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Nolato

Q2 2021



Prepared Remarks



Thank you, and welcome everybody to the presentation of Novartis' Q2 of 2021. I'm starting on Page 2 in the handouts. And I can we had a new record quarter for the Lattro Group with sales close to SEK 2,800,000,000, giving an organic growth of 11% during the quarter. The GW Plastics acquisition, which we acquired 1st September, showed a strong performance quarter on quarter. We had an operating profit of NOK 336,000,000, giving a NOK 25,000,000 increase of operating profit if we compare to Q2 last year, and we reached SEK 336,000,000, creating a margin of 12.1 percent during the quarter.



The cash flow after investments amounted to NOK 3 NOK 46,000,000 during the quarter. Turning to Page 3. On this page, we can see the balanced group with 3 strong business areas. All 3 business areas have a good global reach and each with operations on 3 important continents. Turning to Page 4, focusing on the Medical Solution.



With the Medical Solutions, we are on a global expansion journey, where we are being a continuous growth over the 20 years we show here on this page. And our growth is continuing, and we are building our footprint on the important places around the globe. If we turn to Page 5, showing some of our focused product areas. We have 6 important therapeutical areas that we focus on. We start with IVD in vitro diagnostics.



It's a future interesting area with good potential for growth. We see, however, at the moment, there is some shortages of capacity in the total market. The next one is cardiology, mostly consisting of long term implants or different type of pacemakers or heart supporting devices. Then we have pharma that consists of liquid and solid dry containers. Continence Care, which is a very large area with very high volumes.



Then we have our general surgical area, which, of course, during the pandemic now has been affected with some postponed surgical across the globe. And then the last of the 6 focus product areas is the drug delivery, which is an interesting area with delivery devices, mostly focused on large molecule drugs, the sort of bio based drugs. If you then turn to Page 6, focusing on the numbers for the quarter for Medical Solutions. During this quarter, we saw a 2% increase of our sales if we adjust for currency and acquisitions. Overall, we saw a general good demand, but Available capacity is a limiting factor within the diagnostic area.



We saw a quarter on quarter increase in the surgical area, but the pandemic is still having an effect. We saw strong performance by the acquired business of GW Plastics. So during the quarter, we had sales just above SEK 1,000,000,000 and an operating profit of SEK 124,000,000, creating a margin of 12.1%. The margin is, of course, dilutive seeing some dilutive effect from the acquired U. S.



Business, if we have in comparison to last year before the acquisition. Our expansion of production capacity is according to plan. So we are currently expanding in Switzerland, Hungary, Poland, United States and Sweden. If we turn to Page 7, focusing on integrated solution. Within our integrated solutions business area, we are in an expansion into new market.



So we are expanding ourselves in different market areas, and we started and initiated that expansion some 5 years ago, creating good growth for us. We turn to Page 8. If we look a little bit deeper into the Integrated Solution business area, we have 2 parts to the business area. We have what we call consumer electronics, consisting of vaporizing heating products, different electronic devices, could be connected Wi Fi system, wearables and those kind of things. That part is the largest part of the business area.



Then the second and smaller area would be the EMC Thermal. This area we have built up within the telecommunication, and now we are expanding this to the other segments of the market such as the automotive and other industries. Turning to Page 9, looking at the numbers and the details of the Q2. During the this quarter, we had a strong growth with 12% currency adjusted growth during the quarter. We saw a strong growth in the BHP with increased volumes.



We had solid EMC the volumes during the quarter, we had high comparative numbers for the quarter within the EMC, but we see some very good initiatives in the automotive rollout and good quarter for the business area. If we look a little bit ahead into the next quarter, we see good sales growth, expect that for Q3, both within the BHP and the EMC part of the business. The margin during the quarter ended up at 13%. And if you're in the comparison number for Q2 2020, we had some positive impact by contribution for Chinese authorities. So the quarter ended up just shy of SEK 1,200,000,000 in sales and a profit of SEK 154,000,000.



Turning to Page 10, focusing on Industrial Solutions. Within the Industrial Solutions business area, we are on a technology and geographical expansion journey. So during the last year, we have expanded our operations. So we're now present on 3 important continents with this business area. On Page 11, we see the split up of the business area in 2 different segments.



