



# VOLVO GROUP CAPITAL MARKET DAY

Leif Johansson  
President and CEO  
Volvo Group

**AB Volvo**

Capital Market Day 2009 - Leif Johansson

1 2009-06-16

**VOLVO**

# Agenda



DOWNTURN MANAGEMENT

STRUCTURE & CULTURE

STRATEGIC DIRECTION

- PROFITABLE GROWTH

- PRODUCT PORTFOLIO

- OPERATIONAL EXCELLENCE

PRIORITIES

# DOWNTURN MANAGEMENT



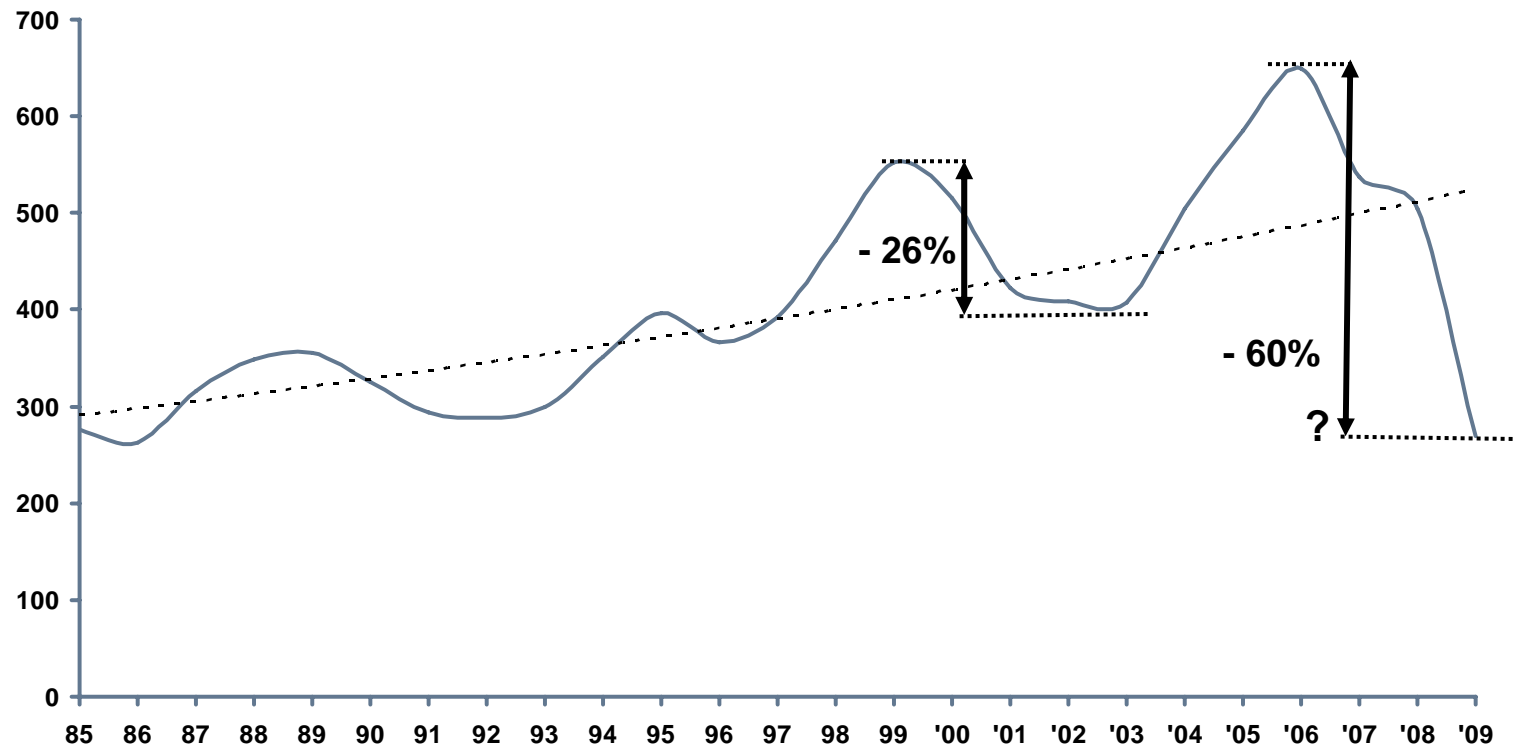
- ▶ Europe – prepare for possible protracted downturn
- ▶ North America and Japan  
– increase readiness for upturn
- ▶ International markets
  - South America stable
  - Middle East still weak
  - India and China improving

