

October 28, 2021

**Nolato**

Q3 2021



## Speakers



**Adrian Gilani**

Equity Research Analyst | ABG



**Carl Ragnerstam**

Managing Director and Head of Small Cap Research |  
Nordea



**Christer Wahlquist**

CEO | Nolato



**Mikael Laséen**

Equity Research Analyst | Carnegie



**Operator**



**Per-Ola Holmström**

CFO | Nolato

## Prepared Remarks

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**Operator**

Hello, and welcome to the Nolato Q3 Report 2021. Throughout the call, all participants will be in listen-only mode, and afterwards there will be a question and answer session. I am today pleased to present CEO Christer Wahlquist and CFO Per-Ola Holmström. Please begin your meeting.

**Christer Wahlquist**

CEO | Nolato

Hello, and welcome everybody to the presentation of Nolato's third quarter 2021. I will start on page two, and I can be proud that we have had a record quarter for the group even though we have had difficulties, difficult times. It was a record quarter with sales just about SEK 3 billion, which then corresponds to a growth of 21% increase in sales. If we adjust that for currency and acquisition, it was 16%. During the quarter, we have had some supply chain disruptions and affected by some disturbances and difficulties, but a very strong growth for the Integrated Solutions. With our profit, EBITA rose to SEK 339 million, creating an EBITA margin of 11.2%.

**Christer Wahlquist**

CEO | Nolato

We have a strong financial position with net financial debt of SEK 72 million, creating possibilities for the future and continuing to growing the company. Turning to page three. The Nolato Group consists of three business areas, which are of course in the completely different market segments, but creating synergies between the different business areas on the basis of we have the same type of technology, the same type of production equipment in the different segments. The combination of the three business area creates a strong growth. Turning to page four, starting with the business area, Medical Solutions. On the Medical Solutions business, we are in a global expansion journey, and you will see on the graph showing the growth we have had over the last 20 years.

**Christer Wahlquist**

CEO | Nolato

That journey will continue, and we will continue to grow the business and expand in different places. On page five, you will find the different focus product areas for Nolato Group within the medical sector. It consists of in vitro diagnostics around 18% of the medical business area sales. That is a long-term growth area with increasing need of diagnostics in the hospitals around the world. We have cardiology at 7% of the total medical business sales. It's a smaller area, but a very interesting area due to some premium margin, and it consists of mostly long-term implants with extreme demands. We have Pharma Packaging, consists of the liquid and containers for liquid and solid drugs at approximately 12% of our medical business area sales.

**Christer Wahlquist**

CEO | Nolato

Continence care, 12%, is a high volume area with very high volumes and spread around the globe. We have the endoscopy and general surgical, 20% of the business area. That is part of the business that's been mostly affected by the COVID situation with postponed surgeries and so on. We have drug delivery systems at 15%, and it's advanced delivery system for different kind of drugs. It could be auto injectors, different distribution methods for drugs into your body. If we turn to page six, focusing a little bit on the details of the Medical Solutions business area in third quarter. We had a troublesome quarter with sales of just shy of SEK 1 billion. We saw continuously low volume within the surgical and some inventory adjustments across different customers.

**Christer Wahlquist**

CEO | Nolato

During the quarter, we have had a ramp up of a large project within the IVD segment, and we have had some difficulties in that ramp up. It's adding some costs on the short-term period. The expansion of production capacity is according to plan. The sales ended up at SEK 977 million with an operating profit of SEK 100 million, creating a margin of 10.2% in the quarter. We will move into Integrated Solutions business area on page seven. In this business area, we are in a mode of expanding into new market segments. This is a journey that we initiated some six years ago, and it's been a very successful break-in.

**Christer Wahlquist**

CEO | Nolato

We have good growth since that sort of expansion of the business area. On page eight, you will find the two different parts of Integrated Solutions. It consists of consumer electronics, which is the largest portion of the business area, and that is built up from VHP, different Wi-Fi system, different kind of wearables or other connected devices. The smaller part of the business area is called EMC and Thermal, and that is shielding solutions and thermal management for electrical and connected devices or circuit board and so on. This business is based on telecom experience, but we are over the last years expanding this into new segments, and we have seen a good growth within the automotive sector for those kind of shielding and thermal management systems.

