

May 3, 2023

Nolato

Q1 2023



Prepared Remarks



Welcome to Nalato Q1 Report 2023. During the presentation, the participants will be in listen only mode. During the questions and answer session, participants are able to ask questions by dialing star 5 on their telephone keypad. Now I will hand the conference over to the CEO, Chris Terwerklis. Please go ahead.



Good afternoon, and welcome to the presentation of Nalatto's Q1 2023. This is Christoph Walkley speaking. I'm starting on Page 2 in the presentation with the summary of the Q1 of Novartis Group. During the quarter, our sales amounted to just shy of SEK 2,500,000,000, which is a decrease of approximately 20% if we adjust for currency comparison to the Q1 2022. Below, we saw a strong growth for our business area Medical Solutions, but lower volumes within our Integrated Solutions business area.



The operating profit, EBITDA, amounted to SEK193,000,000 in comparison to NOK 267,000,000 in the previous quarter. The cash flow amounted to negative SEK 46,000,000 because of an increased working capital requirement, mainly within the Integrated Solutions business area. We have sustained a strong financial position, enabling us to continue with acquisitions for Building for the Future. On the right part of the page, you will see a graph of our 20 year Growth over from the Mato Group going in different phases. First, we were balancing the group and enabling us to have 3 equal sized business area.



The second step was then balancing the Business Area Integrated Solution, building up our EMC business within that. And then over the last years, it's been growth across the different Segments. Turning to Page 3, looking into the different three business areas we have. Medical Solutions amounted to SEK1.3 billion approximately, being grown steadily over the years. And within this business area, We work as a development and manufacturer of complex product systems for the medical device industry, pharma industry and diagnostics.



Integrated Solutions business area, it's design development manufacturer of advanced The devices for the consumer electronics as well as EMC Thermal. Industrial Solutions On the SEK740 1,000,000 working as development manufacturer of product systems for automotive, hygiene, Packaging, Garden, Forest and Different Industrial segments. Turning to Page 4, Medical Solutions business area. On this slide, you will see a graph of the 20 year Development of this business area, it's been a long, stable, continuous growth. Approximately half of that growth is organic and approximately half is inorganic, but a good continuous growth for the business area, Working with global expansions.



If we turn to Page 5 and look into the different product areas Within Medical Solutions, we have in vitro diagnostics amounting to approximately 15% of the total business area. That is diagnostics products for testing things, take your blood sample and then you test different things. Cardiology, approximately 8% of the business area sales. This is different things for pacemaker 3 and different heart surgery and things like that. Then we have the pharma packaging, approximately 13% of the business area.



This is a segment where we do liquid and solid packaging for drugs. This business area This segment is something that we entered into. We saw the development of drug delivery technology That was coming from both packaging side and the device side. Then we have the Continence Care business, And that's different kind of high volume products for taking care of incontinence problems in the body. We have the endoscopy and general surgery at approximately 22% of the business area.



And then we have the drug delivery systems Approximately 14%. So those are then out injectors, injection system and so on to get The drugs into your body. If we turn to Page 6, looking into the Q1 for Medical Solutions. During the quarter, we saw a strong growth in most areas, giving us a total growth of 13% if we adjust for currency. We saw the IVD sector at a low unchanged level during the quarter.



The margin ended up at 10.0 percent with an operating profit of SEK 132,000,000 in the quarter. If we turn to Page 7, looking into the Integrated Solutions business area. In this business area, we are expanding ourselves into new market segments and we've been doing that for a period of time. And we have seen over the last years very strong growth for the BHP part of that business. Now we are in a different situation, enabling us to focus on growth on other areas.



If we turn to Page 8, looking into the different parts of the integrated solutions. On the left hand side of this picture with the reds We are the consumer electronic part of this business area. So here we are doing complex modules. We are doing different kinds of speakers. And then we have the BHP area, different kind of in over ear phones, wearables and handheld well-being devices And then SmartHome and Home Security.



