

## **FLSmidth announces strategic change to enhance long-term profitability and accelerate growth in the core Mining business. Synergy target is raised and accelerated, and financial guidance for 2022 is updated**

Today FLSmidth announces a strategic change to enhance long-term profitability and to accelerate growth in the core Mining business. This change includes the decision to divest or wind down risky and unprofitable mining activities. This is the result of a planned strategic review of the combined FLSmidth Mining and former TK Mining technology product portfolio against FLSmidth's long-term strategic direction and ambitions. With this change, FLSmidth is creating a new platform for improved profitability, lower risk and strategic focus on the core value creating parts of the Mining business.

The overall strategic rationale for the acquisition of TK Mining, effective 1 September 2022, has been reconfirmed and the acquired business is overall in line with our expectations. Furthermore, the cost synergy potential from acquiring TK Mining has been revisited, and further cost synergies have been uncovered. Additionally, the pace to realise these synergies will be accelerated.

Based on the overall business performance, the raised cost synergy target and integration costs as well as the implementation of the strategic change, financial guidance for 2022 is updated accordingly.

### **Strategic portfolio review focused on defining 'the core'**

Following the recent acquisition of TK Mining, FLSmidth initiated a planned strategic review of the combined FLSmidth and TK Mining technology product portfolio. The review intended to assess all combined mining activities and products from a strategic, financial and sustainability perspective against FLSmidth's long-term strategic direction and ambitions.

As a result of the strategic review, it has been decided to split the Mining business into two separate segments for operational and reporting purposes:

1. a continuing Mining segment focused on profitability, growth and sustainability
2. a new Non-Core Activities segment, where activities will be fully exited either by way of divestment or wind-down of the order backlog

The new segment split will ensure sharpened strategic focus and stronger execution of the continuing Mining activities that are key to accelerate long-term profitability and growth for FLSmidth. At the same time, dedicated focus and resources will be allocated to the Non-Core Activities to ensure transparency and effective execution of the divestment or wind-down and to minimise losses from these activities. Financial reporting for this new structure will be effective from Q4 2022.

Group CEO Mikko Keto commented: *"Today's announcement marks a significant milestone - not just for FLSmidth, but also for our customers, employees and shareholders. For years FLSmidth has been focused on engineering and large-scale projects with inherently high risks, challenging execution and volatile profitability. We are now taking decisive action to further strengthen the focus on our core business, to ensure stronger execution and to drive value creation. The world must undertake a significant green transition over the coming years and the mining industry plays a crucial part in this. With today's strategic change, FLSmidth is better positioned than ever before to become the leading technology and service solutions supplier to the global mining industry."*

### **Mining segment – focus on profitability, growth and sustainability**

FLSmidth's continuing Mining segment is dedicated to provide customers with best-in-class full flowsheet technologies and services solutions to enhance their productivity and sustainability agenda.

Key focus for FLSmidth Mining is to enhance profitability through:

1. a significant service and aftermarket potential
2. low execution risks
3. high technology content and process know-how
4. a strong sustainability impact

This includes offering single services or products as well as projects with lower risk consisting of product bundles with related performance guarantees in accordance with FLSmidth's risk management approach.

The continuing Mining segment encompasses, but is not limited to, FLSmidth's key products within; conveying (former TK Mining's conveyor systems); milling & grinding (incl. former TK Mining's HPGR); crushing & feeding; separation, thickening & filtration; pumps, cyclones & valves; sizers, screens & centrifuges; pyro-processing; sampling, preparation & analysis; and mine shaft systems.

### **Non-Core Activities segment – full exit by way of divestment or wind-down**

The Non-Core Activities segment comprises specific loss-making mining activities and products that are no longer deemed to be of core strategic importance to FLSmidth. The selection criteria for these activities and product types have been that either they; offer limited or no aftermarket potential, are characterised by high execution risks, are highly engineered and/or lack standardisation, and we see no viable commercial model for FLSmidth to turn these around. Furthermore, these products are not aligned with or important for FLSmidth's sustainability agenda.

