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Nolato

Q3 2023



Speakers



Adrian Gilani

Equity Analyst | ABG Sundal Collier



Carl Ragnerstam

Analyst | Nordea Markets



Christer Wahlquist

President & CEO | Nolato AB



Operator



Oscar Rönnkvist

Analyst | SEB



Per-Ola Holmström

EVP & CFO | Nolato AB



Analyst

Prepared Remarks

**Operator**

Hello, and welcome to today's webcast with Nolato, where CEO Christer Wahlquist and CFO Per-Ola Holmström will present the company's report for the third quarter of 2023. After the report, there will be a Q&A. So if you have any questions, press star nine, and you will be handed the word. And with that said, I hand over the word to you, Christer.

**Christer Wahlquist**

President & CEO | Nolato AB

Okay, thank you and good afternoon or good morning to all listeners. This is Christer Wahlquist, presenting the third quarter of 2023 for Nolato. On page two in the presentation deck, we summarize up the third quarter for the group, and our sales total SEK 2.3 billion, and that is a 15% decrease if we adjust it for currency and acquisition. We saw an increased sales for medical and industrial solutions, but markedly lower volumes within the integrated solutions business area. Operating profit amounted to SEK 193 million, excluding a non-recurring item of SEK 60 million, corresponding to our changes in our Chinese operations. That will give a margin of 8.2%, if we exclude a non-recurring item. SEK 20 million in electrical subsidies from Swedish authorities is included.

**Christer Wahlquist**

President & CEO | Nolato AB

The cash flow during the quarter after our investments rose to SEK 188 million, excluding acquisitions. We sustained a strong financial position, giving us the freedom to create further acquisitions. Turning to page three, summarizing the three business areas and the group. So the first, the Medical Solutions business area, is now close to 60% of our total sales and more than 60% of our profit, amounted then to a little bit more than SEK 1.3 billion. Integrated Solutions, we saw a dramatic decrease in sales, ending up at SEK 330 million in the quarter with a low profit. Industrial Solutions ended up at close to SEK 700 million in third quarter, with an EBITA of SEK 64 million.

**Christer Wahlquist**

President & CEO | Nolato AB

If we then start digging into the Medical Solutions business area, on this page, we can see a graph of the last 20 years development of sales for the business area, and it's, of course, growth and global expansions behind the scenes. If we look into our focus product areas within the business area, Medical Solutions, we have the in vitro diagnostic, approximately 15% of total sales. This is a long-term growth market, but in a situation right now after COVID, with some adjustments. Cardiology, it's a long term, it's mostly implant business, stable and a high-profile market to be in. Then we have our pharma packaging side, which consists of, containers for liquid and solid drugs, approximately 13% of the business area. Continence care, approximately 11% of the total market. This is a high-volume market with, huge quantities.

**Christer Wahlquist**

President & CEO | Nolato AB

Endoscopy and general surgery, approximately 22% of the business area sales. It's a market that has been fluctuating a little bit after COVID, with the supply chain variations. And then drug delivery systems at 14%, consisting of auto-injectors, delivery devices for long-term injection of drugs into your system. The third quarter for Sedical solutions, we saw a 6% increase in sales, but if we adjust that for currency, it ended up at 1% increase. We saw continued inventory adjustment and a change in the customer mix within IVD sector. We saw somewhat lower volumes in the surgical area, but that is due to the variations of the supply chain after the COVID situation. We ended up at an EBITA margin of 9.5% in the quarter, and we had approximately SEK 10 million in electrical subsidies within Sweden.

**Christer Wahlquist**

President & CEO | Nolato AB

So sales ended up at SEK 1.3 billion, operating profit, 126 million in the quarter. Looking into the integrated solutions business area, here we saw a dramatic decrease, as you can see on the graph, of the sales. We are expanding ourselves into new market segments. And on this page 8, we can see those areas. So the heavy decrease in sales was within the VHP sector, listed here on the left. But we are focusing our activities to grow the other five areas, which are then complex modules, different kind of speakers, in, on, over-ear phones, wearables, and handheld wellbeing devices, and then, of course, smart home and home security.