# Unprecedented drop - both speed and depth

– Combined market in Europe & North America



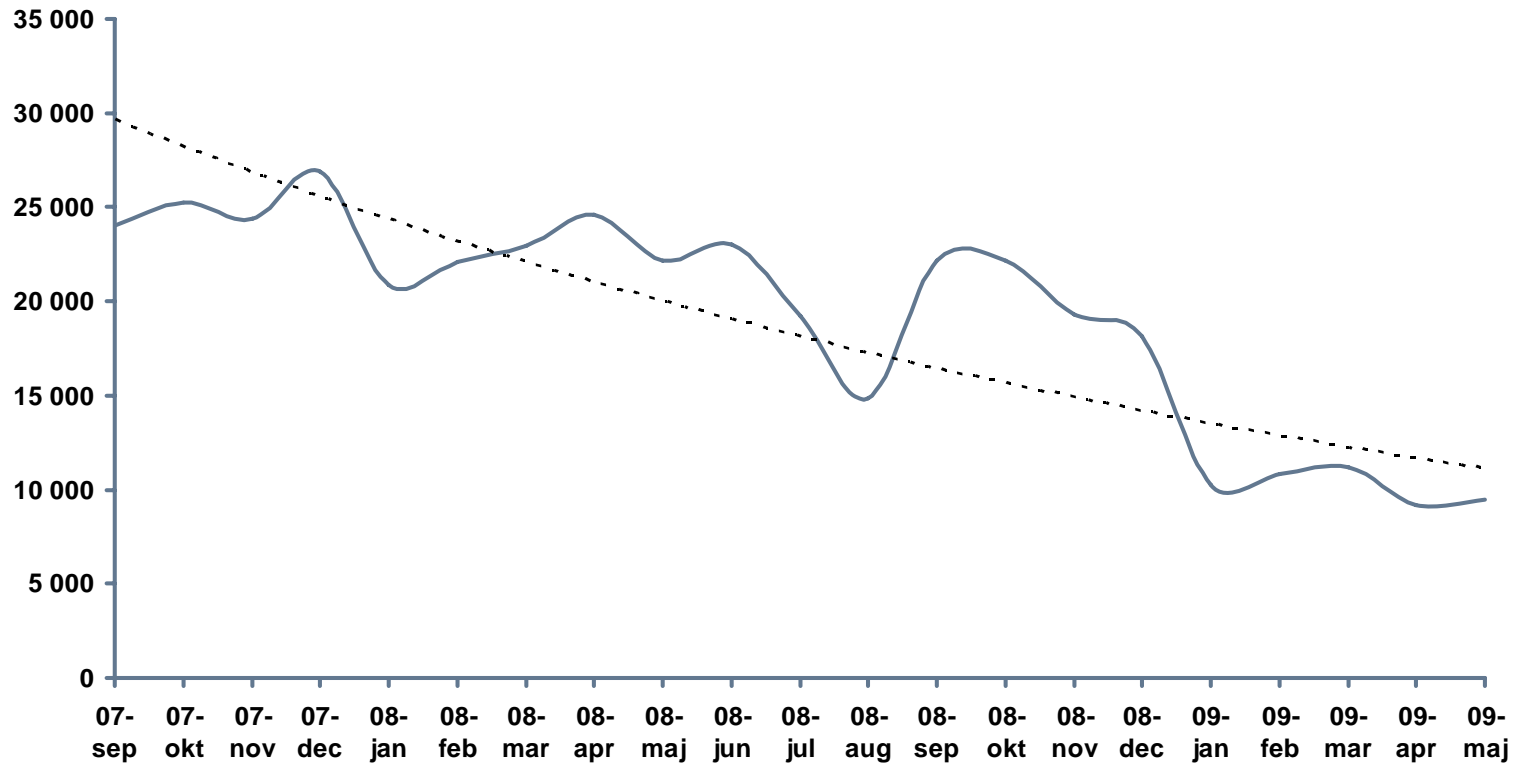
Units, Thousands (heavy trucks)



