

May 3, 2022

**Nolato**

Q1 2022



## Prepared Remarks

---



Thank you, and welcome everybody to the presentation of Novartis First Quarter 2022. This is Christian Wolke speaking, and I will start on Page 2 on the provided information deck. And to summarize the Q1 for the Lotte Group, we ended up with sales close to SEK 2,900,000,000 That was affected by a positive currency effect. And if we adjust for that, it was a 1% Increase if we adjust for currency. During the quarters, we saw that volumes and profitability was negatively affected by restricted supply of components.



We also saw shortages of raw material and labor as a result of the pandemic. This gives us an operating profit EBITA at SEK 267,000,000, giving them an EBITA margin of 9.3 percentages, and the margin was then affected by volumes and cost inflation. Cash flow during the quarter was negative with SEK 42,000,000, and we had an increased working capital requirement during the quarter. Turning to Page 3, showing the total Nalate Group. So the larger group consists of 3 business areas.



We have the Medical Solutions that is working with the pharma and medtech industries and delivering Complex product systems and the different components for medical devices. We have integrated solution, working with design, development and manufacturer of different consumer electronics, EMC and Thermal. And we have Industrial Solutions doing development and manufacturing products and product systems for different industrial customers, such as automotive, hygiene, packaging and so on. Turning to Page 4, starting with Medical Solutions. And in the Medical Solutions business area, we are on the global expansion journey.



We're focusing our efforts on leading pharma and medtech companies globally, and we've seen a continuous growth of the business over the years. On Page 5, we are listing the focused product areas for Business Area Medical Solutions. We have there in vitro diagnostics, which is approximately 18% of our turnover. This segment is a long term growth segment with different diagnostics. It's been affected during the pandemic with some Temporary increased volumes due to testing of COVID, and we've seen lately a movement and reduction of stocks in that part of the business.



The next segment is cardiology, which is long term implants that corresponded to different heart surgeries and so on. We have pharmapackaging. It's a high volume market for containers of liquid and solid drugs. We have Continence Care, large volume segment, We have endoscopy and general surgery. It's a large area, and it's been negative affected during the pandemic, but now it's coming back.



And then drug delivery systems, which is then different types of devices to get Large molecules of drugs into your body. Turning to Page 6, summarizing Medical Solutions Q1. We saw an 8% increase in sales, but if we adjust for currency, it corresponds to 1% increase. The rise in sales was mainly due to the passing on price increases in raw materials. We saw that the IBD volumes were low in the quarter due to inventory adjustments.



We also saw that the Surgical were picking up during the quarter. The margin ended up at 9.7 percentages, and we saw a change in the sales mix with higher share from Surgical segment and lower share of IVD business. We also had rising materials cost, and it's offsetted in a positive way, but we see some time lag. And of course, we have increased our capacity over the last years in investments, and that is burdening our cost side of the business. So the quarter ended up in close to SEK1.1 billion with an operating profit EBITA of SEK106 1,000,000.



Moving to Page 7, Integrated Solutions Business Area. In this segment, We've been working with the telecom industry for many years. And over the last 6 years, we've been expanding into new market segment very successfully. So if we then turn to Page 8, you will see a little split up of the business area. We have the larger portion called consumer electronics, which consists of the BHP, different Connected WiFi systems or home security and, of course, different kind of wearables.



And a smaller portion called EMC Thermal, It's Shielding Solutions for electromagnetic influences. In this smaller segment, we've seen We have premium margins compared to the rest of the group. Turning to Page 9, focusing on Integrated Solutions Q1. During the quarter, we saw a 9% increase in sales, but if we adjust for currency effects, It was a decrease of 1 percentage. We saw lower volumes than we previously expected, and it was restricted supply of electronic components within the BHP sector.



We also saw that the end customer Demand was adversely affected by the situation in Eastern Europe in March. And EMC Thermal is continuing to perform well. During the quarter, we saw sales of above SEK 1,100,000,000 with an operating profit of SEK 123,000,000 giving a margin of 10.8 percentages, and the margin has been affected by lower volumes during the quarter. If we turn to Page 10, going into Industrial Solutions business area. In this business area, we are on a technology and geographical expansion journey.



And if we turn to Page 11, we will show a split up of the business area in 2 different segments. We have the general industry correspondent to approximate twothird of the business area. So that is Different type of white goods and forest equipment, furniture and so on. And then onethree approximately is Automotive Industry. If we turn to Page 12, focusing on Industrial Solutions Q1.