**Christer Wahlquist**

President & CEO | Nolato AB

On the right-hand side, we see different type of products, and applications of our EMC and thermal business. If we then turn to page nine, looking into the Integrated Solutions third quarter, we saw a 56% decrease in sales, during the quarter. Of course, it was low volumes, and this change in sourcing strategy at the previously significant customer had a strongly negative impact. The EMC ended up at SEK 170 million, in comparison to SEK 185 million last year, and, we saw that the automotive area increased significantly, while the telecom areas had lower volumes across the board due to the, less of investments in new telecom, infrastructure. The EBITA margin ended up at 3%, of course, affected by the lower volumes, so the quarter, SEK 330 million, an operating profit of SEK 10 million during the quarter.

**Christer Wahlquist**

President & CEO | Nolato AB

The adjustments of the, of the Chinese is going according to plan within Integrated Solutions. If we then look at Industrial Solutions, where we are on a technology and geographical expansion journey, and look into the different, product areas that we are focusing on, we are focusing on domestic appliances, different type of hygiene products, furniture sectors, automotive, gardening, forestry, and packaging. On page 2, we summarize the third quarter for Industrial Solutions. During the quarter, we saw an, after currency, an increase of 2% of the sales. We saw that volumes within automotive have risen, and supply chain disruptions have led to less of an impact than previously. We also saw that demand for product and consumer discretionary sector, slightly lower due to a weaker, weaker economy condition.

**Christer Wahlquist**

President & CEO | Nolato AB

The quarter ended up just shy of SEK 700 million, with an operating profit of SEK 64 million, giving us an EBITA margin of 9.3%.

**Per-Ola Holmström**

EVP & CFO | Nolato AB

Good afternoon, Per-Ola Holmström, commenting on group financial highlights on page 13. Net sales decreased by 15%, adjusted for currency, to SEK 2.3 billion. Operating profit, EBITA, excluding a non-recurring item, was SEK 193 million, compared to SEK 214 million last year. The non-recurring item of SEK 60 million is for concentrating the Chinese operations and was announced August 24. The EBITA margin, excluding the non-recurring item, was 8.2%, similar to last year. The EBITA and the EBITA margin includes SEK 20 million in electricity subsidies from Swedish authorities that was received in Q3. We had good cash flow in Q3. It was SEK 188 million, excluding acquisitions. We had favorable change in working capital and comparatively low investments in the quarter.

**Per-Ola Holmström**

EVP & CFO | Nolato AB

The fourth quarter this year is expected to have lower cash flow, as a big part of the non-recurring item will be paid out in that quarter. We have a sustained strong financial position. The equity assets ratio is 54%, and net financial liabilities was about SEK 1 billion, compared to SEK 1.2 billion, end of June. We expect CapEx to be between SEK 450 million and SEK 500 million for the full year, 2023.

**Christer Wahlquist**

President & CEO | Nolato AB

Turning to page 14, on the current situation per business area. Starting with Medical Solutions, we have a maintained growth strategy, focusing on margins and margin improvements based on innovation and sustainability, of course, with deep and long-standing customer relationships. Within the Integrated Solutions business area, we are established position in new product areas. We have success in the automotive area that is positive for EMC, but very lower volumes within the telecom area. This business area is then, of course, affected by geopolitical concerns. Industrial Solutions, we have advanced our market positions, emphasize a lot on sustainable solutions, but we see generally a weaker economy. We will now open up for questions.

Q&A

**Operator**

Thanks so much for the presentation. We will now start the Q&A. To ask a question, press star nine on your telephone, and to withdraw the question, press star nine again. I will start by hand over the word to the cell number that ends with 92.

**Adrian Gilani**

Equity Analyst | ABG Sundal Collier

... Hi, can you hear me okay?

**Christer Wahlquist**

President & CEO | Nolato AB

Yes.

