The Global Spin-Off Report

June 8, 2011

Haldex AB

Demerger of Hydraulic Systems Division (i.e., Concentric AB)

Pre-Demerger: Haldex AB

Price:	SEK 115.50 per share	**Ticker:**	HLDX SS
Est. FV (Low/Mid/High):	SEK 94.03/123.86/141.92 per sh.	**Dividend:**	SEK 3.00 per share
52-Week Range:	SEK 63.25 –116.00 per share	**Yield:**	2.60%
Shares Outstanding:	44,215,970		
Market Capitalization:	SEK 5,107 million		
Est. Fair Value Mkt Cap:	SEK 4,157/5,477/6,275 million		

Post-Demerger: Haldex AB

Est. FV (Low/Mid/High):	SEK 30.07/43.06/57.45 per share	**Ticker:**	HLDX SS
Est. Shares Outstanding:	44,215,970	**Dividend:**	n/a
Est. Fair Value Mkt Cap:	SEK 1,329/1,904/2,540 million	**Yield:**	n/a

Demerged Entity: Concentric AB

Est. FV (Low/Mid/High):	SEK 30.96/47.79/51.47 per share	**Ticker:**	COIC SS
Est. Shares Outstanding:	44,215,970	**Dividend:**	n/a
Est. Fair Value Mkt Cap:	SEK 1,369/2,113/2,276 million	**Yield:**	n/a

Important Note:

Haldex AB will pay an extraordinary dividend of SEK 30 per share as a means of disbursing the proceeds realized by the sale of the company's Traction Division to BorgWarner Corp. on January 31, 2011 for a total purchase price of SEK1,425 million (i.e., USD 221 million). The combined regular dividend and extraordinary dividend will amount to SEK 1,459 million, or SEK 33 per share. The sum-of-the-parts valuation is computed accordingly.

1 USD =6.2679 SEK

Data As of June 1, 2011

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Haldex AB Board of Directors Announces Proposed Demerger of Concentric AB:	Friday, July 16, 2010
Haldex AB Board of Directors Issues Demerger Prospectus:	Tuesday, May 24, 2011
Annual General Meeting of Haldex AB Shareholders:	Wednesday, June 8, 2011
Last Day to Trade in Haldex AB Shares to Participate in the Demerger:	Wednesday, June 8, 2011
Haldex AB Shares Trade Ex-Entitlement; Concentric AB Shares Trade on a When-Issued Basis:	Thursday, June 9, 2011
Ex-Date for Haldex AB Regular Cash Dividend of SEK 3 per Share:	Thursday, June 9, 2011
Demerger Record Date:	Monday, June 13, 2011
Concentric AB Shares Trade Regular-Way	Thursday, June 16, 2011
Ex-Date for Haldex AB Extraordinary Dividend by Way of a Share Split and an Automatic Redemption of such 'Redemption Shares' for SEK 30 per Share:[1]	Thursday, June 30, 2011
Distribution Ratio:	1 HLDX : 1 COIC
Tax Status:	Tax Free
Prerequisites:	See Listing Prospectus
Primary Reason:	Disparate business models.

Ownership (Bloomberg):	Holders	Share Ownership	Percent of Shares
	Oresund Investment AB	4,890,116	11.06%
	Handelsbanken Fonder AB	2,623,872	5.93%
	SEB Private Bank	2,128,472	4.81%
	AFA Forsakringar	2,000,000	4.52%

[1]The Haldex AB Board has proposed a share split, entailing that each Haldex AB share be divided into two shares, one of which will be a redemption share. The redemption shares will be automatically redeemed by Haldex for SEK 30 each as a means to disbursing to shareholders the proceeds from the recent sale of the Traction Systems Division. The ex-date for entitlement to such redemption shares is Thursday, June 30, 2011. The redemption share will be listed on the Nasdaq OMX during the period from July 6 to July 20. Payment of SEK 30 per share for such redemption shares will be made by the company on July 28, 2011.

Investment Overview

In July 2010, Haldex AB ('Haldex'), a Swedish vehicle parts manufacturer, initially announced its intention to disaggregate its three business segments into separately traded companies. At that time, the company began a more comprehensive study of the potential transaction. On October 21, 2010, the company announced its intention to proceed with a demerger of the Hydraulic Systems Division and Traction Systems Division, with the Commercial Vehicle Systems Division continuing as part of the parent company.

On January 31, 2011, however, as opposed to proceeding with the demerger, the company completed the sale of the Traction Systems Division to BorgWarner, Inc. for a total purchase price consideration of SEK 1,425 million (i.e., USD 221 million). Notably, the purchase price represented approximately 12.1 times 2010 divisional operating income.

As a means to distributing such proceeds to company shareholders, the Haldex Board of Directors has proposed a share split, whereby each Haldex share shall be divided into two shares, one of which will be a redemption share. The redemption shares will be automatically redeemed by Haldex for SEK 30 each. The ex-date for entitlement to such redemption shares is Thursday, June 30, 2011. Further, the redemption share will be listed on the Nasdaq OMX during the period from July 6 to July 20. The payment of SEK 30 per share for each such redemption share will be made by the company on July 28, 2011.

