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Nolato

Q4 2018



Prepared Remarks



Hello, and welcome to the Nolato AB Q4 2018 Report. Throughout the call, all participants will be in listen only mode. And afterwards, there will be a question and answer session. Today, I am pleased to present Christa Walchrist, the CEO and Per Ole Holmstrom, the CFO. Please go ahead with your meeting.



Thank you, and welcome, everybody. This is Christoph Waltwies and Perola Holmstrom with the Nolwafu Company to present the Q4 of 2018 of Nolwafu AB. Turning to Page 2 in the presentation with a summary of Q4 for the group. And we had a sales decrease in the quarter, ending up at SEK1.781 1,000,000,000, and that is sales decreased by 12%. We saw strong performance by Medical Solutions, and Integrated Solutions had lower volumes as previously announced.



The operating profit decreased to ZAR 214 1,000,000. We had a strong margin of 12%, somewhat weak margin within the Industrial Solutions section, but positive impact of compensation from authorities in China. Cash flow after investments was SEK 122,000,000, and we have a continued solid financial position. Turning to Page 3. Looking at the full year of 2018.



The 2018, we had the highest sales in the Volantra history so far. Strong growth across all business areas, but exceptionally strong within the Integrated Solutions. Earnings per share rose 26% to SEK 27.44 and a strong financial position with a net asset of SEK 159,000,000 and the Board of Directors' proposal for dividend is increased by 12% to SEK 14 per share, which is a payout ratio of 51 percent of profit. Turning to Page 4, showing the group and the 3 different business areas. And the combination of the business areas in common, we have the same corporate responsibility, the same sort of materials and work as a solution provider, development partner and share the same production technology, but then, of course, with the different aspects of the different segments.



Turning to Page 5, showing the Medical Solutions business area in a long term perspective. As you see, we had another record year for the Medical business area. Then turning to Page 6, looking into the Q4 for Medical Solutions. Here, we had a sales increase by 14%. But if we adjust that for currencies, then it turns out to be 8%.



And we saw good increase in volumes, both with the Medical Device and the Pharma Packaging sectors. We had a sustained strong margin of 13.3% in the quarter. We see high activity in the market with the contract activity, especially in the within the auto injector, insulin product and incontinence product areas. The production capacity expansion is completed according to plan, and we ended up for the quarter with SEK 5.80 1,000,000 in sales and an operating profit of CHF 77,000,000. Turning to Page 7, showing the 2 different parts of the business area, where the medical device is the larger and the Pharma Packaging is the smaller portion.



Now turning into Page 8 for the integrated solution and also showing a long term view on the business area. And in this business area, we also had a record year in 2018, as you see on the graph. Turning to Page 9, looking into the integrated solution Q4. We had a sales decrease by 22%, and if we adjust that for currency, it was 0.27% decrease. And as announced previously, inventory adjustment within the BHP sector had a negative impact.



And we also see substantial lower volumes estimated for the coming 1st 6 months of 2019, pending new models of Beacon products. And we also have received orders for the new models and retained a very strong position with the customer. We also saw weak mobile phone volumes, but good growth for the EMC business. We had a strong margin in the quarter, ending up at 14.1%. It was boosted by approximately 2 percentage points from compensation received from authorities in China.



We had a consistent capacity utilization with underlying margin positive impact, and the quarter ended up just about \$700,000,000 in sales and an operating profit of SEK 99,000,000 and then, of course, the 14.1% margin. Now I'm turning to Page 10, showing the two parts of the business area, where the consumer electronics is the largest portion with also the DHP and the connected devices, different connected devices. And then the smaller portion is the E and P and Thermal business area. On Page 11, we have introduced a small information regarding the development of the new segment within the integrated solution. And the strategy has been put in place some years ago to expand the business area's scope into new areas to offset and decrease volatility from the telecom business area.



We see good growth opportunities in the expertise areas using the existing production technology. And then, of course, we have seen the VHP market have a long term growth potential. And the customer here is 1 customer with 1 of the 3 leading in the global market. And we see that this project began in 2015 and then it entered into production in 2017. And there is launches going on.



