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Nolato

Q2 2024



Speakers



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Christer Wahlquist

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Operator



Per-Ola Holmström

CFO | Nolato

Prepared Remarks

**Operator**

Hello, and welcome to today's web call presentation, where Nolato will present the Q2 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 then star six to unmute yourself. We will then announce it is 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

Good afternoon, everybody, and welcome to Nolato's presentation of second quarter 2024. This is Christer Wahlquist speaking. Starting on second page of the presentation deck, we can conclude that the sales amounted to a little bit more than 2.4 billion SEK during the second quarter, which is a decrease of approximately 2% if we adjust for currency and acquisitions.

**Christer Wahlquist**

CEO | Nolato

We also see that the VHP effect will be phased out during next quarter. And if we would exclude the VHP effect from this quarter, we would have seen growth. The operating profit ended up at 245 million SEK in the quarter, and we see that our margin improvement initiatives yields desired effects.

**Christer Wahlquist**

CEO | Nolato

During the quarter, we had a very strong cash flow from operating, amounting to SEK 434 million, and of course, the improved profit, but also reduced tied-up working capital, created that situation. We have a very strong financial position, and the financial liabilities in relation to our adjusted EBITA amount totaled 0.8 times.

**Christer Wahlquist**

CEO | Nolato

Oops! If we turn to page three in the presentation deck, showing the two different business areas within the, in the group. We're, across the two areas, we have the same offering to the market, but of course, with different dynamics, creating different key drivers for the two areas. The Medical Solutions is now the largest part of our group, and Engineered Solutions is in a refocusing phase of the VHP business.

**Christer Wahlquist**

CEO | Nolato

Turning to page four, showing 20-year of medical development, and it's continuous growth over the period, with some good growth situation across the years. The quarter ended up just shy of SEK 1.4 billion, and it corresponds to 56% of group sales. These are the on page five, we will see the focus product areas within the medical division, and, of course, we've seen good growth within in vitro diagnostic, and some small decline within pharma packaging.

**Christer Wahlquist**

CEO | Nolato

On page six, we summarize the Medical Solutions business area for the second quarter. We had the sales was unchanged, and then, of course, we saw the IVD grow compared with the weak quarter last year.

**Christer Wahlquist**

CEO | Nolato

We saw lower volumes within our other category, and it's the customer product recall that we have informed previously about. The pharmaceutical packaging experienced lower volumes. We saw inventory adjustment, but also some geopolitical effects affecting the business. The margin improved to 10.9%, and of course, our continuous focus on improving margins is generating good results.

**Christer Wahlquist**

CEO | Nolato

Also, the strategic price revision and cost savings, creating the margin of 10.9%. The operating profit, EBITDA, ended up at 149%. On the right lower corner, you can see the split of the sales between different product areas, and in that sense, we can see the other category decreasing 2 percentage points according to, in the second quarter.

**Christer Wahlquist**

CEO | Nolato

Jumping over to Engineered Solutions on page 7, we have seen, volatile development, but underlying growth, but over the last period, a decline due to the, the VHP downsizing. On page 8, we see the split of the different segments. We see the materials. That is a little bit different business than the rest.

**Christer Wahlquist**

CEO | Nolato

It was formerly called EMC, but the other four categories are very similar in the nature. On page 9, we can summarize the Engineered Solutions second quarter. We saw a decrease of, 4% adjusted, during the quarter, and of course, depending on the volumes within the consumer electronics, declined this quarter as well. And if we would exclude the VHP from the situation, the rest of the business is growing approximately around 5%....

**Christer Wahlquist**

CEO | Nolato

The automotive area continued to grow, but on a lower growth level than the first quarter. We saw also good growth in the hygiene area, in comparison to, of course, a weak quarter last year. And in the other category, we saw also some good growth with the recovery of consumer discretionary sector. The margin ended up at 10%, of course, driven by a favorable product mix, but also the cost adjustments announced previously. So the quarter ended up at, just shy of SEK 1.1 billion, with an operating profit of SEK 108 million during the quarter.