**Christer Wahlquist**

CEO | Nolato

On page nine, we will go a little bit deeper into Integrated Solutions for the third quarter. We saw in this business area a very strong growth, a new record quarter, and we saw good growth across the business area, the different segments. Within the consumer electronics side, we saw a strong growth for the VHP area. It's based on, of course, increased volume, but also some impact from inventory build-up. We also had a quarter with strong growth within the EMC, and this is based on rollout of 5G, but also strong growth within the automotive sector. Sales ended up for the business area at a little bit more than SEK 1.5 billion, creating a growth rate of 39% organic during the quarter. The operating profit, EBITA, ended up at SEK 200 million.

**Christer Wahlquist**

CEO | Nolato

For the fourth quarter sales, we are expecting it to be in line or slightly lower than this year's third quarter sales. Turning to page ten, focusing on Industrial Solutions. On this business area, we are on the technology and geographical expansion journey. We are expanding our footprint and are now established production on the three most important continents of the world. If you turn to page eleven, we will see a split up of the two segments of Industrial Solutions. That is then based on general industry and automotive, and automotive being the smaller portion of the business area.

**Per-Ola Holmström**

CFO | Nolato

Good afternoon.

**Christer Wahlquist**

CEO | Nolato

If we turn to page 12, we will focus a little bit on the details of Industrial Solutions. During the quarter, we have seen supply chain disruptions leading to lower volumes in third and fourth quarter. That ended up a decrease of 4% in sales, adjusted, if we adjust that for currency and acquisition. The sales ended up at SEK 540 million, with an operating profit of SEK 42 million, creating an EBITA margin of 7.8%.

**Per-Ola Holmström**

CFO | Nolato

Now it's my turn. Good afternoon. Per-Ola Holmström to comment group financial highlights on page 13. In the middle of that page, you will see the Q3 numbers for 2021 compared to 2020, the same period. We had net sales of just about SEK 3 billion. That was an increase of 16% adjusted for currency and acquisitions. The operating profit increased to SEK 339 million. If we compare last year without the non-recurring acquisition costs we had for GW of SEK 17 million, the comparison number is SEK 304 million. The tax rate for the combined group is 20%.

**Per-Ola Holmström**

CFO | Nolato

We had cash flows after investments of SEK 116 million compared to SEK 82 million last year, taking away the acquisition of GW, of course. That we had, even if we invested a lot, the net investments affecting cash flow was SEK 245 million. That is on higher level, as we have commented earlier, compared to last year where we had SEK 112 million. We expect the full year to be between SEK 700 million and SEK 800 million during 2021, and that is mainly CapEx for expanding medical. Earnings per share were SEK 0.95 compared to SEK 0.79.

**Per-Ola Holmström**

CFO | Nolato

The financial position remains strong with net financial liabilities of SEK 72 million if we exclude pension and lease liabilities.

**Per-Ola Holmström**

CFO | Nolato

We then turn to page 14 and some comments about our current situation per business area. If we then start with Medical Solutions, we are of course maintaining our growth strategy, focus a lot on innovation, based on our strong customer relationship. We see impact from the pandemic, and we have temporary high costs for re-ramp up of a large new project. Within the Integrated Solutions, we have established our position in new product areas. We have a very flexible production structure, and we see the five-year rollout and new initiatives in the automotive sector that are very positive for the EMC part. In the Industrial Solutions, we have advanced our market positions. We see a continual efficiency improvement, even though we have impact of supply chain disruptions, and we've put a lot of emphasis on sustainable solutions. Thank you.

**Per-Ola Holmström**

CFO | Nolato

We will now open up to questions.

Q&A

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**Operator**

Our first question comes from Adrian Gilani with ABG. Please go ahead.

**Adrian Gilani**

Equity Research Analyst | ABG

Yes. Hello. This is Adrian Gilani at ABG. My first question relates to the Integrated Solutions segment. I was just wondering, is it possible to quantify how much of the Q3 sales in VHP were boosted by inventory buildup?