# Unprecedented drop – now stabilizing on low level – Volvo Group truck deliveries globally

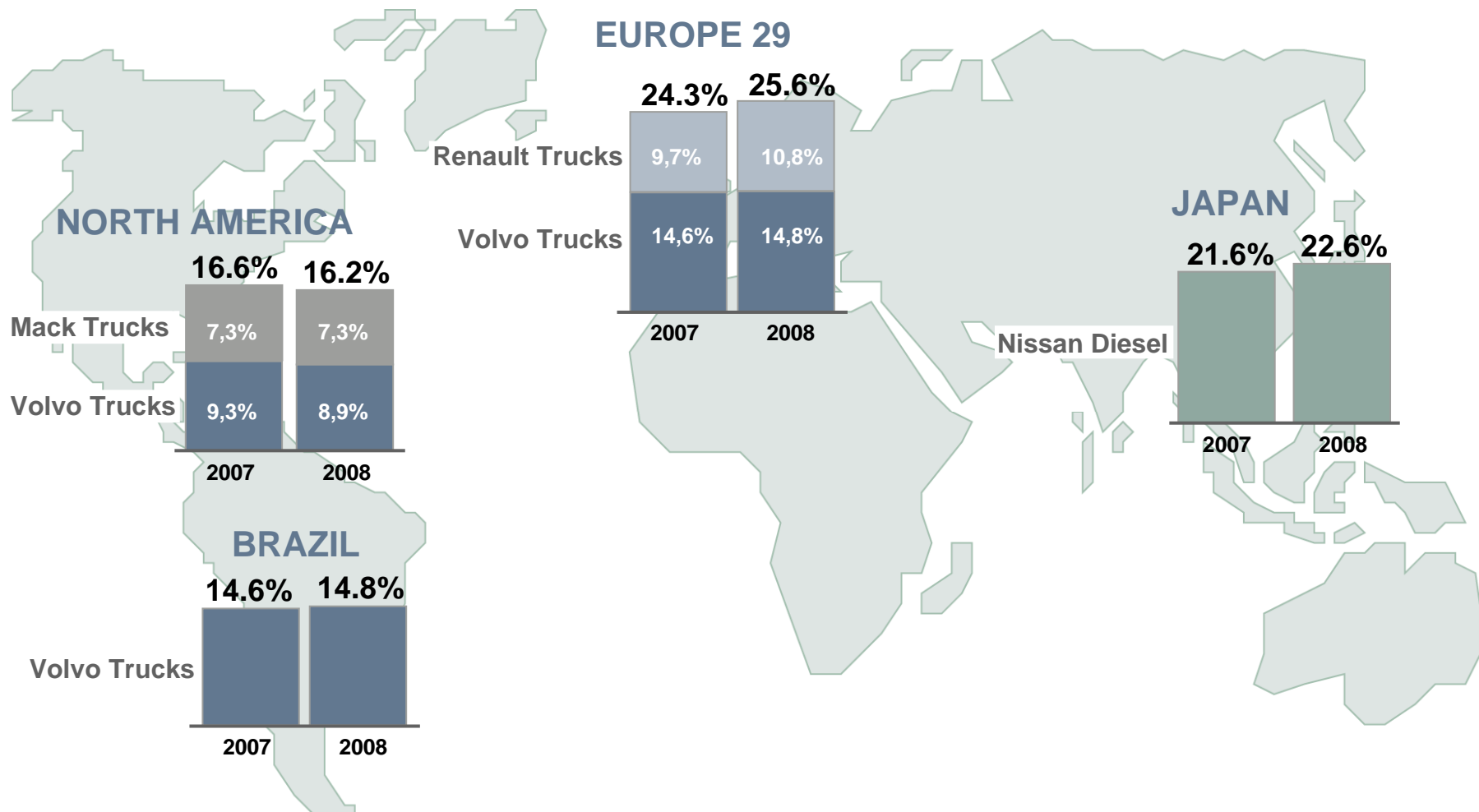


Units, Thousands



# Good market positions and maintained market shares

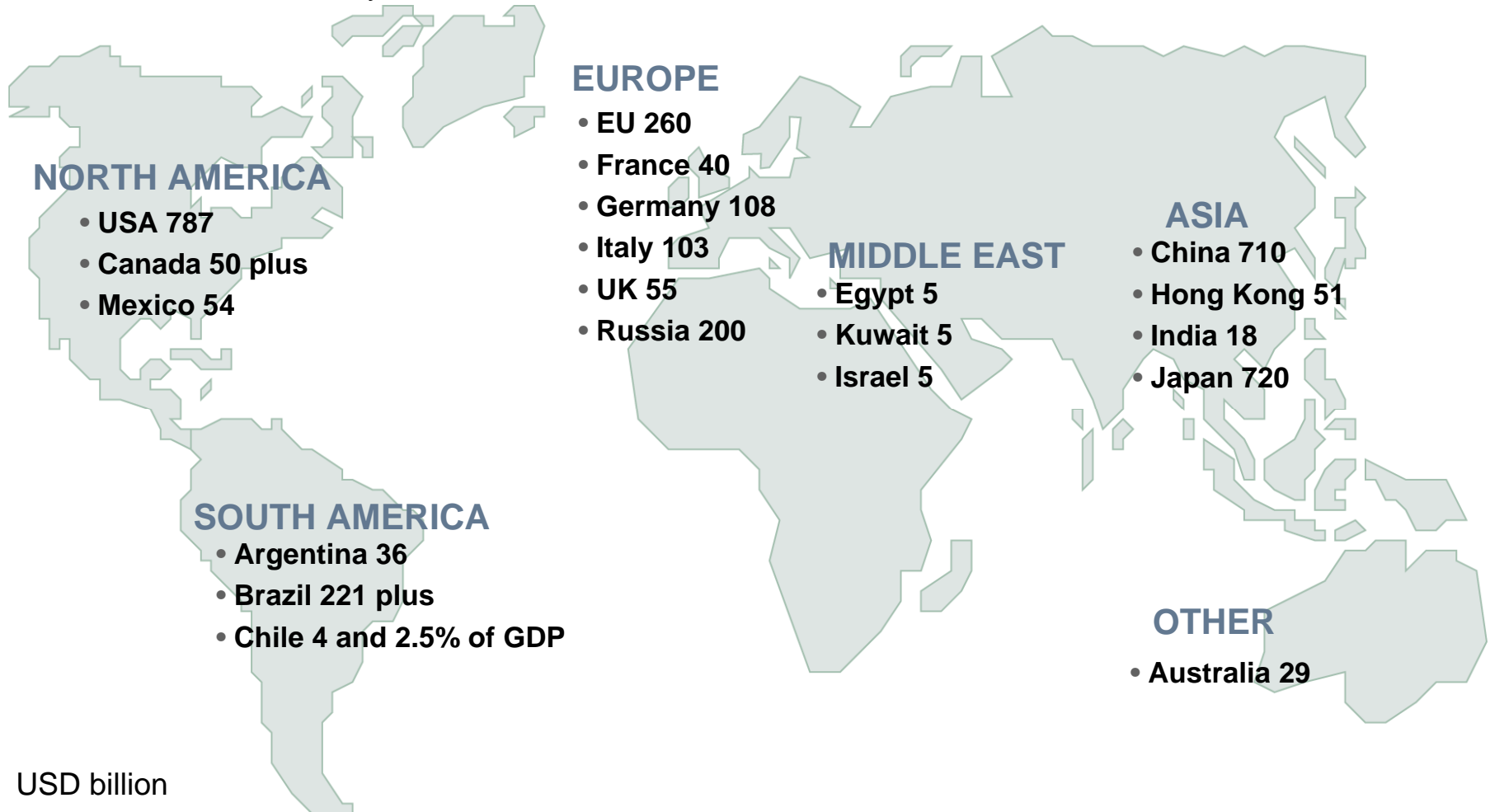
## – Heavy duty trucks



# Stimulus plans worldwide

→ Considerable amounts into infrastructure

→ Central banks at very low interest rates



USD billion

# Downturn management

## SHORT TERM ACTIONS

### **Cutting production to adapt to demand and to maintain price levels on new products**

- Cutting production rapidly and drastically in Q4 2008 through Q3 2009
- Significantly reduce workforce
- Reducing operating costs
- Strict control of capital expenditures
- Prioritize R&D projects
- Release excess inventory to generate cash
- Continued under absorption of costs in coming quarters until inventory and operating cost is in balance with current demand
- Secure key suppliers



# Different national tools to handle over capacity

	<b>Swe</b>	<b>Fra</b>	<b>NA</b>	<b>Jpn</b>	<b>Bra</b>	<b>Bel</b>
• Flex time banks	Ongoing	Ongoing	N/A	Ongoing	Ongoing	Ongoing
• Release temps	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
• Release hired services	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
• Release consultants	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
