see note 6 Effects of the adoption of IFRS 16. Accounting principles regarding leasing agreements in accordance with IFRS 16 are described below.

The parent company Swedish Electromagnet Invest AB has chosen not to apply IFRS 16 Leases, but has applied the paragraphs specified in RFR 2 from January 1, 2019 (IFRS 16 Leasing, p. 2-12).

Leasing

The Group mainly leases offices, cars and machinery for production. The lease agreements are normally made for fixed periods of 2 to 6 years, but may have extension options as described below.

The Group recognises the leases as right-of-use assets and a corresponding liability at the date at which the leased asset is available for use. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are generally depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments
- variable lease payment that are based on an index

The lease payments are discounted using the interest rate implicit in the lease.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received

Payments associated with leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Extension and termination options

Extension or termination options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). These are used to maximise operational flexibility in terms of managing the assets used in the Group’s operations.

Note 2 Net Sales

The Group has recognised the following amounts, attributable to revenue, in the statement of comprehensive income:

	Jan – Dec 2019	Oct – Dec 2019	26 th Mar – 31 st Dec 2018	Oct – Dec 2018
Revenue from contracts with customers	372 419	93 181	15 449	15 449
Other income	-	-	-	-
Total revenue	372 419	93 181	15 449	15 449

Division of revenue from contracts with customers

The Group has revenue in accordance with the specification below from the sales of goods and services. Revenue from external customers mainly comprise the development and manufacturing of ignition systems and components. The majority of the Group's revenue is recognised over time.

Revenue from customer contracts per goods item and service

	Jan – Dec 2019	Oct – Dec 2019	26 th Mar – 31 st Dec 2018	Oct – Dec 2018
Ignition systems and components	367 839	91 147	15 449	15 449
Tools	-	-	-	-
Design and Development services	4 580	2 034	-	-
Total	372 419	93 181	15 449	15 449

Note 3 Cost of goods sold

	Jan – Dec 2019	Oct – Dec 2019	26 th Mar – 31 st Dec 2018	Okt -dec 2018
Raw materials and consumables	-164 122	-39 969	-6 803	-6 803
Employee benefits	-52 663	-12 497	-2 646	-2 646
Changes in inventory of finished goods and work-in-progress	-4 736	-1 070	69	69
Differences in purchase prices vs standard prices	7 594	917	29	29
Differences in production costs vs standard prices	-2 721	-978	181	181
Depreciation of tangible assets	-4 703	-817	-393	-393
Depreciation of right-of-use assets	-10 888	-3 092	-	-
Amortisation of intangible assets	-	-	-	-
Other expenses, including exchange rate differences	-17 189	-8 606	-1 962	-1 962
Total	249 428	66 112	-11 526	-11 526

Note 4 Borrowings

Bond loan

The Company has issued a senior secured bond, ISIN SE0011167600 (the "Bond") with a nominal value of SEK 350 million. The bond runs up until the 10th December 2022 with a variable interest of Stibor 3 months plus 7.50%. In accordance with the terms and conditions of the Bond, certain covenants need to be met when raising new loans, at acquisitions and in connection with dividends. The terms and conditions of the Bond contain several obligations, such as a prohibition against raising new loans, grant loans, pledge assets as collateral, obligations that the working capital facility, during a certain period, should be unutilised, restrictions regarding disposals and transferring of cash and cash equivalents. Under the Bond, assets have been pledged as collateral, which include certain share collateral shares in subsidiary and internal loans.

The Parent Company has met all the terms and conditions of the bond during the period from 1st of January 2019 until 31st of December 2019.

	Carrying amount 31 st Dec 2019	Fair value 31 st Dec 2019	Carrying amount 31 st Dec 2018	Fair value 31 st Dec 2018
Bond loan	343 453	348 250	342 771	342 771

The fair value of the bond loan has been valued at level 1 of the fair value hierarchy, ie the quoted market price per 2019-12-31 for the Group's financial assets is the current purchase price of 99.50% of par.

Note 5 Related party transactions

Related party transactions - Group

Swedish Electromagnet Invest AB (publ) (the Company) is a majority owned company by Procuritas Capital Investors V.L.P., headquartered in Guernsey. Swedish Electromagnet Invest AB (publ) is the parent company in the largest group in which consolidated accounts are prepared. Related parties are all subsidiaries within the group as well as senior executives and their associates.

