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**Nolato**

Q4 2021



## Speakers



**Adrian Gilani**

Equity Research Analyst | ABG



**Carl Ragnerstam**

Managing Director and Head of Small Cap Research | Nordea



**Christer Wahlquist**

CEO | Nolato



**Mikael Laséen**

Equity Analyst | Carnegie



**Operator**



**Per-Ola Holmström**

CFO | Nolato

## Prepared Remarks

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**Operator**

Hello everyone, and welcome to the Nolato audiocast with teleconference for Q4 2021. Throughout the call, all participants will be in listening only mode, and afterwards there will be a question and answer session. Today, I am pleased to present CEO, Christer Wahlquist and CFO, Per-Ola Holmström. Speakers, please begin.

**Christer Wahlquist**

CEO | Nolato

Hello, and welcome to the presentation of Nolato's fourth quarter, 2021. This is Christer Wahlquist speaking. I will start on page two in the provided presentation material. This was a strong quarter for Nolato Group, with sales above SEK 3.1 billion, corresponding with a 28% increase in sales. This is despite our Industrial Solutions business area that was affected by some supply chain disruptions during the quarter. Medical and Integrated Solutions both have strong quarters sales wise. The operating profit during the quarter rose to SEK 336 million. During the quarter, we had a cash flow that was affected by an increase of working capital requirements and some high investment levels. Therefore, it ended up on a SEK -87 million during the quarter.

**Christer Wahlquist**

CEO | Nolato

The EBITA margin then gave a 10.7%. Turning to page three. With the full year of 2021, this was another record year for the Nolato Group, despite a challenging business environment. Our sales for 2021 ended up at SEK 11.66 billion. Earnings per share were SEK 3.7 if we exclude the non-recurring items. If we include them, then it was SEK 4.32. Our financial position remains very strong, and we have net financial liabilities of SEK 51 million, giving an equity assets ratio of 47%. The proposal for dividend from the board of directors is SEK 1.9, which should be compared to SEK 1.6 the corresponding year before.

**Christer Wahlquist**

CEO | Nolato

Our policy is that we should have more than 50% of the net profit in dividend. This SEK 1.9 is a payout ratio of 51% if we exclude the non-recurring items. Turning to page four, giving the overview of the Nolato Group with the three different business area, where we serve different markets, that is the Medical Solutions, Integrated Solutions and Industrial Solutions. Of course, different markets, but we share the same technology, the same material, and the same production equipment, and then creating synergies for the group. If we turn to page five, starting with Medical Solutions during the first quarter. On this page you can see a 20-year graph with consecutive growth, and we have been able to create a true global solution provider within our medical business area.

**Christer Wahlquist**

CEO | Nolato

On page six, you will see some of our focus product areas. If we start with the in vitro diagnostic, this is a long-term growth potential with a good momentum at the moment, and we are focusing a lot of our future activities towards this segment. The second one is cardiology, with a stable, high margin business. The pharma packaging, approximately 12% of our business. It consists of different dry containers for liquid and solid drugs, and approximately half of that business is based on platform products. The continence care is built up on a very high volume business for different solutions for continence or incontinence problems. The endoscopy and surgical business has been slow during the COVID.

**Christer Wahlquist**

CEO | Nolato

We've seen some improvements during the fourth quarter, but it's still below the normal levels due to the less surgical being performed. The drug delivery system consists of infusion sets and different type of auto-injectors and those kind of things to get the large molecule-based drugs into your body. If we turn to page seven and do a little bit deep dive in the fourth quarter for Medical Solutions. We had strong growth during the quarter, corresponding to an 11% increase if you adjust for currency. We saw healthy growth in most areas, and we saw some growth in the surgical segment, but we feel a continuous negative impact from the pandemic. The EBITA margin was a little bit low as explained earlier.

**Christer Wahlquist**

CEO | Nolato

We had some low margins due to the ramp up of a new large project within the IVD sector, and also in combination with material and labor shortages. The expansion of our production capacity is proceeding according to plan. We are currently expanding in Switzerland, Hungary, Poland, United States, and Sweden within our Medical Solutions business area. Sales for the quarter ended up just about SEK 1 billion with an operating profit of SEK 112 million, giving the 10.5% margin. Turning to page eight, focusing on the Integrated Solutions business area. Here you will also see a 20-year graph and a new record for this business area with very strong growth and expansion into new market segments. On page nine, you will see the split up of the business area Integrated Solutions. We have what we call Consumer Electronics.

**Christer Wahlquist**

CEO | Nolato

Consumer electronics that consists of different, connected Wi-Fi system, our VHP business, wearables, and mobile phones. The smaller portion of the business area is called EMC and thermal management. It's smaller, but with healthy margins. On page 10, we will dip into the Q4 for Integrated Solutions. We had a remarkable 67% increase in sales adjusted for currency during the quarter. That was built up from strong growth with the VHP volumes, but also strong EMC performance consisting of the 5G rollout that's generating good growth within the telecom business, and also strong relative growth in the automotive due to the electrification and online connection. The sales in the first quarter of 2022 are expected to be in line with the fourth quarter of 2021.

