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Nolato


Q4 2022





Prepared Remarks


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Good day, and welcome to the NERLYNOLATO's 4th Quarter Earnings Conference Call. All participants will be in listen only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded. I would now like to turn the conference over to Christer Waltquist, CEO.
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Please go ahead.
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Hello, and welcome to the presentation of Nolato's Q4 2022. This is Christo Walquist speaking, and I'm starting on the second page of the provided material. So in summary, the Q4 ended up at just short of SEK 2,400,000,000 in sales. That was affected by a positive currency effect. And it was if we adjust for that, it was a 34% decrease of sales.
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We saw lower volumes in the BHP area affecting the overall numbers. The operating profit ended up at SEK 163,000,000 in comparison to SEK 336,000,000 the corresponding Quarter last year. That gave us a margin of 6.9 percentages and the margin was affected by volumes of course, Cost inflation and production efficiency. If you look on the right hand side of the page, You see that we have been building and working with focus on creating a true global service provider Across our 3 different business areas. Turning to Page 3, focusing on the full year of 2022.
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The full year's sales ended up at SEK 10,800,000,000 and with a margin of 8.4 percentages. The earnings per share ended up at 2.44 in comparison to the 3.70 last the year before. We still have a very strong financial position with net financial liabilities of approximately SEK 700,000,000 And an equity ratio of 54%. The proposal From the Board of Directors on the dividend is to keep it on the SEK 1.9 per share. If we then turn to Page 4, summarizing the 3 different business areas within the group.
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We have the medical solutions coming in at SEK 1,300,000,000 in sales in the quarter An integrated solution at around €400,000,000 and industrial solutions €651,000,000 And across the board, We are performing similar tasks for our customers, but in different market segments. If we turn to Page 5, focusing on our business area, Medical Solutions. In this Business area, we have continuously expanding our footprint and created a very good growth over the years as you see on the graph And building a global footprint together with the large customers within pharma and medtech. On Page 6, you will see some of our focused product areas within Medical Solutions. And Those are the in vitro diagnostics, IVD, with good potential for long term growth, even though we are in a situation where we have Some lower volumes at the moment, and you can notice that the percentages of our total sales It's around 15% for that business area coming down a little bit.
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The next one is cardiology Focus products at around 8% of our total sales, Pharma Packaging 13%, Incontinence Care, around 11%, and we saw a stronger than average growth within the Surgical, Ending up at approximately 22% of the total sales. And of course, that is due to the situation where the hospitals are now Back on track after the COVID situation. Then we have the drug delivery coming in around 14%. If we turn to Page 7, focusing on the details of the Q4 for Medical Solutions. Within the quarter, we saw a 9% increase of sales if adjusted for currency.
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So we continue our good growth. We saw a particular growth within the surgical area. And on the other hand, the IVD volumes are low In the quarter, due to pandemic related inventory adjustments, the charging of higher costs contributed to increase in sales during the quarter. The margin ended up at 9.6 percentages. And in comparison to the year before, It was a little bit lower and that is due to the fact of the change in the sales mix with the growth within the surgical area And somewhat decrease in the IVD sector, but also cost impact of the previous capacity investments are affecting.
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So the quarter ended up at SEK 1,300,000,000 with an operating profit of SEK 126, Creating the margin of 9.6 percentages. If we then turn to Page 8 And looking into the Integrated Solutions business area. As mentioned, we are working on expansion Ourselves into new market segments within this business area. If you then look on Page 9, We can see those focused product areas. And as you understand, we have had Dual sourcing situation within the BHP sector and that enables us to continue The growth within the other areas such as the complex modules, the speakers in on over earphones, We have also different kinds of smart homes, if we look on the consumer electronics side of the business.



And on the other side, we have our EMC and Thermal business focusing on shielding solutions and thermal management of electronic Components. Turning to Page 10, the details of Q4 for Integrated Solutions. The sales was a heavy decrease in sales and that is due to the BHP area that we had The regulatory new regulatory requirements for producing this in China and resulting in that we had sales Stop or production stopped during a portion of the last portion of the quarter. And of course, the end customer demands within the BHP was adversely affected by the situation in Eastern Europe. We have dual sourcing effect.