The demerger of the Hydraulic Systems Division will proceed as planned, with the last trading date in Haldex shares with entitlement to participate in the demerger scheduled for Wednesday, June 8, 2011. The new company will begin trading on a when-issued basis on Thursday, June 9, 2011 as Concentric AB ('Concentric'), with regular-way trading scheduled to begin on Thursday, June 16, 2011.

By way of company overview, the Commercial Vehicle Systems Division develops and manufactures brake systems for heavy trucks, trailers, and buses. The brake systems operations are divided into four business units: Actuators, Air Controls, Foundation Brake, and Remanufactured Products. In 2010, revenues and operating income for the division amounted to SEK 3,710 million and SEK 162 million, respectively (i.e., USD 553 million and USD 24 million). The division's primary competitors include Knorr-Bremse (Private), WABCO Holdings, Inc. (WBC US), and Arvin Meritor (Private).

The Hydraulic Systems Division (i.e., Concentric) develops and manufactures gear and georotor pumps, hydraulic power packs, and high-density hydraulic hybrid systems. The applications for such products include hydraulic lifts, fan drive systems, and technology for diesel engines, including technology for reducing emissions of exhaust gases from engines and pumps for lubricating oil, coolants, and diesel fuel. In 2010, revenues and operating income for the division amounted to SEK 1,977 million and SEK 179 million, respectively (i.e., USD 295 million and USD 27 million).[2] The division's primary competitors include Bosch Rexroth (Private), Parker Hannifin Corporation (PH US), Eaton Corporation (ETN US), and Sauer-Danfoss, Inc. (SHS US).[3]

The Traction Systems Division develops and manufactures electronically controllable systems for all-wheel-drive systems for cars—known as AWD systems. The system software can be customized to desired driving characteristics and traction. In 2010, revenues and operating income for the division amounted to SEK 1,219 million and SEK 118 million, respectively (i.e., USD 182 million and USD 18 million). The division's primary competitors include BorgWarner, Inc. (BWA US), The GETRAG Group (Private), GKN plc (GKN LN), ZF Friedrichshafen AG (Private), Magna International, Inc. (MGA US), and Toyota (7203 JP).

Interestingly, this appears to be a somewhat peculiar transaction, though not in reference to the demerger structure—rather, in its motive. That is, many of the vehicle parts manufacturing firms that survived the rapid decline in auto sales over the last several years are diversified both in terms of product offering and geography. Such a policy is believed to provide less earnings variability, and equip such companies with the ability to withstand periods of recessionary global vehicle sales. However, Haldex appears to be adopting quite an opposite strategy. The disaggregation of the company will result in three smaller companies, each focused on more narrow expansion opportunities.

Based on Concentric's pro forma capital and tax structure and with pro forma operating income of SEK 151 million, at the moment, the company's operations appear to support net income of approximately SEK 91 million.[4] If capitalized similarly to the company's competitors—approximately 15 times current earnings—one arrives at a fair value estimate of SEK 1,369 million (i.e., USD 218 million), or with approximately 44 million shares outstanding, SEK 30.96 per share. By comparison, at the purchase price-to-operating income multiple of 12.1 times implied by the recent BorgWarner transaction, a fair value enterprise value might be said to be SEK 1,824 million; care of pro forma net debt of SEK 282 million, this represents a market capitalization of SEK 1,542 million (i.e., USD 246 million), or SEK 34.86 per share.[5] However, it should be noted that this would represent a

[2] Note that Concentric's 2010 *pro forma* operating income amounted to SEK 151 million, or USD 22 million.
[3] Fiscal 2010 revenues and operating income for the hydraulics divisions of the competition were as follows: Parker Hannifin Corporation (PH US): USD 7,435 million and USD 881 million (i.e., operating margin of 11.85 percent); Eaton Corporation (ETN US): USD 2,212 million and USD 279 million (i.e., operating margin of 12.61 percent); Sauer-Danfoss, Inc. (SHS US): USD 1,641 million and USD 251 million (i.e., operating margin of 15.30 percent).
[4] Pro forma net income is reported as SEK 62 million; however, this figure includes certain 'items affecting comparability', which amounts to SEK 42 million. Specifically, such items include restructuring costs of SEK 23 million and non-cash restructuring items of SEK 19 million. At the effective 2010 pro forma tax rate of 30.3 percent (i.e., 27 divided by 89), the after-tax effect amounts to approximately SEK 29 million.
[5] Importantly, with pro forma EBITDA and EBIT of SEK 252 million and SEK 151 million, respectively, an EV-to-EBIT multiple of 12.08 times is equivalent to an EV-to-EBITDA multiple of 7.24 times. The average hydraulics competitor EV-to-EBITDA multiple is 7.45 times.

higher multiple of earnings of approximately 17 times, which may be justified given the cyclicality of the business. Though such market capitalizations are below our targeted market capitalization range, it is worth noting the conditions under which one would realize a rather satisfactory rate of return.