Purchase of services	1st Jan 2019 – 31st Dec 2019	1st Oct 2019 – 31st Dec 2019
Purchase of services from companies controlled by senior executive	429	40
Total	429	40

Related party transaction - Parent company

<i>Loans to related parties</i>	31-dec-19	31-dec-18
<i>Loan to Swedish Electromagnet Holding AB</i>		
Start balance	246 476	246 476
<i>Loan to SEM AB</i>		
Loan raised during the year	16 051	-
Amounts repaid	-	-
Interest expenses	-	-
Interest paid	-	-
At year-end	262 527	246 476

Note 6 Final purchase price allocation regarding previous acquisitions

The purchase price allocation regarding the acquisition of the Swedish Electromagnet Holding Group that was included in the annual report for 2018 was preliminary as final valuation of intangible assets had not yet been completed. The PPA is now completed the 2019-06-30 and the table below summarizes the final PPA.

Purchase price as per December 11, 2018

Cash paid	95 824
Vendor loan converted to unconditional shareholders' contribution	325 000
Total purchase price	420 824

The assets and liabilities recognised as a result of the acquisition are as follows:

	KSEK
Cash	40 634
Intangible assets (including customer relationships and trademark)	313 359
Property, plant and equipment	56 559
Inventory	53 439
Financial assets	77
Deferred tax assets	1 037
Trade receivables and other current receivables	90 563
Non-current liabilities	-253 458
Deferred tax liabilities	-64 746
Provisions for pensions and similar obligations	-6 135
Trade payables and other current liabilities	-67 529
Net identifiable assets acquired	163 800
Goodwill	257 024

The most significant differences compared to the previously published PPA relate to the following items:

Recognised amounts	Preliminary PPA	Adjustment	Final PPA
Goodwill	505 092	-248 068	257 024
Intangible assets, customer relationships	-	168 886	168 886
Intangible assets, trademarks	-	143 633	143 633
Deferred tax liabilities	-225	-64 521	-64 746
Acquisition related costs	-70	70	-

Effects of the final purchase price allocation

When preparing the final purchase price allocation, additional intangible assets in the form of customer relationships have been identified which are amortised over a period of 20 years. They are amortised from the acquisition date, which means that additional amortisation is reported for 2019 and going forward and an effect on opening equity. The effect on the income statement and equity is described below:

Reconciliation of equity	Amount in KSEK
Equity on December 31, 2018	324 295
Adjusted amortisation of customer relationships and reversal of deferred tax	-366
Acquisition related costs	-70
Adjusted equity on December 31, 2018	323 859

Effect on the income statement January–December 2019 KSEK	January – March	April – June	July – September	October – December
Amortisation of customer relationships	-2 111	-2 111	-2 111	-2 111
Reversal of deferred tax	452	452	452	452
Total effect on the income statement	-1 659	-1 659	-1 659	-1 659

Not 7 Effects from adopting IFRS 16 Leases

As of 1st January 2019, the group adopted IFRS 16 Leases, which replaces IAS 17 and related interpretations. The Group have applied the simplified transition method, which implies that rights of use are valued at an amount corresponding to the leasing debt of the 1st January 2019 (adjusted for prepaid and accrued leasing fees). See the annual report for 2018 for further information regarding effects of the adoption.

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

The following adjustments have been made in the balance sheet as of the transition date (January 1, 2019) and in the fourth quarter of 2019 regarding IFRS 16 Leases:

	Closing balance Dec 31, 2018	Impact of the adoption of IFRS 16	Opening balance Jan 1, 2019	Dec 31, 2019
Property, plant and equipment	59 691	-19 942	39 749	35 528
Right-of-use assets (IFRS 16)	-	53 516	53 516	51 609
Leases liabilities				
Non-current lease liabilities	-	33 574	33 574	36 140
Current lease liabilities	-	16 502	16 502	14 071
Other current liabilities	21 228	-16 502	4 726	4 366

IFRS 16 has had a negative impact on operating profit (loss) of SEK 0,4 million and a negative effect of 1,6 million on profit (loss) after financial items during the period January - December 2019.

Not 8 Reconciliation of Key figures and ratios

Reconciliation of EBITDA, KSEK

	Jan – Dec 2019	Oct – Dec 2019
Operating profit (loss)	45 578	9 306
Amortisations	9 001	2 318
Depreciations	25 963	6 315
EBITDA	80 542	17 939

Reconciliation of adjusted EBITDA, KSEK

	31 st December 2019	31 st December 2018
EBITDA	80 542	17 939
Implementation of IFRS	577	-
Listing of the Bond	1 038	-
Structure/Financing	600	600
Other	456	-
Adjusted EBITDA	83 213	18 539

Reconciliation of net debt , KSEK

	31 st December 2019	31 st December 2018
Bond loans	343 453	342 771
Lease liability (non-current and current) according to IAS17	21 718	16 502
Cash and cash equivalents	-58 069	-37 999
Net debt	307 102	321 274

Note 9 Net sales and profit January – December 2018, Swedish Electromagnet Holding AB Group

The comparative figures only include result from half a month (11th to 31st of December 2018). The accounting year is between the 26th of March to 31st of December since the Parent Company was formed on March 26, 2018, but no operations were conducted until Swedish Electromagnet Holding Group was acquired on December 11, 2018. For more information see Annual Report 2018.

