

FOUR SIDES

Modesty—Morals—Artistry—Confidentiality

IRAN—THE NEW FRONTIER

Iran has, despite the embargo, done quite well. Now that it can be part of the global business community again and sell and distribute oil and gas as well as do business with other countries, Iran will boom. Everyone will be there and everyone will want a piece of the pie. Iran is the last large, unexplored market in the world!

We started our office in Tehran in April this year as we strongly believe that there are great opportunities for doing business in Iran. It is important not to lose speed. Iran has a population of almost 82 million people, with 41.27 percent of the people below 25 years. Tehran has a population of 9 million people in the city and 16 million in the metropolitan area. The Iranian people has for many years been unable to buy western products and now have a pent-up desire for foreign products.

A statement by France, Germany, the United Kingdom, the United States and the High Representative of the European Union for Foreign Affairs and Security Policy released on the 20th of May:

“We will not stand in the way of permitted business activity with Iran, and we will not stand in the way of international firms or financial institutions’ engaging with Iran, as long as they follow all applicable laws.”

“The interest of European and other global firms in Iran is high, and it is in our interest and the interest of the international community to ensure that the [Iran nuclear agreement] works for all participants, including by delivering benefit to the Iranian people. This includes the reengagement of European banks and businesses in Iran.”

This was a very important message for all companies who want to establish business relations with Iranian companies. There have already been a huge number of business delegations to Iran and there are more to come.

” To travel hopefully is a better thing than to arrive.

Robert Louis Stevenson

Despite the embargo, the Iranians have planned and started many projects. Examples include:

- I. Express railway from the north to south of Iran.
- II. A railway between the international airport of Tehran and the city is under construction.
- III. Tehran has a good subway now extended to the new artificial lake area. In this area, there is mass production of homes for 2.5 million people.
- IV. 120 new hotels and 90 shopping malls are under construction.
- V. 40,000 new hospital beds are under production.
- VI. 150,000 hospital beds planned.
- VII. New hospitals under construction; when finished, many well-educated doctors, nurses etc. living abroad are expected to move back home to Iran.

Iran has a better infrastructure than you expect. As an example, the road between Tehran and Isfahan, the third city of Iran, is a three-lane highway. Isfahan is a major industrial center and is one of the important tourism centers in the country.

Iran, holder of the world’s largest natural gas reserves, has reserves of 34 billion cubic meters, almost 40 percent more than Qatar, the world’s biggest exporter of liquefied natural gas. This gives the government resources to further expand the infrastructure and public health sector.

We are already working with major Iranian companies. If you want an inroad – contact us!



Ywonne Lagerkvist
EVP & CFO

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THE FUTURE IS NOT GIVEN

INTERVIEW WITH SÖREN MELLSTIG



The future must be conquered again and again. Head office location is of utmost importance. And—whether you are a municipality, a region or a country—you have to interact with welfare companies supplying their services and quality assure their deliveries, not just let them go after a public tender, says Sören Mellstig, Chairman of Trelleborg AB, Ellevio AB, Cellavision AB et cetera, former CEO of Gambro AB and holder of many senior positions in large international companies as well as a member of the Lagerkvist & Partners Advisory Board.

Four Sides: How do you see today's situation in Sweden businesswise and in the public sector?

Sören Mellstig: During 2006–2010, we had the best Swedish government as far as I can remember. It delivered. Now, we have one of the worst. The largest problem is that neither the government, nor, in many cases, other governing bodies or the opposition are doing their homework concerning welfare companies. You have to analyze the situation so you have a realistic picture of what is going on. Then you have to govern and follow up! As you always do in a company—at least in the successful ones. You cannot only do your procurement of hospitals, elderly homes, schools et cetera. You have to control, follow up and quality assure all the time.

For a country, as for a company, the future has to be conquered again and again. The pace of change is continually increasing and the momentum for change that we have is getting shorter. The future is not given. We must realize that and act accordingly.

Four Sides: The healthcare sector, which you know very well, has gone through enormous changes and two of our pharmaceutical companies, Pharmacia and Astra, have almost left the country. What is the reason for this and does this matter much for our country?