• Partial layoffs with governmental support	N/A	Ongoing	N/A	Ongoing	N/A	Ongoing
• Partial layoffs without governmental support	Ongoing	N/A	Ongoing	N/A	N/A	N/A
• Notice of redundancy	Ongoing	Not used	Ongoing	Not used	Ongoing	Ongoing
• Salary cuts	Not used	N/A	Ongoing	Ongoing	N/A	Ongoing

**Ongoing** means tool is able to use and also applied in country. **N/A** means either not able to use or not applied due to legal or other reasons. **Not used** means able to use but not applied

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# Volvo Group

Structure at high level stable, however structural changes within Business Areas and Business Units to improve organizational efficiency

## Business Areas



Volvo Trucks

Renault Trucks

Mack Trucks

Nissan Diesel

Volvo Buses

Construction Equipment

Volvo Penta

Volvo Aero

Financial Services

## Business Units

Volvo 3P

Volvo Powertrain

Volvo Parts

Volvo Logistics

Volvo Technology

Volvo Information Technology

Volvo Group Real Estate - Volvo Business Services

## AB Volvo

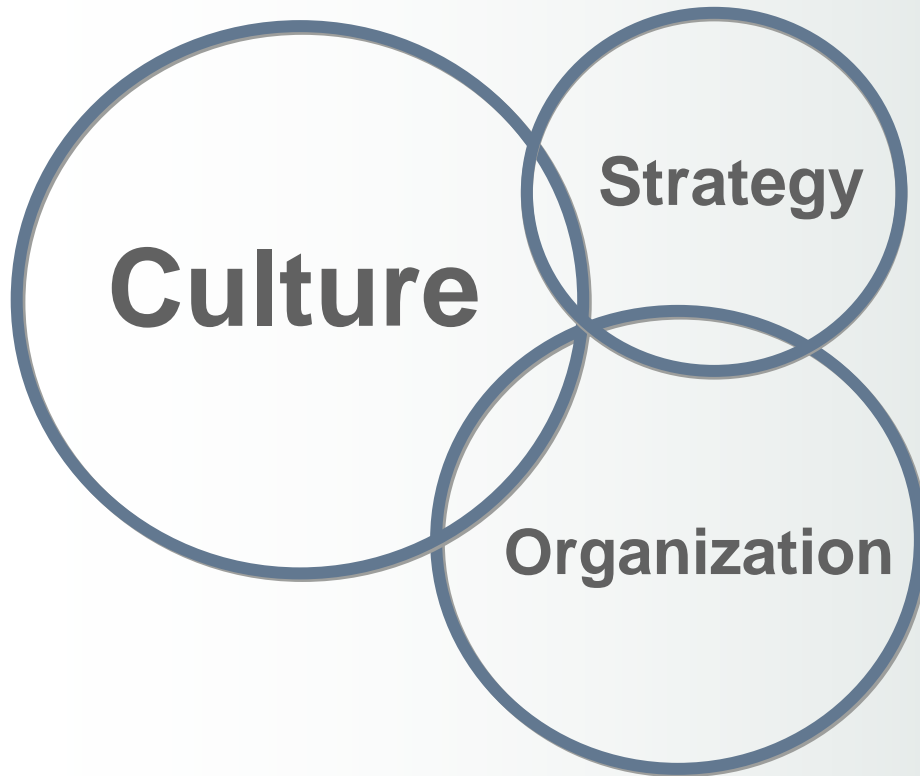
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# Building a competitive global culture

Good cultural integration, now increasing focus on profitability



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# STRATEGIC DIRECTION 2010-2012