In 2010, the Commercial Vehicles Services Division (i.e., 'New Haldex') reported revenues of SEK 3,710 million, significantly higher than the Hydraulic Systems Division (i.e., Concentric); however, the operating margin was a much lower 4.4 percent. With operating income of SEK 162 million and assuming interest rates and tax rates similar to those of Concentric hold post-demerger, it appears that New Haldex should produce net income of approximately SEK 89 million at the current level of sales. At a multiple of 15 times, then, the fair value estimate is SEK 1,329 million (i.e., 212 million). Combined with the current fair value of Concentric (i.e., SEK 1,369 million, or USD 218 million), one arrives at a combined valuation of SEK 2,698 million (i.e., USD 430 million).[6]

And, though this represents a significant discount to the Haldex's current market capitalization of SEK 5,107 million (i.e., 815 million), one must account for the upcoming regular and, more important, extraordinary dividend distributions amounting to SEK 133 million (i.e., USD 21 million) and SEK 1,326 million (i.e., USD 212 million), respectively. Accounting for such distributions, one arrives at a combined fair value of SEK 4,157 million (i.e., USD 663 million), suggesting that at the current, pre-demerger market capitalization of SEK 5,107 million (i.e., USD 815 million), the company trades at a 22.8 percent premium.

Clearly, this is not suggestive of an actionable investment opportunity; however, one must consider the potential for future revenue growth and margin expansion—that is, a reversion to historical levels of revenues and margins—as well as the potential for acquisition activity post-demerger. These factors are especially important given the inherent cyclicality of the two divisions.

[6] The company has not released pro forma gross debt and pro forma total cash for New Haldex; however, management has stated that total cash should be between SEK 200 million and SEK 300 million subsequent to the demerger. Using the New Haldex pro forma net debt figure of SEK 578 million and an average estimate of SEK 250 million for the total cash position, one arrives at a gross debt figure of SEK 828 million. In addition to not providing pro forma figures for gross debt and total cash, no pro forma interest rate figures are provided for New Haldex. However, the company does note that the debt of Concentric will be comprised of a SEK 40 million revolving multi-currency credit facility with a term of three years and an interest margin ranging from 0.90 percent to 1.85 percent above STIBOR and a SEK 175 million corporate bond with a term of three years and six months and an interest margin of 2.75 percent above STIBOR. With short-term STIBOR at approximately 2 percent, the high range dollar weighted average rate would be approximately 4.6 percent. This is consistent with the average first quarter interest rate for Concentric of 4.2 percent. Though the realized New Haldex interest rate may very well differ from that of Concentric, a rate of 4.2 percent is used as a proxy in the New Haldex earnings estimate discussed above. As well, the assumed New Haldex tax rate is the pro forma tax rate for Concentric of 30.3 percent. Actual interest rates and tax rates may vary from those used herein. In short, the figures used above are as follows: operating income of SEK 162 million, total debt of SEK 828 million, interest rate of 4.2 percent, interest expense of SEK 35 million, taxes of SEK 39 million.

Like many automobile equipment manufacturing companies, Haldex experienced a sharp decline in sales during 2008 and 2009, as the global automobile and heavy vehicle markets were placed under great pressure. Lately, however, the business environment has improved substantially, such that all three of the Haldex divisions have returned to profitability. As summarized in the exhibit below, the operating margin of the Hydraulic Systems Division (i.e., Concentric) has recovered from its 2009 low of *negative* 3.3 percent to an above average margin of 9.1 percent, or 7.6 percent on a pro forma basis.[7] Similarly, the operating margin of the Commercial Vehicle Services Division has recovered from its 2009 low of *negative* 1.9 percent to a more normalized margin of 4.4 percent.

Haldex AB Historical Segment Performance

	Revenue					Operating Income					Operating Margins				
Division	CVS	HS	TS	Total ex TS	Total	CVS	HS	TS	Total ex TS	Total	CVS	HS	TS	Total ex TS	Total
2005	4,430	1,269	748	5,699	6,447	163	92	36	255	291	3.7%	7.2%	4.8%	4.5%	4.5%
2006	4,765	1,331	745	6,096	6,841	217	90	48	307	355	4.6%	6.8%	6.4%	5.0%	5.2%
2007	4,529	1,467	848	5,996	6,844	116	88	50	204	254	2.6%	6.0%	5.9%	3.4%	3.7%
2008	4,234	2,095	1,021	6,329	7,350	4	146	41	150	191	0.1%	7.0%	4.0%	2.4%	2.6%
2009	3,134	1,406	850	4,540	5,390	-60	-47	29	-107	-78	-1.9%	-3.3%	3.4%	-2.4%	-1.4%
2010	3,710	1,977	1,219	5,687	6,906	162	179	118	341	459	4.4%	9.1%	9.7%	6.0%	6.6%
Avg. '05-'08	4,490	1,541	841	6,030	6,871	125	104	44	229	273	2.7%	6.7%	5.3%	3.8%	4.0%

Note: Operating income for 2008 and 2009 excludes restructuring costs, one-off items, and amortization of acquisition-related surplus values.
Source: Company Reports

Though these results are clearly an improvement from 2009, when compared to Concentric's competition, it appears that businesses of this type are capable of significantly higher margins. In 2010, the hydraulics divisions of Parker Hannifin, Eaton, and Sauer-Danfoss reported operating margins of 11.8 percent, 12.6 percent, and 15.3 percent, respectively. Similarly, New Haldex operates with margins of 4.4 percent; however, competitors such as the much larger WABCO operate with margins closer to 10 percent.

