

February 10, 2021

**Nolato**

Q4 2020



## Prepared Remarks

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Good afternoon and welcome to the presentation of Lonarto's 4th quarter 2020. This is Christoph Ochus talking. I suppose you have all have the presentation in front of you, and I would like you to turn to Page 2. And on Page 2, we have a short introduction to the Q4 for the group. And in the Q4, sales totaled to just below NOK 2,500,000,000 and that is So if we adjust that for currency and acquisition, it was a decrease of 2%.



The GW Plastics acquisition was consolidated from the 1st September and the integration is proceeding according to plan. Our operating profit, EBITA rose to SEK 283,000,000 in comparison to SEK 249,000,000 for Q4 2019. That created a margin of 11.4 percentage, and there's a strong margin for the group. During the Q4, we had cash flow after investments of NOK 211,000,000 period and it should be compared to the exceptional strong comparison in Q4 2019 of SEK 601,000,000. If you look on the graph on the right hand side of the page, you've seen our development over the last 20 years.



And during this period of time, we have been able to recreate a global solution provider established on 3 continents with the emphasis now on our latest acquisition creating that position. If we turn to Page 3, summarizing up 2020 as a total, This is our best year so far in our history. Our earnings per share was just above SEK 30 per share. We have a strong financial position after the acquisition of GW with net financial liabilities of SEK 298,000,000, creating an equity ratio of 43%. The Board of Directors I have proposed a dividend of SEK 16, and that is according to our policy, a little bit more than 50% of net profit adding up to 53% of the profit.



The board also proposes a split of the share. So 1 former Nolato share will turn into 10. If we then turn to Page 4, sort of creating So the total group consisting of 3 business areas with strong synergies between them And in the base of all three business area, we have the same responsible business ethic, same kind of material technology and working as a solution oriented development partner, and that creates a lot of synergies for the group. Jumping into Page 5 on the medical business area. The sales in the quarter was SEK 950,000,000 and during the 20 year period, we have in on a journey, a global expansion journey and an offering journey, and we have had a good growth year by year, both organic and inorganic growth in this business area.



So it's been growing from rather small to a substantial part of the business. If we turn to Page 6, we are here highlighting our focused product areas within the medical. And it's 6 areas that we are mainly focusing on: drug delivery, in vitro diagnostics, Endoscopy and General Surgery, Cardiology, Continence Care and Pharma. During the pandemic, We have seen strong business within the indeed through diagnostic, but somewhat slower in endoscopy and general surgery due to the postponed surgeries in these areas. The other areas has been less affected by the pandemic.



If we turn to Page 7 and jumping into the details of the Medical Solutions business area. During the Q4, we have 52% increase in sales, but if we adjust that for currency and acquisitions, this was a 5% increase. We have had good integration of GW Plastic and we see that it will result in significant market synergies over time. Due to this being medical, everything takes a long time. We have seen high demands in segments such as diagnostics and respiratory aids, of course increased as a result of the pandemic.



On the other hand, we have seen weak demands in the Surgical segment, especially in the U. S. Business as a result of the postponed operations due to the pandemic. The EBITA margin ended up at 11.8%, and its high capacity utilization and favorable sales mix had a positive impact. But on the other hand, we have a dilutive effect from the acquired business affecting the margin negative.



We are expanding production capacity in Switzerland, Hungary and Sweden. And as I mentioned, the sales was SEK 951,000,000 in the quarter, and the operating profit was NOK 112,000,000. Turning to Page 8 and looking into the Medical sorry, the Integrated Solutions business area. Here, we have, over a period of time, expanded our business into new market segments very successfully, and we ended up in this quarter with sales of SEK 907,000,000. If we turn to Page 9, We see 2 parts to this business area.



We have what we call consumer electronics, consisting of VHP, connected Wi Fi systems, wearables and mobile phones. Then the other part of the business area is electromagnetic shielding and thermal solutions. So it's different type of shielding solutions for handling influences between different electronic components and handling heat distribution away from electronics. If you turn to Page 10, jumping into details of the integrated solution. During the Q4, we saw a decrease of sales, adjusted for currency and acquisitions of 10%.



We have together with our customers made cost reductions in the supply chain. We have seen slightly lower BHP volumes during the quarter, and we expect this business area to exceed SEK 1,000,000,000 in sales of the Q1 2021. For the EMC business, we saw solid sales and continued low mobile phone volumes. The margin ended up at 12.2% in comparison to a high comparison number of SEK 13.4 billion for 2019 Q4. Last year's was boosted by the VHP product mix and high capacity utilization within the mobile phones.



So Operating profit to EBITA was NOK 111,000,000 during the quarter. If we then turn to Page 11, focusing on Industrial Solutions. For the Business Area Industrial Solutions, we are on the technology and geographical expansion journey. And during this quarter, we saw sales of SEK 629,000,000. If we turn to Page 12, Industrial Solutions also have 2 parts to the business area.



The larger portion is general industry, which is components and systems for large industrial players. And the second part is automotive, where we do system solutions for mainly the Scandinavian automotive industry, both the large vehicles such as trucks and buses, but also personal beer, Jens. Turning to Page 13. During the Q4 for Industrial Solutions, we saw an increase of 4% if we adjust the sales currency and acquisition. We saw an increased demand both in general industry and the automotive sector.



The margin ended up at 9.9% in comparison to 8.2% in Q4 2019, and that is due to higher volumes and greater efficiency within our factories. So Sales for the quarter ended up at SEK629,000,000 with an operating profit of SEK 62,000,000 creating the SEK9.9 EBITA Marking.



Good afternoon. I'm Laurence Storn speaking. On Page 14, some group financial highlights. You see the quarterly numbers in the left column and then you have some full year numbers on the right hand side. The quarter ended up with almost SEK 2,500,000,000 in sales and operating profit EBITDA of SEK283 1,000,000 which ended up in a margin of 11.4%.



And sales profit and margin was higher than the comparison quarter 2019. We had a tax rate this year or 2020 of 20.5%. That was more than 2019 when we did have 18%. The increase is mainly because of the acquired GW business. We have a higher tax rate in that part.



For 2021, we expect a tax rate around 22%. The cash flow of the reinvestments, when we exclude acquisitions and disposals, ended up with SEK 211 this quarter. It was a much higher number last year. It was mainly because of working capital, which decreased a lot during that quarter. I think it's more accurate to look at the full year number.



We ended up with NOK 905,000,000 this year 2020 compared to the 800, 2019. The net investments affecting cash flow. If we exclude the acquisition, it was SEK 347,000,000 for the full year. That is a bit less than the previously expected number, which was about SEK 400,000,000, mainly because of some payments have been delayed into 2021. If I look into 2021, we expect higher investments.



Of course, we include investments in the newly acquired GW business. We have some postponements from 2020. And we expect the investments in the range of NOK 600,000,000 to NOK 650,000,000 during 2021. Earnings per share, 36.24 And we ended up with a solid financial situation of having an equity asset ratio of 43% and we have net financial liabilities of SEK 298 1,000,000. If we include the pension liabilities and lease liabilities, that number is SEK 9.30



million.



The cash flow of NOK 905,000,000, if we compare that number with our EBIT number, we ended up with a cash conversion percentage of 87%, very much in line with 2019 and above our target of 75%. So a good cash flow in relation to our results level.



If we turn then to Page 15, some comments about the current situation for our business area. If we start with the Medical Solutions, our maintain growth strategy remains. A lot of focus on innovation based on strong customer relationships, and we see achievements of synergies across markets. We see, as mentioned before, impact of the pandemic. If you look into the integrated solutions, We have established a position within the new product areas.



We see continued strong position within EMC. We base all of our business of the integrated solution on a flexible production structure. And on the VSP, We see cost reduction throughout the supply chain together with the customer. On Industrial Solutions, we have advanced our market positions. We see continual efficiency improvement.



We have impact of the pandemic, especially earlier this year, and we emphasize on sustainable solutions. Thank you. And we now open up for questions.

## Q&A

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Our first question comes from the line of Erik Karlsson at ABG Sundal Collier. Please go ahead. Your line is open.



Hello. Good afternoon, Christo and Paola. The relatively strong guidance for Integrated Solutions of more than SEK 1,000,000,000 in sales for Q1, Could you go into that a bit more? Is that kind of the run rate we should expect for 2021? Or do you expect further sequential improvements?



We did see a quite slow quarter in the Q4 as expected and that we communicated around when we reported the Q3 numbers. We have a relatively good view of the coming quarter and that is what we are guiding about and when we say more than SEK 1,000,000,000. The outlook for the coming quarters is not that good for us. Our visibility is more limited. But we do see that the 4th quarter was relatively slow, as we said.



And we think long term that this is a growth area for us And hence,



the outlook is good for us. Okay.



So it's not some sort of temporary buildup here in Q1, more like increased demand?



We don't see the Q1 as something unnormal because of building up inventory or other causes.



Okay. Thank you. And then is it possible to quantify and sort of split up the margin for the legacy Medical Solutions versus Geoplastics?



The legacy No Lotto margin in Medical was good during the Q4. And I think that's natural coming from that in the own part of Nolato, so to say. We have, of course, the main business within naivety and those areas that has been progressing good during the Q4. So I think that's quite natural that we had A better margin in that area. And on the other hand, in the GEW area.



We have a lot of surgery. And as we explained, that part has been quite slow during the Q4 because of the pandemic and hence of course the Margin in that part was slower.



Okay. Thank you. And you also mentioned in the call that synergies could take some time, but when do you think we can see Some initial synergies from the acquisition. And what's sort of the time line for the synergies here?



If we talk about market synergies, it's then we are talking about creating new business together by cross selling through existing customers on new geographical markets. And in the medical field, that takes a long time because there is development time and so on. But we see The initial, I should say, business creation of that, but it will take time before we see it in our P and Ls. On the other hand, then we are also working on measurements of improving the margin of GW from where we acquired it, and that is also gradually coming.



Okay. Thank you. One last question for me. You are talking about expanding the capacity in some additional regions here in this report Compared to last quarter. So what sort of CapEx could we see here?



And how much capacity increases are you planning to do? And then also, do you have orders to fill this increased capacity already?



I can start with the First part of that question, medical business is long term, and we see we have seen a good growth for the Medical business area. We continue to see growth for the Medical. And of course, we know which projects that we are sort of expanding and we are expanding for some years ahead of time. So We have the project, but of course, there is always the joker when some of these development programs are closed before entering the market. But that's the normal situation for us.



So that's the reason and the thinking behind expanding.



And I can add around the CapEx. When I mentioned the SEK 600,000,000 to SEK 650,000,000 of CapEx 2021 that is including payments for these expansions as well.



Okay. Thank you. And then how much capacity was this In relation to sort of the capacity we have now?



It's a little bit difficult to answer That question in a good way because we have capacity. We in order to utilize the facility in a good way, we need machinery and cleanroom space. Now we expand cleanroom space, and we always do that for some years ahead of time at individual sites when we need them. So it would be for a couple of years of expansion of these sites that we talked about.



Stamm of Nordea. Please go ahead. Your line is open.



Hi, it's Karl here from Nordea. So regarding your Q1 guidance with Integrated Solutions. Is it primarily driven by ItoTobacco? Or what do you see in EMC going forward?



It's a combination of those, of course, but as BHP is the largest part that is of course influencing a lot in that number. And But we do see a good situation for EMC as well. It's promising. So it's actually both. But of course, BHP is the large impact.



Yes. I see. Okay, perfect. And in Medical Solutions, we saw a quite clear Sequential slowdown in organic growth from 12% to 5%. I mean, is it due to the tightening Should it impact the surgery side even worse or compared to Q3?



Or is it a Sequential slowdown in IVD or how should we look at that also when entering Q1?



I think growth rates for individual quarters will vary over time as we had will vary over time as we have been talking about a long time. I would say that our ambition is to outgrow the market year by year on the medical, and we have done that for a long period of time, and we Anticipate that we will continue that, but of course growth targets or growth numbers for individual quarters will vary.



Okay. So you don't see a sequential slowdown in IVD basically then, I guess?



No, we don't see a sequential slowdown. We don't see a sequential movement of growth rates.



Okay, perfect. And also, I mean, in general, it might be quite a tough question, but in a scenario where we Successfully or where we have a successful vaccination and we return to sort of a more normal society. Would you say that the pent up demand in the surgery side is enough to offset the sort of maybe more challenge comparison and maybe headwind from your IVD segment or how should we look at that?



I think if Surgical It goes back to sort of a normal steady state, then it would be that would help us, of course. I think there is a lot of postponed surgeries around the world, but I don't think the health care systems are in a position where they can dramatically increase the number of surgeries from a normal state. So I would anticipate a more normal to normal plus situation after the pandemic on the surgical side.



And will that be enough then to offset maybe headwinds in IVD?



I think IVD, if we look at that specifically, I think there will be a continuously high demand of testing. I think the world is moving in that direction and has been for a long period of time, of course, during the pandemic, every test you can get hold of is sold, But the possibility to dramatically overproduce in those times are limited due to the long term investment needed for producing these type of products.



Okay, perfect. And in Industrial Solutions, looking historically Q1 is often At least margin wise, it's a stronger quarter than Q4. So would you say that the 9.9% margin reported in Q4 is a clean number, meaning that it's probably driven by the efficiency measures that you have worked with since Q3 2018? Or Is it something we should acknowledge in or and not extrapolate in that number?



I think as you say, the efficiency measurements we have taken has shown result in the Q4 and we don't see that it should continue in that way. We have been on that journey for quite some time. Then we ran into the pandemic in Q2 and had to stop our production during some months, of course affecting the margin. But Now in a more normal volume situation, we have shown that we are able to come back to a more normal margin situation.



Okay, perfect. The final one from my side. A year ago, so you talked quite a lot about the water injectors. You talked about it on your Capital Markets Day as well. The potential within these types of devices.



Could you give an update where you are now with incoming requests and R and D and so on? Thank you.



I think it's progressing according to our plan. So I will sorry, the auto injectors and those kind of things is something that it will be see more of for the future and it's a change in behavior with the new sort of bio based drugs with larger molecules needing those kind of devices. So I think we're progressing according to plan.



Okay. Thank you. Thank you. Thank you.



And the last question in the queue so far comes from the line of Michael Lecien of Carnegie. Please go ahead. Your line is



Okay. Hi. Yes, three questions. Can you please repeat what you said about JW Plastics and the revenue Being a bit lower in the Q4 of some delay that you mentioned. Yes.



We GW Plastics has on the medical side much into the surgical arena and that is affected by the postponed surgeries. Okay. I have nothing that is postponed there into 2021. Do you mean that we will see less surgical even in Q1? Is that the question?



No. The reason why it is below the run rate of SEK 400,000,000 or SEK 1,800,000,000 if you look at Q4 alone.



Do you mean that The postponement is postponed into Q1, is that the question or?



I may add mid sentence. That's why I asked if I missed something, but maybe not. I was just thinking about what revenue they had in Q4, and it seemed like it was a bit below the SEK 1,800,000,000 annualized revenue that you talked about in connection with the transaction? Yes, and that is correct. And the less sales compared to the 1.8 is due to the fact of the postponed surgeries.



Okay, got it. Thanks. And just checking here if you have any exposure to vaccine production, COVID? We are not producing any vaccine. Okay.



Nothing in certain years and things like that? Not of any that will affect any numbers. Okay. Good. And I was also thinking about the EMC thermal companies that you have and how they are exposed to Electric Vehicle market, can you say something there, how they are exposed to EV?



The value of the car maybe compared to combustion engine cars and how your position to capitalize on the EV markets? Yes. Some years ago, we took the E and C business from a purely mobile network business to expanding in it to other areas. And one of those areas are the automotive industry. And We are gradually building that up step by step, and it's both for combustion engines, but also vehicles with, of course, electric vehicles.



Okay. Is that a meaning for the So potential for you or Yes, definitely long term we think this is a very interesting market, but the individual Sales or projects are of less significance than the network, so you have to build them step by step. And of course, the duration of the production is also longer than within the network. So This is something that we build step by step and see a gradual increase by quarter. Okay.



And just a final one for me. It's about the comment of for the Integrated Solutions segment To have revenue of more than SEK 1,000,000,000. Just curious what you mean there. Is it just above or is it significantly above, I mean, NOK 1,100,000,000 or NOK 1,200,000,000.



We mean it's just about SEK 1,000,000,000. So if we would have said much more than we would have given more decimals into the numbers, but we mean just about SEK 1,000,000,000.



Okay. That's checking. Thank you.



Thank you. There seems to be no further questions on the line at this time. So I'll hand back