And of course, 14 markets so far, and there is additional geographical launch as planned. Jumping to Page 12, Industrial Solutions for the 4. And here in 2018, we had the highest sales so far in our history. Now turning to Page 13. Looking into the Q4 for Industrial, we saw a sales decrease by 3%.



If you take away currency and group structure, it was a 4% decrease. We had volumes stable in most product areas, but we saw sort of weekend to the quarter That was during Christmas break, we saw a slowdown. The margin ended up at 7.7%. We had unsatisfactory efficiency within the automotive part of the business area, and we have measures to improve the efficiency in full run. And the sales ended up at SEK 50 5,000,000 for the quarter and the operating profit of SEK 39,000,000.



Now on Page turning to Page 14, showing the 2 different parts of the business area, automotive and general industry, general industry being the majority of this.



Good afternoon, Perd Arnsten. Turning to Page 15 with group financial highlights. The full year 2018 ended up with a record year SEK8.1 billion in sales and SEK949 1,000,000 in profit EBITA with the margin of 11.7 percentages. For the Q4, the same numbers were almost SEK1.8 billion in sales, an EBITA result of SEK214 1,000,000 and an EBITA margin of 12.0%. These results, they included compensation of SEK14 1,000,000 from Chinese authorities, which is not of recurring nature.



The year ended up with SEK27.44 in earnings per share. We have a strong financial position, ending the year with equity assets ratio of 50% and a net financial asset of SEK 159 1,000,000. The investments during 2018 were SEK452 1,000,000, and we anticipate slightly lower CapEx 2019 to around SEK400 1,000,000 is our guidance. The tax rate for 2018 was 22%. That was adjusted for nonrecurring items.



We expect as a guidance for 2019, a tax rate of 23%, 1% higher than 2018 because of earnings in different countries in the world.



Turning to Page 16, the current situation. If we start with the Medical Solution, we have maintained growth strategy, focused on innovation, and we see high activity in the market and good project activity. Within the Integrated Solution, we have established a position in the new product area. We have a continued strong position within the EMT and, of course, the flexible production structure. If we look into Industrial Solutions, we have advanced our market positions.



We have efficiency measures have been taken within the automotive sector, and we see some signs of slowdown in the economy but stable volumes. Thank you. Is there

Q&A



And our first question comes from the line of Mikael Lassen of Carnegie. Please go ahead. Your line is open.



Hey, thank you. Hi. Yes, I have a few questions, and I can maybe take them 1 by 1. First is regarding the Integrated Solutions segment. Can you please help us with the comment about markedly lower sales in the first half twenty nineteen compared with Q4.



How we should think about the decline, sequential decline now in Q1 and Q2? Thank you.



Yes. As you might have seen, we have written markedly in the report. And I think one way of seeing that is to look how it changed between the Q3 and the Q4 2018, we did see approximately SEK 200,000,000 less in sales between these quarters coming from approximately €900,000,000 down to approximately €700,000,000 decreasing with SEK200 1,000,000 in sales. Short term, we mean approximately the same range of decrease compared to the level Q4 2018.



Okay. Perfect. So I guess you're referring to total sales drop or is it the percentage change that you're referring to?



No, I'm referring to SEK 1,000,000 in absolute numbers.



Excellent. That's very clear. And I was curious about the new products that you said that you have in the pipeline for the second half for the integrated side. Can you say something more about this? Will this take you back to Q3 levels?



Or I guess it's difficult to say, but if you can talk about your value added and maybe what you know about that side?



I would describe it like this. We are very pleased that we have a very strong position with our customer within this segment and that we have a position where we have all the products that they have in the segment And exactly which volumes we can see in the second half of this year, we don't really know that. Of course, there are plans, but things can happen up and down, so we'll rather not speculate on that. But we feel that we have a very strong position with the customer.



Okay. And just to maybe clarify, the sales drop that you expect now in the first half, a sequential sales drop, is that due to end market being more mature? Or is it just has it something to do with your market position?



I think we can be clear that it's not something that has to do with our market position.