And on the other side of the coin, the EMC is continuing to performing well. And we expect the BHP volumes to remain at similar levels in the Q1 of this year. So the sales ended up at \$407,000,000 with an operating profit of \$25,000,000 creating The EBITA margin of 6.1 percentages and that was of course affected by the lower volumes. Turning to Page 11, focusing on our business area, Industrial Solutions. Within this business area, we are on a technology and geographical expansion journey, continuing to expand our geographical On Page 12, you can see the 2 There are major parts of the Industrial Solutions business area.



So that is general industry with white goods, forest equipment, furniture and other Industrial Solutions and the other smaller portion is the automotive sector. Let's return to Page 13, focusing on the Q4 for Industrial Solutions. We saw an increase in sales, but We adjust for currency. There was a decrease of 2 percentages. We saw also charging of higher costs contributed to positive To the sales number, but lower volumes for product and consumer discretionary sectors during the quarter.



The margin ended up at 2.8 percentages and was affected by fluctuating call off orders, Resulting in lower operating efficiency, especially in the beginning of the quarter. We also had a little bit lower volumes And inventory effects on labor and energy cost. So the quarter ended up with sales numbers of 6.51 And an operating profit of \$18,000,000 creating the margin of 2.8 percentages.



Good afternoon. Pero Glavonsturm, presenting Group Financial Highlights, and that would be on Page 14. Net sales amounted to almost SEK 2,400,000,000 compared to a bit more than SEK 3,100,000,000 The corresponding quarter 2021. That is a decrease of 34% Adjusted for currency, operating profit was NOK163 1,000,000 Compared to SEK 336,000,000 which results in an EBITDA margin of 6.9%. The effective tax rate was 20 point 3% for the full year 2022, but when excluding nonrecurring items, it was 21 point 3%.



We expect the tax rates around 21% for the full year 2023 as well. The cash flow of pre investments was a negative €188,000,000 Again, affected by working capital requirements within BHP because of winding down The supplier finance program. Net investments affecting cash flow excluding acquisitions and disposals It was €451,000,000 for the full year 2022. A comment about this year, 2023, we do expect around SEK 600,000,000 in CapEx As we will pay for real estate in Sweden with NOK 150,000,000 during the year.





If we then turn to Page 15, focusing on the current situation per business area And starting with the Medical Solutions business area. In this area, we have a maintain growth strategy, Focus on innovation based on our strong customer relationship. On the integrated solutions, We have established a position in new product areas. Of course, in the base of flexible production structure, We see the 5 gs rollout and new initiatives for automotive sector that are positive for the EMC business. Of course, on the Integrated Solutions, we also see some geopolitical concerns.





On the Industrial Solutions side, we have advanced our market positions, but are impacted by supply chain disruptions. We put a lot of emphasis on the sustainable solutions, but we see a weaker economic conditions. We will now open up for questions.


Q&A


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We will now begin the question and answer session. The first question is from Carl Brad Merstam of Nordea. Please go ahead.
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Hi, it's Karl here from Nordea. A few questions. Firstly, I mean, we saw a quite nice sequential uptick in the Medical margin in the quarter. Could you perhaps, I mean give some flavor on what's behind that. Is it primarily price compensations for raw materials?
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Or what is behind it, would you say?
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Yes, I would agree to that. We have had Less increases and a more flat situation and we have been able to Come back with some of the effects from previous quarters And that has helped the margin this quarter.
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And have you seen any improvements at what now entering We're entering Q1 here on the IVD side.
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I would say that the IVD volumes are still Affected by the stocks in the total value chain after COVID.
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Okay. Perfect. And also on Industrial Solutions, I mean, could you help me understand sort of the margin drop in the quarter? You had Just 2% negative organic growth and quite significant margin contraction there. Is it should we see it as I mean, A continued downward trend entering 2023 from here or maybe that the worst impact was from the volatility in the automotive In the beginning of the quarter, I mean, how should we see the margin profile in Industrial?
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We have seen a sort of A quite negative trajectory here in the past few quarters.
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No, we don't see that that trend is continuing in Q1. We had a bad start of the quarter, the 4th quarter last year and We did stand still at some of the automotive areas and that has affected Yes. And we don't see the same situation in this quarter so far anyway. So we don't expect a worsening margin looking forward into the Q1.
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Okay. And also on your heated tobacco guidance here for Q1. I mean you were closed half of Q4. Maybe you Had a catch up effect to some of the volumes, but still sequentially unchanged in Q1. I mean, have you Would you say that your customers have reallocated more volumes to the 2nd supplier than you previously thought?
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Or has the So conversion to the new product being faster?
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Or is
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it also maybe simply an effect of a cyclical element of these products? And the final question on this is also if you're profitable for the sub segment at the current volumes.