If we look at the level below SEM Invest, on SEH Group level, comparable figures can be shown from the same period from that Group.

The financial overview shown below aims to give a better understanding of the development during the period January – December in the Group. However the SEH Group is reporting the financial statements according to Swedish GAAP (BFNAR 2012:1, K3) and not IFRS.

Key ratios for the group, the period January – December 2019

Period	SEM Invest	SEH Group
	Jan – Dec 2019	Jan – Dec 2018
Net sales	372 419	389 815
EBITDA	80 542	86 732
<i>Adjustments ¹⁾</i>	<i>2 671</i>	<i>3 010</i>
EBITDA, adjusted	83 213	89 742

¹⁾Adjustments include non-recurring figures to enable better comparison of underlying development in the business.

The adjustment are described below:

	Jan – Dec 2019	Jan – Dec 2018
Implementation IFRS	577	1 017
Costs in accordance with the bond being quoted on the stock market	1 038	2 063
Structure /Financing	600	-
Acquisition related costs, effects of final purchase price allocation	-	-70
Other	456	-
Total	2 671	3 010

Note: The figures above is unaudited. The period January - December 2018 figures for the Swedish Electromagnet Holding AB Group are based on unaudited figures and accounted for in accordance with BFNAR 2012:1, K3.

Definitions

Alternative performance measures

Alternative performance measures (APM) are financial measures that are not defined in the applicable financial reporting framework (IFRS) and are presented outside the financial statements.

APMs are used by SEM Invest when relevant to assess and describe the financial situation and provide additional relevant information and tools to enable analysis of SEM Invest's performance. The Company believes that these key ratios are useful for readers of the financial statements as a complement to other key performance indicators to assess the SEM Invest's financial position and profitability. APMs can be defined in different ways by other companies and, therefore, may not be comparable with similar measures used by other companies.

Cost of goods sold

Including Direct Material, Direct Labour, Production Overhead, Differences vs standard costs such as price and production variances and changes in inventory. (See Note 3)

EBITDA

Profit before interest, tax, depreciation and amortisation.

EBITDA (adj)

Profit before interest, tax, depreciation and amortisation, adjusted for non-recurring item. The adjustments performed are cost and income of a non-recurring item, for which, according to the terms and conditions of the bond, EBITDA should be adjusted ¹⁾.

Net debt

Net interest-bearing debt according to the terms and conditions of the bond including financial indebtedness such as the bond loan and leasing accounted for in accordance with IAS 17 (excluding leasing accounted for in accordance with IFRS 16 since the accounting principle were not applicable on the date of the issue of the bond but first applicable as of 1st January 2019) less cash and cash equivalents.

According to the bond terms, net debt is not including any pension liability.

Net debt in relation to adjusted EBITDA

Net interest-bearing debt in relation to adjusted EBITDA. The adjustments performed are cost and income of a non-recurring item, for which, according to the terms and conditions of the bond, EBITDA should be adjusted ¹⁾.

Return on equity

Profit before tax (EBT) attributable to shareholders in relation to average shareholders' equity. (Average year-to-date, calculated on quarter-end figures.)

Return on total assets

Operating result (EBIT) attributable to shareholders, in relation to average total assets. (Average year-to-date, calculated on quarter-end figures.)

Equity/assets ratio

Equity as a percentage of the sum of shareholders' equity and liabilities.

¹⁾ Adjustments include non-recurring figures to enable better comparison of underlying development in the business.

Declaration of the board of directors

The Board of Directors and the Chief Executive Officer certify that the Interim Report present a fair view of the development of the operations, position and performance of the Group and the Parent Company and describes significant risks and uncertainties to which the Parent Company and the companies in the Group are exposed.

Åmål on 28th February 2019

Halvar Jonzon
Chairman of the Board

Tomas Therén
Board Member

Christina Hallin
Board Member

Yana Augustsson
Board Member

Hasse Johansson
Board Member

Tom Gustavsson
Chief Executive Officer

This report has not been audited by the company's auditor.

Financial calendar 2020

The Annual Report is published on the 30th of April 2020

Interim Report Q1 2020 is published on the 29th of May 2020

Interim Report Q2 2020 is published on the 28th of August 2020

Interim Report Q3 2020 is published on the 27th of November 2020

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All reports and press releases are available on the Internet at www.sem.se