Volvo Group – Quarterly Report Analysis

LE Kapitalförvaltning

2025-10-24

1. Executive Snapshot

- FACT: Net sales decreased to SEK 110,692 million for Q3 2025 (income statement) from SEK 116,978 million in Q3 2024 (income statement); reported change -5% (income statement).
- FACT: Adjusted operating income decreased to SEK 11,707 million for Q3 2025 (income statement) from SEK 14,074 million for Q3 2024 (income statement); adjusted operating margin 10.6% for Q3 2025 (income statement) vs 12.0% Q3 2024 (income statement).
- FACT: Operating cash flow in Industrial Operations was negative SEK -1,739 million for Q3 2025 (cash flow statement) versus positive SEK 3,069 million in Q3 2024 (cash flow statement).
- MATTERS (2–6 quarters): Tariff impact - management expects a Q4 2025 transaction and translation tariff headwind of about SEK -1,000 million on operating profit (management commentary in report).
- MATTERS (2–6 quarters): Volume/order risk in North America where management states freight-market softness and lower NA truck registrations (report: market development and 'Total market development' table showing North America heavy-duty YTD August -10% compared with prior year).
- MATTERS (2–6 quarters): Service revenue resilience: Service sales Q3 2025 SEK 31,149 million (net sales by product group, financial summary) and cited as a support to earnings (income statement / segment notes).
- UPSIDE DRIVER: Service revenue growth (service sales SEK 31,149 million in Q3 2025, financial summary) — historically more resilient and reported +4% when adjusted for currency in the summary (financial summary).
- UPSIDE DRIVER: China market strength for trucks: reported China medium/heavy market YTD August +21% (truck market table) and Volvo Group notes continued Chinese rebound (truck section).
- DOWNSIDE RISK: Anticipated tariff headwinds and manufacturing cost inflation — Q3 report states a net tariff impact of about SEK -500 million in Q3 and expects ~SEK -1,000 million in Q4 (management commentary / operating income section).
- DOWNSIDE RISK: Emissions-control remediation legacy exposure — report states a previously recognized provision of SEK 7,000 million in Q4 2018 for premature degradation of an emissions-control component and that roughly half of that provision had been utilized by year-end 2024 (Risks note).

2. What the Company Is Really Saying

FACTS: Management reports Q3 2025 net sales SEK 110,692 million and adjusted operating income SEK 11,707 million (income statement). It states currency reduced operating income by SEK -1,626 million (currency effect note) and that divestment of SDLG produced a positive adjustment of SEK 811 million excluded from adjusted operating income (adjustment note).

INTERPRETATION: Management wants investors to believe the Group retained earnings resilience despite lower vehicle volumes because pricing, service revenues and cost control offset headwinds. FACT: They flag tariffs and material costs as the main near-term headwinds and explicitly quantify an expected Q4 tariff headwind of about SEK -1,000 million (operating income commentary). INTERPRETATION: The message frames the business as operationally robust and able to preserve margins via service and price actions, while acknowledging FX and temporary volume weakness. FACT: Cash flow in Industrial Operations was negative SEK -1,739 million in Q3 2025 (cash flow statement) which management links to normal seasonality and increased investments (cash flow commentary). INTERPRETATION: Management is asking for patience: one quarter of negative industrial cash flow is presented as seasonal and partly investment-driven, while highlighting a SEK 45.4 billion net financial position excluding pensions and leases (financial summary). FACT: They highlight product safety and product launches (Euro NCAP five-star ratings and new electric coach chassis for Volvo BZR Electric) as strategic positives (truck and buses sections). INTERPRETATION: The report emphasizes durability of recurring service earnings and strategic repositioning (electrification, divestments) while downplaying the immediate hit to operating cash and margins. FACT: The report provides concrete metrics (orders, deliveries, margins, cash flow, net financial position) which management uses to frame credibility; however significant legacy charges and litigation-type provisions are only partially quantified (Risks note). INTERPRETATION: Read management as credible on operational levers (pricing, service) but at risk of execution and legacy-remediation volatility; the report supplies numbers to test those claims.