Sören Mellstig: It has a tremendous impact. Research entities and researchers have left the country. We have lost a lot of jobs—tens of thousands—and the total healthcare community has been drained intellectually and there is a risk that we have lost our critical mass. This will have a great long-term impact.

Four Sides: So it is important to keep the head offices and, for that, normally some main owner in the country?

Sören Mellstig: That is of utmost importance. When the head office disappears, all activities of the company in the country go down successively and ultimately disappear. Take, for example, Nobel Industries where I worked. When Akzo acquired the company the driving forces disappeared to the Netherlands and successively the activity has gone down in Sweden. Our country with our politicians seems to be almost the only country in the world that does not regard it important to keep the companies and their head offices in the country. If the government has important issues with these companies that have moved but still have some activity in our country, with whom should they talk and where, to have some impact? The communication is broken.

Four Sides: We now have a debate concerning healthcare companies, education companies et cetera, whether they should be allowed to make a profit or not. Will this stop further privatizations and even result in more public operations in these sectors?

Sören Mellstig: It is totally stupid to think that the healthcare et cetera should be better if a profit ban is really implemented. You have to remember that normally, private operators are more efficient and cost at least 20 percent less. It is a pity that the opposition does not seem to be able to take the debate regarding productivity and caring for taxpayers' money. Also, it must be underlined that the majority of what is privatized in healthcare and elderly care is based on tendering. This means that the public governing bodies are in full control concerning the tender, establish standards and, after the tender period, have the full opportunity to re-tender or to make the care publicly operated again.

On the other hand, I do not think these ideas will be implemented. Hopefully, there is no majority for this in the parliament. But it is also probably too late to implement this. If the private actors successively close their operations, the healthcare sector would implode and even if they in some areas managed to operate as public actors the costs will increase substantially.

Four Sides: So you think the healthcare sector will continue to be partly privatized?

Sören Mellstig: I hope so and think so! Privatized welfare means private actors being subcontractors to the public. This is beneficial for the taxpayers and it actually drives productivity and quality in the public sector, as the private actors become role models.

Four Sides: Switzerland has more industry workers than Sweden has. IKEA Industries, Atlas Copco, Scania, Kinnarps et cetera have moved production back to Sweden. Can this development continue?

Sören Mellstig: If you, for example, look at car production—which is assembling, nothing else—you do not see many blue-collar workers or other workers in the

plants anymore. So even if you move back production it will not create so many jobs and this automatization will continue. However, there is still some type of production that is demanding a lot of manpower on the floor, for example the large tractor tires that Trelleborg produces. In other words, high value added products without possibility to automatize will still favor outsourcing to low-cost countries.

Four Sides: So you yourself will not stop working and you will not move from our country?

Sören Mellstig: I love to work, to do what I do today. It is fun and it keeps you going. And in the end, I am positive to the development of Sweden and the world, but we must remember to conquer our future again and again!

” Change is the law of life. And those who look only to the past or present are certain to miss the future.

John F. Kennedy

” And I will go on criticizing socialism ... They've got the usual socialist disease—they've run out of other people's money.

Margaret Thatcher

ENERGY PRICES WILL REMAIN LOW

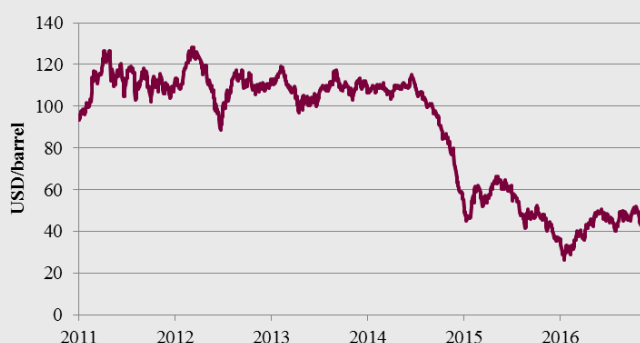
We have, on numerous occasions, said that energy prices will remain low, which has proved to be a correct assessment. Electricity and oil prices have continued to decrease which is good for consumers, but those investing in wind power projects should worry.

