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Nolato

Q1 2024



Speakers



Adrian Göransson

Equity Research Analyst | ABG



Christer Wahlquist

CEO | Nolato



Johan Skoglund

Equity Research Analyst | DNB



Mikael Laséen

Analyst | Carnegie



Operator



Per-Ola Holmström

CFO | Nolato



Analyst

Prepared Remarks



Operator

Hello, and welcome to today's webcast presentation, where we have Nolato presenting the Q1 report for 2024. With us presenting, we have the CEO, Christer Wahlquist, and CFO, Per-Ola Holmström. If you're calling in and would like to ask a question, please press star nine to raise your hand and star six to unmute yourself. We will then announce if it's your turn by saying the last four digits of your phone number. You can also use the form that is located to the right. And with that said, please go ahead with your presentation.



Christer Wahlquist

CEO | Nolato

This is Christer Wahlquist, and I welcome you all to the presentation of Nolato's first quarter of 2024. Starting on page two in the presentation, it's a summary of the first quarter, and we have, of course, working as a global solution provider and established on the three important continents for the type of business we are in. In during the quarter, our sales totaled SEK 2.442 billion, which is a decrease of 2%, adjusted for currency and acquisitions compared to the corresponding quarter 2023. We saw growth within the Medical Solutions business area, while the Engineered Solutions saw lower sales. The EBITA ended up at SEK 238 million in comparison to SEK 193 million.



Christer Wahlquist

CEO | Nolato

So that is, of course, a margin increase to 9.7% compared to 7.8%. We saw the main effect of the improved margins within the business area, Engineered Solutions. We have a strong financial position, enabling us to further possibilities, both organic growth and inorganic growth. If we turn to page three in the presentation, showing the new group structure with two business areas, I will come back to that a little bit later. So Nolato has two business area, Medical Solutions, which is the larger of the two, which is focused on the med tech and pharmaceutical market, working as a solution provider for large global pharma and med tech industry.



Christer Wahlquist

CEO | Nolato

The Engineered Solutions business area is working as a design development in industrialization and manufacturing partner to global companies within a different sets of industries. If we then jump into the Medical Solutions on page four, we saw sales during the quarter close to SEK 1.4 billion in sales, so it's continued growth. This business area is then the correspondent to 55% of group sales in the first quarter. The EBITA ended up at SEK 140 million during the quarter, giving a margin of 10.3%. So you can see also the graph of our continuous growth within our Medical Solutions business area of the last 20 years. On page five, there's a split up of the important product areas for us.



Christer Wahlquist

CEO | Nolato

Those product areas have been selected from different drivers, but overall, we see growth potential across some different dynamics. If we start with the in vitro diagnostic, of course, diagnostic is more and more used within the healthcare system in order to get your feedback from blood analysis and so on. So it's a very high volume business with long-term growth potential. Cardiology, it's more related to heart things and, of course, a high quality, very high demands on the products since they are implantable into your body. Pharma packaging is dry containers for liquid and solid drugs. Continence care, a high volume market with growth potential. More and more people are getting treatments for their continence difficulties and so on. Endoscopy and general surgery, it's related to, of course, different kind of surgical procedures.



Christer Wahlquist

CEO | Nolato

We see in this market, the more and more robotics coming into the picture and creating opportunities for continuous growth. Then Drug Delivery Systems is different systems to get large molecule of drugs into your body. It could be auto-injectors, it could be pump therapy, and pen systems. If we then focus on the first quarter for Medical Solutions, we saw a stable volume situation across most markets, but we saw IVD grow compared with the weak comparison quarter last year. We saw within our other catheter category lower volumes, and we had in that sense a customer that were forced to do a recall of products. It's not related to us, but the effect is really affecting us in that sense.

**Christer Wahlquist**

CEO | Nolato

We saw within the drug delivery and surgical a little bit lower volumes, and it was supply chain adjustments at our customer sites. As previously announced, we have signed a very interesting long-term cooperation with a significant existing customer. The potential for this within a maybe five-year period is approximately SEK 700 million in yearly sales. On this picture, you will also see the sales per customer, the sales split up into different categories. If we take some of the highlights there, we can see the growth within in vitro diagnostic going from 14%-18% of the total, and of course, the other sector then decreasing from 17% down to 15%.