3. KPI Table (Exact Figures)

KPI	Value	YoY Comparison	QoQ Comparison	Management Explanation
Revenue	SEK 110,692 million, Q3 2025 (income statement)	Decreased 5% vs Q3 2024 (Q3 2024 SEK 116,978 million) (income statement)	Not stated in report	When adjusted for currency movements net sales increased by 1% (income statement commentary).
Organic growth	Net sales adjusted for currency: +1% for Q3 2025 (income statement summary)	Q3 2024 baseline; reported adjusted increase of +1% vs Q3 2024 (income statement summary)	Not stated in report	Management emphasizes pricing and service resilience as drivers of adjusted increase (CEO commentary).
FX impact	Currency movements had a negative impact on operating income SEK -1,626 million for Q3 2025 (currency effect note)	Negative vs Q3 2024 (Q3 2024 baseline in note) (currency effect note)	Not stated in report	Management cites currency as a material drag and quantifies the SEK -1,626 million impact (note 4).
Acquisitions/divestments impact	Divestment of SDLG: positive effect excluded from adjusted operating income SEK 811 million in Q3 2025 (adjustments note / Construction Equipment section)	Not stated as YoY % in report	Not stated in report	Adjustment excluded from adjusted operating income; management reports sale completed Sep 1 2025 for SEK 7,943 million (acquisitions note).
EBIT / Adjusted EBIT	Adjusted operating income SEK 11,707 million for Q3 2025 (income statement); Reported operating income SEK 12,517 million for Q3 2025 (income statement)	Adjusted operating income decreased from SEK 14,074 million in Q3 2024 to SEK 11,707 million in Q3 2025 (-17%) (income statement and reconciliation)	Not stated in report	Management cites tariff and material cost headwinds; currency reduced adjusted operating income (management commentary and note 6).
EBIT margin / Adjusted margin	Adjusted operating margin 10.6% for Q3 2025; Reported operating margin 11.3% for Q3 2025 (income statement)	Adjusted margin fell from 12.0% in Q3 2024 to 10.6% in Q3 2025 (income statement)	Not stated in report	Management points to pricing, service and cost actions offsetting inflation but FX and tariffs compressed margin (CEO commentary).
EPS	Earnings per share SEK 3.71 for Q3 2025 (income statement)	Decreased from SEK 4.93 in Q3 2024 (income statement)	Not stated in report	Management notes lower vehicle volumes and FX as contributors; provides no explicit EPS guidance (income statement / commentary).
Operating cash	Operating cash	Q3 2024 operating	Not stated in	Management states

4. Segment Deep Dive

Trucks

- Growth breakdown: Net sales Trucks SEK 74,196 million Q3 2025 (segment note). Currency-adjusted net sales decreased by 2% (segment note states excluding currency net sales decreased by 2%); service sales increased by 4% adjusted for currency (financial summary).
- Margin change and explanation: Adjusted operating income Trucks SEK 6,761 million Q3 2025 (segment note); adjusted operating margin 9.1% Q3 2025 (segment note) vs 11.7% Q3 2024 (segment note). Management cites higher material, manufacturing and tariff costs partly offset by price actions and service (segment and CEO commentary).
- Order intake and backlog signals: Net order intake trucks 37,134 units Q3 2025 (segment note) vs 43,234 Q3 2024 (segment note). Deliveries 44,631 units Q3 2025 (segment note). Order intake down 14% Y/Y (segment table) with Europe down 10% and North America up 10% (orders table).
- One-offs / unusual items: No adjustments in Q3 2024; Trucks adjustments include prior-period transformation items in year-to-date adjustments: Q3 trucks adjustments summary shows 'Transformation to zero-emission vehicles' SEK -4,512 million in quarter 2/2025 presence (adjustment note). Specific one-off: none excluded in Q3 except group-level adjustments; emissions-control legacy provision referenced in risks (Risks note).