But up till now, the BHP has We've been growing for a long period of time, creating a situation where we have focusing very much on Maintaining that growth and delivering to the customer, but now we are in a position where we can put more emphasize and grow in the other areas, Creating a more stable business area long term. On the right hand side of this picture, we see the EMC and Thermal part of the business, Where we are producing different kind of materials and solutions in order to shield electromagnetic influences And taking care of heat distribution from electronic components. If we turn to Page 9, focusing on the Q1 for Integrated Solutions. During this quarter, We saw a decrease of 66% adjusted for currency in the sales numbers, and we saw The consumer electronics volumes on the level that was previously announced and the fact of the decrease is, of course, The change in sourcing strategy from a significant customer, but also lower total volumes for that customer due to the situation with Ukraine's the situation in Ukraine and Russia. On the other hand, EMCs continue to perform well with sales increasing to SEK171,000,000 In comparison to SEK153,000,000 The margin ended up at 5.3 percentages And there was of course, the model was affected by the lower volumes.



So the Q1 ended up with the sales of SEK 414,000,000 And an operating profit of SEK 22,000,000. If we turn to Page 10, Focusing on Industrial Solutions. In this business area, we are on the technology and geographical expansion journey. And if we look on Page 11, we see some of the different product areas. So these are domestic appliances, hygiene product, furnitures, different automotive Things and Garden Forest Equipment and of course Packaging and Other Industrial segments.



If we then turn to Page 12, focusing on the Q1 for Industrial Solutions. In this quarter, we saw a 7% increase if we adjust for currency, and we saw that The automotive volumes increased and we saw that the supply chain disruptions have less an impact than we previously seen. We saw also demand for products in consumer discretionary sector slightly lower due to weaker economy. So the Q1 ended up at SEK740,000,000 in sales and operating profit of SEK 46,000,000 Creating an EBITA margin of 6.2 percentages.



Good afternoon. Per Olaromstrom presenting Group Financial Highlights on Page 13. Net sales ended up at almost €2,500,000,000 which was a 20% decrease adjusted for currency compared to last year. Operating profit went down from EUR 267,000,000 to EUR 193,000,000, Giving an EBITDA margin of 7.8% compared to 9.3% last year. The cash flow after investments was minus \$46,000,000 compared to minus \$41,000,000 We had a situation during this quarter where we built up additional accounts receivables Because of leaving the supplier finance solution with one of our main customers.



So that is the reason for that. And other areas in the cash flow We're more similar to last year. Earnings per share Ended up at SEK0.5 compared to SEK0.75 last year.



If we then turn to Page 14 and look into the current situation for our business area, Starting with Medical Solution, we have a maintained growth strategy, lots of focus and emphasize on innovation based on strong customer relationships. On the integrated solution side, we have established position in new product areas. We have a base in the flexible production structure and we see progress in the automotive area that is very positive for the EMC. But overall, we see some geopolitical concerns affecting Integrated Solutions. On the Industrial Solutions side, We have advanced our market positions, lots of emphasis on sustainable solutions, but We see weaker economic conditions.



We will now open up for questions.

Q&A



The next question comes from Karl Ragnostam from Nordea. Please go ahead.



Hi, it's Karl here from Nordea. A few questions. Firstly, you often provide guidance For Integrated Solutions, the coming quarter, is it a specific reason why you don't do this this time? And should we therefore expect quite flat



We have normally commented when we have seen Larger sequential deviations up and down, and this business area has been A more volatile business area. Right now, we think it's a more stable situation and Sequentially compared to Q4 last year, the difference is minor. And hence, we don't Give any more or further guidance to the next quarter.



Okay. Very clear. On Medical, you said that IVD was unchanged in the quarter. Would you Say that the inventory levels are normalized now? And also should we expect IVD to turn Into positive territory here in the coming few quarters or maybe more stable here at flattish levels.



Yes. I would say that there are still larger than normal Stocks in the total market chain within IBD, so it will not be on normal levels. Long term, IVD is growing. But due to the pandemic and the situation afterwards, There has been a large buildup that are now sort of gradually moving down, but it's still on a higher level than normal.



But then should we expect it going back to negative growth territory again to normalize inventory levels, meaning that The neutral level in Q1 is a bit of a one off or is it more flattish from here as well?



No, I would say you will we don't expect To decrease from this level, but this level is as a total volume in the world is less than the consumption. So the stocks are sort of decreased during the Q1.



Okay. Very clear. And I mean looking at the Industrial Solutions here with a 7% organic growth, more stable automotive production, Less or maybe no raw material headwinds. A bit curious to know more what's holding back margins here. I mean, is it a mix effect With the consumer segment being more profitable than automotive?



Or how should we look at it?