**Changing focus**

**Profitable Growth**

**Required scale in all  
business areas achieved**



**Product Cycle  
Management**

**Capitalize on scale  
to optimize R&D based on  
shared technology and  
common architecture**

**Operational Excellence**

**Reduce operating cost to  
improve profitability**

# STRATEGIC DIRECTION 2010-2012

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## Profitable Growth

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## Product Cycle Management

Capitalize on scale to optimize R&D based on shared technology and common architecture

## Operational Excellence

Reduce operating cost to improve profitability

# Required scale achieved

- No need for structural growth

- Heavy duty trucks: 180,000 units (#2)
- Construction equipment: 64,000 units (#3)
- Heavy duty engines: 200,000 units (#2)
  
- Good brand portfolio
- Good regional market shares
- Well performing distribution channels globally
- Foothold in developing economies
  - India
  - China

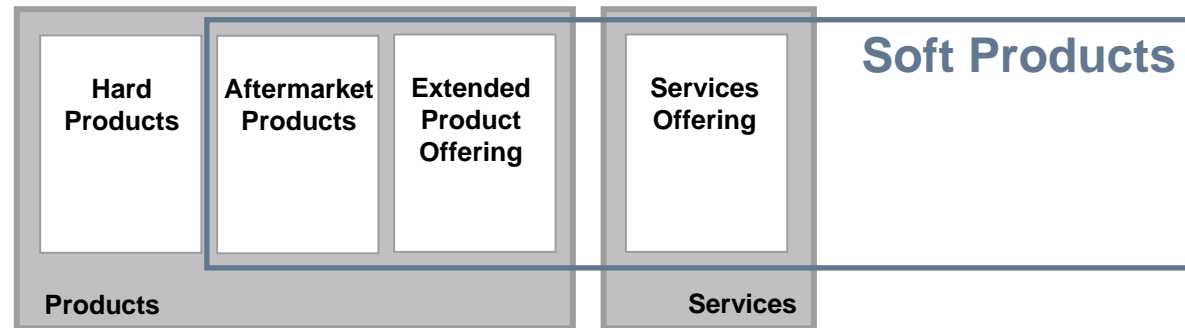


- **Organic growth in line with market development, except soft products to grow faster**
  
- **Address non-performing businesses**
  
- **Low priority and only opportunistic approach to acquisition driven growth**



# Focus on soft product sales

- to build customer satisfaction and loyalty



## Aftermarket Product Areas

<p>SPARE PARTS</p> <ul style="list-style-type: none"> <li>New parts</li> <li>Used &amp; re-manufactured Parts</li> <li>Extended Parts</li> </ul>	<p>SOFTWARE</p> <ul style="list-style-type: none"> <li>Vehicle Software</li> </ul>	<p>ACCESSORIES</p> <ul style="list-style-type: none"> <li>Accessories</li> <li>Non-Volvo Accessories</li> <li>Merchandise products</li> </ul>	<p>SERVICE PRODUCTS</p> <ul style="list-style-type: none"> <li>Service literature</li> <li>Service tools</li> </ul>
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## Service Offering Areas

<p>EXTENDED PRODUCT OFFERING</p> <ul style="list-style-type: none"> <li>Used vehicles</li> <li>Trailers and superstructures</li> <li>Attachments</li> </ul>	<p>UPTIME SERVICE</p> <ul style="list-style-type: none"> <li>Service planning</li> <li>Maintenance and repair</li> <li>Updates and Upgrades</li> <li>Service Contracts</li> <li>Parts Service</li> </ul>	<p>CUSTOMER OPERATION SERVICES</p> <ul style="list-style-type: none"> <li>Transport management</li> <li>Driver time management</li> <li>Vehicle management</li> <li>Security, safety &amp; environmental</li> <li>Navigation Infotainment</li> </ul>	<p>SUPPORT SERVICES</p> <ul style="list-style-type: none"> <li>Competence development</li> <li>Fleet &amp; asset management</li> <li>Call centre services</li> <li>Consultancy Services</li> <li>Information services</li> </ul>	<p>FINANCIAL SERVICES</p> <ul style="list-style-type: none"> <li>Vehicle/leasing</li> <li>Rental / operative lease</li> <li>Insurance</li> </ul>
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# Strong focus to grow soft product sales