We have the general industry focusing on different industrial customers doing a lot of different things. So it could be white goods, forest equipment, furniture, all kinds of different things. And then the other part is the automotive part, where we are focusing on the sort of high end technology advanced things for automotive, both light vehicles and heavy vehicles. If we turn to Page 12, we saw a strong increase in sales, 22 percent growth of Industrial. But we should remember that the comparison quarter last year was very weak due to the pandemic and the close down of some automotive manufacturing sites.



We saw a slightly negative impact of component shortages, mostly within the automotive sector, but we ended up with NOK 580,000,000 in sales and operating profit of NOK 62,000,000, creating a strong margin of 10.7% of the business area.



Good afternoon. Pero Blahermstern to comment group financial highlights On Page 13, the net sales increased 11% adjusted for currency and acquisitions to almost SEK 2,800,000,000. And the operating profit EBITA, If we do exclude the nonrecurring item of NOK 50,000,000 was SEK 336,000,000 In these numbers, you can see the nonrecurring item included. The EBITA margin, excluding the nonrecurring item, is 12.1 percentage. And to give a short summary of that non recurring item, That is prior to the acquisition of GW Plastics, which has been consolidated from September 1, they applied for a loan that could be received from U.



S. Authorities to provide support during the pandemic. Under certain conditions, the loan may be remitted as announced by the authorities during this Q2. And the effect of this is recognized in the income statement as other income at group level, and the amount does not affect the earnings of the business areas. It has No cash flow effect for Renato, and it is also tax free.



So from these two aspects, So it's quite easy to exclude it. It's reported according to IFRS rules. The profit after tax was NOK291 compared to NOK 207,000,000 And the effective tax rate was 20% for the 1st 6 months compared to SEK 19,700,000 for the same period last year. The cash flow after investment ended up with SEK 417,000,000 compared to SEK612,000,000. Last year, we did have a sharp temporary reduction in tied up working capital during the first half year.



And as we have estimated earlier, CapEx will increase for 2020 and the first half year increased from SEK 133,000,000 to SEK 332,000,000. We expect now CapEx to be around SEK 700,000,000 for the full year 2020. The net financial liabilities was, if we exclude pension and lease liability amounts, NOK194,000,000 and has decreased further from NOK 298,000,000 at year end. And we have, during the Q2, paid out SEK 428,000,000 in dividends to the shareholders. We do have a strong financial position.



Turning to Page 14, focusing on the current situation for our business area. Starting with Medical Solutions, We are maintaining our growth strategy, lots of focus on innovation based on strong customer relationship. We have seen and still see some impact of the pandemic, and we are achieving synergies across the markets. Within the Integrated Solutions business area, we have established a strong position within new product areas based on our flexible production structure, and we see the 5 gs rollout and new initiatives in the automotive sector that are positive for our EMC thermal part of the business area. Within Industrial Solutions, we have advanced our market positions.



We see the efficiency improvements. We have, of course, impacted the pandemic and a lot of emphasis on sustainable solutions within this business area. We would now open up for questions.

Q&A



Thank Our first question is from Karl Wagnersch Sturm of Nordea.



It's Karl here from Nordea. Couple of questions from my side. Firstly, on Medical Solutions. You mentioned that you see sequential improvement in the Surgical segment, but The capacity constraints for testing equipment. So first on the surgical side, is it possible to give some flavor on the magnitude of your recovery And whether you have seen a gradual recovery during the quarter given an increased vaccination levels?



And also, sorry, when it comes to the sort of testing side, if it's you experiencing capacity Constraints or is it your suppliers or is it difficult to find materials? Just you can clarify that as well.



Okay. Thank you, Karl. If I start with the Surgical recovery, we have seen a gradual recovery during the quarter. I still consider the volumes to be lower than normal as an overall perspective, but gradual improvements. On the IVD and Diagnostics sector, The constraint is a total if you look on the total market, there is a lack of capacity in converting and producing these products.



So it's not lack of raw material or anything like that. It's a lack of total installed capacity.



Okay. So it's not from your side then, I guess?



It is. In our factories, we are running as much as we can in the installed capacity.



Okay. So it might be a problem For the coming 2 quarters as well, I guess, then?



I think it's a problem for the whole area as Such and the total installed capacity in the world is not enough for the demand at the moment.



I think you could add as well for our sake that as we do say in this report and we said that Before as well, we are installing, of course, more capacity. So that is something that we bring on gradually.



And when will you have new capacity? Is it short term And or is it more of a midterm?



