

October 25, 2024

Nolato

Q3 2024



Speakers



Adrian Gilani

Analyst | ABG Sundal Collier



Per-Ola Holmström

CFO | Nolato



Operator



Christer Wahlquist

CEO | Nolato



Carl Ragnerstam

Director | Nordea



Carl Norén

Analyst | SEB

Prepared Remarks

**Operator**

Hello, and welcome to today's call with Nolato. Our CEO, Christer Wahlquist, and CFO, Per-Ola Holmström, will present the report for the third quarter of twenty twenty-four. After the presentation, there will be a Q&A. So if you're calling in and want to ask a question, please press star nine to raise your hand, and then star six to unmute yourself when you're given the word. It's also okay to send in questions through the form to the right. And with that said, I hand over the word to you guys.

**Christer Wahlquist**

CEO | Nolato

Thank you, and welcome to the presentation of the third quarter of the Nolato Group. This is Christer Wahlquist speaking. If we start on page two with the summary of the third quarter, we saw a quarter with increased sales approximately 5%, and the growth was across both business areas. We saw an increased EBITDA that rose by 22%, ending up at SEK 235 million. That, of course, corresponds to an increased margin, ended up at 9.8%, and we saw this situation in both our business areas. The strong financial position with net debt to EBITDA ended up at 0.6 times. This is enabling us to act together with customers and continue to build our global offering to the market.

**Christer Wahlquist**

CEO | Nolato

Turning to page three, summarizing the two business areas, we saw the good growth and, focusing on offering on two different markets, but with the same offering across and, enabling and creating synergies between the business areas. Jumping into the Medical Solutions business area, on this slide, you will see the long-term growth, continuous growth over the twenty years shown on the graph. Building strong footprint together with customers on a long-term basis by continuous growth together with these customers across. On page five, we are showing our focused products areas within the Medical Solutions business area. If we start on the top right corner, in vitro diagnostics, this area saw a growth in the quarter, after some sluggish in volumes or low volumes after COVID.

**Christer Wahlquist**

CEO | Nolato

This area has been affected by COVID, with strong growth early on in the COVID situation, and then some supply reduction or stock reductions across the full scope. And now we see growth again. The second one, cardiology, has been affected also by the COVID, and we've seen first slow volumes in the early days, and then some supply chain buildups, and now some reductions in the supply chain. Pharma packaging, it's a stable market. It contains of liquid drug containers for liquid and solid drugs, based on an offering to big pharmaceutical companies. Then continence care, it's of course a high-volume market, with the high usages of these products for people that have some difficulties with the continence situation.

**Christer Wahlquist**

CEO | Nolato

Endoscopy and general surgery, it's an interesting market with some changes coming, with more optimization of the surgical business. This business areas also have had some sluggish volumes during COVID and after COVID, with buildup and long supply chain disruptions. The drug delivery market, long-term growth market, stable and continuous, not affected by COVID at all, not in any directions. So it's more of a home care business. You get your drugs and continue to use these drug deliveries. We see a long-term potential in this. Looking into the financials of the third quarter, we saw an adjusted, currency-adjusted growth of 5%, and within that situation, we saw a good growth for the IVD business. We saw healthy volumes within the drug delivery.

**Christer Wahlquist**

CEO | Nolato

We saw, on the other hand, lower volumes in other category, and, we've been communicating about the customer product recall affecting this year. We saw within the pharmaceutical packaging, some lower volumes. There were some customer inventory adjustments and also some geopolitical effects in this quarter. This total sales ended up at SEK 1.355 billion and an operating profit of SEK 145 million, creating a margin of 10.7%. If we look on the the pie chart on the right corner down, we see some movements between different segments. We saw, of course, in vitro diagnostic growth, growing as a total percentage of our sales. We also saw drug delivery growing. Then on the other hand, we saw some decline in the percentages for pharmaceutical packaging, also on the other segments in this quarter.

