

July 20, 2023

**Nolato**

Q2 2023



## Prepared Remarks

---



Welcome to Nolato Q2 Report 2023. For the first part of the conference call, the participants will be in listen only mode. During the questions and answer session, participants are able to ask questions by dialing Now I will hand the conference over to CEO, Christa Wilkwist and CFO, Paula Holmstrom. Please go ahead.



Hello, and welcome to the presentation on Novartis Q2 2023. If we start on Page 2 in the presentation deck, There is a summary of the Q2 for the group. We had sales just shy of SEK2.5 billion during the quarter, And that was we saw decreased volumes within our VHP business, but good performance Positive performance within Industrial and Medical. The operating profit EBITDA Ended up at €198,000,000 in comparison to €264,000,000 The EBITA margin was affected by the lower volumes within the VHP sector, we saw good cash flow during the quarter, And it rose to SEK 224 1,000,000 if we exclude acquisitions, and we have sustained our strong financial position. If we then turn to Page 3 in the presentation deck and look at the different Overall picture of the different business areas, starting with the medical.



We had sales just shy of SEK 1,400,000,000 During the quarter and an EBITDA of SEK138,000,000 and that is, of course, then more than half of our sales within Medical and 2 thirds of the group EBITDA result coming from the Medical division. On the Integrated Solutions side, We saw the heavy decrease due to the changed purchase and different volumes for the BHP. So it ended up at SEK392,000,000 and then EBITDA of SEK 16,000,000 during the quarter. On the industrial side, we saw good performance and sales ended up at SEK 724,000,000 And then EBITDA of EUR 56,000,000 during the quarter. If we then turn to Page 4, starting with the Medical Solutions business area.



We are continuing our profitable growth journey, And you see on the graph the development of the sales of the business area over the last 20 years. So it continues good Development of the business area. On Page 5, we see a split up of the focus Product areas within our Medical Solutions business area. So most of the areas were performing good, And the exception was the Invitro Diagnostics, where we still see some lower volumes due to the supply chain Adjustments after COVID in that business area. We then go to Page 6, focusing on the Medical Solutions.



1st Q2, we saw a 6% increase of Sales, if we adjust for currency, we saw, as I mentioned, good growth in most of the market areas. But the IBD is on an unchanged level, And we see still inventory adjustments in the total value chain. The margin ended up at 10.1 percentage, giving them the overall development of the medical business for Novartis. On Page 7, focusing on the integrated solutions, here we have seen a dramatic growth over the years Within the VHP, we are now in a situation where the VHP has been decreased due to the dual the new sourcing situation and also Lower total volumes in that business and enable us to grow in other market areas and market segments, which we are focusing on. If we turn to Page 8, you will see those areas that I mentioned.



So The VHP is now decreasing as a total share of the total, and we are focusing very heavily on growing The smart home and home security part of the business, the wearable, the well-being devices, the in earphones, Speakers and the complex modules on our side, that is the consumer electronics side. On the right hand side of the page, we see the EMC part of the business, and that is Then, of course, sort of a little bit of a different business model in that. If we turn to Page 9, Summarizing the Integrated Solutions business area, during the quarter, we saw a 63% decline if we adjust for currency. And of course, it's low volumes and the change of sourcing strategy at the previously significant customers within the BHP area And that the BHP within NOLATO is now approximately 5% of the group sales. The EMC sales increased to €174,000,000 and we saw the automotive area Increasing significantly, while we saw the telecom area had lower volumes as a total.



The margin ended up at 4.1%, and we are working with cost cutting, but maintaining our strength in order To build new businesses within the other segments of the consumer electronic area. So sales ended up at SEK392,000,000 as mentioned and the operating profit SEK16,000,000 during the quarter. If we turn to Page 10, focusing on Industrial Solution. Here, we are on a technology and geographical expansion journey. And if we look on Page 11, we see the split down of the different product areas that we are focusing on.



So these are And the different segments within the industrial sector. If we look on Page 12, Summarizing up the Industrial Solutions business area, we saw during the quarter a 1% increase In our sales, if we adjust for currency, we saw volumes in the automotive and recent and also We saw less disruption in the supply chain compared to previous quarters. We saw also that demand in product for Products in Consumer Discretionary Sector, slightly lower due to a weak weaker economy. So the margin ended up at 7.7 percentage points. And due to the less disruption in the supply chain,



Good afternoon. This is Perla Ornstrom presenting Group Financial Highlights on Page 13. Net sales was almost SEK 2,500,000,000 in the quarter, the 20% decrease adjusted for currency Compared to SEK 2,900,000,000, operating profit was SEK 198,000,000 With an EBITA margin of 8.0%. Cash flow was strong in the quarter. After investments, excluding acquisitions, it rose to EUR224,000,000 compared to EUR 71,000,000 By more favorable working capital and less CapEx, earnings per share was SEK0.58 Compared to EUR 0.71.