**Soft product sales in 2008, excl. VFS**  
 ~82 BSEK (28% of the Volvo Group)

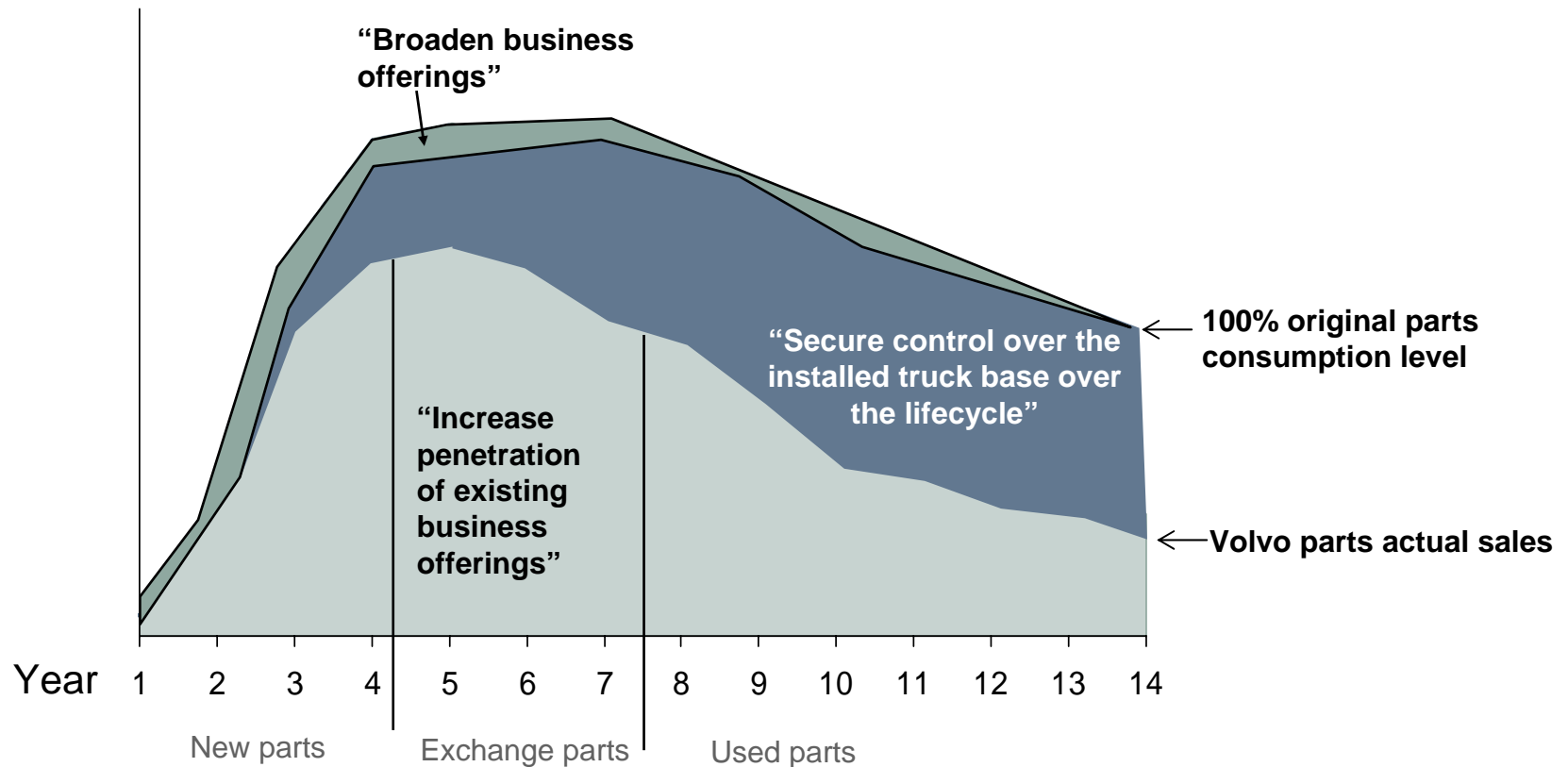
**Soft product sales Q1 2009, excl VFS**  
 -3% growth, 39% of the Volvo Group

**Soft products**

**Opportunity  
 for growth,  
 at high margins**

# Example – increase capture of parts sales

- ➔ From parts sales to sales of service (with parts)
- ➔ From brake down repairs to preventive maintenance



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# Emission regulations and technology convergence

## EGR+SCR+DPF for the global engine

US'10    PNLT  
Euro 6    Tier 4i

~2014



"global" engine

- To meet upcoming emission regulations with competitive solutions
- Capitalize on converging technologies across products and markets to drive:
  - R&D efficiency
  - Competitive product cost
- Window of opportunity for other product changes
- Volvo Group HD engine platform in all HD trucks

# Competitive products on their way...

- Good news for both our customers and the environment

## Well prepared for new emission technology

- US'10**
  - Using existing engine platform – adding SCR
  - Significantly lower complexity in transition compared with US'07
  - 33 trucks with customers, 3,7 million test miles - excellent reception
  - Very good fuel consumption – lower operating cost
- JP'10**
  - “Same” engine as US'10 (EGR+SCR+DPF)
  - 12 trucks with customers, 2.8 million km test
  - Maintained leadership in fuel efficiency expected
- Tier4i (2011)**
  - Project well under way
  - Base technology known (EGR+DPF), focus on packaging