Saudi Arabia refuses to cut its oil production out of fear of losing market share. In addition, demand for oil remains low. Slow economic growth and growing substitution of oil are also factors behind diminishing prices. Similarly, the demand for natural gas has been decreasing since 2006, and natural gas has remained an unsuccessful energy source in Europe due to access to cheap lignite.

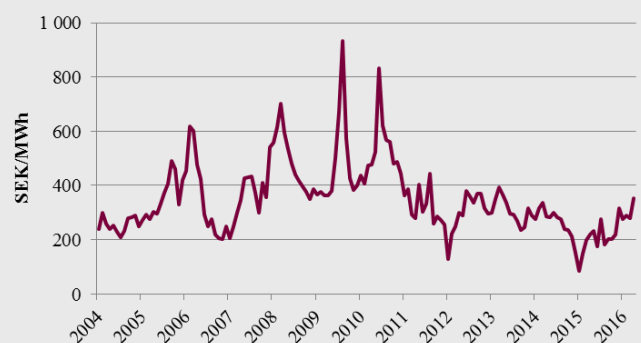
Due to low energy prices, wind power needs to be heavily subsidized in order to remain feasible. Another renewable energy source, solar power, has for quite some time been interesting for those who want to produce their own energy. Since self-produced electricity replaces electricity from the grid, solar power can be economically viable provided there are no new taxes.

Meanwhile, we have entered a period of energy abundance, which means that energy will remain cheap during the foreseeable future. The energy mix of societies will change fast, and oil will continue to lose market share. The electrification of the transport sector will hurt oil products while lignite will remain an important source of electricity. Solar power will, after hydropower, become the most important renewable energy source.

Spot Price of Brent Oil



Spot Price of Electricity



Recently, we have seen the development of the Smart Grid, a technology using computers and smart meters, enabling decentralization of energy production with the aim of optimizing the electricity supply. The mega trend is now a decentralization of production and hence a loss of control for the big energy companies.

A house with a Smart Grid can be used to manage electricity usage. The household could have solar panels on the roof which supply internal energy while selling the surplus on the market. Moreover, smart systems make it possible to exploit hourly price differences.

”” **Failure is not fatal, but failure to change might be.**

John Wooden

If a large number of households invest in this technology, a considerable share of energy will be produced in small-scale units, which will lead to diminished distribution distances and lower household energy bills. The Smart Grid can become what Airbnb and Uber are in their respective markets.

In conclusion, energy prices will remain low which is positive for the industry and consumers. Those investing in wind energy will probably have a harder time. The electricity market will be revolutionized through decentralization.

”” **To improve is to change, so to be perfect is to have changed often.**

Winston Churchill

THE MEDIA MARKET AND THE NEW MONOPOLIES

The transformation of the media industry, which has been a subject of previous **FOUR SIDES** issues, continues at a fast pace. Our prediction that Stampen would be forced out of business has largely come true. Digital media continues to hurt traditional media, and also allows those who were able to forecast the development correctly to build new monopolies. Examples include Blocket in Sweden and Google on a global scale.

For traditional newspapers, all graphs are pointing downward, as evidenced by the global production of newsprint paper. In just two years, the amount of people who use Facebook and Twitter as news providers has increased by 27 percent and in 2014, newspapers and magazines constituted only five percent of worldwide media consumption. In absolute numbers, daily consumption of newspapers has decreased by 50 percent over the last five years.

There is, however, some hope. While the readers of most traditional newspapers are quite old, such newspapers could survive another 5–7 years. There will be a gradual decline, but some newspapers might be able to adapt by cutting the most expensive content and raising the price, thus making newsprint a profitable *sunset industry*.