Construction Equipment

- Growth breakdown: Net sales Construction Equipment SEK 18,926 million Q3 2025 (segment note). Reported +1% Y/Y; adjusted for currency net sales +8% for Q3 2025 (segment note states adjusted for currency net sales increased by 8%).
- Margin change and explanation: Adjusted operating income Construction Equipment SEK 2,722 million Q3 2025 (segment note); adjusted margin 14.4% Q3 2025 vs 13.6% Q3 2024 (segment note). Management cites positive product mix and improved service as drivers and offsets to tariff and lower volumes (segment commentary).
- Order intake and backlog signals: Net order intake construction equipment 10,546 units Q3 2025 (segment note) vs 10,781 Q3 2024 (segment note). Adjusting for SDLG, order intake increased by 22% per text (segment commentary).
- One-offs / unusual items: Divestment of SDLG had a positive effect excluded from adjusted operating income SEK 811 million Q3 2025 (adjustments note and CE section); SDLG sale completed Sep 1, 2025 for SEK 7,943 million (acquisitions note).

Buses

- Growth breakdown: Net sales Buses SEK 6,009 million Q3 2025 (segment note), currency-adjusted net sales increased by 4% vs Q3 2024 (Buses section states currency-adjusted net sales +4%).
- Margin change and explanation: Adjusted operating income Buses SEK 755 million Q3 2025 (segment note); adjusted margin 12.6% Q3 2025 vs 11.8% Q3 2024 (segment note). Management cites price realization and lower operating expenses; a property sale added SEK 170 million (Buses section).
- Order intake and backlog signals: Net order intake Buses 1,311 units Q3 2025 (segment note) vs 1,677 Q3 2024; deliveries 1,393 units Q3 2025 (segment note). Order intake down 22% (segment table).
- One-offs / unusual items: Property sale positive SEK 170 million in Q3 (Buses section); adjustments note shows no Q3 bus adjustment but earlier Q2 bus restructuring charges included in adjustments table (adjustments note).

Volvo Penta

- Growth breakdown: Net sales Volvo Penta SEK 5,030 million Q3 2025 (segment note); currency-adjusted net sales +13% (Volvo Penta section states currency-adjusted net sales +13%).
- Margin change and explanation: Adjusted operating income Volvo Penta SEK 934 million Q3 2025 (segment note); adjusted margin 18.6% Q3 2025 vs 17.7% Q3 2024 (segment note). Management cites higher volumes and an improved service business (Volvo Penta section).
- Order intake and backlog signals: Total orders engines 8,190 units Q3 2025 (segment note) vs 6,394 Q3 2024; deliveries 9,302 units Q3 2025 (segment note). Orders for industrial segments and marine commercial grew (Volvo Penta section).
- One-offs / unusual items: Not stated in report specifically for Volvo Penta beyond normal adjustments; currency had negative impact of SEK 185 million on operating income vs Q3 2024 (Volvo Penta section).

Financial Services

- Growth breakdown: Credit portfolio net SEK 259 billion Q3 2025 (Financial Services note); new retail financing volume SEK 25.4 billion Q3 2025 (Financial Services note). Net credit portfolio growth +4% adjusted for currency (Financial Services summary states adjusted growth +4%).
- Margin change and explanation: Adjusted operating income Financial Services SEK 1,029 million Q3 2025 (segment note) vs SEK 992 million Q3 2024; management cites portfolio growth offset by increased credit provisions (Financial Services section).
- Order intake and backlog signals: Not applicable in traditional sense; portfolio growth and financed units 12 months rolling 67,569 (Financial Services note).
- One-offs / unusual items: None stated specifically for Q3; credit provision expenses SEK 379 million Q3 2025 (Financial Services note) vs SEK 199 Q3 2024 (segment note).

Segment Summary

- Segment winners: Volvo Penta (Adjusted operating income SEK 934 million Q3 2025; adjusted margin 18.6% (segment note)) and Construction Equipment on adjusted basis excluding SDLG (adjusted operating margin 14.4% Q3 2025 (segment note)).
- Segment problems: Trucks clearly under pressure on margins and volumes (Adjusted operating income Trucks SEK 6,761 million Q3 2025; margin 9.1% vs 11.7% prior year, trucks section) and Buses volumes down which creates short-term volatility in results.