# New Euro V engines already introduced

Much cleaner – more power, less fuel



	Fuel Savings	Status
▶ Euro V	~3%	✓
▶ US'10	~ 2-3%	
▶ PNLT	~same	

# Launching in-house medium duty engine platform for trucks and buses

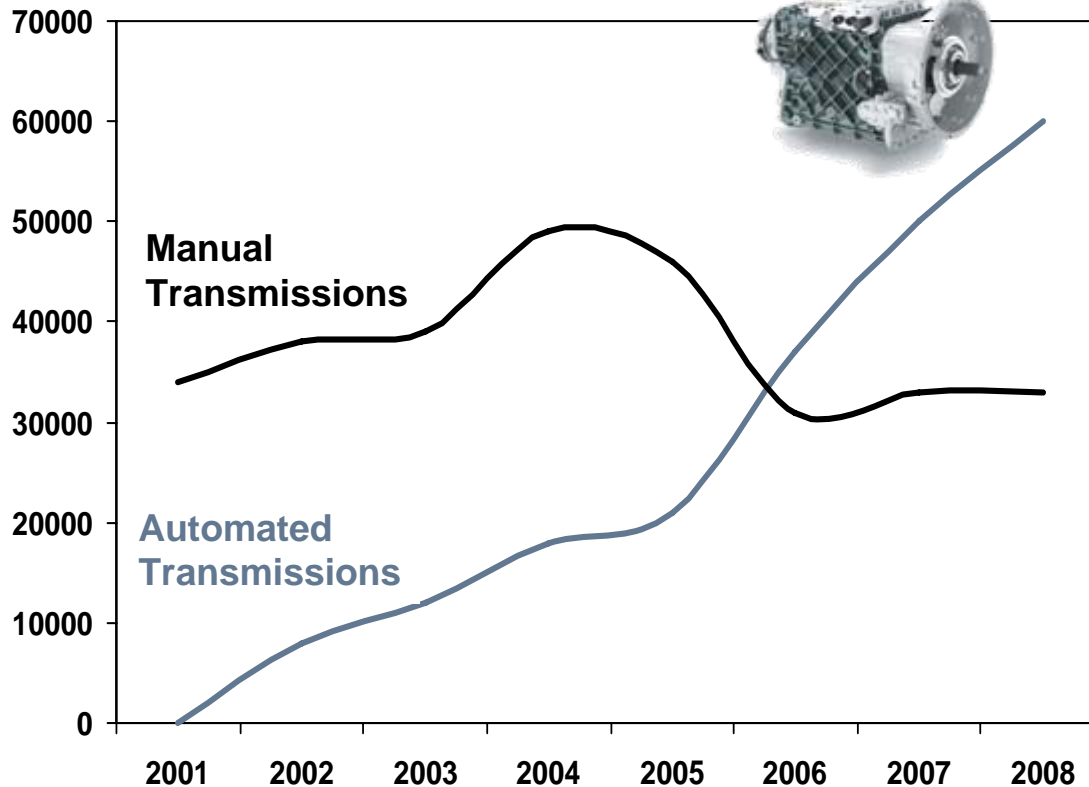


- Volvo Group volume base 2008: ~70,000 engines
- New MD engine project part of Nissan Diesel acquisition
- New MD engine platform to be launched in 2010
- Economy of scale with HD engine platform in R&D, Purchasing and Production
- New manufacturing system with common global processes
  - MD and HD engines produced on the same line in Ageo, Japan



# Enhance leadership in AMT:s

Develop global platform for Automated Mechanical Transmissions



- Big customer success
- Global platform
- Investments done
- Captive spare parts
- Into more products and markets
- Trend shift continues

Total volume growth from 34 000 to 93 000 transmissions annually

# The hybrid future is arriving

Moving to commercialize hybrids with Group-wide technology

Lyon



Göteborg



London



Real life experiences of fuel savings > 30%

# Sum-up



- Volvo Group HD engine platform in all HD trucks
- To meet upcoming emission regulations with competitive solutions - Capitalize on converging technologies
- Launch in-house medium duty engine range in trucks
- Further develop leadership with in-house platform for AMTs
- Commercialize group-wide technology for diesel-electric parallel hybrids

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# OPERATIONAL EXCELLENCE 2010-2012

## Efficiency and productivity in every step

- Manufacturing
- Purchasing
- Research and Development
- Sales and Administration