During the company's Capital Markets Day, management released targets for both revenue growth and operating margins. Consistent with those margins of the company's competitors, management has set Concentric's operating margin target at 11 percent. Moreover, they have established a revenue growth target of 7 percent per annum. Like Concentric, management has also set revenue growth and operating margin targets for New Haldex, those being revenue growth of 7 percent per annum and an operating margin of 7 percent.

While targets consistent with those of the company's competitors may seem reasonable, one must consider the much larger scale at which the competition operates, as summarized in the exhibit below. And, though such targets are clearly attractive, there *appears* to be nothing in the company's long-term operating history (presented above) to suggest that a

[7] One should note, however, that on a pro forma basis, operating income for 2010 amounted to SEK 151 million, as compared to the reported 2010 figure of SEK 179 million. This results in an operating margin of 7.6 percent, rather than the margin of 9.1 percent presented below.

reversion to those levels is likely—that is, aside from the significantly higher revenues of the Commercial Vehicle Services Division (addressed below). That being said, let us consider the potential valuation should the company succeed in meeting such targets.

Comp. Scale: Competitor Revenues & Operating Income

USD, Millions	Revenues	Op. Income	Op. Margin
Parker Hannifin	7,435	881	11.8%
Eaton Corp.	2,212	279	12.6%
Sauer-Danfoss	1,641	251	15.3%
Concentric	295	22	7.6%
WABCO	2,176	221	10.2%
New Haldex	553	24	4.4%

Source: Company Reports

As outlined in the exhibit below, if both divisions succeed in meeting both revenue growth targets and operating margin targets, with a one year time horizon, one would expect after-tax net income for New Haldex and Concentric to amount to SEK 169 million and SEK 152 million, respectively. Capitalized at multiples of 15 times and taking into account the regular and extraordinary dividends, the sum-of-the-parts fair value would be SEK 6,275 million, or SEK 141.92 per share—that is, a 23 percent premium to the current price of SEK 115.50. If the same targets are met, but instead, transpire over a two year time horizon, the annualized rate of return would amount to approximately 14 percent.

Potential Operating Performance

Division	CVS	HS
Current Revenues	3,710	1,977
Target Rev. Gr.	7.0%	7.0%
Projection (Years)	1	1
= Est. Revenues	3,970	2,115
x Target Op. Margin	7.0%	11.0%
= Est. Op. Income	278	233
PF Total Debt	828	355
Interest Rate	4.2%	4.2%
Less: Interest Exp.	35	15
= Pre-Tax Income	243	218
Tax Rate	30.3%	30.3%
Less: Taxes	74	66
= After-Tax Income	169	152
Net Margin	*4.3%*	*7.2%*

Division	CVS	HS
= After-Tax Income	169	152
x Multiple	15.00	15.00
= Est. Mkt. Cap. (SEK)	2,540	2,276
Add: Reg. & Extra. Div. (SEK)	1,459	
= Sum-of-the-Parts (SEK)	6,275	
Est. Mkt. Cap. (USD)	*405*	*363*
Add: Reg. & Extra. Div. (USD)	*233*	
= Sum-of-the-Parts (USD)	*1,001*	
Div: Shares Outstanding	44	44
= Fair Value Price (SEK)	57.45	51.47
Add: Reg. & Extra. Div. (SEK)	33	
= Sum-of-the-Parts (SEK)	141.92	
Current Price (SEK)	115.50	
Potential ROR (%)	22.9%	

Source: Company Reports

One should acknowledge, however, the greater likelihood for such margin improvements to transpire in a private context, as the result of the company's acquisition by a larger, strategic purchaser with significantly greater scale. It is known that acquisition activity is far more prevalent among spin-off companies than the general population of publicly-traded companies. One reason is the availability to a competitor of specific operational performance data in a standalone entity, which is not the case when the division operates as part of a larger parent. Another factor is the greater transactional simplicity associated with the purchase of a smaller company, focused on the production of a single product.

As to the potential valuation in an acquisition context, the realization of the targeted margins of 7 percent and 11 percent might simply require the acquisition by a strategic purchaser with significantly greater scale. For example, in 2010, 24.5 percent of Concentric's net sales went to personnel costs (i.e., SEK 484 million). A mere 14 percent reduction in personnel costs would increase operating income by SEK 66 million (i.e., USD 10.6 million, or less than 1 percent of Parker Hannifin 2010 SG&A), leading to the targeted operating margin of 11 percent. Were companies such as Parker Hannifin, Eaton, or Sauer-Danfoss to acquire Concentric, or WABCO to acquire New Haldex, for example, the greater scale and associated overhead and manufacturing cost savings may very well be sufficient to justify a premium acquisition multiple, one that might otherwise seem uneconomic given the current level of profitability.