Consequently, FLSmidth will either divest or wind-down the following activities and products:

- All legacy FLSmidth and former TK Mining brands: Port Systems, Stockyard equipment and Standard bucket wheel excavators
- Legacy FLSmidth Mining brands: Continuous Surface Mining equipment and Mine & Overland Conveyors
- Former TK Mining activities: oil extraction technology and aggregate products

Existing contracts and ongoing activities in the order backlog will be executed and honoured, if not divested. FLSmidth will not take new orders for the Non-Core Activities segment.

A designated organisational structure will be established to oversee the Non-Core Activities segment, with the Head of the segment reporting directly to the Group CFO. Around 450 employees are expected to be included in the Non-Core Activities segment.

The Non-Core Activities segment comprises of an order backlog of around DKK 3.6bn as of end Q3 2022, of which approximately half originates from FLSmidth and half from the former TK Mining. The vast majority of the order backlog relates to Capital orders.

The Non-Core Activities order backlog is expected to be divested or wound down within the next three years with an expected total EBITA loss over the period of around DKK 1.2bn. The estimate is based on historical

performance and costs associated with the wind-down or divestment decision. This estimate is subject to uncertainty due to the nature of winding the business down and may change depending on which of parts of the business are divested.

### Annual cost synergy target raised and accelerated

Following the completion of the TK Mining acquisition, FLSmidth has revisited the cost synergy potential from the combined organisational setup, geographical footprint and pooled innovation, procurement and administration structures in relation to the Mining segment. Based on this, further upside has been uncovered.

The annual cost synergy target is now expected to be around DKK 560m (previously DKK 360m) and the pace to realise these synergies will be accelerated. Consequently, the annual cost synergy run-rate is now expected to be achieved by end of 2023 (previously first two years after closing of the acquisition).

Integration costs to realise these synergies are now estimated to be around DKK 800m (previously DKK 560m), of which around DKK 250m is expected to be recognised in 2022. Total integration costs are expected to be recognised before the end of 2023.

### Updated financial guidance for 2022

To reflect the underlying business performance, integration of TK Mining including the updated synergy target and integration costs, and the establishment of the Non-Core Activities segment, financial guidance for 2022 is updated accordingly.

Adjusted EBITA margin guidance is introduced to drive transparency on the underlying business performance. The adjustment covers integration costs and costs related to the wind-down of Russian activities.

Updated guidance 2022 (DKKbn)	Mining	Cement	Non-Core Activities (NEW)	Consolidated Group
<b>Revenue</b>	<b>14.5-15.0</b> (13.0-14.0)	<b>6.0-6.5</b> (5.5-6.0)	<b>~0.5</b> (n/a)	<b>21.0-22.0</b> (18.5-20.0)
<b>Adj. EBITA margin</b>	<b>10.0-10.5%</b> (n/a)	<b>n/a</b>	<b>n/a</b>	<b>~6%</b> (n/a)
<b>EBITA margin</b>	<b>~7.5%</b> (8.5-9.5%)	<b>~3%</b> (2-3%)	<b>Loss of ~DKK 0.4bn</b> (n/a)	<b>~4%</b> (6-7%)

*Note: Numbers in brackets represent the original guidance prior to the completion of the TK Mining acquisition on 1 September 2022 and the establishment of the new Non-Core Activities segment as of 1 October 2022*

Refer to the appendix for a detailed composition of the updated Mining guidance.

### Mining

Mining revenue guidance reflects continued positive momentum, the integration of the former TK Mining and establishment of the Non-Core Activities segment. The former TK Mining is expected to contribute around DKK 1.0bn in revenue in 2022 for the four months of September-December. Around DKK 500m in expected combined revenue in 2022 is transferred from the Mining segment to the Non-Core Activities segment for Q4 2022, of which approximately half originates from FLSmidth Mining and half from the former TK Mining.

The integration of TK Mining, as of 1 September 2022, is expected to have a dilutive effect on the full year 2022 reported Mining EBITA margin of around 1%-p. In addition, the reported Mining EBITA margin reflects the transfer of specific activities and products to the Non-Core Activities segment.