If we look on the volume situation first and that, of course, we had Some catch up effects during we only produced for a short period of time during Q4. But I would say that the dual sourcing situation, we are now in a situation where the new products are dual sourced and that is what's currently being produced. In the ramping of those new products, of course, there are we were on the slow start With the situation of the nonproduction situation in the Q4, and that is affecting This blinks going forward a little bit.



Perfect. As the profitability, August, sorry.



Yes. Coming back to the margins in this integrated area, We are, of course, seeing an effect of the margins because of



the low



volumes. And that is of course hurting in Q1. And if we look Separately, at the BHP part, these volumes Are not supporting profitability situation right now. And There are of course different things going on to Increase our cost base, but also an improvement of volumes We'll change that later on. But in Q4 and Q1, That is not a profitable segment within Alotto.



Okay, very good. That's all for me. Thank you.



The next question is from Adrian Galani of ABG. Please go ahead.



Hi, it's Adrian here at ABG. First of all, a follow-up on the input costs. You mentioned sort of flattening out input cost situation. But Given that sort of a lot of oil based products are starting to see a declining trend, could we be seeing an opposite lag effect where you get a Sweet spot for a few quarters on margins on input costs or is that being a bit too optimistic?



As you say right now, we do see some lower costs when it comes to Raw material and plastic materials, the labor situation and energy The costs those costs are still on a high level and we don't see that change in these areas.



Okay. And on the Integrated Solutions, you talked quite clearly about the VHP part. Looking at the EMC sub segment, you only say that it looks to continue its strong trend. Should we take that to believe that the growth rate for 2023 Can be similar to that of 2022.



I think we will have a good situation within EMC, but there are some signs in the telecom sector that The 5 gs rollout is maybe not that strong right now and going forward in the near time. We do have still a good situation within automotive. And we think the telecom sector will be stable, but Maybe not that growth driven as it was part of the 2022 year.



Okay. And also apologies if you mentioned this before. I could have missed it. You said that VHP itself was not profitable at the moment. Did you mention how we should think about the margins on the segment as a whole for Integrated for Q1?



Yes. Well, the margins will at least not improve, but we can see And the situation is similar To the Q4 in that respect, I would say.



Okay. And these two quarters of sort of €400,000,000, are these indicative quarters of How integrated or how VHP will look going forward? Or will the sales growth be a bit more sort of lumpy going forward?



We have guided the Q1 with the best knowledge we have of that quarter. And as Christoph mentioned, we are lagging a bit behind in the dual sourcing because of the delay in Q4, and I think there will be chances for improving that. The speed of that, we don't really know yet. And we have been approved into new markets with the new products, but in a slower speed than we expected earlier because of the permit, missing that permit. And we have to see how that develops beyond the Q1.



But we are for an improvement in that enabling us going up in volumes after that.



Okay. And the final question from my end on the cash flow. You had quite a bit of working capital buildup here in Q4 and actually on the full year 2022. How much of this would you say is possible to release in Q1 and full year 2023? And how much of this is sort of a permanent effect?



I would say that the largest part of that is something that will stay into 2023 as well. The largest part is the winding down of the supplier finance program, which we have used within AHP and doing when we decrease volumes, the working capital is having a need of the requirement of working capital. So I don't see much of that will bounce back. We have had some extra inventory because of delays within or waiting for the permit that will sort of ease out in the Q1 and do some positive effect. That's a more temporary thing.



In that case, that was all my questions. So thank you.



Thank



you. The next question is from Mikhail Lassine of Carnegie. Please go ahead.



Yes, hi. I have also a few questions. We can only start with the CapEx side. Can you just repeat what you said about CapEx in 'twenty three. How should we think about that?



Yes. We expect a higher level than 2022 and that is because we do have payment for real estate in Sweden of SEK 150,000,000 and that will come. We don't really know when because it's depending on permits from the authorities. So that is really the difference we do see compared to 2022. So if you summarize that with the EUR 450,000,000 we had in 2022, we do expect around EUR 600,000,000 in 2023.



Okay. Got it. Thanks. And yes, you mentioned that you had slightly weaker demand within the industrial segments from the consumer discretionary. Can you remind us what type of products this is and how large part of industrial these products represent?