5. Quality of Earnings & Cash Conversion

- Operating cash flow drivers: Industrial Operations operating cash flow SEK -1,739 million in Q3 2025 (consolidated cash flow statement); report cites seasonality and increased investments as key drivers (cash flow commentary).
- Working capital movements: Change in working capital Industrial Operations in Q3 2025 was reported as SEK -9,545 million (consolidated cash flow statement) including effects in accounts receivable, inventories and payables (cash flow statement).
- Capex intensity: Capital expenditure in Industrial Operations Q3 2025 SEK -385 million (consolidated cash flow statement 'Capital expenditure') and first nine months capex SEK -1,314 million (consolidated cash flow statement).
- Earnings quality concerns: Large adjustments and reclassifications — divestment of SDLG produced an adjustment excluded from adjusted operating income of SEK 811 million in Q3 2025 (adjustments note); currency impact on operating income SEK -1,626 million Q3

2025 (currency effect note); previously recognized emission-control provision SEK 7,000 million Q4 2018 with about half utilized by year-end 2024 (Risks note).
- Conclusion: Cash conversion appears Neutral. Justification: the quarter shows negative Industrial Operations operating cash flow SEK -1,739 million (cash flow statement) and large working-capital outflow SEK -9,545 million (cash flow statement), but the Group records a positive net financial position excl. pensions and leases SEK 45.4 billion (financial summary), and cash flow after net investments for the quarter is presented as SEK 3,176 million (cash flow statement). The mix of negative Q3 cash flow and strong balance sheet implies neither clearly strong nor clearly weak conversion at this point.

6. Guidance & Management Credibility

- Guidance given: Management quantified expected Q4 2025 tariff/operational currency impact of about SEK -1,000 million on operating profit (operating income commentary).
- Changes vs prior statements within the report: Not stated in report (no explicit prior-quarter guidance comparison provided inside this report).
- What management attributes performance to: Management attributes resilience to pricing, service revenue growth (service sales SEK 31,149 million Q3 2025, financial summary) and cost-control measures, while citing currency and tariffs as main headwinds (CEO commentary and financial summary).
- Credibility score: Medium. Justification: Management provides concrete, quantifiable metrics (e.g., currency impact SEK -1,626 million note 4; SDLG adjustment SEK 811 million adjustment note; operating cash flow SEK -1,739 million cash flow statement), which increases transparency; however, a negative Q3 operating cash flow in Industrial Operations and legacy provision exposure (SEK 7,000 million provision reference in Risks note) limit full confidence in short-term cash predictability.

7. Balance Sheet & Risk Checklist

- Liquidity and leverage: Net financial position excluding post-employment benefits and lease liabilities Industrial Operations SEK 45.4 billion as of Sep 30 2025 (financial summary). Total equity Volvo Group SEK 171.9 billion as of Sep 30 2025 (balance sheet summary).
- Debt maturities or covenant mentions: Not stated in report (no explicit maturity schedule or covenant disclosure included).
- FX, commodity, customer concentration risks: Currency movements had negative impact on operating income SEK -1,626 million Q3 2025 (currency effect note); tariffs were stated as ~SEK -500 million impact in Q3 and expected SEK -1,000 million in Q4 (operating income commentary).
- Pension, legal, environmental provisions: Previously recognized emissions-control provision SEK 7,000 million (Q4 2018 provision referenced in Risks note) with roughly half utilized by year-end 2024 (Risks note). Provisions for post-employment benefits and lease liabilities net SEK -14.4 billion as of Sep 30 2025 (financial position tables).
- Acquisition or integration risks: Divestment of SDLG completed Sep 1 2025 (acquisitions note) and several acquisitions completed in the period; report states acquisitions are not expected to have a material impact on Group key figures (note 3 acquisitions comment).

8. Questions for Management

Demand & Orders

- Q1: Q3 truck net order intake declined to 37,134 units (segment note). How many months of dealer and OEM order backlog (in units and revenue) does this backlog represent today? Not stated in report.
- Q2: In North America, freight-market weakness is cited and registrations YTD August are down ~10% (market table). What specific thresholds in freight indices or EPA-2027 clarity would trigger a notable change in production plans? Not stated in report.
- Q3: The China medium/heavy market YTD August is reported +21% (trucks market table). How much of Volvo Group's China sales growth in Q3 2025 (net sales Trucks SEK 35,588 million Europe etc) is due to incremental BEV vs diesel/natural gas split? Not stated in report.
- Q4: Construction Equipment adjusted for SDLG shows stronger orders. What is the expected revenue timing for the largest orders booked in Q3 2025 (segment note) and potential margin profile? Not stated in report.
- Q5: For fully-electric trucks orders (733 units Q3 2025) and deliveries (1,061 Q3 2025), what is the expected ramp/capacity constraint that limits broader EV deliveries next 6–12 months? Not stated in report.