**Christer Wahlquist**

CEO | Nolato

I'm afraid we don't have the full picture of that. It is, as we say, the larger part is coming from volumes, and then we do see a small effect from inventory buildup as well. We don't have the full picture of really what is what here. When we combine our information that we have, we do assess a certain impact from inventory buildup.

**Adrian Gilani**

Equity Research Analyst | ABG

I understand. If you look, so first with the inventory buildup in Q3, and then also you guiding for similar Integrated Solutions sales in Q4, is it then fair to assume that your largest VHP customer may go into 2022 with very high inventory levels, and that we might see a dip in the growth rates for a few quarters then?

**Christer Wahlquist**

CEO | Nolato

It is hard for us to say. Of course, long term, we think that we have products within this area which are growing. Sequentially, as we then guide Q4, there would be no growth there. That is, of course, based on the inventory buildup in Q3. We are actually not saying something definite about the next year with this. We have a good view of the next quarter. We don't know every detail, of course, but we have a good view, and that is typically what we are trying to estimate.

**Adrian Gilani**

Equity Research Analyst | ABG

Just continuing on the Medical Solutions segment, you obviously mentioned some ramp-up costs from a major project with this IVD customer. Could you specify, first of all, how much these costs affected Q3 earnings, but also perhaps the size of this project and when we will start seeing revenues from it?

**Christer Wahlquist**

CEO | Nolato

As you know, we are in a situation with medical that we have continuous growth over years, and of course, that is based on the ramping new projects and so on and so forth. This project is one that is supposed to be ramping, and those kind of ramps are building then year by year over a long period of time. It's a part of our long-term strategy, of course, to have those kind of ramping, and it should be seen in a longer perspective. The cost during the quarter we will not give a specific figure for that, but of course, we have put extra engineers and so on to solve these ramping things.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. I understand. Even though you won't give an exact figure, is it fair to say that the ramp-up costs will be similar in Q4 as they have been in Q3?

**Christer Wahlquist**

CEO | Nolato

We don't see any major differences in the cost situation between the two quarters.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Just one final question, if I might. Your production capacity expansion, you say it's going as planned. Could you just elaborate quickly on when we can expect sort of added capacity to come into effect, and if there's a possibility of capacity constraints becoming an issue before this comes into play?

**Christer Wahlquist**  
CEO | Nolato

Yes. We have a tradition of expanding facilities when we sort of see in our projections that we will reach capacity constraints within a year perspective or something like that. Then we generally build for a couple of years of growth ahead. This is not something that you will see in any numbers. It's more that we have quite a few of those expansion at the same time in different places around the globe. I don't see that we will come into any constraints on the floor space any places. We have always a long-term view on this and expanding ahead of time to make sure that we can address our customers' need.

**Adrian Gilani**  
Equity Research Analyst | ABG

Okay. Well, that was all from me, and thank you for answering my questions.

**Christer Wahlquist**  
CEO | Nolato

Thank you.

**Operator**

The next question comes from Carl Ragnerstam with Nordea. Please go ahead.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Hi, it's Carl here from Nordea. A couple of questions from my side as well. On the component side and the problems there, have you seen an improved or a worsening situation now when exiting Q3, if you take it by segment?

**Christer Wahlquist**  
CEO | Nolato

If you talk about.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Yes

**Christer Wahlquist**  
CEO | Nolato

Semiconductors and those kind of things, I would say.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Yes

**Christer Wahlquist**  
CEO | Nolato

It's still a volatile situation across. It's similar, I would say. It's still early in the quarter, but it's a similar situation.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Okay. Perfect. Also, you mentioned inventory corrections in, I guess, IVD as well there. Should we expect it to last in Q4 as well or?

**Christer Wahlquist**  
CEO | Nolato

Well, again, it's early in the quarter. Our feeling is that it will continue to some extent in this quarter as well. It's from different customers and we expect that it might be, yeah, coming from different customers between the quarters maybe. We expect some impact from that in the fourth quarter as well.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Not in the same magnitude it sounds like, correct?