**Christer Wahlquist**

CEO | Nolato

So the quarter sales was SEK 1.355 billion in sales, and creating then the EBITA of SEK 140 million. Switching over to Engineered Solutions, where we are working with advanced technology and high productivity manufacturing, the sales was a little bit shy of SEK 1.1 billion during the quarter, corresponding to 45% of group sales. We created an EBITDA result of SEK 103 million during the quarter. If we then jump to page eight, you will see the major areas, the most important product areas for us. Starting on the left top corner, Materials, that was previously named EMC and Thermal Management. But since we are adding more solutions within that, we are talking about materials instead.

**Christer Wahlquist**

CEO | Nolato

Then we have Consumer Electronics on the top, where we see products like connected Wi-Fi system, security system, and small handheld electronic devices. Then we have the Automotive sector, mainly working with the Scandinavian manufacturers of large vehicles and personal vehicles, Hygiene sector, and then, another sector within this business area. On page nine, we can see the split up of the sales per these different areas. And, specifically, we could see the Consumer Electronics going from 21% of the business area sales down to 6%. That is, of course, the large, customer, important customer that we have been ramping down during some period, and that is affecting. The other sectors were then, of course, correspondent growth. We saw, continued, healthy growth within Automotive, and, we saw within the Hygiene, a strong growth compared to a weak comparison quarter.

**Christer Wahlquist**

CEO | Nolato

The sales, as I mentioned, ended up at just shy of SEK 1.1 billion and SEK 103 million in operating profit, creating then a margin of 9.5 percentage points.

**Per-Ola Holmström**

CFO | Nolato

Good afternoon, Per-Ola Holmström, commenting on key performance indicators on page 10. Net sales totaled SEK 2.442 billion, which is a decrease of 2%, adjusted for currency and acquisitions. Growth for Medical Solutions, while sales were lower for Engineered Solutions. Operating profit, EBITDA, increased 23% to SEK 232 million, SEK 238 million, compared to SEK 193 million. The EBITDA margin increased to 9.7%. The tax rate was 22.5%, which we consider to be in line with the full year rate for 2025. Cash flow from operating activities amounted to SEK 136 million compared to SEK 75 million, improved by higher profit and lower working capital requirements.

**Per-Ola Holmström**

CFO | Nolato

Net investments of SEK 230 million includes the payment of SEK 141 million for acquiring an operating property within Medical Solutions. We have mentioned this to Kiam for quite some time, and during the first quarter, we did acquire the property. For the full year, we expect around SEK 750 million in CapEx, including the operating property and this year's CapEx for the newly announced medical project. Earnings per share increased to SEK 0.60 compared to SEK 0.50. The net financial liabilities amounted to just above SEK 1 billion, and the adjusted debt ratio was 0.8 times.

**Christer Wahlquist**

CEO | Nolato

We then jump to page 11, where we try to explain a little bit of change of the group structure that was announced earlier. So what we are doing is we are merging our former business area, Integrated Solutions, together with Industrial Solutions, and then form the new Engineered Solutions. The driving force behind this is to create a global offering for a large customer, as well as for new large customers as well as current customer base. Within the two different former business area, we have somewhat different offering, but in the combination, we can offer all our customers the total solution with global operations and possibilities on the three important continents.



Christer Wahlquist

CEO | Nolato

We are also establishing a global technical design center, for the full group, with the expanding offering, including the electronics expertise, virtual design, and, a lot of aid for the customer in the early stage development. And this is effective from January first of this year. On page 12, we are summarizing up the current situation per business area. Starting with the Medical Solutions, we have a maintained growth strategy for this business area. Lot of focus on margin, cost adjustments, pricing, and efficiency. Of course, overall, based on innovation and sustainability. We have a very broad customer base, with long-standing and deep relations with customers. We have also, with the new, major customer agreement, we feel that we got a confirmation of our overall strategy within the Medical Solutions business area. On the Engineered Solutions, we have advanced our market position.



Christer Wahlquist

CEO | Nolato

We have established position in new product areas. We focus a lot on innovation and sustainable solutions. We see success in the Automotive area, very positive for materials, the former EMC, but within the EMC, we see lower volumes in the telecom area. We see a continued lower demand in the consumer electronics within this business area. We will now open up for questions.



Operator

Thank you very much for that presentation, and like I said, now it's time for the Q&A section. If you're calling in and would like to ask a question, please press star nine to raise your hand, and then star six to unmute yourself. And we will then announce if it's your turn, by saying the last four digits of your phone number. And we'll take the first person calling in, ending with 2817. Please go ahead. You have the word.

Q&A

**Analyst**

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

**Operator**

Yes.