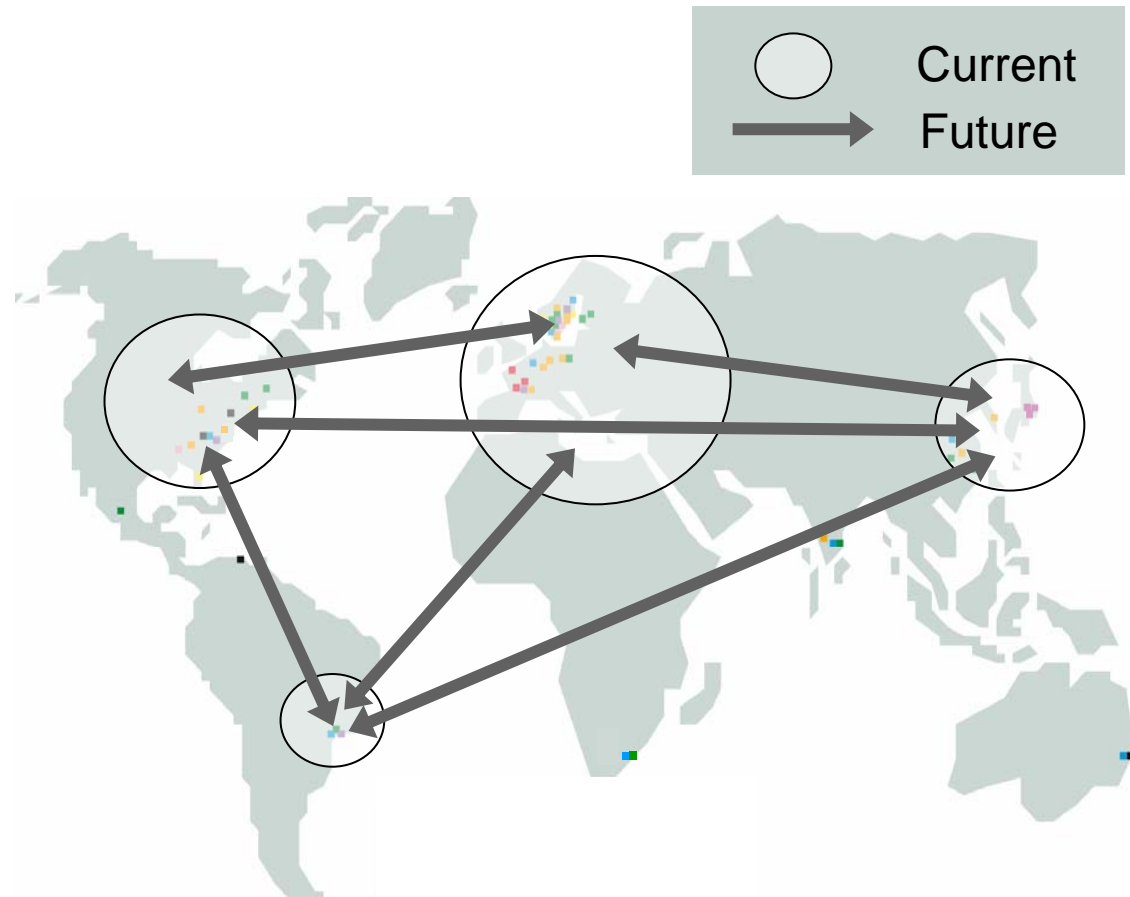


## Manufacturing

# Create global production capacity

Move from regional to global engine production

- Manning flexibility within plant – workforce
- Product flexibility within line – Lyon, Ageo and Köping
- Geographical flexibility between plants – “One global engine”
- Total capital efficiency



## Manufacturing

# Focus on productivity and quality

Optimize production efficiency and reduce quality cost



- Window of opportunity to drive productivity, post integration and demand peak
- Drive best practice across Group, Nissan Diesel to lead in new quality standards
- Reduce capital expenditures (PPE) by 30-50%

Purchasing

# Move to high-performing suppliers

Opportunity to further leverage volumes



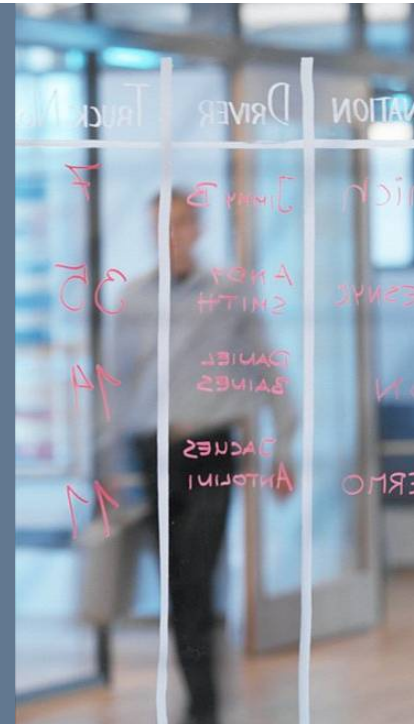
- Focus on performing suppliers
  - Quality, Delivery, Financially...
- Converging technology and globalizing products improving opportunity for cost rationalization
- Leverage entire Volvo Group purchasing volumes
- Asian presence - opportunity across the Group
- Drive standardization and L-T partnerships with preferred suppliers within Non-Automotive Purchasing



## Research and Development

**Sufficient scale to invest in key technologies, but...**

...opportunity to improve organizational efficiency

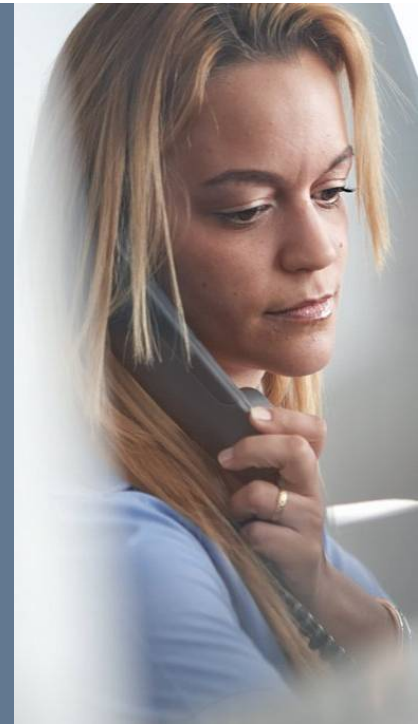


- Global development processes to drive productivity
- Improve productivity and take out overlaps:
  - Volvo CE
  - 3P and Volvo Powertrain
  - Purchasing/R&D interface
  - Volvo Powertrain/Business Area interface
- Flexibility with consultants and global footprint

## Sales and Administration

# A decade of very strong sales growth

Present downturn gives opportunity to kick-start efficiency work in S&A



- Re-set cost structure in current downturn, and keep it
- Improve profitability in owned distribution
- Drive global processes through Business Units

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# PROFITABILITY

## SHORT-TERM

- ▶ Cash flow
- ▶ Cost structure

## LONG-TERM

- ▶ Competitive products
- ▶ Profitability among industry leaders