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Nolato

Q3 2019



Prepared Remarks



Thank you, and welcome, everybody, to the presentation of the Q3 2019 for Novartis. So on Page 2 in the presentation, we sum up the Q3 for the group. We ended up with sales just below SEK 2,000,000,000 and that is adjusted for currency, a decrease by 5% for the group. We saw in the quarter a continued positive performance by Medical Solution, a normalized inventory situation at Integrated Solutions and stable volumes for Industrial Solutions. The operating profit rose to \$238,000,000 That is, of course, built up by positive earnings performance by all business areas.



The margin, strong at 12%. If we exclude nonrecurring items, it was 11.2%. The cash flow after investment was negative by €4,000,000 in comparison to €68,000,000 in the last third quarter. Continued a solid financial position. Now I'm turning to Page 3.



Just sum up the group with 3 different business areas and the split between them. So in this quarter, we, of course, have a good performance across the board. And then turning to Page 4, going into the Medical Solutions, where we had sales of SEK602,000,000 in the quarter, and you also see the graph of the long term global expansion and growth of the medical business areas. Turning to Page 5. So during the Q3, the Medical Solutions had a 3% increase in sales.



If we adjust for the currency effect, it was unchanged sales situation. And in comparison, last year contained high sales of development work and production equipment as we previously have explained. And the 4th quarter growth is expected to be affected by a strong comparative quarter, as also previously explained. The margin ended up at 13.1%. It's sustained healthy margins within the business area, and we see strong project activities within the auto injector, the insulin product and incontinence products.



So as I said earlier, the sales ended up at SEK602 1,000,000 and the profit on the EBITDA level was SEK80 1,000,000 giving the margin of 13.1%. The medical solution on Page 6, it's divided into 2 different segments. We call the medical device and the pharma packaging segment of the business area, in which the medical device is the largest portion of the business area. If we then jump into Integrated Solutions business area on Page 7, you can see the historical sales volumes for this business area in a volatile history built up of the mobile phones. And some years ago, then we entered into the new market areas within the business area, creating growth over the last period of time.



Turning to Page 8. During Q3, Integrated Solutions had a 3% decrease in sales, but if we adjust for the currency effect, We had a negative growth of 12%. We see that the inventory situation within the business area has stabilized normalized and stabilized. The heating device, part of the VHP, delivered new product variants in the quarter. We also saw in the quarter a weak growth for the EMC, but positive growth for the mobile phone performance.



The margin, we had a strong margin of 13.5%, built up by high production efficiency, good capacity utilization and of course, some currency effects. As previously also informed, we have acquired a U. S.-based company called JBAR during this period. So the sales ended up at €862,000,000 for the quarter and the EBITDA was 116 If we turn to Page 9, there is some information about the JBAR company that we have acquired. The company is based in New Jersey in U.



S, approximately 70 people employed and annual sales around \$150,000,000 with good profitability. The company has a broad customer base with over 500 clients in different sectors. And we see that this company is very strong together with our EMC business, creating possibilities for new customers and also geographical expansion with the footprint in the U. S. On Page 10, you see that you will see the 2 different parts to the business area integrated solutions with the consumer electronics, with mobile phones, VHP business and different connected or electronically devices in different aspects.



We also have the EMC Thermal, which is shielding solutions for networks, equipment, connected things in the car industry and other industrial components that we shield the electromagnetic influences between different components. And the JBAR acquisition will be part of DMC Thermal, part of the business area. Turning to Page 11, coming into the Industrial Solutions business area. Also on this, we present a 20 year graph of our sales. And the sales in this quarter ended up at SEK512 1,000,000.



We then go into Page 12. We saw a 4% increase in sales, and if we adjust that by currency, ended up a 3% increase. We saw stable volumes during the quarter, and we ended up at the EBITA margin of 8.6%, It should be compared to the 7.1% during Q3 2018. We have an impact of unsatisfactory efficiency at one of our production facility implemented, and ongoing measures have gradual impact on the margin. On Page 13, you will see a split of the business area within the 2 major segments, the general industry containing of general industrial companies where we create solutions and the automotive part working with our the Scandinavian automotive market, both heavy vehicles and also car industries.



