

July 17, 2020

Nolato

Q2 2020



Prepared Remarks



Hello and welcome to the NOLAPTO Q2 report 2020. Throughout the call, all participants will be in silent only mode. And after that, there will be a question and answer session. Today, I'm pleased to present Crystal Walgreens, CEO and Per Ola, Holmstrom, CFO. Please go ahead with your meeting. Thank you.



Hello, and welcome, everybody, to the presentation of Nolato's Q2 2020. This is Christoph Waltke speaking, and I have Perola here next week. So I hope you have the presentation in front of you. And then I would like to start on Page 2 with summarizing up the Q2 for the group. We had a record quarter with the sales of SEK 2,300,000,000, and that was sales increased by a substantial 12% in the quarter.



We saw particularly strong growth for the Medical Solutions business area and Integrated Solutions business area. Our operating profit, EBITA rose to NOK 269,000,000 compared to NOK 233,000,000 in the Q2 2019. We saw strong margins for the Medical Solutions and the Integrated Solutions business area. The EBITA margin for the group was 11.7%, and we had an excellent cash flow of SEK 685,000,000 during the quarter. It was boosted by some temporary effects that Perola will go into later on in this presentation.



And we ended the quarter with a very strong financial position with net assets of SEK 1,245,000,000, and that is, of course, enabling us to execute our strategy, which involves growing organically with existing customers as well as our acquisition strategy going forward. Turning to Page 3, summarizing the 3 business areas for the group. And the group consists of the well balanced group with 3 strong legs, creating synergies from the different markets that we are operating on. Of course, we are sharing technology behind the scenes and giving that back to the different business areas, creating synergies for our customer. Jumping into Medical Solutions business area on Page 4.



We are executing our global expansion strategy. And of course, you can see here our 20 year growth of this business area, and that is continuing in this quarter. On Page 5, you see the 2 different divisions in the business area. The medical device is the largest portion of the business area, doing customized design work and production for our global customers. Then we have the smaller portion, the pharma packaging, which consists of liquid and solid drug containers for large pharma customers.



On Page 6, we summarize the Q2 for Maker Solutions. We saw a currency adjusted growth of 9% in the quarter. We saw strong growth in our production volumes, and we saw high demand in segments such as Diagnostic and respiratory aids, of course, driven by the high demand from the corona COVID-nineteen. We also saw some lower volumes in the surgical business portion of the business with delayed surgeries for on the global scene based on the corona COVID-nineteen situation. The margin, the EBITA margin ended up at 14.3%, very strong, and that was built up by high volumes and positive sales mix.



For the quarter, it ended up at sales of SEK 700,000,000 and an operating profit of SEK 100,000,000. Turning to Page 7 with the Integrated Solutions business area. This business area is currently expanding into new market segments, and we have executed that strategy for the last couple of years in a very good manner. And the business area is consisting of 2 segments. On Page 8, the consumer electronics being the largest portion, where we work with vaporizing heating products, connected Wi-Fi systems and wearables and different mobile phones.



The smaller portion of that is the EMC Thermal, creating shielding and thermal solutions for electromagnetic influences. And that was where we, late last year, had the latest acquisition, JBAR. If we then turn to Page 9, summarizing up the Integrated Solutions 2nd quarter. We saw a substantial growth of 32%. Of course, high demand in the BHP area, but also some inventory buildup by customers that continue to have a positive impact.



We also had rollout of new product variants. We expect the inventory buildup to be back to a normal level in the 3rd quarter, but with continued healthy volumes. The EMC part of the business area experienced good growth in the quarter, and we had continued low mobile phone volumes. We had a very strong EBITA margin of 14.4 percentages, of course, based on high volumes, and we also had a general contribution from the Chinese authorities that had a positive impact of just over 1 percentage point of the EBITDA. So the sales ended up at SEK 1,150,000,000 and the operating profit ended up at SEK 166,000,000, creating a very, very strong quarter for Integrated Solutions.



Turning to Page 10, Industrial Solutions. Here, we are on the technology and geographical expansion journey. But in this quarter, we had some negative effects of the COVID-nineteen situation affecting the quarter. The Industrial Solutions business area is consisting of 2 different parts. I'm on Page 11 now.



