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Nolato

Q1 2020



Prepared Remarks



Hello, and welcome to the Nolato AB Q1 Report 2020. Throughout the call, all participants will be in a listen only mode. And afterwards, there will be a question and answer session. Today, I'm pleased to present Christer Valkust, CEO. Please go ahead with your meeting.



Hello, and welcome, everybody, to the presentation of Nolato's Q1 2020. I would like to start this is Christoph Waltqvist, and here I have Perola Holmstrom beside me. And I would like to start on Page 2 in the presentation material summarizing up the group Q1 figures. And during the Q1, we have seen good growth overall during the quarter with a 17% increase compared to last year, and it is built up by growth in all business areas, and the sales ended up at SEK 2.65 billion. The profit, operating profit, the EBITA rose to SEK 241,000,000, excluding the nonrecurring items.



And we see we have seen increase across all three business areas and very pleased of the overall good performance. The EBITA margin ended up at 11.7 percentage, excluding nonrecurring items. And we feel that we in the special times we are with the COVID-nineteen situation, we feel secure with our financial positions and in a good position to execute our long term strategies, which of course then also includes acquisitions. Turning to Page 3, summarizing up the 3 different business areas we have. Of course, they are different in the market segments they operate in, but a lot of similarities behind the scenes.



So we use the same materials, same sort of solution oriented development partner, same sort of production technology. But in the sense of business, they are a little bit different. The medical is, of course, long term, very stable business with step by step buildup, a lot of focus on quality assurance, quality control. Then we have the integrated solutions area, which is more fast moving business, a lot of focus on flexibility and those kind of items. Then we now have the Industrial Solutions part of the business, which is then, of course, more following the business cycle and those kind of things, a lot of focus on efficient lean manufacturing.



Turning to Page 4, starting with the Medical business area. Here we see stable growing business, very long term conservative consecutive growth in this business area. And the last latest quarter ended up at NOK642,000,000 in sales. Good situation. In the medical, turning to Page 5, we have 2 different business segments in this business area.



Medical Device being the largest portion of the business consists of customer specific development and production for all kinds of different areas of the medical community. Then we have the pharma packaging, which is drug containers for liquid and solid drugs. Part of that business is our own designs that is then adopted to different drugs, different consumers. But part of the pharma business is also unique development for individual customers and the specific drugs. Turning to Page 6, going into the medical Q1.



We saw an increase in sales, 5% in total, but if we adjust that for currency, it ended up a 2% increase. We saw during the quarter very good growth in the production volumes, a little bit slower sales on the project side. Long term, we see a very good growth on the product and as a total. The corona COVID-nineteen situation, we have seen some effects of that in the Medigots. We have seen some delays in projects depending on the situation where we can't travel and the customer cannot travel so much to us.



But we saw a positive impact on some segments of the production side, mostly related to the diagnostic and those kind of products. During the quarter, we saw good EBITA margins of 13.6%. And of course, we saw positive sales mix, but also if we look into the difference between the project and the production, we see a little bit higher margins on the production side than on the project side, especially when we sell equipment to the customers. Jumping into Integrated Solutions on Page 7. On the graph there, you see 20 years of different sales.



And our ambition over the last period of the last few years has been to expand into new market segments, and we have been successful in that integration. Hence, we see a little bit higher sales numbers during the last years here. Turning to Page 8. Even in the Integrated Solutions business there, we have 2 different market segments. We have the consumer electronics, which is the largest portion of the total business area that consists of what we call vaporizing heating product, different connected devices and of course, the mobile phone and the wearables.



The smaller portion of this business area is the EMC Thermal, which of course is shielding solutions for electromagnetic influences and heat distribution from electronic devices. In this late portion of this business area, the EMC Thermal, we have, of course, our latest acquisition, J Bar, which fits into the E and C Thermal. If we then turn to Page 9, we jump into the Q1 of Integrated Solutions. We saw a sharp increase in sales during the quarter, a 50% growth if we adjust for currency and the JVAR situation when required in late 2019. During the quarter, we saw an inventory buildup by customers.



Of course, it's a result of the contingency for the corona situation, but also a buildup for the rollout of new product variances in the DHP sector. During the quarter, we saw E and C affected by coronavirus, but during the later part of the quarter, we saw a strong situation. We also had low volume on the mobile phone segment. The margin ended up at 13%, a strong margin in Q1. And of course, this is the Q1 with JVAR and it contributed by \$43,000,000 in sales, and that is it's well according to our plan of acquisition.



If we then turn to Page 10 and looking into the Industrial Solutions business area. Here, with Industrial Solutions, we are on the technology and graphical expansion. It's a journey of expanding geographically and technology. So we established the U. S.



Footprint during last year, and it's performing well according to our plans. If we then turn to Page 10, Neder, you see, we'll see the 2 different market segments of our Industrial Solutions. We have the general industry, which is approximately 60% of the total. And we have our automotive part of Industrial Solutions, which is approximately 40% of the Industrial Solutions business area. If we turn to Page 12, we will jump into the Q1 of Industrial Solutions.



During the quarter, we saw an increase of sales. If we adjust that for currency, it's a 4% increase. We saw new customer projects within the general industry continue to make a positive contribution. We saw a normalization in the hygiene area. And we during the later part of the quarter, we saw a production suspension within the automotive industry.



And we saw that in the late of March, and we see it in most part of April. And after that, we saw also felt sort of volatile startup of part of the automotive industry. So we feel that the automotive industry production will impact Q Q2 of this year. The margin, EBITA margin ended up at 8.2% in comparison to the 8.3% last year. We saw a negative impact, approximately 1 percentage point due to the automotive industrial production suspensions during the quarter.



Good afternoon. Perio Laurin Stum, presenting Group Financial Highlights on Page 13. We did see growth of 17 percentages and in combination with increasing the margins. It resulted in an EBITA result of SEK 241,000,000 and we did have a nonrecurring item of EUR 14,000,000 And those were connected to the close down of the one the operations we have in U. K.



Within the pharma packaging business within medical. We have taken SEK 22,000,000 in cost in Q4 last year and the remaining part according to accounting principles were taken in this quarter, SEK 14,000,000. So totally SEK 36,000,000. And we have estimated the cash flow effect of those of about SEK 30,000,000. The EBITA margin was 11 point 7%, excluding the nonrecurring items.



Tax rate this quarter, about 20% and that is also in line with what we estimate for the full year 2020. We did have a negative cash flow after investments. It was minus SEK 73,000,000 compared to plus SEK 25,000,000 last Q1 last year. We did see a working capital need during the quarter from the increased sales numbers and also an increase in inventories because of those sales because of the sales increase, but also because of the corona situation, we did have higher larger higher inventory numbers in this quarter.



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rolling twelve number for earnings per share was NOK 28.29. And the equity assets ratio ended at 49%. We have a financial net asset of SEK 601 1,000,000 and we have a strong financial situation because of this. We expect the full year investment number to be about SEK 4 100,000,000 during 2020. It was only SEK 70,000,000 during the Q1 and hence the pace of the investments will increase during the second half of this year.



Turning to Page 14, looking at the current situation for our business area. On the medical side, of course, maintain growth strategy, a lot of focus on innovation, and we feel that we have strong customer relationships. On the integrated solutions side, we have established our position in the new product areas. We see a continued strong position within the EMC business. And of course, as a building up this, we have our really strong production structure, flexible.



On the Industrial Solutions business area, we have advanced our market positions. We see the efficiency measures have taken, and we see an effect on those. Of course, we see the disruptions as a result of the corona situation with the COVID-nineteen. And now we would like to open up for questions.

Q&A



Thank Our first question comes from the line of Carl Harnestan from Nordea. Please go ahead.



Hi, it's Karl here from Nordea. Thank you for taking my questions. First of all, on the Medical Solutions business area, you said that some projects are postponed due to the COVID-nineteen situation. Could you perhaps quantify that during the quarter? And could you also give any indication of the growth pace during the end of the quarter?



I mean, was it just damp organic growth? Or was it even negative organic growth in the end of the quarter?



First, a comment on the project situation. It's I would not say it's postponed, but it's taking a little bit more time when it's hard for our engineers to have meetings with our customer engineers either at our places or at their places. So it's not postponed. It's just that some things take a little bit more time when it's difficult to have physical meetings. And of course, we are working with video solutions and so on, but it's not really the same thing.



So I hope I answered your first question there. And the second was the growth rate during the quarter. And I would say it's been stable over the quarter. We have not seen any decline as a total in the later part of the quarter.



Okay. And is it possible to quantify the impact of the slightly slower project development? Or is it



No. It's more a little bit takes some more time, but it's not nothing that we see will impact the big picture.



Okay. And I guess we should expect, as you said, project business could have lower margins, I mean, than we should probably expect slightly or similar margin mix going into Q2. Is that correct?



