

October 23, 2020

**Nolato**

Q3 2020



## Prepared Remarks

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Thank you, and good afternoon to all your participants, and thank you for being interested in the presentation on the Lattice Third Quarter 2020. This is Christoph Waltke speaking, CEO of Mulatto Group. If we summarize the Q3 for the group, we had a good growth, excellent even during this quarter, totaling 22% organic growth adjusted for currency and acquisitions. And the sales totally up on SEK 2,500,000,000. The GW Plastics acquisition was consolidated from 1st September, so it's 1 month in this quarter.



During this quarter, we saw growth across all business areas. Our EBITDA operating profit rose to SEK 304,000,000 if we exclude the nonrecurring item of SEK 17,000,000, giving us a margin of 12.2%, and that is a strong margin for the group. Cash flow after investments, excluding acquisition, was SEK 82,000,000. And we sustained a strong financial position, including after acquisition with an equity ratios ratio of 40%. And if you look on the graph there, you can see the 20 year trend of Nolato Group growing.



If we then turn to Page 3, and since this is the Q1 after our acquisitions of GW Plastics, it's sort of summarizing the key things behind that acquisition. The net sales on an annual basis is approximately SEK 1,800,000,000 with a margin around 7%. GW Plastics have around 1100 employees, 7 production plants across most of them or 5 of them in North America, 1 in Ireland and 1 in China, giving the Nolato Group an excellent positioning on the 3 important continents. Out of the GW Plastics sales, just over 45% is related to medical devices and remain the mainly automotive industry. We have consolidated GW Plastics from 1st September, and it contributed with NOK 145,000,000 in sales for 1 month in the Q3.



Turning to Page 4, showing the different business area and the group figures. And the 3 different business area create synergies across business areas with the uniqueness of the individual businesses and with, of course, in the base of the industry or business, we have using the same material technology, solution oriented development partner and a common production technology, giving us an advantage towards the different customer going into the Medical Solutions business area. During the Q3, we had sales close to SEK 800,000,000 and an EBITDA of SEK 103,000,000, giving us a strong margin of 12.9%. And on the graph here, you see the long term growth of the Medical business area. So we've seen consecutive growth now for 20 years, targeting for global expansion. On Page 6 of the slide deck, you can you will find the focused product areas within the Medical Solutions area.



So these are, of course, drug deliveries, in vitro diagnostic products, endoscopy and general surgery products, cardiology, Continence Care and Pharma Packaging, which are the most interesting areas that we operate within. Turning to Page 7, summarizing up the Medical Solutions 3rd quarter. We saw a 30% increase in sales. But if we adjust for the currency and acquisition, we saw a 12% growth, which is very strong. And during the quarter, GW Plastics acquisition contributed to NOK 127,000,000 and integration of GW Plastics is proceeding according to plan.



During the quarter, we saw strong growth in our production volumes. We see high demand in segments such as diagnostic and respiratory, which increased as a result of the COVID-nineteen pandemic. Our margin ended up at 12.9% due to high capacity utilization and a positive sales mix that had a beneficial effect. And of course, the acquisition affected 1 month on the margin. We will expand our production capacity in Switzerland.



If we then turn to Page 8, going into Integrated Solutions. Within Integrated Solutions, we are in a mode of expanding to new market segments, and we've been doing that for some years now with good success. And if we look on Page 9, you will see the 2 different parts of the business area, Integrated Solutions, and the larger portion is, of course, Consumer Electronics with the VHP area and the connected Wi-Fi systems, wearables, mobile phones and so on. And then we have the smaller portion of the business area called EMC and Thermal, which is shielding solutions for electromagnetic influences and with good growth and the nice margins. If we then turn to Page 10, looking into the figures of Integrated Solutions, we saw a strong increase in sales, 34%.



But if we adjust for currency acquisitions, we had an exceptional 40% growth. And it was driven by high demands within the VHP sector. We see good growth for 2020, but volumes have historically fluctuated between quarters. We have also made cost reductions in the supply chain together with the customers, affecting approximately 10% of both price and cost reduction towards that segment. During the Q4, we will see sales more in line with the Q1 2020.



During the quarter, EMC had solid sales, and we also saw a continued low mobile phone volumes. We had a very strong margin during the quarter of 13.8% due to the situation with high volumes. Total sales in the quarter ended up at SEK 1,158,000,000 and EBITDA of SEK 160,000,000. If we then look into Industrial Solutions business area on Page 11, here we are on a technology and geographical expansion journey. And if we look in on Page 12, the 2 different segments to the Industrial Solutions business area, we have the general industry, which is the largest portion with the hygiene products, forest equipment, furniture and so on.



And then we have the automotive part of the business areas, which is the, of course, then the smaller portion of this business area. Page 13, we saw a growth for Industrial Solutions during the quarter, and it turned up after adjusted for currency and acquisitions, we saw a 4% growth. We saw a gradual increase in demand from the automotive industry during during the quarter and good volumes in other segments. The margin ended up at 8.8% due to gradual increase in volumes and cost savings implemented during the quarter.



Good afternoon. Pero Laehrmstrom, CFO, commenting on Page 14, Group Financial Highlights. Sales in the quarter, euros 2,500,000,000 an increase with 22% if we exclude currency and acquisitions. The operating profit, EBITA, was €287,000,000 and the margin is then 11.5%. Those numbers, including the nonrecurring SEK 17,000,000.



In a rolling 12 month base, then sales are €9,100,000,000 And we were just about €1,000,000,000 in operating profit EBITDA. The tax rate for accumulated 9 months is stable, 20.1%, in line with the same period last year. Cash flow after investments, excluding the acquisition and disposals, That is €82,000,000 compared to minus €4,000,000 last year. The net investment, excluding acquisitions, again, is SEK 112,000,000 in the quarter compared to SEK 87,000,000 the same quarter last year. We expect investment this year to be about €400,000,000 So that is an increasing level in the second half of this year.



Looking into next year, what we see right now is an increasing level of investments. Of course, we include GW Plastics. And then we estimate investments to be between €550,000,000 €600,000,000 during 2021. The earnings per share were NOK7.96. And if we exclude amortization of intangible assets from acquisitions, the earnings are 8.056 The difference between those 2 is, of course, increasing as we add depreciation or amortization from the new acquisition.



And if we also exclude nonrecurring items in the quarter, earnings per share are SEK8.57 billion. The net financial liabilities, they are NOK 535,000,000 end of the quarter. That is the financial liabilities. And if we include pension and lease liabilities, the net debt is SEK1.77 billion. Even after the acquisition, we have a strong financial position.



The equity assets ratio is 40%.



If we then turn to Page 15 and some comments about our current situation per business area. If we start with Medical Solutions, we have our Maintain Growth strategy, growing faster than the market. We focus a lot on innovation, built on strong customer relationship. We have seen and see impact of the pandemic, and we are working according to plan with integration of acquisition. Within the Integrated Solutions, we have established a position in the new product areas, continued strong position within the EMC and Thermal.



We have in our base, of course, the flexible production structure. And within the BHP sector, we have cost reduction throughout the supply chain together with the customers. Within Industrial Solutions, we have advanced our market positions. The cost savings is implemented, and we have an impact of the pandemic, and we are working on integration of acquisitions. Now we're opening for questions and comments.

## Q&A

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Thank Our first question comes from the line of Erik Castle at ABG Sundal, Coyle. Please go ahead. Your line is open.



Good afternoon, Christian and Hilda. So the VSP products are continuing to drive growth. And for this quarter, given that you're guiding down for Q4, is it still inventory buildup? Because it seems like expected volumes through Q4 just shifted into Q3 and then it kind of evens out.



I think you could say that there are elements of inventory buildup in Q3 adding to that and maybe the opposite situation in Q4. Yes.



And then so I just wanted to ask, you have not changed your view for normalized volumes going forward then. So it's the same as communicated earlier?



I would say that we have not given, let's say, more definite numbers. We have commented that we think we are in an interesting area with those products, and we work together with an interesting customer in this arena. And we see this as a growth business. But we have been clear about the Q4 in this report. And we have usually a good view of the next quarter coming up.



And we are trying to give some guidance about that, and we have done that previously as well.



Yes. And then can we kind of expect margins in the same region as this quarter? Or will that too go down once volumes go down to the 13% region? Or does the new BHP products just have better margins?



The margins are similar. And the margins going forward is or they are, of course, dependent on the volume situation. So I would say the decrease in volume is also affected affecting the margin a bit down by the volume itself.



All



right. And then the favorable sales mix for Medical Solution, I assume that's still from corona related sales. And if so, do you expect to see continued volumes from corona devices and such? And or are they kind of fading away right now?



In that sense, I would there are parts of the medical business area which have an increased demand due to the pandemic. And we and it's relating mostly to, of course, IVD and those kind of testing, and we see continuously high volumes on those sites. On the other hand, we've seen little bit lower volumes on the Surgical side during the pandemic due to the situation that a lot of surgery has been postponed. And we expect that to sort of come back a little bit maybe late in Q4 or next year. So I think those two effects will maybe even out.



All right. Thank you. And then a last one for me. The production expansion in Switzerland, what kind of capacity increase could we be seeing in relation to current levels?



We are looking at expanding maybe 10% to 15% on floor space.



All right. Thank you. That's all for me.



Thank you.



Thank you. The next question is from the line of Karl Rangestan of Nordea. Please go ahead. Your line is open.



Hi, it's Karl here from Nordea. I have a couple of questions. Firstly, could you please repeat your comment on the 10% cost reductions? And you mentioned something on the pricing as well. Is it that your customer have told you to lower the price per unit and you, by that, push down your production cost by 10% or how and yes, what you mean by that?



Yes. In our value proposition to our customers, we have something that we call cost out method, and we are constantly looking for ways to drive away cost from the total. And in this case, we have been able to drive away approximately 10% of cost. And in this case, we will also decrease the price for the customer by 10% approximately.



Okay. And would we see a lag effect there impacting margins for Q4?



That effect of the supply chain reduced costs, we don't see will have any margin effects. The margins would be similar after that. So margins are more, as I commented earlier, a volume effect, if any.



Okay, perfect. And that will come in Q4, right? Start of Q4, I guess, or the 10% cost reduction, is that right? Yes. Okay, perfect.



And also on I wonder, have you seen any sort of sequentially recovery within the surgical area? Or what do you see there?



Not really, I would not say. We the Surgical situation is more like it was in the 2nd quarter.



Okay. Okay, perfect. And also, could you, Paola, maybe please give some guidance on the margins from the consolidated volumes from the GW Plastics?



We have commented the margins going forward and how we look upon them, especially going into next year. And it has been only 1 month. And as you have seen, the volumes and sales were very much in line with what we have commented earlier. And we didn't see any major changes in the expectations from the margins either. Slightly on the lower side, I would say, that we had the situation.



Volumes were a bit behind and margins as well. But everything is going according to plan when it comes to the integration, and it's a positive feeling and a positive situation with GW Plastics.



Okay, perfect. And I just wonder, you are both taking out cost in the supply chain similar to the fact that you're guiding down Q4. I mean, maybe it's speculations, but could it be that the underlying volumes are quite soft for your customer and that they want to gain market shares by pricing themselves lower than competitors?



I think it should be seen in a bigger picture. And of course, as I said, in our value proposition to customers, it's always to try to create win win situation by driving away cost. So I would rather see it in that line.



Is it the first time in your partnership with the customer that you have lowered your price? No. Okay. So it's nothing new? No.



Okay, perfect. Thank you.



Thank you.



Thank you. And there is one further question in the queue so far. The next question in the queue comes from the line of Nikolas Lassen of Carnegie. Please go ahead. Your line is open.



All right, thanks. Yes, I was wondering about the W plastics and how they were impacted by COVID-nineteen. And they have quite a lot of surgical quite a high surgical exposure, I believe, and also a slight automotive exposure. But we are still at a run rate of about SEK 1,750,000,000 in revenue. So if you can say something about how they are developing right now?



That is correct that they are exposed in Surgical and Automotive, and those segments are affected by the COVID-nineteen situation. So that has some sort of an impact. It was, of course, something that we knew ahead of time when we before we made the acquisition. So it's in our plans.



Yes, exactly. But the surgical side should maybe have a more normalized revenue level. It's maybe subdued right now. Any thoughts



about that? I didn't really catch the question, but I tried to answer what I thought you asked. And yes, the Surgical volumes are a little bit lower at the moment affecting not dramatically, but to some extent.



Okay. Okay. Fair enough. And I was also just wondering about this cost reduction measures that you have done. Why did you do it right now?



It was an opportunity. We saw 1, and we're constantly working on it. And we got some good effects, and then it happened.



Okay.



But how should we think about the base? Did you have any impact from this in Q3 already?



This is something that started in the later part of Q3.





Okay. So just simply put, everything else equal,



we should



assume 10% revenue reduction in based on the current run rate going forward?



Yes. Correct. Okay.



Great. Yes, that's it for me.



Thank you.



Thank you. Okay. So there are no further questions coming through. I'll hand back to our speakers for the closing comments.



Thank you for your interest in Novarto and the presentation of our Q3, and I wish you a great weekend later today. Thank you.



This now concludes the conference. Thank you all very much for attending. You may now disconnect your lines.