**Christer Wahlquist**

CEO | Nolato

If we then jump to page seven, focusing on Engineered Solutions. On this twenty-year graph, we see some heavy growth over some years, and then a downturn with the phase out of our VHP business. We are building a solid and strong footprint within multiple areas, so that's what we are doing at the moment with this business. If we look on the focused product areas within the Engineered Solutions, starting at the right upper corner on the consumer electronics, this consists of different wearables, smart home, connected Wi-Fi systems, and the different type of products. Then we have our automotives area, where we focus on very technology advanced product, but mostly based on the Scandinavian automotive market. Hygiene products are different kind of devices and such things that are around the hygiene area.

**Christer Wahlquist**

CEO | Nolato

On the other area, we see some household appliances, furniture, and some clean tech products. Then we have the materials selections, which consist of electromagnetic shielding products of communicating devices and thermal management product protecting electronics. This area is a little bit different in the business setup than the rest. It's more our own platform products that are applied in different areas. Jumping into the third quarter of engineered and the financial side of the business, we saw an increase in the quarter, 4%, if we adjust for currency. We saw, during the quarter, temporary rise within the hygiene segment. We saw also signs of a decline in volumes within the automotive, based on a lower-end customer demand, and we think this will negatively impact the fourth quarter as well.

**Christer Wahlquist**

CEO | Nolato

Within the materials, we have generated increased volumes and a growth of 17%, adjusted for currency. We saw a growth across, but also have healthy growth for the telecom in comparison with the slow quarter last year. So the margin ended up at 9.8%, of course, based on our cost adjustments in our Asian operations, but also a favorable product mix. If we look on the sales per customer area chart, we saw a decline of the automotive. Other area was growing good, and of course, materials were growing good in the quarter.

**Per-Ola Holmström**

CFO | Nolato

Good morning, Per-Ola Holmström, commenting group financial highlights on page ten. Net sales was a growth quarter by 5%, and sales was SEK 2.4 billion, compared to SEK 2.34 billion. Operating profit rose 22% to SEK 235 million, compared to SEK 193 million, totaling an EBITDA margin of 9.8%. The effective tax rate was 21.8%, very similar to the Q2 number. Cash flow from operating activities increased to a strong SEK 327 million compared to SEK 280 million. However, net investments increased to SEK 136 million, which is higher than the previous quarters this year, as the medical expansion in Hungary for the new project has started, and we are paying out money for that equipment.

**Per-Ola Holmström**

CFO | Nolato

For the full year 2024, we expect around SEK 700 million in CapEx. Adjusted earnings per share rose to SEK 0.61, compared to SEK 0.48 in the quarter. Return on capital employed increased to 11.5% as a combination of the improved profitability and a more slim balance sheet.

**Christer Wahlquist**

CEO | Nolato

Turning to page eleven, focusing on the current situation per business area. On the medical solutions business area, the maintain growth strategy, but we see some temporary sluggish market activity. We focus on margin, cost adjustment, pricing strategy, and efficiency. Our offering is, of course, based on innovation and sustainability. We have a very broad customer base with long-standing close customer relationship, focusing on the large Pharma and Medtech companies. The new significant customer contract within our drug delivery is validating our role, strategy, and we are looking forward to that large program. On the engineered solutions, we have phased out the VHP from this quarter. We, of course, have advanced our market positioning and establishing positions in new product areas.

**Christer Wahlquist**

CEO | Nolato

We are successful in the automotive area that are positive for our materials business. So that's sort of the current situation, and we now open up for questions.

Q&A



Operator

Thank you so much for the presentation here. And as you mentioned, we will move straight ahead to the questions. So if you're calling in and want to ask a question, please press star nine to raise your hand and then star six to unmute your microphone when you are given the word. And the first question here is Carl Ragnerstam from Nordea. You're warmly welcome.



Carl Ragnerstam

Director | Nordea

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



Christer Wahlquist

CEO | Nolato

Yes.



Carl Ragnerstam

Director | Nordea

Yes, very good. Thank you. A couple of questions from my side here. You mentioned that you had one customer who had inventory buildups in the surgical segment. Is it of any magnitude, or is it more that you wanted for, probably, I'm sure, good faith, just mention it, or?



Per-Ola Holmström

CFO | Nolato

It's not a large effect. We had 5% growth in the quarter, and this effect is estimated to be less than 1% unit of these 5% units growth.