Guidance for Adjusted EBITA margin includes adjustments for integration costs of around DKK 250m for the full year 2022 and costs related to the wind-down of Russian activities of around DKK 140m for the full year 2022.

### **Cement**

Cement revenue guidance is raised on the expectation of continued stable performance. EBITA margin guidance is narrowed towards the upper end of guidance as a result of this.

### **Non-Core Activities**

Revenue guidance for Non-Core Activities is based on a starting order backlog of around DKK 3.6bn and the expected maturity hereof in Q4 2022.

Non-Core Activities EBITA margin guidance for Q4 2022 reflects the loss-making nature of the business. Following the wind-down decision, additional exit costs of around DKK 300m is expected to be recognised in Q4 2022. This includes non-recurring severance costs and costs related to contract negotiations aimed at reducing the scope of the Non-Core Activities order backlog.

### **Consolidated Group**

Consolidated Group guidance reflects the sum of the changes to guidance for the three business segments.

Guidance for 2022 is subject to uncertainty due to the global supply chain situation and geopolitical turmoil.

### **Further communication**

FLSmidth will, as previously communicated, release the detailed financial results for the first nine months of 2022 on 8 November 2022.

Further information on how FLSmidth will accelerate profitability, growth and sustainability in the continuing Mining business will be detailed at the Capital Markets Day on 18 January 2023.

### **Contacts:**

#### **Investor Relations**

Jannick Lindegaard Denholt, +45 21 69 66 57, [jli@flsmidth.com](mailto:jli@flsmidth.com)

Therese Möllevinge, +45 41 37 16 38, [tmo@flsmidth.com](mailto:tmo@flsmidth.com)

Mikkel Johansen, +45 23 30 29 50, [mjoh@flsmidth.com](mailto:mjoh@flsmidth.com)

#### **Media Relations**

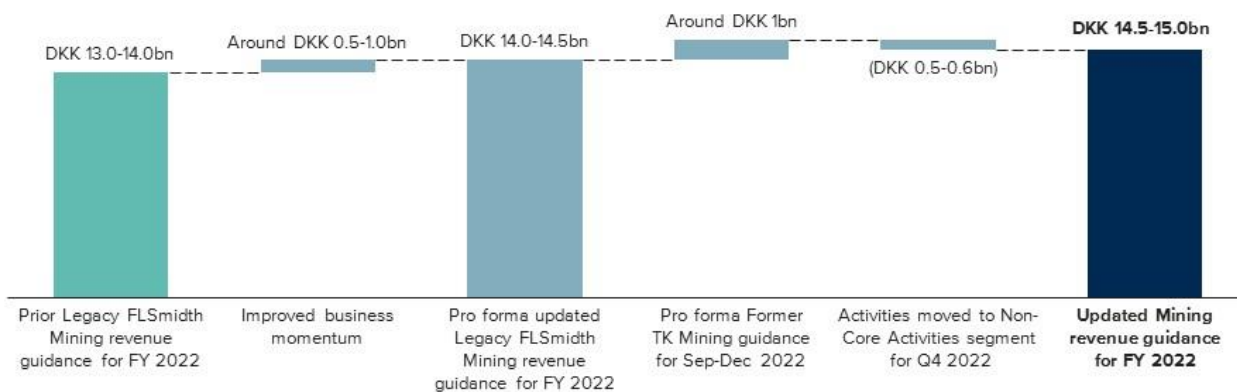
Rasmus Windfeld, +45 40 44 60 60, [rwin@flsmidth.com](mailto:rwin@flsmidth.com)

### **About FLSmidth**

*FLSmidth provides sustainable productivity to the global mining and cement industries. We deliver market-leading technology, products and service solutions that enable our customers to improve performance, drive down costs and reduce environmental impact. MissionZero is our sustainability ambition towards zero emissions in mining and cement by 2030. FLSmidth works within fully validated Science-Based Targets, our commitment to keep global warming below 1.5°C and to becoming carbon neutral in our own operations by 2030. [www.flsmidth.com](http://www.flsmidth.com)*

## Appendix: Breakdown of updated Mining (continuing business) guidance for 2022

### Revenue bridge:



### EBITA margin bridge:

