

May 4, 2021

Nolato

Q1 2021



Prepared Remarks



Thank you, and welcome, everybody, to the presentation of Nolatus First Quarter 2021. This is Christoph Waltke speaking, and I think that you all have our presentation in front of you. If we start on Page 2, the Q1 of 2021 was a record quarter for Nolato Group, And we did reach the strongest sales and profit in our history so far. Sales amounted to more than SEK 2,600,000,000 corresponding to a 22% increase in sales if we adjust for currency and acquisitions. We have, of course, GW Plastic has been consolidated since September 1, and the integration is going according to plan.



During the quarter, we had a negative currency effect, mostly affecting the conversions. The EBITDA profit increased to NOK 308,000,000 in the Q1 in comparison to Q1 2020, that was NOK 227,000,000 This is creating a margin of 11.6 percent for the group. So we consider that a strong margin. Cash flow during Q1 after investments are increased and improved in correspondence to last year and amounted to NOK 71,000,000 Turning to Page 3. We have created a balanced group with 3 strong business areas.



And all of the 3 business areas are now present on 3, for us, most important continents, that is Asia, Europe and Americas. If we then jump into Medical Solutions business area on Page 4, you will see a graph of our sales over 20 years, and we can consider this 20 years of strong growth. We have had organic growth every year, and we are now in a Geographical expansion, combined with the technology of Germany with the Business Area Medical Solutions. If you look into the different segments of the Medical Solutions business area on Page 5, you will see the 6 most important areas that we are operating in. To mention a few, we have the in vitro diagnostics, which, of course, is positively impacted by the COVID-nineteen situation.



We have Continece Care being a last portion of our group. We have endoscopy and general surgery that is negatively impacted by the COVID-nineteen situation and the drug delivery systems, which, of course, are different delivery systems for biografts and other drugs that need to be injected into the body. So we consider it being a good split of sales between different interesting therapeutical areas that all have good possibilities for future growth. If we turn to Page 6, focusing a little bit more deeper on the numbers for Medical Solutions. During the Q1, we had a 57% increase in sales.



But if we adjust for the GW Plastic acquisition and currency effect, it was still a very strong 17% increase in sales. We saw a high demand in Diagnostics, which is growing partly because of the pandemic. During the quarter, we had a high level of billing for development work and production equipment. And I would say that approximately boosted for sort of extraordinary sales of approximately SEK 70,000,000. We saw during the quarter weak demand in the Surgical segment, specifically in the U.



S. Business due to postponed operations due to the pandemic, but we saw a slightly better end to the quarter in this area. The margin ended up at 12%. And of course, this is a strong margin in if we into the this lower margin that we have from the latest acquisitions of GW Plastics. The sales in the quarter exceeded SEK 1,000,000,000 and a profit of SEK 121,000,000.



We are expanding our production capacity, and previously, we have decided to expand in Switzerland, Hungary, Sweden Sweden, and this is according to plan and proceeding good. We have made new decisions on capacity expansions in Poland and in the United States. If we then turn to Page 7 to focus a little bit on the Integrated Solutions business area. If we look on the 20 year graph of this business area, I would say up till 2016, this was a telecom business area. And since then, we have successfully expanded our operations into new market segments with similar needs as the telecom market.



And we are now in that mode of expanding our business. If you turn to Page 8, describing a little bit about the 2 parts to this business area. We have the largest portion, which is consumer electronics, consisting of VHP, different connected Wi Fi systems, wearables and mobile phones. And then we have the EMC Thermal part of the business. It's a lot about material science and solutions for thermal management and electromagnetic shielding.



So this business was built within the telecom and now expanding to new market areas. If you turn to Page 9, focusing on the details of Integrated Solutions. We had a very good quarter with 40% increase in sales during the quarter. We had strong sales both in the Consumer Electronic and the EMC Thermal segments. The growth was, of course, based on the good volumes within the BHP area, but also strong growth within DMC and dependent on the rollout of the 5 gs and good initiatives within the automotive sector that are performing very well.



We also expect the 2nd quarter to increase sales by around 15% compared to the Q1 this year. During the quarter, we had sales of a little bit more than SEK 1,000,000,000 with an operating profit EBITA of NOK 125,000,000 giving an EBITA margin of 12%. If we turn to Page 10 and focusing a little bit on the Industrial Solutions business area. It's also a 20 year graph of our sales. And we have, during the last period of time established industrial under 3 important components.



If we look into the business area on Page 11, we have 2 parts to the business area, the largest portion being the general industry that are working with large global customers within the industrial sector. And the smaller and other part of the business area is automotive, where we are mostly and focusing on the Scandinavian Automotive Industry. If we turn to Page 12 and focus on the numbers for the Q1. During the Q1, our sales amounted to NOK595,000,000 with an operating profit of NOK 66,000,000, creating a strong margin of 11 point 1%. That is corresponding to a 4% increase in sales.



But if we adjust for currency and acquisition, it was an increase of 1%. It was slightly affected by the shortage of components within this area. We then turn to Page 13.



Good afternoon. This is Pero Glaornstern, and I will comment on group financial highlights on Page 13. In the left columns, you can see numbers for Q1 2021 compared to last year, the same quarter. The consolidated numbers have a combination of increased sales and improved margin compared with Q1 last year. The sales ended up just above €2,600,000,000 with an operating EBITDA result of €308,000,000 and that is resulting in an EBITA margin of 11.6%.



A few lines below, you can see the tax rate for the group. It has increased compared to the same period last year, 21.0 percent. And the increased effect come from the bigger operation we have in U. S. Since the U.



S. Acquisition last year. Cash flow after investments, that was €71,000,000 compared to minus €73,000,000 last year. And the improvement in cash flow was due to increased profit and a smaller rise in working capital requirements compared with the same period last year. But it was also partly offset by increased investments.



And as you can see on the next line, the investments in this quarter was €178,000,000 compared to only 70 last year. Of course, there is an effect of a bigger operation, including GW Plastics. And we expect the full year investments to be around €650,000,000 Earnings per share were SEK8.43. And if we exclude amortization of intangible assets from acquisitions. That number is 869.



Balance sheet, net financial liabilities, if we exclude pension and lease liabilities ended up with minus €258,000,000 A year ago, we haven't done the acquisition. And then we had a net cash position at to €600,000,000 The cash conversion increased further during the last 12 months to 95%.



At



last year 2020, and the same number was 87%.



Turning to Page 14, a little bit some comments on our current situation per business area. If we start with Medical Solutions, we have maintained growth strategy for this business, a lot of focus on innovation, of course, based on very strong customer relationships, and we see achievement of synergies across markets. This business area, of course, has been some impact of the pandemic with the situation that a lot of surgeries are put on hold. But on the other hand, we sort of see an increase in the Diagnostics side. If we look on Integrated Solutions, we have strongly established position in new product areas.



We are continued very strong position within EMC and Thermal. We see the 5 gs rollout and new automotive initiatives that is positive for E and C, and of course, all based on our flexible production structure. If we look into Industrial Solutions, We have advanced our market positions. We are very successful in our efficiency improvements. Of course, this business area has been impacted by the pandemic and a lot of emphasis on sustainable solutions.

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Thank you. We will now open up for questions.

Q&A



Thank We have a question from the line of Karl Reingen from Nordea. Please go ahead.



It's Karl here from Nordea. A few questions from my side. Firstly, on the Medical Solutions So you guided that you see a slight uptick in the Surgical segment. Could you firstly comment if it's purely in the U. S.



And or Europe as well? And secondly, could you also sort of try to quantify the uptick that you see?



I think the uptick in Surgical is mostly or most seen in the U. S. So that is what it's relating to. And of course, the uptick in itself is not dramatic, but we saw an increase during the late last part of the quarter.



Okay, perfect. And on the IVD sub segment, you also said that you saw quite strong performance there in the And is it fair to assume still or continued higher levels in Q2 or maybe Going into Q3 as well? Or is it maybe difficult to say given quite poor visibility or?



I would anticipate the strong performance to continue in IBD.



Perfect. On the equipment side, you have previously said that or I guess that equipment volumes are a bit hampered because of low traveling or traveling restrictions. But now we obviously So quite a massive impact here in Q1. Is that a onetime effect? Or is it the pent up demand sort of there?



Or how should we look at that?



I think we have we commented previously that we saw some, how should I say, some difficulties in performing development work for customers. But in this quarter, it was a specific uptick during this quarter with some extraordinary sales.



Okay, perfect. And the final one from my side is that you're guiding that you're taking the decision to expand Poland and the NGS operations. So how much capacity are you adding? And are you So willing to give some guidance on CapEx there? You obviously gave full year guidance, but specifically to them, these projects.



The numbers for these investments in new CapEx and expansion, it is included in the €650,000,000 which I referred to earlier. So it's part of that. And we do have a major part of the investments or CapEx within Medical. And of course, these expansions are a very large part of that going forward. It is, of course, including buildings, in some cases, clean rooms, infrastructure around that and the first steps of machinery in those areas.



So it is very much around those expansions. And as we list most of the countries we do have, it is, of course, a major part of the CapEx as well.



Is it related to any sub segment? Is it the surgical side? Or is it could you specify that?



It's more I would not specifically put it into a sub segment, more general expansion of capacity.



Our next question comes from the line of Erik Kessel from ABD Sundal Collier. Please go ahead.



Hi, Christian Frode. So my first question is on the margin and contract for VHP in Integrated Solutions. And if I understood it correctly, that is sort of a fixed margin contract. So now with plastic costs increasing, Is it fair to assume that it also applies when you see increasing costs that we should sort of see impact margins and increased sales into H2 to provide?



Yes, there is a mathematical effect, as you say, And we do see that in many areas today, and you can read about it in the press every day. And it's not only the plastic, it's different kind of raw materials increasing. But we have Technical Plastics, and the increases are not that dramatic that you could see in some of the more basic plastics. But still, it's high increases. And of course, you get those effects when we add that to the pricing we did have before.



So that is the way we handle it. And that's according to contracts that we have with most of our customers.



Okay. So it's fair to assume that the margin impact would be limited in any case?



Yes. No major effects because of that. We do see some time lags, but it's nothing big that affects very much.



Okay, perfect. And then also for Integrated Solutions. So the margin has been close to 12% now for 2 quarters in a row, which is a bit lower than the 13% to 14% we have seen over the past 2 years, is this related to the sort of cost and price changes you implemented in Q3 and Q4 mean that this should sort of be considered as a normal margin from now on?



Yes. I think as you did see, we and as you comment, we have had those kind of margins the last two quarters. These two quarters do have the latest product variance within them. And that is the situation we are in right now with currency effects and everything in it. And if you do recall, if we go back to some of quarters where we did have 13 plus percent margins, those Some of those also had a positive effect from Chinese subsidies that we did get in some of these quarters.



So that is what we have seen the last two quarters. That's correct, yes.



Okay, perfect. That was all for me. So thank you very much.



Thank you.



We have a question from the line of Nikka Larsen from Carnegie. Please go ahead.



Hi. A few questions from me. Can you elaborate a bit more on the GW Plastics side, how that company is developing, organic growth in the quarter and the margin situation for them?





Yes, the integration of GW Plastics is going very good. Of course, we see some effects of the pandemic with the slowdown in the Surgical. But we are very pleased with the acquisition and going in a good way.



Okay. But excluding the So I'll take a slide. Are the other product areas growing by 5%, 10% or are they also affected?



The effect from the pandemic is that is affecting, of course, the Surgical and to some extent, part of the automotive.



Okay.



And I can also add to that, that you did see the comment we have that we have seen a slightly improved margin in this quarter compared to the Q4 last year. In local currencies, sales were roughly similar to the Q4. So we are in a similar situation. And As Chris commented on the surgical side, similar situation as well.



Okay. Can you give us the FX effects on revenue for the group and Rig segments, please?



Yes, I can. We did have the largest ones in integrated, as we usually have. Those were SEK 150,000,000 if we convert all of them. So we lost €150,000,000 compared to the same quarter last year if we would have kept the same currency rates as Q1 last year. In Medical, we lost 14,000,000 and in Industrial, half of that 20



Okay, great. That's helpful.



So it's 210 on group level. Okay. Got it.



And when it comes to Integrated Solutions, The guidance for 15% quarter on quarter growth in Q2. Would be interesting to hear input on the inventory situation or if this is driven by underlying end consumer demand?



Of course, there are constantly some movements from inventory, but we anticipate the market is growing.



Okay. So there is not an unusual inventory situation in Q2, I guess?



We are not anticipating that, no.



Okay. Good.



And when it comes to plastic input cost,



And you already talked a bit about that. But what type of cost price increases Are we talking about here on the more technical side for advanced materials?



I think to start with, we have



to be aware of that only part or a smaller part of our purchasing is coming from Pure Plastics. And we try to explain that. You know that Within Industrial, we have the highest level of plastic content. Then the Medical is lower and also integrated. So It's only part of it which is really hit by this.



And then, of course, we do see a number of different changes all over the large pallet of different plastics that we buy. Of course, some extremes, but some areas which haven't moved quite much at all. So it's a different mix to smaller parts of our purchasing. That is where this is seen. It also, of course, happens over time.



So it's not everything in 1 month. And we have, of course, inventory as well, which we have been buying to lower prices. So it's a mixing situation where This adds on during different time periods, but it's also, yes, reflected by inventory situations and different things going the other direction also. And what we see is the net of all those things going on, combined with how we take out this on our customers. So it's a mix of different things, a complex situation.



And of course, we work a lot with it.



Yes, interesting. Thanks. One final maybe. The component shortage situation now has been discussed a lot, of course, in the reporting season. And before that, How are you affected by it?



And what do you see ahead, especially for the Industrial segment?



I think we have had limited effects from this and being in a fortunate situation where our products have been prioritized by customers so on. But we are, of course, following this very closely. And It could affect us, but so far, very limited. Thank you.



There are no further questions registered. So I am back to the speakers for any closing remarks.



Thank you very much for listening to the presentation of Nolato's Q1, and I wish you all a great end of the day. Thank you.