Given the small relative sizes of both New Haldex and Concentric, the scale benefits associated with both businesses, the consolidation occurring among parts manufacturers globally, and the relationship of these factors to improving terms of trade of the parts manufacturers vis-a-vis the global auto OEMs, it appears that there is sufficient basis for incorporating into the fair value analysis the possibility of a takeover premium.

Viewed, then, from the perspective of a strategic buyer and accounting for the significantly higher operating margins of certain competitor companies, the potential operating margins of 7 percent and 11 percent might be said to be more quickly realizable upon incorporation into a larger scale operation. Rather than viewed from their current, low levels of profitability, one might reasonably assess the potential valuations in the context of the target operating margins of 7 percent and 11 percent since such margins would still allow for an accretive acquisition given the higher competitor margins.[8] At the current levels of sales, the margins of 7 percent and 11 percent suggest after-tax income of SEK 157 million and SEK 141 million, respectively.[9]

At multiples of 15 times, such levels of profitability point to fair value market capitalizations for New Haldex and Concentric of SEK 2,350 million and SEK 2,117 million, respectively. Relative to current levels of profitability, these market values represent multiples of 26.5 times and 23.2 times current after-tax income. Though seemingly uneconomic given the current levels of profitability, the potential for a more rapid realization of margin improvements through the acquisition by a larger scale operation appears to lend support to such premium multiples of current earnings. Inclusive of the ordinary and extraordinary dividends, the combined fair value would amount to SEK 5,926 million, or a 16 percent premium to the current market capitalization.

[8]The sole publicly-traded commercial vehicle services competitor (i.e., WABCO) reported an average operating margin of 10.5 percent for the period 2006 through 2010 (excluding 2009). The average operating margin for the hydraulics competitors during 2010 was 13.3 percent.
[9] The calculation of after-tax income uses the pro forma interest rate and tax rate structure used previously.

Most importantly, perhaps, in the analysis of New Haldex and Concentric is not merely the need to acknowledge the divisions' respective cyclicality and the potential for acquisitive activity post-demerger, but the need to account for a key acquisition made by Haldex in 2008. On April 2, 2008, Haldex closed its transaction to acquire the hydraulics business of privately-held Concentric Pumps Limited ('CPL') from a consortium comprised of CPL management and private equity firm Bridgepoint Capital Limited. The business was acquired for total cash consideration of GBP 75 million (i.e., SEK 890 million), or a net purchase price of GBP 60 million (i.e., SEK 712 million) after accounting for an assumed pension fund liability of GBP 15 million (i.e., SEK 178 million).[10]

And, while from the date of the acquisition in April 2008, the results of CPL are included as part of the company's results, this is not the case prior to 2008. In fiscal 2007 CPL reported revenues of GBP 72 million (i.e., SEK 949 million) and operating income of GBP 9.8 million (i.e., SEK 129 million). Inclusive of the Hydraulics Systems Division's fiscal 2007 sales and operating income of SEK 1,467 million and SEK 88 million, respectively, combined fiscal 2007 sales and operating income were SEK 2,416 million and SEK 217 million.[11]

If one accounts for the greater sales and operating income potential of the Hydraulic Systems Division—as a result of the 2008 acquisition of CPL—in conjunction with the peak sales and operating income potential of the Commercial Vehicle Services Division (recorded in 2006), the combined operating income is SEK 434 million, with both divisions able to support operating income of SEK 217 million. Applying the pro forma interest rate and tax rate structure used previously, one arrives at after-tax income estimates of SEK 127 million and SEK 141 million, respectively. Capitalized at a conservative multiple of 15 times and inclusive of the ordinary and extraordinary dividends, suggests a combined fair value of SEK 123.86 per share, a premium of 7.2 percent.

Potential Operating Performance

Division	CVS	HS
Current Revenues	n/a	n/a
Target Rev. Gr.	n/a	n/a
Projection (Years)	n/a	n/a
Potential Revenues	4,765	2,416
x Target Op. Margin	4.6%	9.0%
= Potential Op. Income	217	217
PF Total Debt	828	355
Interest Rate	4.2%	4.2%
Less: Interest Exp.	35	15
= Pre-Tax Income	182	202
Tax Rate	30.3%	30.3%
Less: Taxes	55	61
= After-Tax Income	127	141
Net Margin	*2.7%*	*5.8%*

Division	CVS	HS
= After-Tax Income	127	141
x Multiple	15.00	15.00
= Est. Mkt. Cap. (SEK)	1,904	2,113
Add: Reg. & Extra. Div. (SEK)	1,459	
= Sum-of-the-Parts (SEK)	5,477	
Est. Mkt. Cap. (USD)	*304*	*337*
Add: Reg. & Extra. Div. (USD)	*233*	
= Sum-of-the-Parts (USD)	*874*	
Div: Shares Outstanding	44	44
= Fair Value Price (SEK)	43.06	47.79
Add: Reg. & Extra. Div. (SEK)	33	
= Sum-of-the-Parts (SEK)	123.86	
Current Price (SEK)	115.50	
Potential ROR (%)	7.2%	

Source: Company Reports

[10] The purchase price has been converted at the exchange rate as of the closing date on April 2, 2008.
[11] The results of CPL have been converted at the exchange rate as of September 30, 2007 (CPL's fiscal year).