It depends on the product mix, I would say. So I think our long term guidance is the right way to look at it. Of course, we have quarters with a little bit higher or lower margin, but it's varying plusminus 0.5 percent 0.5 percent points and that's what we should expect going forward as well.



Okay, perfect. And on Intraknit Solutions, you said that you expect the inventory buildup to stay in Q2 and then decrease. So could you perhaps clarify that? I mean, do you expect a decrease in the inventory buildup pace or a year over year volume decrease? Or how should we look at that?



That is a comment concerning the inventory buildup situation. So we expect that to continue during Q2 and then drop off as an effect in Q3.



Okay. So you don't mean the year over year decrease, you mean adjust?



The inventory effect, yes.



Okay. Perfect. And is it possible to quantify or give an indication on the underlying volume development if you exclude the inventory buildup?



No, we don't have the exact numbers for that. It's an assessment we do that we have these effects and we cannot explain the effect in more detail behind those numbers. But we are certain that there has been such an effect during this quarter.



Okay, perfect. And the final one for me. Could you give give an update on whether you have any production units closed globally currently and if you see any supply chain disruptions right now?



Currently, we don't have any production units closed due to the COVID-nineteen situation. Of course, we have the ones related to the automotive industry not going full speed due to some constraints in the total supply chain, but Nolato is not causing any disruptions and all our units are reducing.



Okay. Thank you.



Thank you.



And the next question comes from the line of Mikael Lesin from Carnegie. Please go ahead.



Okay. Hi. A couple of questions. If you can just take a look at the integrated again here, the development in the quarter and the inventory buildup Because I think that we started 2020 relatively sort of steady revenues compared with the second half. And then you had a disruption in the middle of the quarter that will start March lots have been really, really good.



If the March level, that's what you're also expecting in Q2?



We agree fully what you said. We had the disruption and we ended the quarter quite strongly. That is correct, understood. We said early that we have a good order situation, but we had the disruption of not being able to produce those orders. We ended up the quarter being able to ship out a lot of those and of course ended up with the strong end of the Q1.



That is correct, yes.



Okay. So will the March level, the very high level that we had in March continue in Q2? If that level we should expect here in the near term? Or is it more the average that we saw in Q1 in total, the integrated side?



Yes. I think 2 comments to that.



The Q1 was a bit up and down as we commented. But on an overall basis, we see a similar situation during the Q2. Then of course, we had about a bit more than one week where we stood still in production in Q1, which we then don't expect to do during Q2, if the stable situation continue in China.



Okay. Got it. And in general, what's your view on tobacco heating or VHP in this market climate, while we have a lot of lockdowns and difficulties maybe with the retail channel. What's your view on the situation right now? Could it impact your volumes in Q2 and Q3 more than expected maybe?



Or I did consider something about it?



If we comment there on a more general way of doing it without going into which customers are on. But that type of business and that type of product, what we generally understand is that if you want those products, you will get them. And it could be maybe affected on converting other type of users of other type of those kind of products to a new version that could be affected by having retails closed. But if you are using it, you will most likely get it.



Okay. Innovative customers there. And just the final one. Can you sort of talk about the climate for the industrial segment right now? What is the sentiment?



What is in terms of general demand? We see that the indicators are falling massively. And I'm just curious to know and get more input from you.



As we are in many different market segments in the industrial sector, we have some segments that we see maybe an increased need during this situation, and we have other parts of the business seeing less volumes. But as a total, we expect the Q2 to be impacted by the corona situation.



Okay. Thanks.



And the next question comes from the line of Oscar Wigstrom from ABG. Please go ahead.



Thank you. I just have one more question to follow-up on this discussion. So could you just repeat what you said about the automotive exposure and sort of how it has affected Q2 thus far as customers are maybe starting up production again? Where are you in your production? And just give more detail on that, please?



To summarize, we have about 40%, four-zero percent of our industrial business area towards the automotive industry. And we have communicated earlier that this segment is mainly the one that we have seen problems within. And the reason for that has mainly been our main customers closing down their operations. And of course, we had to do the same. During some weeks, we did that and of course, affecting our sales numbers and results because of that.



We did stop for about 1 week in the end of Q1 and we have been standing still for some weeks until last week within April. And then production has started in a slow pace and of course not the ideal production setup. It's going up and down and we are producing at a low level of course that is the situation right now. That is the short term situation right now.



All right. Thank you very much. That's all for me. Thanks.



And as there are no further questions, I will hand it back to the speakers.



Thank you for listening to our presentation of Q1, and I wish you all a very good day, and thank you again.

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This now concludes our conference call. Thank you all for attending. You may now disconnect your line.