**Adrian Gilani**

Equity Analyst | ABG Sundal Collier

Okay. Hi, it's Adrian here at ABG. A couple questions from my end. First of all, on medical, the margin came down quite a bit on a sequential basis, and I understand there's some seasonal weakness in Q3, but 60 basis points down from Q2 is still quite significant. So can you just elaborate on what drove that difference?

**Per-Ola Holmström**

EVP & CFO | Nolato AB

Yes, to start with, it was an increase in margin compared to the same quarter last year. But I should say, in comparison to earlier quarters this year, it was a decrease. And volumes and sales were lower than these quarters, and we did see a vacation effect this year, which was bigger than last year. So, those are the underlying changes, so to say, and explaining the lower margin as well.

**Adrian Gilani**

Equity Analyst | ABG Sundal Collier

Okay, I understand. And then on the integrated, the downsizing you're doing at the moment right there, you haven't really given a concrete figure on the cost savings. Are you able to give some sort of quantitative indication on that?

**Per-Ola Holmström**

EVP & CFO | Nolato AB

We commented that after the press message, August 2024, and we do see some effects during Q4, and we should be able to increase the margin within integrated solutions somewhat. We will see gradual improvement of margins in Q4 and Q1 next year, and long term, we have the group target for margin 10% for consumer electronics as well.

**Adrian Gilani**

Equity Analyst | ABG Sundal Collier

Okay. And then, perhaps a bit of a detail question. The net financials at SEK 21 million in the P&L caught us a bit off guard, I think. Are you able to sort of split out how much of this is just normal interest expenses? And if there are any other big line items like derivatives or something disturbing the comparison here. I'm just trying to figure out whether SEK 21 million is a new normal or whether this number will be coming down in the coming quarters.

**Per-Ola Holmström**

EVP & CFO | Nolato AB

We expect that to come down. This quarter had a negative currency effect within the financial items, and that was almost half of the finance cost in Q3. On the other hand, it was a positive change in Q2, so it was a high number this quarter, definitely.

**Adrian Gilani**

Equity Analyst | ABG Sundal Collier

Oh, okay. That's very helpful. Thank you. And then finally, from my end, a more general question, since we've seen some of your peers start talking about supply contracts for these new auto-injectors for obesity medications, like Novo Nordisk's Wegovy. And obviously, this is expected to become a massive market, and I understand you won't comment on any potential contracts, but are you able to sort of give your general view on the space and whether you, as a supplier, meet the criteria to compete on these new contracts?

**Christer Wahlquist**

President & CEO | Nolato AB

The customer in this discussion is a long-term customer of ours. Of course, we are not commenting on new things, but we would definitely be in the position to compete with this kind of contracts. Of course, it's a long-term thing to set up production for this type.

**Adrian Gilani**

Equity Analyst | ABG Sundal Collier

Okay. I guess one small follow-up on that. As you mentioned, Novo, they are a long-term customer of yours, that we know. Can you give us any sort of figure of how big of a customer they are and, perhaps some color on what you may produce for them today?

**Per-Ola Holmström**

EVP & CFO | Nolato AB

That is a customer which is on the top 10 list of our customers, but it's in the end of that list, so to say. So, we have a long relationship, but it's not one of our largest customers. Just to be clear, we have no ongoing business with that kind of product you are referring to. Maybe, Christer, you can-

**Christer Wahlquist**

President & CEO | Nolato AB

Yeah

**Per-Ola Holmström**

EVP & CFO | Nolato AB

... explain what we do for them today.

**Christer Wahlquist**

President & CEO | Nolato AB

We are working within their insulin diabetes care products.

**Adrian Gilani**

Equity Analyst | ABG Sundal Collier

Okay, perfect. That's, that's very helpful. Thank you. That's, all from me.

**Christer Wahlquist**

President & CEO | Nolato AB

Thank you.

**Operator**

I will now hand over the word to the cell number that ends with 17.

**Carl Ragnerstam**

Analyst | Nordea Markets

Hi, it's Carl from Nordea. Can you hear me?