And the general industry being the largest portion with design and production work for general industrial customers. And then we have our automotive sector working with the Scandinavian automotive market, both the heavy truck side and the vehicle side. This part of the business was, of course, affected mostly by the COVID-nineteen situation. Turning to Page 12, summarizing up the Industrial Solutions. 2nd quarter.



We saw during the quarter a decrease of 16% currency adjusted of the sales. We saw lower demands from the automotive industry as a result of a halt in the operation in the Q1. We saw low but gradual increasing volumes from the second half of this quarter. The coronavirus situation, combined with summer holidays, is also affecting volumes in the 3rd quarter. The EBITA margin ended up at 2.4 percentages, of course, affected by low volumes but also some redundancy costs that had an impact of just over 2 percentage points in this quarter.



So the sales ended up at SEK 459,000,000, and the operating profit was SEK 11,000,000.



Good afternoon. Pero Dorensturm speaking. Commenting on Page 13, Group Financial Highlights. I will focus on the left side of that picture comparing the Q2 2020 with 2019 Q2. Net sales growth was 12% or a bit more than SEK2.3 billion, combined with the same level of margin, 11.7 percent for EBITA margin, giving an EBITA result of SEK269 1,000,000.



We had a very strong cash flow in this quarter, SEK685 1,000,000.



That was



very much affected by less tied up working capital. And some of that is temporary effects. The inventory levels have normalized following the temporary rise in the Q1 from the coronavirus situation. We had trade receivables, relatively low trade credit days at the end of the period. And we did see high sales with short credit periods in the second quarter.



Strong earnings, of course, and low level of investments also contributed. In this quarter, we had SEK 63,000,000 of investments, and the 1st 6 months did show NOK133 1,000,000 in investments And we still see investments for the full year of about €400,000,000 meaning that investments will increase the second half of this year. Still, we have a very strong financial situation with more than SEK 1,200,000,000 of net financial assets, giving, of course, the opportunity to have those CapEx investments we plan to and a good situation for taking opportunities going forward.



If we turn to Page 14 and another comment on our current situation for our business unit, starting with the Medical Solution, where we have a maintained growth strategy. Of course, a lot of focus on innovation, built on strong customer relationship. We have seen and are seeing a coronavirus impact affecting part of the business with higher demands, such as the IBD and the diagnostic side and respiratory aids, but on the other hand, a little bit slower volumes on the cervical side. If we look into the Integrated Solutions business area, we have established a position within the new product areas. We have a continued strong position within the EMC, and this is all then based on our flexible production structure.



On the Industrial Solutions business area, we have advanced our market positions. We have seen efficiency measures having a good effect, but we are impacted by the coronavirus affecting, especially then, of course, the automotive side of the business. We are now opening for questions.

Q&A



The first question from participants will be Carl Wagner from Nordea. Please go ahead with your question.



Hi, it's Karl here from Nordea. I have a few questions. First of all, did you receive any government support in the quarter mainly related to industrial, if any?



Yes. We have received the quartet's permit hearing support during the second quarters in a couple of our industrial sites in Sweden. That is correct.



And is it possible to quantify it on the group level if you try to?



Yes. It's about SEK 10,000,000 for the quarter.



Okay. Perfect. And regarding Medical Solutions, I mean, you have positive impact from some areas related to COVID-nineteen. You also have some negative impact as well. If you try to give us the net impact of the growth for Medical, would you say that it's positive or negative with the COVID outbreak?



Or the organic growth, I mean?



Yes. I understand. I would summarize it as positive.



Could you say if it's significantly positive or just slightly? Or could you give some flavor on that?



I would say it's slightly positive.



Okay. Perfect. And regarding Integrated Solutions, could you comment what you have seen so far in July? Would you say that you still have a positive inventory buildup effect? Or did it normalize in June?



I think currently, we don't have an impact right, as we speak.



Okay. Perfect. And in terms of the organic growth in Integrated Solutions, is it possible to try to split what was inventory buildup for the old devices? And how much that came from the new device that you launched? Or is it or is the whole inventory buildup related to the new device perhaps?





I would say that the sales in this quarter is very much related to new products, definitely.



New products or the new products?



New products.



Okay. So it's not just one new product? I guess you have 3 products now, right? And one launched in April or



Well, it's depending on what you mean with new ones. But I would say, if we compare to old products sold in 2019, those are gone, so to say, and the ones sold in this quarter is the new ones after that.



Okay. Perfect. Got it. And the final one for me. I mean, you still have a quite significant net cash position.