During the quarter, we saw a 10% increase in sales. But if we adjust for currency, it was a 5% increase, but we saw lower volumes during the quarter and the passing on of material price increases has affected the sales. We saw component shortages, mainly in the automotive. And the quarter ended up at SEK 653 1,000,000 in sales with an operating profit EBITA of SEK 40,000,000, creating a margin of 6.1 percentages, and that margin was low due to lower volumes and low production efficiency due to the Movements of short term movements of production orders in the quarter.



Good afternoon. This is Per Olaromstrom presenting consolidated financial numbers on Page 13. Net sales increased in the quarter to SEK2.9 billion compared to SEK 2,600,000,000 in the previous quarter 2021. We did have positive currency effects. And if we adjust for those, it was a 1% adjusted growth.



The EBITDA margin was 9.3%, which is lower than the same quarter 2021 and resulting in decreased results in different profit lines. The effective tax rate of almost 20% was more in line with the full year 2020. Net investments or CapEx affecting cash flow were SEK 130,000,000 compared to SEK178,000,000 in same quarter of 2021. Net investments were lower, and we expect slightly lower full year CapEx than the full year 2021. Cash flow of reinvestments ended up minus €41,000,000 in the quarter.



We did have a negative cash flow due to working capital requirements in the quarter. Earnings per share were SEK0.756.



Turning to Page 14, focusing on the current situation per business area, starting with the Medical Solutions, where we have a maintain growth strategy, a lot of focus on innovation, built on strong customer relationship but impacted of the pandemics. Integrated Solutions, we have established a position in new product areas. In the base, we have a very flexible production structure, and we see a 5 gs rollout and new initiatives in the automotive sector that are very positive for the EMC business. The business area was impacted by the Geopolit political situation. Industrial Solutions.



We have advanced our market positions. We are impacted by supply chain disruptions and a lot of emphasis on sustainable solutions. We will now open up for questions.

## Q&A

---



This question is from Mr. Adrian Galani from ABG. Please go ahead.



Hi. It's Adrian here at ABG. I'd like to start off with a question on your VHP customer. You're right, obviously, in the report that they are looking to Assess their sourcing strategy. Should we take this to believe that they're looking to dual source their production?



And if yes, can you sort of talk about how that would affect your volumes And your pricing power?



Yes. We have been talking about the our relationship with this customer for many, many years now. And we have a very large business and the customers opening up for discussions with on dual sourcing, not only on our products but also on other parts of their portfolio.



And also in that case, how would that affect, do you believe, your volumes to them and also The price you can take for those volumes.



Yes. This sourcing strategy will not affect Products that we are producing, this will affect next generation of products, and We are in a good position, so we will be a supplier of those going forward. But exactly how that will What's the timing of that and the split of those volumes, we don't really know yet, but there is also opportunities on other products.



And have you received some sort of time line as to when your customer will take this decision? Will you know this during Q2? Or could it take longer?



We have discussions with our customer, but the formal decisions are not made.



Okay. And also on your guidance in Integrated Solutions, you say you expect sort of negative 20% quarter over quarter growth in Q2. Can you just talk about, is this development primarily due to component shortage issues? Or is it primarily due to lost volumes In Eastern Europe, which we understand to be sort of a meaningful end market for VHP.



Yes. I think you should see it in the light of Having had a Q1, which for most part of that was affected by the shortages of electronic components. In the end of the quarter, it To turn more to a situation where the demand for these kind of products in the Eastern Europe countries Decreased. And I think going forward in the Q2, it's more the latter, let's say, the Eastern European situation doing that demand from these countries are 0, and that is Pretty much the effect we do see in the Q2.



Okay. And also you say that despite having 20 Lower volumes, you expect a comparable margin. And just asking how sort of how confident are you in being able to maintain a similar margin despite 20% lower volumes?



It is, of course, our best assessment that we can do today. It is an effect of 2 different things. Of course, we have, from a margin point, a more Favorable mix situation, having more EMC with a higher margin or at least the larger part. And secondly, we have had some time to correct Our cost situation, the best we can. And hence, we do think that we can achieve a similar Margin in the Q2 as well.



Okay. I think that was all of my questions. So thank you so much for answering.



Thank you, sir.



Next question is from Mr. Karl Naderstrom from Nordea. Sir, please go ahead.



It's Karl from Nordea. A question on medical. I mean, you said that you had Sort of lower or weak IVD volumes during the quarter. I think you said before that is partly due to inventory reductions From your customer. Would you say that this situation will improve in Q2 or have improved so far?