Page 14 summarizes the consolidated group numbers.



Net sales at almost SEK



2,000,000,000 actually the same exactly the same number as last year's Q3. If we exclude currency effects, we had a negative growth of 5% coming from the business area integrated. The margin increased to a very strong 12% compared to 10.4% last year. And if we exclude the nonrecurring items last year, that number was 11.2 percentages. Leading to increased profit levels at all levels, The operating profit EBITDA was €238,000,000 compared to €222,000,000 excluding EUR17,000,000 in nonrecurring items, which was a divestment of a company within the group, which we sold last year.



The tax rate was in line with accumulated 6 months, 20%. Cash flow after investments, that was 4 minus €4,000,000 for the quarter compared to minus €68,000,000 if we exclude the divestment last year. During both these quarters, we did see a working capital need. That was actually almost SEK 200,000,000 during this quarter, mainly an increase of accounts receivables because of high sales numbers in the end of this quarter. The net investments was €87,000,000 in the quarter, below last year's same quarter of €107,000,000 We expect around €400,000,000 for the full year 2019 and maybe even some 1,000,000 below that number.



The equity assets ratio is 47% and net financial assets, euros186,000,000 if we exclude pension liabilities and lease liabilities, giving us a strong continued solid financial position. The summary of lease effects can be seen on the slide package and the last page, but the effects are similar to the one in previous quarters.



Page turning to Page 15 and the current situation by business area. If we start with Medical Solutions, we have a maintained growth strategy, a lot of focus on innovation and very strong customer relationships in the background. On the Integrated Solutions business area, we have established a position in the new product areas. We see overall a continued strong position within EMC and, of course, on the background, the flexible production structure within this business area. In Industrial Solutions, we have advanced our market positions.



We have efficiency measures taken, and we see gradually having an effect. We can see some indications of a slowdown in the economy, but still stable volumes.

Q&A



We have a question from the line of Karl Wagnostrom from Nordea. Karl, please go ahead. Your line is open for your question.



Hi, it's Karl there from Nordea. Can you hear me?



Yes. Sorry about the delay.



No problem. So I have a couple of questions. First of all, regarding the heat not burn segment. I mean, you started to deliver the new devices during the quarter. I mean, how should we look at Q4 as a sequential comparison in terms of inventory levels, etcetera?



Should we expect an inventory buildup? Or what do you see there?



We have earlier commented that we think the customer can do a better planning than initially when it comes to launches into new markets and launches of new products. So we don't really see the inventory buildup effect that we have seen previously coming from those new products. And that is the same view we had after Q2, and we have the same view now as well. And we don't see that there has been an inventory buildup in this quarter, and we don't expect any major effects of that in Q4 either.



Okay. And also, I mean, given your guidance after Q2 on Medical Solutions, I mean, I thought Q3 should be the main challenging quarter for you, but it looks like Q4 will meet tough comparisons as well as you have commented. But to me, they look fairly normal. So my question is, can you see any slowdown for any consumer segment or across customer segments? And should we expect you to face tough comparisons going into 2020 as well?



Because I mean the comparison seems quite similar to Q4.



I think we have commented that previously and said that during the second half of twenty nineteen, we had a tough comparison. And I think you should see that. And we have not seen any slowdown in any specific segment or product groups.



Okay. But if I look at numbers specifically, it looks like Q3 is the tough comparison, but it might be Q4 as well, as you said, but it sounds a little bit strange.



I think you could also say that maybe we expected Q3 comparison to be a bit more tough, so to say. But it ended up as it did. And I think having said that, I think we have to see the 2 quarters during the second half of twenty nineteen together, so to say. And now we ended up maybe a bit better for the Q3, but still we have same view on the second half of twenty nineteen.