Though the current levels of operating profitability do not support the current, pre-demerger share price, it appears that the combined potential of the two businesses does—as evidenced by the historical results. Further, the gains to an acquirer appear compelling enough such that a prolonged, long-term discount (i.e., impairment of capital) subsequent to the demerger seems unlikely. Therefore, it is worth highlighting the embedded optionality should less conservative assumptions ultimately transpire.

As the peak margins used above are still well below the targets provided by management, it is worth noting the fair values should management succeed in meeting its target margins. At the peak levels of revenues of SEK 4,765 million and SEK 2,416 million and at target margins of 7 percent and 11 percent, respectively, the combined fair value of SEK 7,202 million would represent a 41 percent premium to the current price of pre-demerger Haldex.

Further, at the time of the CPL acquisition in April 2008, Haldex management stated that their targets for the Hydraulic Systems Division were operating margins of 11 percent and revenues between SEK 3.2 billion and SEK 3.5 billion by 2011. Obviously, certain events prevented such targets from transpiring by the planned date; however, it is worth noting the potential valuation should management succeed on their second attempt. With New Haldex and Concentric revenues of SEK 4,765 million and SEK 3,500 million and target operating margins of 7 percent and 11 percent, respectively, the combined fair value of SEK 8,448 million would represent a 65 percent premium to the current price of pre-demerger Haldex.

Potential Operating Performance

Division	CVS	HS
Current Revenues	n/a	n/a
Target Rev. Gr.	n/a	n/a
Projection (Years)	n/a	n/a
Potential Revenues	4,765	3,500
x Target Op. Margin	7.0%	11.0%
= Potential Op. Income	334	385
PF Total Debt	828	355
Interest Rate	4.2%	4.2%
Less: Interest Exp.	35	15
= Pre-Tax Income	299	370
Tax Rate	30.3%	30.3%
Less: Taxes	91	112
= After-Tax Income	208	258
Net Margin	*4.4%*	*7.4%*

Division	CVS	HS
= After-Tax Income	208	258
x Multiple	15.00	15.00
= Est. Mkt. Cap. (SEK)	3,122	3,867
Add: Reg. & Extra. Div. (SEK)	1,459	
= Sum-of-the-Parts (SEK)	8,448	
Est. Mkt. Cap. (USD)	*498*	*617*
Add: Reg. & Extra. Div. (USD)	*233*	
= Sum-of-the-Parts (USD)	*1,348*	
Div: Shares Outstanding	44	44
= Fair Value Price (SEK)	70.61	87.46
Add: Reg. & Extra. Div. (SEK)	33	
= Sum-of-the-Parts (SEK)	191.07	
Current Price (SEK)	115.50	
Potential ROR (%)	65.4%	

Source: Company Reports

Investment Summary

At the current level of operating profitability, the combined businesses of New Haldex and Concentric—considered in conjunction with the upcoming ordinary and extraordinary dividends—do not appear to support the current share price of SEK 115.50; however, the potential for acquisitive activity post-demerger, in conjunction with the longer-term potential for a normalization of revenues and margins, suggests fair value share prices in excess of the current price. Should revenues and operating income of New Haldex and Concentric revert to peak levels established in 2006 and 2007, respectively, the combined fair value market capitalization would be SEK 5,477 million, or SEK 123.86 per share, a 7.2 percent premium to the current price.

Alternatively, the potential for larger competitors to acquire the respective businesses and, thereby, exploit economies of scale suggests that one might wish to assign potential fair value estimates on the basis of margins somewhat higher than the company's current margins. That is, if either company were subject to an acquisition offer, one might reasonably argue that the purchase price should be consistent with the margins that would otherwise be realized in the absence of such an offer. Since managements' targeted margins are considerably lower than those of the competition, such a transaction would still prove accretive for the higher margin acquirer. The current operating margin targets suggest that at the current level of revenues, a combined fair value market capitalization is SEK 5,926 million, or SEK 134.03 per share, a 16.0 premium to the current price.

Should management succeed in meeting revenue growth and operating margin targets over the subsequent one year, for example, the combined fair value market capitalization would be SEK 6,275 million, or SEK 141.92 per share, a 22.9 percent premium to the current price; meeting more ambitious targets would result in returns of 41 percent and 65 percent.

Though the company trades at a significant premium to a fair value based on the current level of operating profitability, there appears to be ample evidence supporting a case for higher share prices. The historical results clearly illustrate the significantly higher earnings potential of both divisions; moreover, should the shares trade at a discount subsequent to the demerger, the gains to a potential acquirer appear compelling enough such that a prolonged, long-term discount (i.e., impairment of capital) seems unlikely. In the event that both companies meet management targets, the longer-term earnings power appears sufficient to provide one with a good, though not excessive, rate of return. Finally, the embedded optionality associated with the possibility of meeting more ambitious targets has the potential to provide one with a very nice rate of return.