**Analyst**

Okay, very good. A couple of questions from me here. You mentioned in the report that IVD started to grow again, which is obviously nice to see. Could you give us any insights into what pace you're growing currently in the quarter? And also, secondly, on IVD here, I mean, would you say that the vast majority of the growth in IVD is driven by new customer contracts ramping up, or do you also see growth excluding new customer contracts within that sort of vertical?

**Christer Wahlquist**

CEO | Nolato

Yes. The growth rate, you can sort of calculate backwards by seeing the split in our numbers, but of course, there are some sluggishness in these deliveries. On your second part of the question relating to the new contracts versus the former ones, we have explained previously that there is some sort of a shift in this market when formerly tier solution providers were supplying some of the major volumes in that. And that we explained that that too changed a little bit, and we will work with the OEM directly more. So in that sense, it's the growth is then related a little bit to new contracts, but maybe the same volumes behind it. It's more a shift between who's ordering.

**Analyst**

Mm. Okay. That's very clear. Thank you. And also, I mean, you've talked before that your ambition to implement price increases, I think, was mid-digit throughout medical, I guess, especially focused on the U.S. Could you update us a bit on how much of that is implemented during now Q1, and I mean, what organic and margin impact it had, and perhaps also the materialization of the ramp during the remaining quarters of 2024?

**Per-Ola Holmström**

CFO | Nolato

Yes. The pricing, especially was in the U.S. part of our medical, and most of that has been part of this quarter. There is still slight portion coming, full effect in Q2. But then, on the other side of this, the volume drop appeared pretty much within these entities doing that. Yeah, we did get the benefit from the pricing, of course, but on the other hand, we lost the contribution from less sales.

**Analyst**

Mm. Okay, very good. And it's also good to see the margin recovery here in Engineered Solutions. I mean, maybe I'm a bit stuck in the old thinking of the old segment structure, but could you perhaps help us with the margin bridge, sort of with all the segment thinking here? I mean, it seemingly is the former Integrated that is the big margin delta, right? Especially China, but could you help us a bit there?

**Per-Ola Holmström**

CFO | Nolato

... Yes, I think one way of thinking here is that in comparison to the Q1 last year, we have lost volumes within the VHP business. That is the customer we are referring to. And then we have switched the mix, and we do see the materials or former EMC growing, which contributes to the margin as we have premium margins in that area. In addition to that, we have taken out additional cost in China, as you mentioned. That is also supporting the margin. And then we have some of the entities within former industrial improving their margins, improving volumes, which also contributed to the margin improvement.

**Per-Ola Holmström**

CFO | Nolato

It's a mix of, let's say, three different good things going in the right direction.



Analyst

Mm-hmm. Very clear. You also mentioned the Hygiene sub-segment in Engineered Solutions here, which was fairly strong, I think you mentioned. Is it new product wins, or how should we look at it?



Christer Wahlquist

CEO | Nolato

It's a mix of some new product, but also stronger more stronger volumes on existing products.



Analyst

Mm-hmm. So it's sustainable, growth, you could say?



Christer Wahlquist

CEO | Nolato

Yes, I would say that. Of course, the corresponding comparison quarter was of course a little bit on the weak side.



Analyst

Mm-hmm, but it's not any one-off-ish things that is worth mentioning?



Christer Wahlquist

CEO | Nolato

No.



Analyst

Okay. Very good. Thank you.



Christer Wahlquist

CEO | Nolato

Thank you.



Operator

Okay, we'll move on to the next person calling in. And also a gentle reminder to press, press star six to unmute yourself. The next person is 8692. Please go ahead. You have the word.



Adrian Göransson

Equity Research Analyst | ABG

Hi, am I unmuted?



Christer Wahlquist

CEO | Nolato

No, we can hear you.



Adrian Göransson

Equity Research Analyst | ABG

Oh, perfect. It's Adrian here at ABG. I'd just like to start off with a question, not on Q1 itself, but on the diabetes and obesity contract that you signed or announced recently, and the communicated sales of SEK 700 million per annum. You've talked before about not wanting to be too reliant on one individual customer, but on the other hand, this is a very exciting growth area. So with that in mind, do you see room to sort of scale up that contract beyond the seven hundred million in the long run as well?



Christer Wahlquist

CEO | Nolato

I think if you look on that part of the market, there are definitely potentials for further possibilities within that. We believe that it's not too dependent on this customer, but we would like to continue to grow that area.



Adrian Göransson
Equity Research Analyst | ABG

Okay, that's clear. And then, looking at Q1 more specifically, first of all, regarding the lower costs in the Chinese business, is that effect completely taken now as of Q1, or will costs come down sequentially into Q2 as well?