Dividend was paid out with EUR 512 1,000,000 In Q2, our net financial liabilities increased almost SEK 1,200,000,000.



Turning to Page 14 and focusing on the current situation for our business area, Starting with the Medical Solutions, we have we are on a maintain growth strategy, lots of focus on innovation Built together with strong customer relationships. On the integrated solutions side, we have established positions in new product areas. We have a very flexible production structure in the base, and we have good success within the automotive area that is positive for the EMC, but Generally speaking, lower volumes within the telecom area. Overall, there are some geopolitical concerns that affect the Supply Global Supply Chains. On the Industrial Solutions, we have advanced our market positions, a lot of emphasis on sustainable solutions and overall a general weaker economy.

Q&A

---



The next question comes from Adrian Gelloni from ABG Sundal Collier. Please go ahead.



Hello. It's Adrian here at ABG. First question on Medical. We're still seeing these inventory adjustments on IVD that you've been talking about for over a year now. And I guess a 2 part question on that.



First of all, Are there any signs of improvement on Q3 current trading there? And the second question is, if we do return to a more normalized inventory situation among Your customers, can you just help to quantify the margin impact that, that could have on Medical?



We have not seen any improvements during the Q3 so far.



And margin wise, the situation we had during COVID With very high utilization of that part was, of course, positive to margins. When that picks up in volume, it won't be like that, of course. And Then it's a more similar margin that we have in the overall medical business area.



Okay. And then on EMC Products, you've previously said that these could go Around 15% per annum, but now you're saying you were seeing slower demand from telecom. And just for the current year, can you give us some estimation on where the full year growth might EMC given that for the first half growth has been in the single digits.



Yes, I don't think that we should expect much higher growth numbers from that business. It is slow on the telecom side. We have a good situation in other areas which is supporting us,



but of



course, as telecom is not that strong, The overall situation is not very much more positive. Then of course, it's hard to judge when Telecom will Be stronger, but for the time being, we don't see that change coming. Okay.



And am I correct that telecom is roughly 80% of EMC? Or am I misremembering that?



The telecom part has decreased compared to that as The total telecom has decreased and we have had a good growth in the other areas. So it's a bit less So compared to that right now.



Okay. And then I guess on the VHP Sales, if we take away the current EMC sales, it seems like VHP is down sequentially as well. Is this an effect of BAT's total volumes coming down? Or have you sort of lost further shares on this dual sourcing contract?



That is the effect of volumes. And You're correct. Sequentially, it is a smaller downturn. That's The way it is, yes.



But is it your customers selling for less volumes in total? Or have you had a smaller share and your the other dual sourcing Partner has a larger share of the volumes, which of those is it?



I think the situation is similar when it comes to splitting volumes. But it is low volumes totally and Yes. So not a very big change, but we did see some downturn In our volumes during this quarter.



Okay. And a final question on also on VHP. Given that we've had really 3 quarters now with VHP not being profitable. And if I remember correctly, at the sort of peak sales level, you said fixed costs were around SEK 300,000,000 in that segment. How much can you decrease the fixed cost base in VHP?



We should see the cost base as And in order to do that, we would we want to maintain our capacity and our strength in order to Address other businesses. So we are not maximizing our cost out because we want to continue to grow that business long term.



Okay. That's clear. And in that case, that's all for me. Thank you.



Thank you.



The next question comes from Carl Naughan from SEB. Please go ahead.



Hello. A couple of questions from my side. If we start on Medical. Margin was relatively flat there year over year in the second quarter here. So I'm just wondering a bit on the outlook on the margin in Medical, Given that you are facing a bit easier comps now in the second half, do you think you can improve margins A little bit more than what you did in Q2 in the second half of this year will be my first question.



Thanks.



It's correct that we have a margin situation in Previous years, which decreased from these levels, I do think that this business should be seen more in a sequential development From the levels we have right now. However, there is a smaller Effect coming from Q3 as we have a vacation period during that quarter. So That might affect volumes by a little. But except for that, I see it more sequentially than comparing to



So margin should look better year over year than In Q3 and Q4, I guess.