That is something that is coming gradually. So We have some additions which will effect quite quickly. Then of course, there are some in the plans going forward. So it's an ongoing thing, gradually improved.



And I guess it's what is your best guess when it comes to Surgical segment returning to growth, is it yes, what's your best guess there? Is it In the coming quarter, 6 months or do you have any view on that?



My best guess would be gradually during the rest of the year.



So return to growth in H2 then?



Yes, but there is 2 factors affecting this. First, of course, the surgical procedures needs to come up to normal stage. And then there is a lot of components and equipment in pipeline. So it's 2 things. So It's difficult to say how it will play out.



Okay. Perfect. And also on the heated tobacco Guidance or Integrated Solutions guidance more specifically, you guided for good growth sequentially. I mean given that your growth has been 40%, 50% the past few quarters, is it fair to assume that Your definition of good growth is at least double digits? And then also, do you expect EMC to grow at the same or faster pace Than heat the tobacco in your guidance?



We have been a bit more, Let's say specific for a number of quarters back. And the reason for that It has been, of course, that it has been a bit more volatile in that segment. We did feel that the Q2 numbers we did see would be a good, let's say, base. And now we didn't be that specific that we have been. And that is, of course, the view that we have of the second quarter as a base.



You mentioned double digit growth, and we would agree to that Double digit in the low part of the double digit. And about EMC, we do see the same kind of growth in that area. So it's a good growth situation.



Okay, perfect. Very helpful. Thank you.



Thank you. Our next question is from Michael Lassine of Carnegie. Please go ahead.



Hi. Yes, I got a couple of questions. The Supply chain and component shortage issues that you have in the industrial segment, can you talk about this any more in detail and Say something about the revenue and EBIT impact?



Yes. We have seen some lack of components for the automotive industry during the quarter. It has had a slightly impact, I would say, during the quarter for industrial. So that's still some.



Okay. Do you know how much it affected the top line?



It's hard to say in exact numbers because We don't have really something to compare with. But you have seen that Some of the automotive factories have closed down for shorter time periods. Some of that has been then increasing orders the next Sweet and so on. But our estimation is still that there is a slight effect on the negative side during the quarter.



And what do you expect going forward? Is the outlook Better, more steadily, will this continue? What do you expect?



I think you could say that there will be some effects going forward as well. You can read about it in some of the reports and you can read about it in the papers from time to time. I think we have had a customer we have had customers affected less than many of them. And also the delivery addresses we have had has been maybe Not the worst ones. So a favorable situation compared to many others.





And then, of course, you could say that in the end, there is a good demand. And some of the customers, they plan for producing the need and the demand at a later stage, which could be then on the positive side. But Probably, there will be some smaller effects also going forward.



Okay. And just my final question on the industrial side. I have one more, if it's okay. And the basic question about the Split between automotive and the other segment, the other customer types. And on the automotive segment, how much is heavy trucks and cars?



The automotive sector is about 35%, 40% of the business area and has been quite stable. And our part is mainly to the light vehicles or cars. That is the largest part for us.



Okay. I was just curious because The picture you showed yesterday, it was fifty-fifty. So I was a bit surprised. And just a follow-up there. How much of the Light side in battery electric or everything in the automotive side?



I would say, if you talk about include hybrids within this, then I would say the majority would be hybrid today.



Okay. And pure battery electric?



I don't have the number for the split between fully electric and hybrid. Sorry about that.



Okay. That's fine. All right. And my final question is on GW Plastics. Great to know that it's starting to Grow again.



And what type of growth rates are you seeing there? And if you also can And that's how much revenue contribution that you got from GW this quarter?



Yes. The growth rate was double digit for JW if you compare to the Q1 of this year sequentially. And the sales number was about SEK 390 SEK1 1,000,000 for GW Plastics.



Okay. Got it. Is it okay if I ask one more?



Yes.



Okay. Great. It's about this comment that you made about integrated, Especially the HP and E and C. You also said something there about component shortages. Is that If the gross double digit excluding this?



Or how should we think about the component shortage side?



I think we've seen some tendency to some disturbances in the delivery of components for integrated during this quarter. And the comment for the future should be more in a general view that there is a shortage total in the market, but we expect to be able to deliver this low double digit growth.



Okay, great. Got it. Thanks.



Thank you. There are no further questions. So I'll hand back over to our speakers.



Thank you for your interest in Nolato's presentation of Q2, and I wish you all a very nice summer. Thank you.