Or how should we Look at the IVD softness.



Yes. We don't have the full picture of the total supply chain. During the pandemic, there has been temporary solutions for providing these type of products from temporary sources. And of course, there has been huge demand in that. And now the major players in this field are sort of ramping down those temporary sources and focusing on their core sources And exactly how that will play out and when we will see the volumes coming back to a more normal situation, we don't Really no at this time.



So it sounds like you still have sort of inventory reduction going on, right? Perfect. And as we speak, yes. Yes, yes, exactly. Yes.



And would you see you also said that the surgical side of Medical I mean, that's an at least equally important part of Medical, right? And is it fair to assume that The sort of the growth in Surgical could offset the IVD volumes in the short term or?



From a sales perspective Yes, exactly. Yes, correct. Then of course, the Surgical business is mostly part of the acquisition of GW. So we see some lower margins in that compared to the former Nalato legacy production. But sales wise, yes.



Okay, perfect. You also said that you experience or that you are able to offset raw material headwinds, But with the time lag, so should we also expect a more severe margin impact from raw materials in Q2 Then what we have seen in Q1 as, I guess, the main inflation came at late Q1 or early Q2.



No, I would say we've been very good in handling those pass off to customers price increases. So we've seen some time lag during this quarter, but you should not expect lower margins or severe margins going forward.



And in addition to that, I mean, when I look at your inventory levels, you're continuing to build Quite a bit of inventory despite a bit muted outlook maybe in the very short term. I mean, how should we look at that? Are you too aggressive in building inventory given the demand situation? Or is it pricing driven? Or



The inventory situation is stapling right now, I would say. And We have tried to build inventories in different sections where we have seen Shortages. We do see shortages also in raw materials in some cases. So it's not only components over electronic components. And that has done that our inventories Has increased, but I think that's leveling out and we have what we have, so to say, and we are trying to going the other direction going forward, at least in areas where we can see it's not that critical anymore.



Okay. Perfect. And just a clarification. In Q2, Do you still have component issues in heated tobacco? I mean, to some degree or is it primarily or solely You too.



AT exiting Eastern Europe.



Let's say, hypothetically, that volumes or Demand would have been more in line with the end of last year. We would still have electronic component shortages. But with the situation with lower demand, that is not that critical anymore right now.



Okay, perfect. Very clear. Thank you.



Thank you.



Thank you, sir. We have no other questions. Next question is from Mr. Michael Lopian from Carnegie. Please go ahead.



Okay. Hi, thank you. Couple of questions. First of all, the quarter came in better than you guided for. Can you explain the reasons for this and where you saw the improvement or the deviation compared to your March



guidance. We did



We bought in March 24, and we still had about a week to go. And We did see some areas selling a bit more than we expected. We had also a bit more currency Effect than we expected. So it's a combination of those. So ending a bit better than expected.



Okay. So that sounds it was across the board in most



Yes. In different areas, I would say, yes.



Okay. Got it. And the price component here in Q1, and if you can comment on that, approximately how much Price increases you have in the quarter driven by raw material cost changes. And how we should think about this



Yes. It's always The question of starting points and where you start those calculations. But we have seen ongoing large price increases in this quarter as well. And of course, that is affecting us most in the industrial business area. The Material part of our cost is largest in that business area.



And we did have A sales increase of 10%, but half of that was currency effects. And we do see that a bit more than the rest was the price Mechanism effect. So if not having that, we would be down on Some percentages negative sales in Industrial, for example. So that is sort of showing the big The effects and changes that we do have.



Okay. That's really helpful. And the final one On this Stival Sourcing question, just a follow-up on that. In general, how long are the product Cycles, if you can say something about when new products will be launched and So what remains from the current product offering in the market right now? Yes.





Normally, there is an overlap of all the new products parallel in the market. So The product maybe last some years, but then new products are introduced and taking or introducing different markets and then gaining market share of the total over a period of time.



So you have to be broadly, I mean, Speaking. I'm thinking about the total year. Is it fair to assume that we should expect Lower market share for you in the second half already. What were they is this something that could come in 2023 maybe And then only to actually.



Yes. Since we have not seen the final decisions of this new strategy, we can only But to see some effect during the second half of this year could be possible.



Okay. Yes. That's it for me. Thank you very much.



Thank you.



Thank you, sir. We have no other questions.



And I would like to thank you for your interest in the LAFTURE presentation of the Q1 and wish you a great day. Thank you.