**Per-Ola Holmström**

CFO | Nolato

Hello, everybody. Per-Ola Holmström, commenting key performance indicators on page 10. Net sales was SEK 2,439 million, a decrease of 2% from the effects of the VHP business. Except for that effect, the group did have growth. Operating profit rose 24% to SEK 245 million, now totaling an EBITA margin of 10.0%, compared to 8.0% last year.

**Per-Ola Holmström**

CFO | Nolato

The effective tax rate was 21.9%, which we consider to be in line with the full year rate. Cash flow was strong from operating activities, SEK 434 million, supported by higher results and less working capital need. After investments increased as well, as CapEx was slightly lower than last year and totaled SEK 336 million.

**Per-Ola Holmström**

CFO | Nolato

For the full year, we expect around SEK 750 million in CapEx. Earnings per share increased to 0.63 SEK compared to 0.58 SEK last year. We have a solid financial position, with net financial liabilities of just above SEK 1.1 billion, and an adjusted debt ratio of 0.8 times.

**Christer Wahlquist**

CEO | Nolato

On page eleven, we're commenting on the current situation per business area, starting with Medical Solutions. We have a maintained growth strategy, but temporarily we see some sluggish market activity. A lot of focus on margin, cost adjustment, pricing strategy, and efficiency. The business, of course, is based on innovation and sustainability.

**Christer Wahlquist**

CEO | Nolato

We see a broad customer base with long-standing close customer relations, and of course, the new significant customer contract validates our overall strategy. On the Engineered Solutions, we see the effects of the VHP phased out from third quarter this year.

**Christer Wahlquist**

CEO | Nolato

We have advanced our market positions and established a position in these new areas, creating some underlying growth. We focus, of course, on innovative and sustainable solutions, and we also see success in the automotive area that is positive for the materials part of the business area, but continuously lower volumes within the telecom area. We will now open up for questions.

Q&A

**Operator**

Thank you very much for that presentation. Like you said, now it's time for the Q&A. If you're calling in and would like to ask a question, you can press star nine to raise your hand and then star six to mute yourself. We'll then announce if it's your turn by saying the last four digits of your phone number. We've got a person calling in with a phone number ending in eight six nine two. Please go ahead. You have the word.

**Adrian Gilani**

Equity Research Analyst | ABG

Hi, it's Adrian here at ABG. Can you hear me okay?

**Christer Wahlquist**

CEO | Nolato

Yes.

**Adrian Gilani**

Equity Research Analyst | ABG

Yes. Perfect. So first of all, just, regarding you mentioning the bigger vacation effect into Q3, I guess, what's the underlying reason for why that has been less of an effect in recent years? And why is it, you know, a bigger effect now?

**Christer Wahlquist**

CEO | Nolato

It's more a general observation based on history, and if the business cycle is a little bit weaker, some of our customers tend to use that as a creating a little bit longer close down and a movement of products, and so on.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay, I understand. And then also just a question, really, for both segments, since you saw a clear jump in margins in both of them. Was there anything unusual in the mix effect or other factors that you expect to reverse, or are these margins sustainable, other than, you know, factoring in the seasonal effects like you're flagging for? Otherwise, are they sustainable?

**Christer Wahlquist**

CEO | Nolato

Of course, there are many aspects affecting the margins, but I wouldn't say there are any unusual or things going on in this quarter largely affecting the margins. So under these circumstances with the sales roughly in the levels we have seen, and utilization like it is, and no big mix deviations. It's good margins, but it should be sustainable.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay, perfect. And also, you, you happen to release Q2 numbers at the same time as Trelleborg, and for their fairly new medical segment, they write that the protracted inventory adjustment phase is deemed to have eased during the quarter for medical. Is that something you agree with, that destocking effects are sort of subsiding, or are you seeing a different trend there?