Okay. And finally, you mentioned that you saw EMC softness during the end of the quarter. Do you have any view what's behind that? And should we expect a slowdown in going into Q4 as well?



Our estimation of the slowdown is due to a possible delay of the rollout of the 5 gs in mostly China and investments coming from that.



Okay. And do you expect them to stick to burn, as it's speaking, Q4 as well or to be slow?



Yes. It possibly could affect Q4 as well.



Thank you. Our next question comes from the line of Mikael Lasen of Carnegie. Please go ahead.



Hello. A couple of questions. Yes, first of all, can you clarify the nonrecurring positive effect now in Q3 of SEK 16,000,000?



The nonrecurring effect came from last year's Q3, and that was the sale of a subsidiary and had a negative effect of Q3 last year of €17,000,000,000



Okay. So you didn't have anything this year? No. Okay. That's right.



What I thought, it was a bit difficult to understand that initially. Great. And the second one was about the inventory buildup in late in Q3. In what area did you see that? Was it across the board?



Or was it in some specific segments?



It was all over the company actually and maybe with some additional increase in the business area integrated in combination with the new products in BHP segment.



Okay. So the other segment, Industrial and Medical, had more sort of a normal seasonal pattern in Q3 regarding this late volume and deliveries? That's right. Yes. Okay.



Thanks.



Our next question comes from the line of Kieran Joshi of Stock News.



So that's Kieran Joshi of Stock News, but I'll let that go. Just two questions for you guys. I think at your Capital Markets Day, you discussed that your customer within BHP was finding a bottleneck within sort of regulatory approval when entering new markets. Have you seen any developments there and any sort of progress on your BHV customer gaining access to new markets?



I think the rollout of this into new markets, it's according to plan. And for better information, I think it's better to look at the actors or the big players in this field and see how they are progressing.





Okay. And maybe if I can touch again on the working capital. So I think in the notes, you mentioned that, as was the case last year, increased sales at the end of the quarter are driving working capital requirements. So we've seen that rise in accounts receivable. Can you explain, is this some sort of seasonality within your business?



And is there any reason why we see this build up in inventory or sales late in the Q3?



Yes. I think it's maybe 2 reasons behind it. 1 is a bit of a seasonality coming from mainly the industrial business area and to some extent from the medical business area where we see a vacation effect during the summer. During that, most of the sales in this Q3 happens in the last part of the quarter. Doing that with our terms of days outstanding that we increased the accounts receivables mainly at the end of the quarter. And then maybe with some effects from the VHP segment as well in the end of the quarter.



Those are the 2 main effects. So yes, there is a seasonality effect in this quarter.



So the VHP part was more a one off with the release of the new product. Is that right? Whereas the Industrial Medical is people coming back from the summer? Okay, great. Thanks very much.



Thank you. Our next question comes from the line of Oskar Wigstrom of ABG Sundal Collier. Please go ahead.



Thank you. So sorry, I got disconnected just before the question was built. But to start, so I heard that you touched on this, but I got in a bit late. But just the Medical Solutions, I'm a bit curious there because I mean, basically, you're talking about these difficult comps, and it seems to me that Q3 would be the most difficult quarter, and still you remained flat. And are you repeating guidance then for H2 as a whole?



Or how do you view that? I'm sorry if you had to repeat yourself.



Yes, that's correct. I think we might have seen the Q3 coming out a bit better than expected, but we still keep our guidance for the second half of twenty nineteen.



Yes. This is strange because I don't I mean, could you just elaborate a bit on Q4 last year and refresh our minds?



We did see high activity from projects and also from some equipment sold, doing that, that part of the sales was high also in the Q4. So our remark about the second half this year is there also for the Q4. Even if we might have thought that the Q3 was a bit more challenging.



All right. Cool. All right.



Well, thank you. That we just wanted to clarify that. So thanks. Thanks a lot.



Yes.



And there are no further questions at this time. Please go ahead, speakers.



Thank you for listening to the presentation of the 3rd quarter and all those nice questions. Thank you very much and have a nice afternoon.