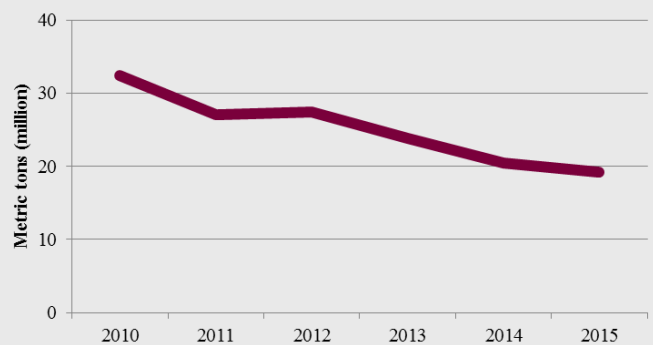
”” **Never confuse movement with action.**

Ernest Hemingway

”” **A poor judgment never fails.**

ML

Global Production of Newsprint Paper



In the long run, however, only those newspapers that have already managed to transform to digital media companies will prosper. Whereas the future of Schibsted, whose digital revenue comprises 50 percent of total revenue, is bright, that of Stampen and Bonnier, whose online revenue share is less than 10 percent, looks grim.

TV watching is also slumping. In Sweden, TV watching has decreased since 2010. Smartphones are already used 30 percent more than TVs globally, and the difference is even larger in developing countries in Africa and Asia. The number of movie theater tickets sold exhibits a downward trend in large cinema countries such as the U.S. and Iceland (where per capita consumption of cinema is actually the highest in the world).

”” **The key is to identify and formulate the right questions.**

ML

”” **No man was ever wise by chance.**

Seneca

Instead, media is consumed on demand. Video sites such as YouTube as well as streaming services such as Netflix allow the user to watch a wide range of TV series and movies whenever she wants. YouTube and Netflix are also interesting from another perspective, in that they constitute new monopolies that have emerged from competitive markets. As an example, Google has a global market share of 65–70 percent among search engines. It has also used its position to enter new areas of business, such as news, as well as to build local monopolies within the market for local advertisement.

The media industry is shifting. The weakest newsprint actors are suffering and Stampen would already have been forced out of business if it were not for the largest press subsidy ever seen; that is, the tax authorities' acceptance of Stampen's abatement of creditors. Unless Bonnier's real estate operations saves the company, it will be next to follow. Conversely, those who were able to see and adapt to the changes in time will be able to survive, especially if their offering is focused and they produce their own, high-quality content.

CONJUNCTURE, KEYNES, CONVENTIONAL WISDOM AND THE NEW REALITY

Conventional Keynesianism advocates active inflation targeting monetary policy as well as active fiscal policy, which has typically translated into large, government funded infrastructure projects. Another important feature, conspicuously absent in today's application of Keynesianism, is that there should be no national debt over the business cycle. Today, many actors want to undertake large infrastructure projects whereas recent evidence suggests that monetary policy should not focus exclusively on inflation, suggesting that conventional Keynesianism has had its day.

Conventional wisdom suggests that central banks should maintain a low and stable rate of inflation. However, the justifications for such an inflation target relate to inefficiencies—such as barriers to trade and bottlenecks—that are constantly reduced.

As an example, the Internet and global transport make it possible for a small company to have a globally—as opposed to locally—efficient production structure or supplier network. In addition, the same company can reach a global—as opposed to local or regional—market. Hence, some of the major justifications for maintaining a positive inflation rate are swiftly removed.

Also, recent research has questioned some of the conventional wisdom surrounding Keynesianism. First, the Fisher equation, which postulates that the nominal interest rate is approximately equal to the real interest rate plus the inflation rate, has been questioned. Under the assumption that the real interest rate cannot be affected by the central bank, *lowering* the nominal interest rate might, contrary to conventional wisdom, result in a *downward* effect on inflation.

Second, whereas conventional wisdom claims that deflation might cause a deflationary spiral hurting the economy, the Bank for International Settlements (BIS) has published a few studies indicating that low levels of deflation might not be harmful and that moderate deflation levels have no impact on employment and growth. Accordingly, BIS has warned against central banks focusing solely on inflation at the expense of data on employment and growth.

With regard to active fiscal policy, the most common approach is for governments to undertake large investment projects such as infrastructure projects. Such an approach has been quite common in Sweden, where projects such as Arlandabanan, Förbifart Stockholm and Östlig förbindelse (Österleden) have been or will be funded by the government.