**Christer Wahlquist**

CEO | Nolato

The fourth quarter ended up just shy of SEK 1.5 billion and an operating profit SEK 192 million, creating a margin of 13%. In that margin, we had a subsidy from Chinese authorities that had a positive impact of 0.8 percentage point on the margin. The full year for Integrated Solutions ended up above SEK 5.5 billion and an operating profit of SEK 671 million. Turning to page 11, focusing on Industrial Solutions. Here we had 2021 with a record year. It's been a good development, and we are on a technology and a geographical expansion journey with this business area.

**Christer Wahlquist**

CEO | Nolato

On page 12, we will see the two parts to the Industrial Solutions business area that is consisting of general industry, which is the largest portion of the business area, consisting of forest equipment, white goods, furniture, and other industrial sectors. The other part is automotive, where we serve mostly the Scandinavian automotive market with both the heavy side with the trucks and the cars. On page 13, we do the deep dive in Q4 for Industrial Solutions. During the quarter, we saw a decrease in sales of 3%, and that is based on the supply chain disruptions that are leading to lower volume, especially within automotive.

**Christer Wahlquist**

CEO | Nolato

The lower volumes and our lower production efficiency due to the sluggish volumes created a margin of 6.2%, and then, of course, an operating profit of SEK 38 million and sales of SEK 609 million during the quarter. The full year was a record year, SEK 2.3 billion in sales and SEK 208 million in EBITA, creating a margin of 9% for the year.

**Per-Ola Holmström**

CFO | Nolato

Turning to page 14, Per-Ola Holmström, good afternoon. Some group financial highlights. The net sales in Q4 were SEK 3,146 million, which is an increase of 28% adjusted for currency. The operating profit, EBITA, for the same period ended up with SEK 336 million, giving a margin of 10.7%. The EBITA can be compared to SEK 283 million for the same period last year. The profit after financial income and expense was SEK 318 million, if we exclude a positive non-recurring item of SEK 150 million. That arose from the revaluation of contingent considerations concerning the acquisition of GW Plastics.

**Per-Ola Holmström**

CFO | Nolato

According to how to treat that in the income statement, that is within financial income and expense. The profit after tax, SEK 386 million, and the earnings per share, if we exclude the non-recurring items, was SEK 1 and EUR 1. That is giving a earnings per share of SEK 3.76 for the full year. The tax rate was 17.2%, and if we exclude the non-recurring item, the tax rate was 19.5% for the full year. That is more in line what we expect. Going forward, we expect the tax rate to be between 20% and 21% for 2022.

**Per-Ola Holmström**

CFO | Nolato

Cash flow after investment, as Christer explained, SEK -87 million compared to SEK 211 million last year, the same period. It was affected by the additional working capital need because of higher sales, but mainly higher inventories to prevent any disruptions to deliveries. We had also higher CapEx. It was final stages of paying for capacity increases, mainly within medical. We have talked about those for some quarters now. We had a full year number of SEK 782 million of CapEx. We expect the full year 2022 to be slightly lower than that number. All of that is giving a strong financial position.

**Per-Ola Holmström**

CFO | Nolato

We are having equity assets ratio of 47% and net financial liabilities of SEK 51 million if we exclude pension liabilities and lease liabilities. If we turn to page 15, I'm focusing on the current situation per business area, starting with Medical Solutions. We have a maintained growth strategy within this business area. Lot of focus on innovation built on strong customer relationship, but we see impact of the pandemic within the business area. If we look on the Integrated Solutions, we have established a position in new product areas based on very flexible production structure, and we are benefiting from the 5G rollout and new initiatives in the automotive sector that are positive for our EMC business. On the Industrial Solutions, we have advanced our market positions.

**Per-Ola Holmström**

CFO | Nolato

We see an impact of supply chain disruptions, but we have a lot of emphasis on sustainable solutions. We now open up for questions.

Q&A

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**Operator**

Thank you, if you do have a question for the speakers, please press zero one on your telephone keypad. You'd like to withdraw your question you may do so by pressing zero two to cancel. There will be a brief pause while questions are being registered. Our first question comes from Adrian Gilani with ABG. Please go ahead.

**Adrian Gilani**

Equity Research Analyst | ABG

Hello, this is Adrian Gilani with the ABG. I'd like to start off in the Integrated Solutions segment. In previous quarters, you've talked a bit about sort of a stocking up effect in your biggest VHP customer. If we look ahead at your strong Q1 guidance, can you give us some color on if stocking effects are gonna play a significant part of the expected Q1 growth?