I would say the margin the positive sequential margin effect come from Mainly a more effective production setup during this quarter, and that is mainly within automotive, Where we have seen disruptions is based on shortages for components. So that is the main reason. And then we still have some positive effects coming from further price increases in this quarter as well. So these 2 have mainly had the positive effect.



And the final one from my side is maybe looking at integrated margins. It's Continuing to slide sequentially here as well as year over year. Are you implementing any measures to start restoring it? I mean, I guess, You might have quite massive overcapacity in heated tobacco currently. So what is sort of the plan?



Are you planning to Take on more similar volumes to bring up capacity? Or is it to keep the current capacity and rather try to cross sell into Other similar segments, but in maybe not in heated tobacco?



Yes. I think The answer to that is a combination. We feel that we have a very good skill set within our integrated solutions Business area, and we see that there are good opportunities within other areas That we have identified and that we are working on. And of course, we are taking down cost, But we would like to maintain our cutting edge technology to make sure that we can build A situation where we have more customers and more diversified Type of products in the production, but that takes time. And as we explained during the strong growth of the VHP, It took all our energy in order to maintain that growth and we saw and knew that there will be a situation where The customer will have parallel sources and that day has come and it's an opportunity for us to sort of Balance the business area.



But for you to take on or win new projects within, I guess, the Consumer related area in a period of weakening consumer, maybe globally. Is it a lot of projects out there? Or is it a bit of a compared when you chose to take on heated tobacco instead, I guess it was a better situation to sort of win With the



project? Yes, I would rather explain it like the VSP was an extraordinary situation With this new market and very, very strong growth, we don't expect that To happen, as we explained when it happens, we'd rather build with normal growing customers step by step.



Okay, very clear. Thank you.



The next question comes from Karl Noren from SEB.



Yes, hello. A couple of questions here. We can start with working capital. I'm just wondering if the current levels are the new normal or is it more to come in terms of net working capital increases going forward Or have we seen all of this in the quarter?



I would say that the more The larger changes we have seen lately, that has been, so to say. And during this quarter, We have built the accounts receivables natural to that situation. So it should be on a more stable level. Of course, if and when we grow, that will drive some additional Working capital in money, so to say, but that is, of course, natural.



Okay, great. And then a question on pricing. You state now that pricing is a lower Contributor to the sales growth in both medical and integrated or in medical and industrial. But it's very clear if you could give any sort of split on how much price is in both medical and industrial or some sort of guidance that would help?



Price is the smaller part of the growth in both areas. So it's the growth is coming from very much real growth,



Yes. And then and a follow-up on medical then. So it looks if diagnostics were We're flattish. I guess the elective side is performing really well, as we've seen in many other medtech companies. Is that correct?



Or do you see increasingly increasing volumes there?



On the Surgical side, we see growth, but we see growth across Most areas except the IBD.



Okay. That's great. And then just a question on industrial Still demand there, we are back to organic growth again after declining in Q4. Would you say that the decline in Q4 was mainly due to the Or it sounds like was it only that there were supply chain disturbances among the automotive customers and that was now So they stabilized a bit. So is this level to expect going forward in the industrial side, If we assume that there are no additional supply chain services, so to say.



We I think you could say it's like we had positive effect in this quarter when that happened, so to say. And we had a troublesome period in the beginning of last year. So from that, it was driving the growth in this quarter. Going forward, the world is, of course, a bit uncertain in all areas. And It's hard to say where that is turning going forward with the industrial



Volumes.



Okay, that's great. Thank you.



The next question comes from Johan Skoglund from DNB Markets. Please go ahead.



Hello. So interesting to see continued growth in EMC Thermal. It's Now a sizable part of Integrated Solutions. So out of the growth we saw year over year, are you able to quantify how much is demand, price or volume?



It's very much volumes. And as we Said, it's very much coming from the automotive part of EMC.



Okay. Thank you. And on a similar subject, Your acquisition of P&P Technology here in Q2, are you able to provide some more color on the strategic rationale? It's Small. This is more of a technology acquisition.



And can you say anything about the company's profitability?



Yes. The Rational behind that is twofold. It's technologies, some Added technology to our portfolio, but it's also relationship with interesting customers.



And profitability wise, the company has a good profitability, not really the level we have, But that has not been the main driver for this acquisition, as Christo mentioned. It's a good profitability.



Okay, very good. So no more questions for me. Thank you. Thank



There are no more questions at this time, So I hand the conference back to the speakers for any closing comments.



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