It is



in a moment where short term, there is a change in models. And I guess that is pretty much the answer why the volumes are as they are during the first half of twenty nineteen. That's a big part of the explanation, including the inventory situation, but waiting for new models.





Okay. I see. Yes. And one final, if I may, regarding the industrial side. You have still a little bit lower margins in that segment, and you have initiated measures to adjust that.



What are those measures? And when can we expect any impacts?



We see that we gradually are coming to a better position, and the measures are, of course, efficiency things in the organization where we can work in a more proper way. We have had a long term growth in this area, as we described previously, and that has created some efficiency situation. We are also in the process of strengthening the management and replacing some people.



Our next question comes from the line of Johan Nielson Woll of ABG. Please go ahead. Your line is now open.



Okay. Hello and thank you. And just to help me out to clarify a bit on the integrated drop going forward. Is that correct, interpreted by me, that you're guiding for DKK 200 in Q1 compared to Q4.



Yes. We said short term that the drop we did see between Q3 and Q4, we expect the same kind of drop in 1,000,000, roughly, of course, between Q4 and the both quarters in the first half of twenty nineteen.



Okay. So, okay. So 200 less the run rate for Q4 for Q1 and also 200 less for Q2 'nineteen compared to Q4?



Yes. Yes. Yes.



So looking ahead a bit there. When talking about those production launches, could you elaborate a bit more in the time frame and maybe impact in size?



I think you could say that there will be new interesting products going to the market and those will start and that is pretty much what then will be driving the market from, well, let's say, the end of Q2 and going forward. That is the understanding we have from the plans so far.



Okay. I see. Also, if looking at what I yes, how could I say it, presumed to be the customer related to this area, it seems like the category growth has slowed in one particular area, but this device is performing quite well. How could you comment something on the market, on the entrance in new market for this product and also about the sentiment?



What was the last word?



If you could comment about new markets and also the market sentiment in the biggest markets.



Yes. The products or the products are being launched in new markets. And of course, as we described previously, there is a launch volume and also then you can reuse the device for many sessions. And that is a very dynamic movement. And we are not 100% sure how that will move out in new markets as well.



So I think we think this market is very interesting long term, but the dynamics over the shorter period of time is very hard to predict. But overall, we think it's a good place to be.



Okay. About Medical, how do you look at the outlook there in terms of, if let's say like this, the visibility we have there, how does it look from that perspective?



We have a strategy to grow faster than the market long term with the Medical business area, and we see the market growth in some sort of 4%, 5%, and we should be above that long term. And then how single quarters will play into that, it could be a little bit higher and some volatile on the growth rate. But long term, we see we have a strong position, and we are gaining market share in the Medical business.



Okay. That was all from me. Thank you very much.



Thank you.



Thank you. And our next question comes from the line of Daniel Lundqvist of Handelsbanken.



Just a quick question. On the new products in Integrated Solutions, are those driven by the need to make cheaper products for the end markets? Or are they driven by the need to make products with more features to the end market?



I would say they are driven by features more than cheaper products.



Okay. So great. And then just there have been very many questions here, so I won't hold you. But if you just could elaborate on the compensation you were you received in the quarter? Why was it given to you?



And should we expect something like this in the future as well?



We have got compensation from Chinese authorities, and I wouldn't expect that those would come every year or every quarter. We have got some small kind of these in the history, but not as much money as we did this quarter. And it's hard to predict what the real purpose is or why they have been paid out. It's there have been explanations like because of trade wars going on and these kind of things. But from my side, I would say it's hard to say the reasons behind.



And I think it's part of that we are good citizens in Beijing and are doing a good job with our employees and our customers. And this is a way of getting some reward for that. And it's very hard to say the real reason behind it and when and why that is paid out right now.



Okay. So more of an encouragement to you than anything else?



Yes, I



would say that.



Okay, great. So no further questions from my part. Thank you.



Thank you. And there are no further questions on the line. Please go ahead, speakers.



Then I thank you for your attention and maybe speak to you next quarter. Thank you.



Thank you.



This now concludes our call. Thank you for attending. Participants, you may disconnect your lines.