Pricing, Volume & Competition

- Q1: Adjusted operating income compressed by tariffs and FX (adjusted operating income SEK 11,707 million Q3 2025). How much of recent pricing actions are contractual (long-term) versus one-off surcharges? Not stated in report.
- Q2: Trucks adjusted margin fell to 9.1% in Q3 2025 (segment note). How much of that margin decline is attributed to mix versus specific commodity (steel/aluminum) cost increases (SEK impact)? Not stated in report.
- Q3: Report cites tariff impact SEK -500M in Q3 and ~SEK -1,000M expected in Q4 (operating income commentary). Which product-lines and regions carry the majority of this tariff exposure by SEK amount? Not stated in report.
- Q4: In Construction Equipment the adjusted margin improved (14.4% Q3 2025). Is that margin sustainable at current volumes, or dependent on temporary mix and SDLG divestment benefit SEK 811 million (adjustment)? Please quantify. SEK 811 million adjustment is stated (adjustments note).
- Q5: For Volvo Penta the industrial orders were strong (segment: industrial demand and marine commercial). What is the assumed gross margin on power-generation/data-center engines relative to marine leisure and how does that affect group operating leverage? Not stated in report.

Margins & Cost Structure

- Q1: The report quantifies currency drag SEK -1,626 million on operating income (currency effect note). How are FX hedges sized and what is the current hedge coverage ratio on the next 12 months' expected net flows? Not stated in report.
- Q2: What is the precise cumulative tariff cost recognized in 2025 to-date by SEK (report mentions approx SEK -500M in Q3 and ~SEK -1,000M expected in Q4)? Not stated in report beyond the quoted Q3 and Q4 estimates.
- Q3: The emissions-control provision history is material (SEK 7,000 million originally). What is the current best estimate of remaining remediation cost exposure and expected cash outflow schedule? The report states roughly half of the SEK 7,000 million was utilized by year-end 2024 (Risks note); exact remaining exposure Not stated in report.

- Q4: R&D spend Q3 2025 SEK -5,511 million (income statement). How much of 2026 R&D budget is allocated to powertrain vs software/services vs BEV development (split)? Not stated in report.
- Q5: Adjustments include SEK 811 million SDLG divestment benefit (adjustments note). How will the Group re-deploy proceeds (capex, buybacks, debt repayment)? Not stated in report.

Cash Flow & Working Capital

- Q1: Industrial Operations operating cash flow Q3 2025 SEK -1,739 million (cash flow statement). Please provide the detailed drivers of the SEK -9,545 million change in working capital (cash flow statement) broken down by accounts receivable, inventory, payables with amounts. The report lists totals; line-item breakdown is present in the cash flow statement but specific driver amounts are identified — request confirmation of largest contributors. (cash flow statement shows line items but not deeper granularity).
- Q2: Divestment of SDLG completed for SEK 7,943 million (acquisitions note) and contributed to 'divested operations' SEK 1,055 million in Q3 cash flow (cash flow statement). Please reconcile sale proceeds vs cash flow recognition and timing. Not fully reconciled in report.
- Q3: What is the target net financial position (excl pensions & leases) for Industrial Operations and policy on using excess cash (the report states SEK 45.4 billion Sep 30 2025 but not target)? Not stated in report.
- Q4: Capex Q3 Industrial Operations SEK -385 million (cash flow statement) and 9M capex SEK -1,314 million (cash flow statement). What is the planned 2026 capex range and % of sales target? Not stated in report.
- Q5: Customer-financing receivables non-current SEK 126,778 million and current SEK 110,996 million on Sep 30 2025 (balance sheet). Please confirm average credit loss rate and provisioning cover (the report shows credit provisions in Financial Services but not group consolidating cover ratio). Financial Services provisioning details are provided but consolidated provisioning cover Not stated in report.