I mean it's maybe up to the Board, but would you consider distributing dividend for 2020 or at least have the discussion?



As you say, it is



a question for the Board to decide on. We did say at the general annual meeting that the Board will consider the situation during this autumn and how the world situation has developed and of course, our own development. So I mean, there will be a new evaluation going forward about this and the situation.



Okay. Sorry, one more, if I may. Sorry that. Could you also give some more flavor on the efficiency measures that you are implementing in Industrial Solutions?



I think we would like to say that we have seen the effect and it's we in a normal situation, we would be back on normal levels.



And what measures are you taking? Is it just cost out measures? Or are you taking some efficiency measures as well? Or



The situation was created by a very long period of organic growth in parts of our business sites. And of course, that takes some time to make sure you get the efficiency up, you get the yields up and so on. And we are on that situation now.



Thank





you. Are there any other questions?



The next participant is Michael Lapin. Please proceed with your question. Thank you.



Okay. Thanks. Yes, I also have a few questions. And the first one is about the Integrated Solutions segment and the outlet comment that you made. What do you mean with normal inventory levels in Q3 and healthy volumes ahead?



It stacks on par with Q2 revenues?



Yes. I would say that in Q2, we had, of course, some help in the growth by the inventory buildup situation. But then, of course, if we take away that, that will then not help the Q3 by that factor. But of course, if you compare to the relatively low level in Q3 last year, then of course, we will see growth, good growth compared to that number at good levels.



Okay. So maybe more in line with or a bit better than what you had in Q1, I assume. So maybe around SEK 1,000,000,000, if that's what you mean? Or just to be I mean, take away misunderstandings here.



That's one way of putting it, yes.



Okay. And it would be great to get more insights into the EMC segment and the other product areas that we have within Integrated Solutions, how they are performing? How much, for example, is EMC generating right now on revenue?



The split between E&C and the rest, which is very much BHP, In the Q2, it's quite the same actually. We have, of course, higher sales in the EMC, but we have also higher BHP sales. So in relatively terms, they are quite equal. And as we describe it backwards in time, the E and C part is between 15% 20%. So we have had growth in that area, but also growth in the other areas, mainly than BHP.



Okay. And then another question here is regarding the industrial side. How did the automotive revenue develop in Q2? I'm thinking about year on year growth and how much of Q2 revenue that was generated by automotive customers approximately? The



bulk of the decrease in the second quarter came from the automotive side. So mainly, all of the decrease is automotive related. Then we have some positive things on the upside, but also some segments on the negative side, but very much of the decrease is from the automotive.



Okay. So most other end customer segments added more or less that revenue, correct?



Yes. If you sum them up, then of course, there are some also affected by COVID, but there are some with an increase as well.



Okay. And the final question from me. If the Medical segment, you grew nicely there 9%, and you had some positive effects and some negative ones from COVID-nineteen. But it would be great to hear more just in absolute terms or how much diagnostics and respiratory aid, how much of revenue those two areas are generating and also the negative side of Surgical product areas, how much of revenue are, is that approximately? I think for those type of information, we would ask you to look at our when we had a Capital Day last year, then we shared some of that information.



Okay. Yes, I'm grateful to do that. Was it a significantly different picture now in Q2 than you had last year? No. I would not say that.



We you don't in the medical business, you don't see significant changes because it's relatively, how should I say, you need to have equipment for anything. So it takes some time to adjust. Okay. And maybe one more, if I may, regarding Medical. Can you talk about the pipeline that you have in the medical segment, 2 drivers.



And it seems that you have really good momentum there and can maybe continue to grow by almost 10% ahead, something that we can share maybe? More on a general level. We are pleased with the pipeline we have, and it's okay. And the areas that we are focusing on are, of course, the growth areas within the Medical as described last year as well. Then, of course, we have a long term target to outgrow the market, which we are doing.



You will not get double digit growth every quarter. Of course, it's up and down. But over a period of time, our ambition is to outgrow the market.



Thank you. Since there is no more participants for the Q and A section, so I will hand over back to the speaker for the closing.



Please go ahead. Yes. Thank you very much for your interest in the presentation of the Q2 for Lonato, And I wish you all a very pleasant summer. Thank you.



Thank you. This overall will conclude our conference for today. Thank you for all the attendance. You may now disconnect your lines. Thank you.