Carl Ragnerstam

Director | Nordea

And this effect, is it just related to Q3, or will it linger into Q4 and Q1, or?



Per-Ola Holmström

CFO | Nolato

As we see it, this is a one-time thing, which is positive in Q3, and it will be negative in Q4, and then it's gone.



Carl Ragnerstam

Director | Nordea

Okay, very clear.



Per-Ola Holmström

CFO | Nolato

Changing the ERP system, and that's the reason this time.



Carl Ragnerstam

Director | Nordea

Oh, okay, got it. Very clear. And looking at page six in your presentation, sales by customer area, I'm just trying to square the mixes here. You had surgical volumes being quite good, which I guess is a little bit negative mix-wise, but IVD growing, which is mix accretive. So if you look at those changes and you try to aggregate it, would you say that you had a positive mix nonetheless, or?



Per-Ola Holmström

CFO | Nolato

It's a positive mix, slightly, I would say.



Carl Ragnerstam

Director | Nordea

And would you by then say that the main or the absolute majority over the year, year delta in margins is still down, perhaps pricing and initiative, efficiency initiatives, rather than the mix effect in the quarter?



Per-Ola Holmström
CFO | Nolato

Yes. Yes.



Carl Ragnerstam
Director | Nordea

Okay, very clear. You also mentioned that networks grew seemingly for the first time in a while, I mean, if I remember correctly, in EMC. Is it a sustainable trend, you say, or is it more hard to determine or hard to speculate in currently?



Christer Wahlquist
CEO | Nolato

I think it's been really very low for a period of time, and it is a little bit of some of that coming back. How long term it is, it's difficult to say.



Carl Ragnerstam
Director | Nordea

But do you see the same trend so far in Q4 as well, or is it volatile between the quarters, or?



Christer Wahlquist
CEO | Nolato

I think it's a small uptick from the low volumes we are comparing to. In that sense, it will be a little bit stronger than the previous quarter in Q4 as well.



Carl Ragnerstam
Director | Nordea

Okay, very clear. And the final one from my side is maybe the auto market. Did you experience that it was tough throughout Q3, or was it more of the latter part of Q3? And how do you see volumes play out over the coming few quarters here? Also, if you could, a little bit square, I guess, the positive mix effect in EMC with auto and also their telecom networks coming in that might, at least on an EBITDA level, offset the auto drop, or how should we look at those dynamics?



Christer Wahlquist
CEO | Nolato

Starting with the first part of your question, with the automotive market, we saw a gradual decrease during the quarter, and we estimate it will continue to be slow. So that was that part. It's mostly affecting the non-materials part of the business, more on the other part of our business.



Carl Ragnerstam
Director | Nordea

And the mix effect from EMC, perhaps offsetting the auto, or is it difficult to answer over the coming quarters here?



Per-Ola Holmström
CFO | Nolato

I would assume that there is a positive mix effect coming from that. As you know, we have higher margins within materials, and that will support the mix effect you're asking about.



Carl Ragnerstam
Director | Nordea

Okay, very clear. Thank you.



Christer Wahlquist
CEO | Nolato

Thank you.



Operator

Thank you so much for the questions, and we will now go ahead and give the word to, Adrian Gilani from ABG Sundal Collier. You're welcome.



Adrian Gilani
Analyst | ABG Sundal Collier

Hello. Can you hear me okay?



Christer Wahlquist
CEO | Nolato

Yes.



Adrian Gilani
Analyst | ABG Sundal Collier

Yep, perfect. Yeah, I'd just like to start with a follow-up question on the auto market. You said you expect continued weakness in Q4, but was that sort of an increased deterioration compared to the Q3 levels or similar levels? And I guess also, if you expect that Engineered Solutions in general can defend the current margin levels if we see a further deterioration?



Per-Ola Holmström
CFO | Nolato

Due to the fact that we saw a gradual decrease of volumes-



Adrian Gilani
Analyst | ABG Sundal Collier

Yeah



Per-Ola Holmström
CFO | Nolato

... during the third quarter, it will most likely be a little bit slower in the Q4 compared to Q3.