Given the low risk-to-reward tradeoff, the shares appear attractive on a pre-demerger basis; however, the low level of current profitability and the possibility that many investors hold the shares in anticipation of the extraordinary dividend may very well result in superior rates of return subsequent to the distribution. Ergo, our preference is to await a more asymmetric post-demerger return opportunity.

Appendix A: Annual Financial Statements – Haldex AB[12]

Consolidated income statement

		2010			2009		
Amounts in SEK m	Note	Continuing operations	Discontinued operations	Haldex	Continuing operations	Discontinued operations	Haldex
Net sales		5,687	1,219	6,906	4,540	1,082	5,622
Cost of goods sold	10	–4,162	–985	–5,147	–3,500	–952	–4,452
Gross income		**1,525**	**234**	**1,758**	**1,040**	**130**	**1,170**
Selling expenses	10	–559	–37	–596	–555	–52	–607
Administrative expenses	10	–474	–30	–504	–466	–44	–510
Product development costs	10	–208	–39	–247	–180	–48	–229
Other operating income and expenses		–111	1	–110	–78	–2	–80
Capital gain		–19	–	–19	–	411	411
Operating income/loss		154	128	282	**–240**	**395**	**155**
Interest income		3	–	3	7	–	7
Interest expense		–48	–4	–52	–61	–2	–63
Other financial items		–45	–10	–55	–30	–15	–45
Earnings/loss before tax		**64**	**114**	**178**	**–324**	**378**	**54**
Taxes	11	–26	–21	–47	37	–16	21
Net income/loss for the year		**38**	**93**	**131**	**–287**	**362**	**75**
Attributable to:							
Parent Company shareholders		33	93	126	–280	362	82
Non-controlling interests		5	–	5	–7	–	–7
Earnings per share before dilution, SEK		–	–	2:87	–	–	2:40
Earnings per share after dilution, SEK		–	–	2:87	–	–	2:40
Average number of shares, thousands				43,840	–	–	34,020

[12] See 2010 Annual Report for more details (i.e., page 27). Please note that Haldex divested its Traction Systems Division to BorgWarner, Inc on January 31, 2011 for a total purchase price consideration of SEK 1,425 million, or USD 221 million.

Consolidated balance sheet

Amounts in SEK m	Note	2010	2009
ASSETS			
Fixed assets			
Intangible fixed assets	12	1,500	1,715
Tangible fixed assets	13	807	1,099
Financial fixed assets			
Derivative instruments	16	11	27
Deferred tax assets	15	141	134
Long-term receivables		27	33
Total fixed assets		**2,486**	**3,008**
Inventories	17	698	660
Current receivables			
Accounts receivable from customers		665	620
Other current receivables	18	163	358
Derivative instruments	16	15	31
Cash and cash equivalents	19	465	362
Total current assets		**2,006**	**2,031**
Assets held for sale	20	561	-
Total current assets		**5,053**	**5,039**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity			
Share capital		221	221
Capital contributions		834	834
Reserves		–76	78
Retained earnings		1,364	1,233
Attributable to Parent Company shareholders		2,343	2,365
Attributable to non-controlling interests		8	8
Total equity		**2,351**	**2,373**
Long-term liabilities			
Long-term interest-bearing liabilities	21	810	847
Pensions and similar obligation	22	314	374
Deferred taxes	15	93	114
Other long-term liabilities		31	37
Total long-term liabilities		**1,248**	**1,372**
Current liabilities			
Short-term loans		3	200
Debt to suppliers		629	658
Derivative instruments	16	6	27
Other provisions	23	108	108
Other current liabilities	24	375	301
Total current liabilities		**1,121**	**1,294**
Liabilities held for sale	20	334	–
Total equity and liabilities		**5,053**	**5,039**
Collateral pledged		None	None
Contingent liabilities		4	5

Consolidated cash-flow statement

Amounts in SEK m	2010	2009
Cash flow from operating activities		
Operating income[1]	282	155
Reversal of depreciation, amortization and impairment losses	307	343
Interest paid	–108	–108
Profit/loss from divestment of participation in subsidiary	19	–411
Taxes paid	–32	7
Cash flow from operating activities before changes in working capital	468	–14
Change in working capital		
Current receivables	–166	138
Inventories	–167	262
Operating liabilities	306	–197
Change in working capital	–27	203
Cash flow from operating activities[2]	**441**	**189**
Cash flow from investments		
Net investments	–212	–169
Cash proceeds from sale of shares in subsidiaries	23	827
Cash flow from investments[3]	**–189**	**658**
Cash flow from financing		
Change in loans	–106	–1 411
New share issue	–	498
Change in long-term receivables	4	–2
Cash flow from financing[4]	**–102**	**–915**
Change in cash and cash equivalents, excl. exchange-rate differences	150	–68
Cash and cash equivalents, opening balance	362	431
Exchange-rate difference in cash and bank assets	–10	–1
Cash and cash equivalents, closing balance	502	362

[1] Operating income from the Haldex Group's continuing operations amounted to SEK 154 m (loss: 240) and from discontinued operations to SEK 128 m (359).