**Christer Wahlquist**

CEO | Nolato

I think we are in different market segments and so on and so forth. But I think we have seen those effects of stock changes and so on, on different segments in different periods. And now we saw it on the pharma packaging, but we have seen some ease of it on other areas.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Perfect. Then the final one from my end. Could you give us some sort of an outlook for the EMC or the materials segment? It, it did go in the quarter, but also still weak demand in telecom. Is that something you expect to sort of see any improvements in the second half of the year?

**Christer Wahlquist**
CEO | Nolato

We will continue to emphasize growth in the new areas like automotive and others. And the telecom is very hard to predict at the moment. And I think following the big players in that area is probably a better thing to get a grasp on when that is coming back.

**Adrian Gilani**
Equity Research Analyst | ABG

Okay, I understand. In that case, that was all for me, so thank you for taking my questions.

**Christer Wahlquist**
CEO | Nolato

Thank you, Adrian.

**Operator**

Okay, we're moving on. A reminder to press star nine to raise your hand, and then star six to unmute yourself. We've got the next person calling in with a phone number ending in 5594. Please go ahead. You have the word.

**Johan Skålén**
Analyst | DNB

Thank you. Johan Skålén from DNB here. Continuing on Adrian's vacation question, do you mean that the vacation effect should provide a net negative effect this year, or could, like, OpEx gains on your end balance that somewhat, or how should we interpret the guidance here?

**Christer Wahlquist**
CEO | Nolato

I think that guidance is around sales numbers, mostly. We do have a situation which is normal, of course, where most of the cost base, which is personnel related, is not affecting margins as that is reserved earlier during the year. And the comment we make is then around sales mostly.

**Johan Skålén**
Analyst | DNB

Okay, very good. With the IVD growing, can we assume that the specific customer situation where a middleman was cut out earlier, is that finished?

**Christer Wahlquist**
CEO | Nolato

That situation has developed, most likely like we anticipated, and we have gained business with the sort of the direct, the large OEMs, and decreased our sales to the middleman.

**Johan Skålén**
Analyst | DNB

Mm-hmm. Okay. And, with IVD growing year-over-year, could you say anything about the quarter-over-quarter development?

**Christer Wahlquist**
CEO | Nolato

That is, the same situation, and, it's similar. So, we did see the same development in this quarter as well. Between the quarters, sequentially, there is no big effect. So, it's not a clear trend going forward, but comparing to last year, it's a similar development, I would say.

**Johan Skålén**
Analyst | DNB

Okay, very good. And the final question is on the VHP effects. You mentioned they're phased out. Does that mean you still produce some volumes, or is... or, are the production of, of that product completely phased out now?

**Christer Wahlquist**
CEO | Nolato

We have, towards that customer, we still have some low volumes that will continue on a low level going forward.



Johan Skálén
Analyst | DNB

Okay. Very good. That was all from me. Thank you. Have a nice summer, and good luck with Q3.



Christer Wahlquist
CEO | Nolato

Thank you.



Operator

We're moving on to the next person calling in, and a reminder to press star six to unmute yourself. The next person calling in here is 2479. Please go ahead. You have the word.



Karl Norén
Portfolio Manager | ALCUR FONDER AB

Hello, can you hear me?



Christer Wahlquist
CEO | Nolato

Yes.



Karl Norén
Portfolio Manager | ALCUR FONDER AB

Yes, good. It's Karl Norén from SEB. I just have a question on the margin here in, in the medical side. As you said, IVD is now back to growth again. How much of the margin improvement would you say is driven by mix, and how much would you say is driven by internal cost work, usually? Can you say anything about that?



Christer Wahlquist
CEO | Nolato

I would say that most of the improvement come from the cost improvements and other measures we have taken to improve margins, rather than mix effects.