Yes. It's more in line with, yes.



Yes. Good. And then a question also on the IVD sales. Is it possible maybe to quantify what Was it at flat development or was it how much was it down year over year? Is it possible to quantify that?



The IVD volumes, you mean?



Exactly. How much did it decrease year over year in medical?



The volumes for IVD were similar to the same period last year.



Okay. That's great. And then a question on industrial. Nice to see the good margin development there. Just wondering a bit on the outlook for the cycle basically.



What are you seeing in terms of demand from your customers? And how did it develop during the quarter? Was it Stronger in April or stronger in June or any form of guidance there would be very helpful.



If we look on the Q2, I would say it was fairly stable during the quarter. We didn't see a strong stop or a strong end. It was fairly stable during the quarter.



Okay. That's great. And then just one question on price increases. I mean, now we are seeing that production costs are not but more cost, electricity costs, etcetera, are coming down. Is it possible maybe to quantify how much price helped you in I guess it's Mostly predominantly in industrial and maybe in medical, but is it possible to say anything on how price helped you or what the impact on price was year over year?



There was a slight support from that, But not very much. The margin improvement came mostly from more efficient production, And that is mainly within automotive, and we didn't see much of the fluctuations in production planning that we have seen previously. So that was the most affecting positive reason for improving Margin additionally.



Yes. And the Medical is the 6% organic growth. Is that mainly volume driven, you would say?



That is mainly volume driven, yes.



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



The next question comes from Mikhail Lacyn from Carnegie. Please go ahead.



Okay. Thank you. Just a housekeeping question here when it comes to the administrative expenses. It was €122,000,000 in Q2, I think, and step up compared to Q1 and Quite a lot higher than last year. Can you explain what is this?



Is it FX driving this? Or what's behind this?



That's correct. It was higher. And I think Last year should be seen as a low number to start with. Then in comparison to Q1, I would say that this quarter is on a bit on the high side, different explanations to that. But one area would be that we had noticed costs for Some management levels, more MD levels during this quarter, which It's affected with some 1,000,000 on top of Q1.



- Is this part of the Integrated Solutions segment? Or Is it included in the intra group line?
- It's not part of the This area levels, it's on the group level. When we have that kind of cost for MDs and above that level, we normally treat that as group level costs outside the business areas. And the same this quarter,
- Okay. Can you maybe specify what you have done and how much it was?
- There are not many, but some Of these positions that has been that have been replaced And it's in different business areas, and it's around 5 plus 1,000,000 In this quarter.
- Okay. It sounds a bit nonrecurring.
- That's correct. I would call it more I mean, it happens from time to time. So it's not a very Unusual thing, of course, but it's not every quarter, and it was on the high side this quarter, of So it's a bit nonrecurring. I agree.
- Yes. Okay. And Also just a quick question on CapEx, if you have any changes to the CapEx plan for this year.
- No, I would say it's the same picture as it has been for some time. Looking at this year, we do see SEK 600,000,000 to SEK 650,000,000 in CapEx. And then it's including paying for 1 production unit real estate in Sweden, Which is €150,000,000 included in that number. We don't No exactly when that will happen. We expect it will be this year.
- So yes, The same situation as last quarter.
- Okay. Got it. Can I just follow-up with a question on IVD? Approximately how much of the medical that product category is and approximately The way profit level that that area is generating right now, if it's possible.
- That is around 15% of the business area. And the profit level is slightly below the average of the business area Because capacity utilization is lower than what it should be.
- Okay. And when it comes to GW Plastics or the North American business, Is the entire North American business at roughly 7%, 7.5%. I'm thinking about medical now.
- If we look on the different regions, we have lower margins in the North American market. Yes, that is correct.
- Okay. Did you have any improvement sequentially? Or is it still at some stable levels?



It's still on a low level.



Okay. So that means that the other product areas, Excluding North America or maybe at your historical average margin levels up 12% or 13%, is that a Fair assumption.



Yes, it's a fair assumption.



All right. Thanks.



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



Thank you. So just a quick question on BHP. Did you say how much this was of group revenues? And could you say if the segment contributed with profits or was it negative in the quarter?



BHP is Around 5% of group sales in this quarter. And coming back to the non profit Situation, we do have still a situation where this part is not positive In result for us, it's a slightly negative situation for that part.



Okay. That was all for me. Thank you and good luck with Q3.



Thank you.



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



Thank you very much for your interest in Nolato