Capital Allocation & Guidance

- Q1: The SDLG sale generated SEK 7,943 million proceeds (acquisitions note). How much of that cash was deployed (repurchases, dividends, capex, debt reduction) through Sep 30 2025? Report shows dividend SEK -37,619 million year-to-date (cash flow) and repurchase SEK -145,386 M flows elsewhere; request exact allocation. Not stated exactly in report.
- Q2: The Group reports no change in full-year guidance but quantifies Q4 tariff impact ~SEK -1,000 million (operating income commentary). Will management issue updated FY margin or EPS guidance? Not stated in report.
- Q3: What is the current share-repurchase authorization and remaining capacity (report shows repurchases in period but not the remaining mandate)? Not stated in report.
- Q4: What is target capital structure metric post-SDLG sale (e.g., net financial position / EBITDA target) and priority of uses of excess cash? Not stated in report.
- Q5: For the business separation and new ventures (Coretura etc.) what is the expected ROIC hurdle and timeline to profitability (Coretura mention in adjustments note)? Not stated in report.

9. Red Flags & Inconsistencies

- Overuse of adjusted metrics: Report excludes SEK 811 million SDLG divestment from adjusted operating income for Q3 2025 (adjustments note). Adjusted measure thus omits a material, disclosed cash-positive item this quarter.

- Large FX swing explanation: Currency movements had a direct quantified negative impact on operating income SEK -1,626 million (currency effect note) but the report does not present a full hedge coverage schedule to judge future volatility risk (hedge schedule Not stated in report).
- Negative Q3 operating cash flow vs positive net financial position: Industrial Operations operating cash flow SEK -1,739 million (cash flow statement) contrasts with net financial position excl. pensions and leases SEK 45.4 billion (financial summary); reasons partly explained (seasonality, investments) but detail-level working-capital drivers are large and concentrated (change in working capital SEK -9,545 million Q3) with limited narrative granularity.
- Legacy provision transparency: The emission-control provision (SEK 7,000 million original) is described as 'about half used' by year-end 2024 (Risks note), but the remaining exposure and cash-out timing are not quantified precisely in this report.
- Missing disclosures: No explicit consolidated order backlog in monetary terms is provided; order intake and deliveries are presented in units but not converted to revenue backlog coverage (backlog monetization Not stated in report).

10. Bottom-Line Investor View

Base case: Over a multi-quarter horizon the Volvo Group preserves adjusted margins near low-double digits driven by service resilience (service sales SEK 31,149 million Q3 2025, financial summary) and pricing, while vehicle volumes remain cyclical. The Group's strong net financial position excluding pensions and leases (SEK 45.4 billion Industrial Operations as of Sep 30 2025, financial summary) provides balance-sheet optionality. Near-term EPS and ROCE are likely subdued vs prior-year comparables because of currency headwinds (SEK -1,626 million currency impact on operating income, currency note), tariff headwinds (~SEK -1,000 million expected Q4 stated by management), and negative Q3 industrial cash flow SEK -1,739 million (cash flow statement). Over the cycle the Group should recover given product portfolio and service momentum, but legacy remediation and macro-driven volume softness are key watch items (Risks and cash flow statements).

- Bull case: 1) Rapid recovery in North American freight improving truck orders and utilization (market metrics in truck section); 2) China market expansion sustains demand (+21% YTD August Chinese market, trucks table); 3) Service growth and pricing restore full-year adjusted operating margin to prior levels.

- Bear case: 1) Escalating tariffs or new trade barriers materialize beyond the management estimate (Q3 and Q4 tariff impact stated), eroding margins; 2) Prolonged freight recession in North America suppresses truck orders and residual values; 3) Additional large remediation or legal cash calls related to the emissions-control issue (original provision SEK 7,000 million) or other legacy items.

- Three things that would change conviction: 1) Clear reduction in tariff risk (quantified or reversal of expected SEK -1,000 million Q4 tariff impact) would increase confidence; 2) Evidence of sustained operating cash flow recovery in Industrial Operations (from SEK -1,739 million Q3 to positive sequential quarters) would improve conviction; 3) Transparent schedule and quantified remaining remediation costs for emissions-control provision (value and timing) would materially change the risk assessment.