Per-Ola Holmström
CFO | Nolato

No, we have seen most of that coming in Q1, so these effects are included in the Q1.



Adrian Göransson
Equity Research Analyst | ABG

Perfect. And then the other aspect you mentioned is the favorable product mix. I'm assuming that's mainly IVD, but are there other aspects of that that we should be aware of, that drove the positive mix effect?



Per-Ola Holmström
CFO | Nolato

The mix effects is a combination, of course, of the different movements that we show within the different business areas. So, yeah, it's different mix in different areas.



Adrian Göransson
Equity Research Analyst | ABG

But nothing that clearly stood out sort of year-over-year, as the IVD business did. Was that the main driver, you can say, or is it too complicated to just point to one part?



Per-Ola Holmström
CFO | Nolato

It's a bit different within the different areas as well. But that is one effect affecting positively.



Adrian Göransson
Equity Research Analyst | ABG

Okay, I understand. And then a final one from me. Despite the margin increase, you still mentioned that there are some destocking effects in certain end markets in medical that's sort of holding you back still. What's your outlook for how long you expect that effect to persist?



Christer Wahlquist
CEO | Nolato

It's a little bit difficult to have all the full visibility of the different layers of the medical, some of the medical supply chains. But I think it will gradually decrease over the next quarter, I would say, probably.



Adrian Göransson
Equity Research Analyst | ABG

Okay. Thank you. In that case, that's all for me. So thank you for taking my questions.



Christer Wahlquist
CEO | Nolato

Thank you.



Operator

We'll move on to the next person calling in. Also a reminder, please press star six to unmute yourself. The next person is 8721. Please go ahead. You have the word.



Mikael Laséen
Analyst | Carnegie

... Hey, hello, it's Mikael Laséen, Carnegie.



Christer Wahlquist
CEO | Nolato

Hello.



Mikael Laséen
Analyst | Carnegie

A couple of follow-ups. And it's first of all, on Engineered Solutions. Just curious here, usually you have quite a stable earnings trend and a margin trend, but now it... I mean, EBIT margin has improved significantly when EBIT increased 100% almost from Q4. Is it possible, I mean, to specify a bit more in detail what happened here between Q4 and Q1? You mentioned it a bit, but how much was cost effect in China, for example, of this, and how much is maybe positive mix effects and so on?



Per-Ola Holmström
CFO | Nolato

I would say that the main driver behind the positive effects came from the mix effects. And then there are some of this coming from the cost savings in China. But the main effect is, let's say two-thirds of this is coming from mix effects in different areas, especially the improvement from materials or former EMC, and some good trends within the former industrial.



Mikael Laséen
Analyst | Carnegie

Okay. Got it. And, just curious, how much was the EMC side growing this quarter?



Per-Ola Holmström
CFO | Nolato

The total EMC was in line with last year. So, there are no, let's say, sales effects in that part. But we did see an earnings improvement from a positive mix effect within EMC, coming from more material sales than others. And that improved, which was good for us. And then, some of the areas took some more speed during this quarter, and that supported the former industrial. And then, again, a smaller part coming from cost savings within China.



Mikael Laséen
Analyst | Carnegie

Okay. Thanks. And, following up on the U.S. side and the strategic price increases, you already discussed this a bit, but, can you elaborate on the net effect of how the customers receive this and the feedback from it? Did you have any churn or that maybe was positive for you from a margin perspective?



Christer Wahlquist
CEO | Nolato

The discussions with the customers, of course, always some difficulties and needs a lot of explanation, but we have agreed upon this with the customers. I think now they think it's fair pricing, so it's been progressing in a good way. It takes a lot of time and then it takes explanation, of course, to get it completely understood.



Mikael Laséen
Analyst | Carnegie

Okay.



Christer Wahlquist
CEO | Nolato

And the second part-



Mikael Laséen
Analyst | Carnegie

What remains?



Christer Wahlquist
CEO | Nolato

Yeah. Go ahead.



Mikael Laséen
Analyst | Carnegie

Yeah, okay, that explains it. Okay. But what remains in the U.S. for the margins to reach your targeted 12%-13%, I guess, that you had before the GW acquisition?



Christer Wahlquist
CEO | Nolato

Yeah.



Mikael Laséen
Analyst | Carnegie

What you need to do to get there?