Yes. It's, I would say, on the forest equipment, those kind of products within the industrial and the split of that maybe 25%. Yes. Around 25% of the total.



Okay. Good. And when it comes to the supplier finance program that you're winding down, will you continue with this at the BHP levels? Or will you go back to finance everything yourself, Sotol?



We will from year-end financing that ourselves. We do see right now that the interest rate levels, they have changed and we don't see that being profitable for us going forward or at least for the time being. So that would cease from January 1.



Okay. And in general, my final question is on the Medical segment. Is it possible to Give us some indication of the profitability that you have or margins that you have in the dealers business that you acquired a couple of years ago, Okay. Well, you're in that margin improvement journey.



Yes. We have when we did announce the acquisition, we Then the pandemic came and the volumes went down affecting the margins a bit as well in the same direction. And now when volumes have increased again during 2022, They have also been affected by, of course, the inflationary effects that we do see Overall, and in U. S, the effects of the labor situation has been higher than In other parts of the world, so that has done that. All in all, We are still around the level we were when we did announce the acquisition around the 7%.



That has delayed that journey, those two effects since the acquisition.



Okay. So underlying same contract structure, you're it would be better, of course, Without this high inflation situation that we have right now?



That's correct. It would have been higher, That situation has, as I said, of course, affected that part as well. Yes.



And what can you do with the labor cost on the energy side?



We are working with many different actions in that part of course. And It's a combination of optimization going on, working with The customers to getting compensated for that as well And many other things going on to decrease our cost base going forward.



Okay, great. Thanks. That's it for me. Thank you.



The next question is from Karl Moren of SEB. Please go ahead.



Yes, hello. A couple of questions from my side as well. Just firstly on the Medical side, is it possible maybe you said it, but I missed it, it's possible to say that How much of the growth in Medical is priced and how the underlying volumes was developing here in Q4?



The major part for Medical in Q4 is coming from volume growth.



Okay. And then just going forward here in Medical, would you say that price should have a Should it have a big impact in 2023 or year over year as the kind of price increases is starting to maybe be a lower part of the growth going forward?



It will be a lower part of the growth going forward. There are still some smaller effects To catch up, but the effects from that thought will decrease



Okay. And then a question on the industrial side. I mean, you mentioned The demand is weakening and you're reporting now negative organic growth here in Q4. Is it possible maybe to give some kind of outlook for the upcoming every quarter? Is that Are you seeing this to get even worse in the first half of the year?



Or do you expect activity levels to be on a similar level as in Q4?



I would say we would see similar levels, I would say.



Okay. And then maybe on the energy cost side, is it possible to say what it was for 2022? Maybe some kind of What do you expect it to be in 2023?



We did see quite a big impact on the energy side. It increased with a bit more than 1 percentage compared to 2021, going from just above 2% To just above 3 percentages. And that is, of course, Quite a big change. With the situation we do see right now, We don't think that there will be on a full year basis much more Increase coming from that side, but it's of course very hard to say. It's Depending on many different factors, and I think that is a big question going forward.



But it has been a higher part of our cost base, and it's partly, of course, Yes, affecting us on the margin side.



Okay. And then just last one, maybe a bit more bigger picture on your margin target of 10% in EBITDA margin. I mean, In my view, it is quite hard to reach this already in 2023. But can you give any kind of the time line when you expect to reach it because you're Quite a bit behind it right now, and you still have some problems in integrated side, I guess.



That is correct that we are behind our target. And I think we, of course, Have a lot of measures going on to decrease cost and make sure that we have the right The cost level and efficiency going on, but we will not comment on when we are back on track.



Okay. That's all for me. Thank you.



Thank you.



The next Question is from Johan Skoglund of DNB Markets. Please go ahead.



Thank you. So I guess a quick Big picture question for me here. So as we see areas of China reopening, how does this affect you now? And what



do you foresee for 2023 Okay. Yes. So the overall picture is that It's easier to travel in and out of China. Of course, that is affecting. And the sickness situation in COVID is, From our perspective, it's improving.



So it's more a question about The overall global community's willingness to invest more in or heavily in China. Okay. Thank you. Thank you.



This concludes our question and answer session. I would like to turn the conference back over to Christair Volkquist for any closing remarks.





I would just like to thank you for your interest in Nolato's quarter and our presentation, and I wish you a great day