**Christer Wahlquist**

President & CEO | Nolato AB

Yes.

**Carl Ragnerstam**

Analyst | Nordea Markets

Okay, very good. Just to follow up on the medical margin here. I mean, of course, buying that it's that Q3 is seasonally a bit weaker quarter, smaller quarter, but looking at it, it's touching an all-time low, right? Adjusting for the electricity subsidy. So, is it really just the seasonality? 'Cause looking at, for instance, Q2 last year, you had raw material headwinds, right, as well. So I guess, to what extent is the mix effect impacting in IVD? And also, what do you mean by sort of the statement where you say that the change in customer mix at the end of the quarter, what does that mean right there?



Christer Wahlquist
President & CEO | Nolato AB

The mix effect is not positive, but, not a very big thing, I would say. Instead, it was a quarter with, lower volumes and also volumes, lower than we expected. So, we had lined up a bit too much resources, in this quarter, and, vacation, came in, a bit, more than we expected. And, all in all, that, did that the margins, together with the, lower sales, was a bit, disappointing, as you say.



Christer Wahlquist
President & CEO | Nolato AB

Taking the second part of that question relating to the IVD and the changes, it's the thing is there is a large tier one player in the field that the OEMs tend now to find new ways to supply themselves, and rather go directly to the producer, which is then affecting short-term some of the volumes in the market.



Carl Ragnerstam
Analyst | Nordea Markets

I didn't really catch that.



Christer Wahlquist
President & CEO | Nolato AB

Okay.



Carl Ragnerstam
Analyst | Nordea Markets

Could you please take it once again? Well, so that's contributing to the statement number one, that you see even further, I mean, inventory reductions. Is that what you're referring to?



Christer Wahlquist
President & CEO | Nolato AB

No, it's one of the big tier one players within this field that has been supplying a lot of the cuvettes for the IVD to the OEMs. The OEMs are now gradually changing that, and rather buy directly from the producer, changing the market dynamic a little bit. And which means that ramping up capacity for the OEMs, at the same time, reducing for the tier one, is affecting our volumes.



Carl Ragnerstam
Analyst | Nordea Markets

And how long will that last, do you think? And, and was it just in the later part of the quarter, being that we should see an even worsening effect entering Q4 here on volumes, and of course, margins as well?



Christer Wahlquist
President & CEO | Nolato AB

I don't think we will see a worsening effect going forward, but it will take some time to put the new capacity in place for the OEMs directly.



Carl Ragnerstam
Analyst | Nordea Markets

Okay, sounds fair. And also, you said on the surgical side, that it's also a bit soft here. Is it anything temporary? I mean, is it also there re-inventory reductions or what, what do you see? 'Cause other companies in the sort of sector seems to be thrive currently, but.



Christer Wahlquist
President & CEO | Nolato AB

Yeah, I think it should rather be seen as a temporary thing, where we have some swings off the COVID, and we had a strong surgical quarter in comparison to 2022. So it's more that than anything else. There is no changes in the total market, it more a comparison number, Q3 2022 compared to Q3 2023.



Carl Ragnerstam
Analyst | Nordea Markets

Okay, and that will last how long you think?

**Christer Wahlquist**

President & CEO | Nolato AB

We had specifically a strong surgical quarter, Q3 2022, so that thing specifically is a quarter thing and not something that we see going on.

**Carl Ragnerstam**

Analyst | Nordea Markets

Okay, and also finally, perhaps, only you're talking about achieving synergies between industrial and integrated. Could you talk a bit more about that? Is it just cooperation between the segments or actually, I mean, merging plans? Also, have you achieved any interesting sales leads from that so far, or is it too early on?

**Christer Wahlquist**

President & CEO | Nolato AB

Yeah, integrated solutions is mostly working with integrating electronics into devices, and industrial is mostly working with the pure mechanical. By addressing the same set of customer base with both offerings and combining them, we see good synergies. And we have seen good opportunities that we have sort of built up together with customers by cross-selling and working together with the two parts of our businesses.