Christer Wahlquist
CEO | Nolato

The first thing we need to have is a little bit more, as I say, not so sluggish volume scenarios. It's been still a lot of supply chain difficulties with some quarters with high volumes and some with lower. And that, of course, is costing some efficiency and some margins. So that is, of course, one thing. Then, of course, we need to work with the customer in order to show them possibilities with taking out total cost in the value chain, addressing the business set up, and then in that process, create a situation where both them and ourselves can we can improve margins, and they can get a more efficient delivery.



Mikael Laséen
Analyst | Carnegie

Okay. So approximately, where are you now in the U.S. in terms of margins? You had 7% in the GW company when you acquired it, and you got back to that a year ago, I guess. Can you say something about approximately where you are now on that journey?



Per-Ola Holmström
CFO | Nolato

Yes. As I commented earlier today, the combination of the price increases and the volume drop did that. We didn't get any margin improvement from GW Plastics from that part of the business. As you can see, volumes dropped within surgery. Volumes dropped for this recall situation at a customer. That is, deliveries coming from one of the GW Plastics entities. So, the positive effect from the pricing was taken out by the volume effects on the negative side. So, the improvement didn't come from that part.



Mikael Laséen
Analyst | Carnegie

Okay. And just to follow up on that one. So, it's just a timing effect, right? So surgery and the recall situation should normalize, I guess, and going back to more steady organic growth over time.



Christer Wahlquist
CEO | Nolato

The ambition is, of course, to come back to organic growth over time. The recall situation will affect a little bit longer, since the customer has not solved the underlying problem with that product. And so it will take time until they get back, and then maybe the market will be affected. So that is a long-term thing. But the other, the more sluggish volumes, we hope that that will ease out a little bit.



Mikael Laséen
Analyst | Carnegie

Okay. Just a final one on this exciting new contract you got in April. You mentioned that it's for obesity and for diabetes. What is the main target indication? If it's a diabetes product that works and supports obesity, or is it the other way around? Is it an obesity product?



Christer Wahlquist
CEO | Nolato

Yeah. The product that we are delivering is, of course, a drug delivery system, a delivery device, and that can be loaded with different drugs. Of course, it's variants of the same device. So for our deliveries, it's virtually the same product that we are delivering, then you just load it with different type of drugs.



Mikael Laséen
Analyst | Carnegie

Okay, got it. So you're basically saying that it's for two drugs or two products from this customer, potentially, right?



Christer Wahlquist
CEO | Nolato

It depends on what kind of drug you fill it with.



Mikael Laséen
Analyst | Carnegie

Yeah. Okay. Fair enough. Thank you.



Christer Wahlquist
CEO | Nolato

Thank you.



Operator

We got one written question here: "So what was the impact of pricing adjustments versus volume changes within the medical segment during Q1? And what are the anticipated pricing trends for the full year of 2024?"



Per-Ola Holmström
CFO | Nolato

As I mentioned earlier, the net effect of the pricing and the volume drop was sort of even it out. So that is yeah a zero thing roughly. Going forward, as I mentioned also, the main part of the price increasing has been done already. Of course, we have to evaluate any new inflationary effects coming up and adjust for those if that will change during the year. Of course, that is normal procedure that we do. But for the time being, most of the pricing effects have been done.



Operator

Okay, thank you. And we've got another question from a person calling in, and also a reminder to please press star six to unmute yourself. The person calling in ends with the phone number of five five nine four. Please go ahead. You have the word.



Johan Skoglund
Equity Research Analyst | DNB

Hello, it's Johan from DNB here. A couple of quick questions. So the first one is regarding Easter. Is there any effect from Easter in the results or either sales or receivables?



Per-Ola Holmström
CFO | Nolato

A very minor, I would say. We didn't see any major effects coming from Easter.



Johan Skoglund
Equity Research Analyst | DNB

Okay, thank you. And the last one is, how much would you say this VHP ramp down has left? And how large share of sales is it now, and are you able to specify?



Per-Ola Holmström
CFO | Nolato

It is a very small part of the group today. It's less than 5%, and it's even less than that during the quarter. So it's yeah, maybe 1% or something.



Johan Skoglund
Equity Research Analyst | DNB

Okay. Thank you. That was all, and good luck with Q2.



Per-Ola Holmström
CFO | Nolato

Thank you.



Operator

Okay, and that's a wrap of the Q&A section here. Thank you very much, Christer and Per-Ola, for presenting, and also on answering all of our questions. Thank you very much to everyone who followed along for Nolato's Q1 presentation. Until next time, thank you very much, and goodbye.

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Christer Wahlquist
CEO | Nolato

Thank you. Bye-bye.



Per-Ola Holmström
CFO | Nolato

Bye-bye.