[2] Cash flow from operating activities conducted by the Haldex Group's continuing operations was SEK 372 m (188) and from discontinued operations SEK 69 m (1).

[3] Cash flow from investments conducted by the Haldex Group's continuing operations was a negative SEK 146 m (neg: 138) and from discontinued operations a negative SEK 43 m (pos: 796).

[4] Cash flow from financing activities conducted by the Haldex Group's continuing operations was a negative SEK 102 m (neg: 915) and from discontinued operations SEK – m (–).

Appendix B: Pro Forma Financial Statements – Concentric AB[13]

Pro forma income statement as at December 31, 2010

The pro forma table below is based on the 2010 combined financial statements for Concentric. Proforma adjustments have been made to illustrate Concentric as a standalone entity, if the separation had been made as per January 1, 2010.

Amounts in SEK m	Note	Concentric 2010	Interest Expense	Taxes	Pro forma
Net sales		1,977			1,977
Cost of goods sold		(1,505)			(1,505)
Gross income		472	-	-	472
Selling expenses		(84)			(84)
Administrative expenses		(150)			(150)
Product development expenses		(73)			(73)
Other operating income and expenses		(56)			(56)
Operating income		109	-	-	109
Net financial items	A	(56)	36	-	(20)
Income before tax		52	36	-	89
Taxes	B	(17)	(11)	1	(27)
Net income		35	25	1	62
Operating margin, %		*7.6%*			*7.6%*
EPS, SEK		0.79			1.40

[13] See Listing Prospectus for more details (i.e., page 34). Also, see Listing Prospectus (i.e., page 80) for the historical combined financial statements of the Hydraulic Systems segment within the Haldex Group (i.e., Concentric). Please note that the pro forma results presented above include 'items affecting comparability', which amounts to SEK 42 million. Specifically, such items include restructuring costs of SEK 23 million related to headcount reductions and certain site closures and non-cash restructuring items of SEK 19 million related to the sale and property impairment of operations in Quingzhou, China. The operating margin of 7.6 percent reported by the company in the pro forma income statement above adds back this SEK 42 million, resulting in adjusted pro forma operating income of SEK 151 million. Please see Listing Prospectus (i.e., page 26) for additional summary financial statements, which present such adjustments in greater detail.

Pro forma balance sheet as at March 31, 2011

Amounts in SEK m	Note	Concentric 2011 Jan-Mar	Refinancing	Pro forma
ASSETS				
Fixed assets				
Goodwill		470	–	470
Other intangible fixed assets		405	–	405
Tangible fixed assets		184	–	184
Financial fixed assets		7	–	7
Total fixed assets		**1,065**	**–**	**1,065**
Current assets				
Current assets, excluding liquid funds		479	–	478
Liquid funds	A	273	(200)	73
Total current assets		**751**	**(200)**	**551**
TOTAL ASSETS		**1,817**	**(200)**	**1,617**
EQUITY AND LIABILITIES				
EQUITY		**722**	**–**	**722**
Long-term liabilities				
Interest-bearing long-term liabilities - Pensions		116	–	116
Interest-bearing long-term liabilities - Loans	B	–	239	239
Non-interest-bearing provisions		68	–	68
Total long-long term liabilities		**184**	**239**	**423**
Current liabilities				
Non-interest-bearing liabilities	C	505	(34)	471
Interest-bearing current liabilities - Loans	B	405	(405)	–
Total current liabilities		**911**	**(439)**	**471**
TOTAL LIABILITIES		**1,095**	**(200)**	**895**
TOTAL EQUITY AND LIABILITIES		**1,817**	**(200)**	**1,617**
Working capital		(26)	34	8
Net Debt		248	34	282
Net debt/ equity ratio, %		*34.0%*		*39.0%*

Appendix C: Pro Forma Financial Statement Summaries[14]

Summary financial information

Haldex[4]		
	Q1 2011	***2010***
Sales	SEK 952m	SEK 3,710m
EBITDA margin[2]	9.2%	8.3%
Operating income[2]	SEK 55m	SEK 162m
Operating income margin[2]	5.8%	4.4%

Summary financial information

Concentric		
	Q1 2011	***2010***
Sales	SEK 554m	SEK 1,977m
EBITDA margin[2]	15.1%	12.7%
Operating income[2]	SEK 66m	SEK 151m
Operating income margin[2]	11.9%	7.6%

Balance Sheet, SEKm		**Pro-forma balance sheets**[5]	
	Haldex	***Concentric***	***"New" Haldex***
Working Capital	560	8	539
Intangible assets	1,429	875	554
Capital Employed	4,203	1,077	2,182
Total Assets	5,553	1,617	2,955
Net debt	-604	282	578
Equity	3,410	722	1,229
Net debt/Equity		0.39	0.47

[14] The company does not provide complete pro forma financial statements for New Haldex. Summary pro forma information can be found in the company's Press Release dated May 20, 2011.