**Carl Ragnerstam**

Analyst | Nordea Markets

Okay, very clear. Thank you.

**Christer Wahlquist**

President & CEO | Nolato AB

Thank you.

**Operator**

I will now hand over the word to the cell phone number that ends with 79.

**Oscar Rönnkvist**

Analyst | SEB

Hello, can you hear me?

**Operator**

Yes.

**Oscar Rönnkvist**

Analyst | SEB

Yes, hi, it's Oscar from SEB. Just coming back to the medical segment again. I mean, yeah, I was also a bit surprised by the lower growth here. And I'm just, it doesn't really sound like it's anything that should last that long, but I'm just curious to hear your thoughts on next year. Are you afraid that growth will be a bit lower for next year for the medical side, or should we expect normal 7%-8% organic growth in medical next year as well?

**Christer Wahlquist**

President & CEO | Nolato AB

you know, our long-term ambition is to outgrow the market, but we will have periods with higher growth rate and some periods with a little bit lower growth rate. This quarter was lower, and it will vary between different quarters.

**Oscar Rönnkvist**

Analyst | SEB

... Okay, but the weakness in surgery, I mean, I guess that it was a lot that you pushed out a lot of surgeries during the vacations last year, especially in the U.S., and that is now maybe not so much. So then I guess Q4 should be a bit better then, right?

**Christer Wahlquist**

President & CEO | Nolato AB

On the-

**Oscar Rönnkvist**

Analyst | SEB

In terms of organic growth year-over-year.

**Christer Wahlquist**

President & CEO | Nolato AB

I think on the surgical side specifically, we would not have that effect in Q4. But then-

**Oscar Rönnkvist**

Analyst | SEB

Yeah

**Christer Wahlquist**

President & CEO | Nolato AB

Generally speaking, we are not giving prognosis on our growth quarter by quarter.

**Oscar Rönnkvist**

Analyst | SEB

Yeah. Okay, and then there's the question on the industrial side. I mean, you mentioned the outlook for some of the segments is weakening, but automotive is still going strong. And we are seeing some signs in the market that auto demand maybe for 2024 looks a bit soft when the backlogs are being run through. Can you say anything about what you see in the automotive business and if you still see growth during the coming quarters?

**Christer Wahlquist**

President & CEO | Nolato AB

Our main automotive market is the Scandinavian truck and car manufacturer. We see, of course, there will be changes, but we see a continuously stable demand.

**Oscar Rönnkvist**

Analyst | SEB

Okay, that's good. And just on integrated again, did you say that you expect margins to increase gradually from Q3 level going forward here?

**Christer Wahlquist**

President & CEO | Nolato AB

That's correct, yes. Step by step.

**Oscar Rönnkvist**

Analyst | SEB

That was all for me.

**Christer Wahlquist**

President & CEO | Nolato AB

Yeah. Thank you.

**Oscar Rönnkvist**

Analyst | SEB

All for me. Thank you.

**Operator**

I will now hand over the word to the cell phone number ends with 94.

**Analyst**

Hello, this is Johan from DNB Markets. Just a detailed question on the cash flow. So cash flow from financing came in at SEK -265. Could you please break down the components of this?



Christer Wahlquist
President & CEO | Nolato AB

Could you repeat which cash flow you meant?



Analyst

Cash flow from financing in the quarter, please.



Christer Wahlquist
President & CEO | Nolato AB

Yeah, the financing.



Analyst

Yes. Thank you.



Christer Wahlquist
President & CEO | Nolato AB

That is coming from repayment of loans that we have made in the quarter, mainly from that.



Analyst

Okay. Thank you.



Operator

Do anyone have any more questions? If you have any more questions, please raise your hand now. I think that was all for the questions. Thank you so much for the presentation and answering our questions today.



Christer Wahlquist
President & CEO | Nolato AB

Thank you, and thank you all for being interested and listening to the presentation of the Nolato's third quarter. We wish you all a very good rest of the day. Thank you.