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Nolato

Q1 2019



Prepared Remarks



Welcome to the Q1 information from the Lotto. It's great to walk with and Paola Olmstrom is here by my side, and we're going to present our Q1 report, of course. The Q1 ended up with the sales of SEK 1,656,000,000 compared to a little bit more than SEK 2,000,000,000 last year. And that was, if we adjust that for currency and group structure, it was a decrease of sales by 23%. We had strong performance by Medical Solutions, but Integrated Solutions had lower volumes as previously announced, and that's due to stock reduction with one of the major customers.



Profit dropped to 175,000,000, which is the, should be compared to 244,000,000 last Q1. That is, that corresponds to a margin on EBITA of 10.6%. Of course, there was a volume impact, but also some weak margins within Industrial Solutions. Cash flow after investment amounted to \$25,000,000 in this quarter, and we have a continued very solid financial position. I'll now turn in Page 2, to Page 3.



And this is just to summarize the 3 different business segments or business areas that we have, the medical, the industrial and the integrated solutions. Now turning to Page 4, where we start with Medical Solutions, and sales in the quarter ended up at SEK 611,000,000 and the EBITDA at SEK 78,000,000 corresponding to a margin of 12.8%. Now turning to Page 5. This quarter corresponds to a 15% increase of sales, But if you adjust that for currency, it was a strong 9%. We saw increased involvement in both the medical device part of the business area but also in the power packaging.



We see project activities within the auto injectors, insulin products and incontinence products on a strong level. And the production capacity increase is completed according to plan. Hello.



Sorry to interrupt. This is Alberto speaking. Do you mind just confirming your name and company for me, please? Hello to the caller on this line. After no response, I'd like to turn you back.



EBITDA of 57,000,000 gives a margin of 11.1 percent in the quarter. Turning to Page 8. This corresponds to a 45% decrease in sales. And if we adjust for the currency effect, we're up 51%. But as announced, inventory adjustments in the VHP segment had a negative impact, of course.



But we see indications that the inventory situation was normalized, and we assess the 2nd quarter to be better than previously announced, and we expect sales to exceed the Q4 2018. We have received orders for the new DHP models, and we've attained a strong position with the customer. And during the quarter, we had weak, still weak mobile phone volumes, but good growth for the E and C part of the business area. Turning to Page 9, showing the 2 segments that we are working within Integrated Solutions. We have the consumer electronics to the left, which contains the DSP, the mobile phones and other connected devices.



And then we have the E and P thermal working with the shielding solution and thermal solutions for telecom and other industries. On Page 10, Rural Prime Industrial Solutions, Q1, and we had the sales during the quarter of \$533,000,000 and EBITDA of \$44,000,000 giving the margin of 8.3%. That corresponds to the 6% decrease in sales, and that is the same if we adjust for the currency and the group structure. We had during the quarter an inventory adjustment for a customer in the hygiene sector. We also had restructuring of production equipment at the customer site within the automotive segment, giving effect on the volumes.



The margin, 8.3 percent, is impacted by unsatisfying here efficiency from the production facility. We have measured, implemented, and we see it gradually giving effect. And of course, the margin was also affected by the lower volumes and the reduction of stock levels. Turning to Page 12. We show the 2 segments of the business area, the Automotive and the general industry.



So all the 2 segments of the Industrial Solutions business area.



Okay. Then we're turning to Page 13, some group financial highlights. Net sales increased to SEK 1,656,000,000, a drop from just a little bit more than SEK 2,000,000,000 last previous Q1 2018. Adjusted for currency and group structure, that was decreased by 23%, mainly affected by Integrated Solutions. The margin has been affected by lower volumes.



It dropped to 10.6% compared to 12.9%. And we get an EBITDA result of €175,000,000 compared to €264,000,000 including €20,000,000 of nonrecurring. The net investments in this quarter was €105,000,000 paid, and that was approximately the same level as last year. And it is in line with what we have communicated is assessed to be the €400,000,000 level during the full year 2019. Earnings per share, €4.986 percent compared to €7.83 percent last year.



We have a net financial asset of 3 73,000,000 end of this quarter. That is excluding pension liabilities of SEK 185,000,000 and it's also excluding the new way of showing lease liabilities of SEK 3 53,000,000 end of this quarter. And of course, we will pay if decided by the Annual General Meeting, which will be later this afternoon. And if so, it will be a payout in May of €368,000,000 in dividends in May.



Okay. Turning to Page 14 and some current situation by business area. Let me start with the Medical Solutions. We see a maintained growth strategy, a lot of focus on innovation, and we see high activity in market and good project activity. On the integrated solutions side, we have established a new position in the new product areas.



We see a continuous strong position within EMT Thermal. And of course, in the base, we have a flexible production structure. Industrial Solutions, we are have advanced our market positions. We have efficiency measures have been taken, and we see gradually having an effect. And we also see some indication of a slowdown in the economy, but stable volumes.



Now we are open for questions.

Q&A



Thank And we have a question from the line of Mikael Larsen from Carnegie.



Okay. Hi. I have a few questions and they are related to integrated, first of all. Can you talk about the development and discuss the development in the quarters for that segment? And elaborate on why you expect higher sales now than you previously expected the reason behind that?



I can start to give some background to the assessment we have made for the Q2. We do see signs of the inventory situation leveling out. And because of that, we have and because, of course, recent discussions with the customer plans, forecasts going forward, summarizing that to the data we see. That is giving us the opportunity to increase our assessment of the Q2. And hence, we again compare with the Q4 2018 and say that we assess that level to be exceeded during the Q2 of this year.



Okay. Great. And can I also ask the other product categories within Integrated, how did they perform in the quarter? Was it stable sequentially? Or anything animated changes there?



We did see a somewhat weaker mobile phone situation, but we had continued growth for BEMC Business. That is the situation for the other parts, which I think you were asking about.



Yes. But it was roughly unchanged sequentially from Q4?



A bit weaker for the rest part, let's say, the old telecom part than during the last quarters and that's done in the mobile phone part.



Okay. Got it. And can you also comment and talk about the outlook for the second half maybe? You talked about that in the previous reports that you have received orders for the new product releases within the tobacco heating side. Can you say something about what could happen there, the impact And if you have any impact already in Q2?



We have commented on that we have got the other projects within this category, and that we already said in the Q4 report. The situation is the same right now. We don't see any differences in that. And exact timing of those products will be based on releases by the customer and some technical things going on. So we don't have the exact time schedule for that.



But positive for our from our side is that we are part of those. And actually, from our side, we don't really see well, it's okay either of the new ones or the old ones from our side. Okay.



So the value added from your side is more or less unchanged in the new categories compared with the ones that you are manufacturing today? Well,



the most important from our side is that the customer is selling those kinds of products, and that is positive for us. Then, of course, different variants have different kind of value added for us and slightly changing, but no major differences expected.



Okay. And one final question, if I may. The industrial side was approximately as expected, but can you elaborate on the initiatives that you have taken in the automotive side and what happened within the hygiene area, the implications, the effect in Q2 or Q1 from that and when we can expect the segment to be back on 9%, 10% margins?



Yes. The activity we are taking in the efficiency side is, of course, we have in the process of replacing some people in management. We're also working very actively in improving efficiency in running production, working with the yields and the scrap and a lot of those kind of effects. Of course, this takes some time, but we gradually see better improvements coming. And the second question was related to the hygiene sector.



And we believe that the effect we saw in Q1, we will continue for, we think, Q2 to the stock normalization, so to say, at the customer side.



And as there seem to be no more questions registered, I now hand back to our speakers.



Okay. Thank you very much for listening to the presentation of Novartis Q1. Thank you.