**Christer Wahlquist**  
CEO | Nolato

Very hard to say as we are not that far into the quarter yet.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Okay. Perfect. When I read the report, you seem quite optimistic towards the growth in EMC during the quarter. Could you perhaps give any flavor if, in terms of percentage, EMC did grow at a higher pace than heated tobacco? If you could give any flavor on that.

**Christer Wahlquist**  
CEO | Nolato

Yes, we had good growth in this quarter and actually even a bit higher than the VHP part. It was a very good quarter. On the other hand, you could say that the reference numbers in Q3 last year was not that high. In that way it was an easy comparison.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

On your guidance for Q4 on Integrated Solutions, do you assume high growth for EMC there as well, or is it purely driven by heated tobacco?

**Christer Wahlquist**  
CEO | Nolato

It's including a good growth for EMC as well.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Perfect. The final one from my side is a bit on the surgical side of your business. It's been softer week in Q3, have you seen a sequential weakening performance? Then what do you see in current trading?

**Christer Wahlquist**  
CEO | Nolato

We have not seen a sequential weakening, no. I think there is a lot of factors in this. Of course, hospitals are trying to get the surgeries going. Of course, there's inventory situation. It's volatile, but it's definitely not been weaker than previous quarters.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Yeah. You haven't seen any improvement so far either?

**Christer Wahlquist**  
CEO | Nolato

No, no.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Okay. Okay. Sorry, it's a follow-up on that. Do you consider doing any cost cuts or will you just wait until the market will come back at some point, or how do you plan?

**Christer Wahlquist**  
CEO | Nolato

We are of course very focused on having the right cost. Of course, on the other hand, we need to make sure that we can follow the customer when the things are starting moving. Within the industrial and medical business area, it's more part of the total cost is fixed cost or semi-fixed.

**Carl Ragnerstam**  
Managing Director and Head of Small Cap Research | Nordea

Okay. Perfect. Brilliant. Thank you.

**Christer Wahlquist**  
CEO | Nolato

Thank you.



**Operator**

Our next question comes from Mikael Laséen with Carnegie. Please go ahead.



**Mikael Laséen**

Equity Research Analyst | Carnegie

Hi, thanks. Couple of questions. Just was wondering if it's possible to quantify how much the medical segment is held back by the customer inventory changes, I mean, approximately the magnitude of it.



**Christer Wahlquist**

CEO | Nolato

Sorry, did you say the inventory changes?



**Mikael Laséen**

Equity Research Analyst | Carnegie

Yeah, exactly. Yes.



**Christer Wahlquist**

CEO | Nolato

It's a mix of those two things that we are indicating in the quarter and it's not that easy to say what it was actually. In many cases, we don't have the full background to it for these customers and we collect, of course, different information. We try to make our judgment around that. We do see that it is inventory corrections going on. To quantify the magnitude is very hard.



**Mikael Laséen**

Equity Research Analyst | Carnegie

Mm-hmm. Okay. It is sort of broad-based among different tech or quite many customers, not only one or two?



**Christer Wahlquist**

CEO | Nolato

That's right. It's spread around many customers.



**Mikael Laséen**

Equity Research Analyst | Carnegie

All right. Is it possible then to say something about the IVD product ramp-up situation, what is causing this? Approximately how much of the lower margin was caused by this? What do you expect going forward when you have some of this back to normal again?



**Christer Wahlquist**

CEO | Nolato

Yes. What's causing it, just to take the larger picture, of course, has been very much focused on creating more capacity for IVD. In those situations, together with the customer, we decide what's possible to decrease time. Of course, that is based on the enforced project plans and so on. Some of that are creating some difficulties. That was, I think, first part of your question. The second part was when it will be back to more normal. I expect that to be happening the beginning of next year. Did you have a third part to your question?



**Mikael Laséen**

Equity Research Analyst | Carnegie

No, I think that answered my questions. Thanks.



**Christer Wahlquist**

CEO | Nolato

Okay. Thank you.



**Operator**

We have no further questions. I hand back the word to our speakers.

# Nolato

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**Christer Wahlquist**

CEO | Nolato

Thank you for being interested in the presentation of our third quarter. I wish you all a very, very good day and the rest of the week. Thank you.