Adrian Gilani
Analyst | ABG Sundal Collier

Okay, understood. And then on medical, it sounds like destocking among customers was a tailwind in several of the product areas. Is that something that's expected to persist as well, or are we now on more normalized inventory levels, and should we expect that you will now see sales in line with the actual market demand?



Per-Ola Holmström
CFO | Nolato

I think, within some of the areas within medical, there are very long supply chain situation downstreams. So I think there are some more to come of the adjustments.



Adrian Gilani
Analyst | ABG Sundal Collier

Okay. Could you elaborate on which product areas those are?



Per-Ola Holmström
CFO | Nolato

I would, we see a long supply chain in within the endoscopy and general surgery. I think that's probably the longest, but also in some of the cardiology.



Adrian Gilani
Analyst | ABG Sundal Collier

Okay, understood. And then on the EMC, or materials, as they're now called, listening to players in the telecom space, it seems like there's an expectation of better market conditions into next year. Are those... Or are you getting similar signals from your customers on that front? Do you expect an improvement in 2025?



Adrian Gilani
Analyst | ABG Sundal Collier

We are into most of these customers, and, well, then of course, we are part of that situation, and, if they are sort of seeing an increased market situation, we will be part of that as well. But, of course, remembering we are coming from very low volumes last year.



Adrian Gilani
Analyst | ABG Sundal Collier

Okay, I understand. And the final one from me, just on the SEK 700 million CapEx figure for the full year, can you just remind us, how much, if any, of that was tied to the Novo Nordisk deal, and whether that will come more in 2025 and 2026?



Per-Ola Holmström
CFO | Nolato

The situation with the big project you're referring to, we estimated SEK 600 million in CapEx in that project, and we are starting to see the effects of that in this quarter, and we estimated that we will have a bit more than SEK 100 million in 2024, and then even more in 2025, and a smaller part of it in 2026, so that is the situation for CapEx in that project.



Adrian Gilani
Analyst | ABG Sundal Collier

Okay. That was helpful. Thank you, and in that case, that was all for me, so thank you for taking my questions.



Per-Ola Holmström
CFO | Nolato

Thank you.



Operator

Thank you so much for the question, and we move on to the last question here, who is Carl Norén from SEB. You have the word.



Carl Norén
Analyst | SEB

Hello, can you hear me?



Per-Ola Holmström
CFO | Nolato

Yes.



Carl Norén
Analyst | SEB

Yes, good. Busy day today, so missed some parts of the call here, but I have one question on the, on the group cost. Just I noticed they are up a little bit here to, like, SEK 12-13 million here in Q2 and Q3, versus before, where they were a bit lower. Is there any specific reason for that, that it has come up?



Per-Ola Holmström
CFO | Nolato

I wouldn't say it's very big change. It's as you say a bit higher numbers these quarters. They might be a bit on the high side, and the previous comparison you did might be a bit on the low side. Yeah, that's how I see it.



Carl Norén
Analyst | SEB

Yeah, clear. And then just a clarification question on automotive. I didn't really hear you there, but I- it looks like automotive was down some 15% year over year here in Q3. Did you say that you expect a slight or similar decrease year over year in Q4, slightly higher?



Per-Ola Holmström
CFO | Nolato

Can you repeat the question?



Carl Norén
Analyst | SEB

Yeah. I mean, if you look on automotive sales, I think it appears they were down 15% year over year. And I'm just wondering if you see the similar level in Q4 in the year over year decline, so to say.



Per-Ola Holmström

CFO | Nolato

I don't really think it is that high effect as you're saying in this quarter. It's more a few percentages below that point. There might be some roundings, but we do see a similar situation, maybe slightly more than that in Q4, as we didn't see the full effect in the beginning of the quarter.



Carl Norén

Analyst | SEB

Okay, understand. So not that dramatic then, it sounds. That's good. I think that was it for me. Q1 with the strong numbers here, so, congrats to that, and, have a good day.



Per-Ola Holmström

CFO | Nolato

Thank you. Thank you.



Operator

Thank you for the questions, and that was all the questions we had for today, so I want to thank you a lot for presenting here and answer all the questions. Thank you all for tuning in. I wish you a great weekend.



Per-Ola Holmström

CFO | Nolato

Thank you all, and have a great day and weekend.