However, there are many Swedish actors that are willing and able to undertake large projects. As an example, Skanska offered to fund and undertake the construction of Östlig förbindelse (Österleden). Also, the amount of capital invested in venture capital firms is increasing steadily while the pension system is increasingly strained by an ageing population, making both types of investors desperate for large, profitable investment opportunities.

Sweden has always been a Keynesian stronghold. However, many of the justifications for a non-zero inflation rate are quickly disappearing. Also, as recent research is questioning both the central bank's focus on inflation and the models they use in doing so, it seems that the central bank's inflation-chasing efforts are misguided at best and outright harmful at worst.

When it comes to governmental infrastructure projects, Sweden is not the only sinner. As an example, the President-elect of the United States, Donald Trump, has promised to undertake road construction at the expense of the government. Still, the Swedish government could learn from Trump's tax reluctance by allowing private investors to finance and undertake large infrastructure projects while instead focusing its attention on much-needed investments in education and healthcare. Keynesianism has had its day.

” We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.

Winston Churchill

” It's the economy, stupid!

Bill Clinton

OBESITY IS THE PROBLEM

Poverty is a societal problem that has been discussed by politicians for decades. Notably, the number of people living in extreme poverty in the world has decreased substantially following economic development. By contrast, obesity is becoming a growing problem causing increasing economic strain and deteriorating health among a large portion of the global population. Today, obesity is responsible for 5 percent of all deaths globally.

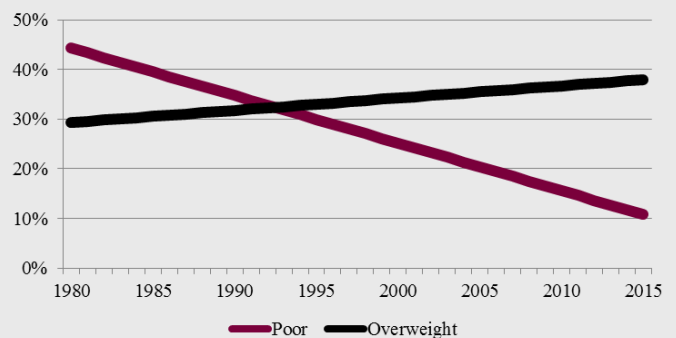
The number of people living in extreme poverty (on or below 1.90 USD/day) is approximately 900 million. Poverty is frequently labelled as society's most urgent problem globally. However, the portion of the global population that lives under extreme poverty has declined from 44 percent (2 billion) in 1980 to 13 percent (900 million) in 2012. Meanwhile, global population has increased from 4.4 billion to 7 billion.

Increasing body mass index (BMI) levels is one of the most alarming societal problems. WHO defines overweight as having a BMI equal to or greater than 25; obesity is defined as having a BMI equal to or greater than 30. The number of overweight today is 2.1 billion, which is more than double the amount of overweight in 1980.

Despite shocking figures, obesity is not regarded as big a threat as poverty and other societal burdens. The implications of obesity are multifaceted; being overweight greatly raises the risk for many serious diseases, leads to soaring healthcare costs and decreasing productivity.

Global obesity forecasts look very bleak, yet anti-obesity related health campaigns and other measures to control the obesity epidemic receive very little funding. This highlights the lack of action taken to reduce the impact of the biggest public health hurdle of the century.

Share of World Population



In order to control the increasing levels of obesity, possible actions include economic incentives such as sugar or BMI taxation and commercial initiatives such as portion size alternatives. Other instruments are regulation of caloric and nutritional content of food, restrictions regarding marketing of unhealthy food and national strategies on diet and physical activity.

If the current development continues, poverty will solve itself and disappear while obesity will continue to grow and have a greater impact on the global economy. We will see an economic downturn through labor shortage and decreasing productivity that will lead to a need for new measures to curb obesity development.

Our Four Sides

MODESTY

In the Company's approach to an assignment and with respect to the client's own expertise.

MORALS

In the form of loyalty to the client and strict focus on the client's long-term development and profitability.

ARTISTRY

Through efforts to provide innovative solutions, that give the client a position of leadership.

CONFIDENTIALITY

All assignments are carried out in strictest confidence and remain confidential.