Karl Norén
Portfolio Manager | ALCUR FONDER AB

Yeah, that's good. And on this vacation, in fact, if you're guiding for in Q3, is that in both segments, or is it more in one or one segment than the other?



Christer Wahlquist
CEO | Nolato

It's partly in both segments, but, of course, Engineered is having a larger part of their business in, let's say, Europe and these countries. So, we do see a larger effect in that area. But,



Karl Norén
Portfolio Manager | ALCUR FONDER AB

Yeah



Christer Wahlquist
CEO | Nolato

it's also in medical, to some extent.



Karl Norén
Portfolio Manager | ALCUR FONDER AB

Yeah. And in medical, do you think you can get back to organic growth here in the second half? I mean, you are facing a bit easier comparisons, but it still seems to be a quite weak market.



Christer Wahlquist
CEO | Nolato

Our long-term targets for the medical remains. Of course, we see that the large new program that we have won are taking, we are addressing a lot of engineers towards that preparation. And that, of course, takes some of the energy out of some others area in the shorter period.

**Karl Norén**

Portfolio Manager | ALCUR FONDER AB

Okay, I see. Then the question on engineered, just on demand here coming into the second half, I mean, maybe related to that, you're guiding for some bigger system impact that we're seeing. You know, automotive players spoken, like light vehicles, such as Volvo Cars and also the larger truck manufacturer are seeing slightly lower demand here in, here in Europe. Can you say anything about what you, what you see, on that side for the second half here?

**Christer Wahlquist**

CEO | Nolato

I think some of that effect might be in what we see in the longer, more strong seasonal effect during vacation time.

**Karl Norén**

Portfolio Manager | ALCUR FONDER AB

Okay. So you are seeing slightly lower demand, you can say, from the automotive side, short term?

**Christer Wahlquist**

CEO | Nolato

It could be if they, of course, have a slowdown, they might use more longer vacation times and so on to sort of use have people on vacation instead of producing full speed.

**Karl Norén**

Portfolio Manager | ALCUR FONDER AB

Okay, that's clear. That's all for me. Thank you. Have a good summer.

**Christer Wahlquist**

CEO | Nolato

Thank you. Same to you.

**Operator**

Okay, we're moving on here with the questions. We got a few written ones here. In Q1, EMC was flat. Now, in Q2, you recognized a slight organic growth for the segment. Is it fair to assume that EMC is set to accelerate its organic growth pace from here, or will telecom hamper the pace also in the second half of the year?

**Christer Wahlquist**

CEO | Nolato

The development of telecom in the second half is a little bit uncertain, I would say. But the other segments within the materials or EMC is growing. And of course, we are coming to some lower comparison quarters for the telecom as well.

**Operator**

In Q2 was the last quarter with heated tobacco in the comps. Is it possible to update us on the organic growth pace during Q2 in the former Industrial Solutions segment?

**Per-Ola Holmström**

CFO | Nolato

Yeah, I would say if we look into the Engineered Solutions, but exclude the VHP effect, I think, yeah, Christer, he commented that we did see a 5% roughly growth between the quarters. So that is, let's say, a more, yeah, a better number to rely on, and that is what we did see. So, quite good growth, except for that part, of course.

**Operator**

You mentioned in the report that you have seen a slower number of projects start recently. Given the long project cycles, will this hit you in the short term, or is it more of a mid to longer term effect for you?

**Christer Wahlquist**

CEO | Nolato

We have a good pipeline of projects. It's more a general comment that the sort of there is hesitance on starting new projects. But I think that's a very short term, and most likely will not be seen in the growth rates going forward.



Operator

Okay, that's a wrap here of the Q&A. That's all of the questions that we have. Thank you very much, Christer and Per-Ola, for presenting and also answering all of our questions. Also thank you very much everyone who followed along for this presentation with Nolato. I hope you have a great summer, and until next time, thank you very much, and goodbye.



Christer Wahlquist

CEO | Nolato

Thank you. Goodbye. Have a great summer.