**Christer Wahlquist**

CEO | Nolato

We don't see that stock effects has any major impact on the Q1 numbers we have guided.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Another question, you've also talked about sort of your biggest VHP customer expanding their VHP business geographically as well. Is this something to consider in Q1? Have they entered any new markets, or are there any concrete plans from them on entering new markets?

**Christer Wahlquist**

CEO | Nolato

We don't see that is affecting in any major way. It's more in line with the Q4 rise we guided for the first quarter.

**Adrian Gilani**

Equity Research Analyst | ABG

I guess moving on to the medical segment. You've obviously been held back a bit by elective surgeries. Is there a reason to assume that these headwinds might get a bit worse in Q1 due to the Omicron variant outbreak and hospitals canceling more surgeries in Q1?

**Christer Wahlquist**

CEO | Nolato

I would not expect further slowdown in that sense. I rather get some feelings that the elective surgery are picking up.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Already in Q1, you have seen a pickup in elective surgeries, let's say?

**Christer Wahlquist**

CEO | Nolato

We saw some pickup in the Q4, and we expect that to continue.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Another factor for here, in the medical segment that you mentioned was the labor shortages that you've gotten. Is this also, again, looking ahead at Q1, should we expect more labor shortages as a result of sick leave from Omicron cases? Has that been a factor in causing the?

**Christer Wahlquist**

CEO | Nolato

Yeah, I think that is a situation that is currently going on, and we don't know how long it will continue, but we see that continuing.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Have you sort of been able to fill these positions with temp workers or outside workers, or have there been downtime in production due to this? If so, in which segments specifically?

**Christer Wahlquist**

CEO | Nolato

It's been affecting some deliveries, not on a large scale at all, but some minor effects.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Just a very final question, a bit of a detailed question on Integrated Solutions. You said margins were boosted by a small subsidy that you received. I assume this was a one-time thing, and we shouldn't expect similar subsidies going forward?

**Christer Wahlquist**

CEO | Nolato

It is very hard to say. We have got these kind of subsidies during the years from time to time. We are of course grateful for those, but it's very hard to predict. We do see that as a non-recurring item which happens from time to time. Yeah, that's the way it is. We can only give the information that we have got it and the effects from it because we don't know if that will happen again.

**Adrian Gilani**

Equity Research Analyst | ABG

Okay. Thank you for answering my question.

**Christer Wahlquist**

CEO | Nolato

Thank you.

**Operator**

Our next question comes from Carl Ragnerstam with Nordea. Please go ahead.

**Carl Ragnerstam**

Managing Director and Head of Small Cap Research | Nordea

Hi, it's Carl here from Nordea. A few questions. First, you mentioned that you're still taking extra costs related to the large project ramp up in medical. Could you give us an idea how much it costs you're taking there? Also could you give some flavor on the potential for that project looking a few quarters or maybe even years out?

**Christer Wahlquist**

CEO | Nolato

Yeah. I can start with the effects during the last quarter. We have had similar effects during the Q4 as in the Q3. That was what we expected really when we gave the Q3 report some months ago. It's a similar situation. It is affecting the margin and it is of course higher costs that we have compared to a more normal situation. Of course also in a more normal ramp-up phase, the let's say the margin is in that part not as it will be in a situation when we run the product in high volumes.

**Christer Wahlquist**

CEO | Nolato

We have guided that the costs are higher than a normal ramp up, and that is what we are trying to explain during these two quarters.

**Christer Wahlquist**

CEO | Nolato

Relating to the volume situation, this is a gradual growth that we gonna see for a period of time, and it's part of our overall long-term growth planning. You should not expect anything very spectacular.

**Carl Ragnerstam**

Managing Director and Head of Small Cap Research | Nordea

How long will the higher cost continue for? Is it over in Q4, or will it continue in H1 as well, or?

**Christer Wahlquist**

CEO | Nolato

As I said, we anticipate that to be over as Q4 is ended. Again, that part of the business will not show very high margins of course as we are still in ramp-up phase. We have had some initial situation which we have had higher costs and that is then in a more normal situation in ramp-up phase, if you see what I mean.

**Carl Ragnerstam**

Managing Director and Head of Small Cap Research | Nordea

Okay, perfect. You mentioned that you had some problems with higher sick leave due to Omicron. But on the positive side, I guess that you were fueled by COVID testing historically, right? A few quarters ago. Is that something that could boost your IVD segment in the very short term here owing to the vast testing?

**Christer Wahlquist**

CEO | Nolato

I think the IVD growth is a long-term growth potential. Of course there is maybe a slightly extra need, but the capacity is what it is. I don't think there will be any dramatic movements due to the COVID on the IVD.

**Carl Ragnerstam**

Managing Director and Head of Small Cap Research | Nordea

Okay, perfect. Also, in terms of Industrial Solutions, it's a bit of a bump in the road, I guess. Have you implemented any measures in order to cope with the current volatile situation, or is it fair to expect a more sort of normalized situation in H1, or is it too early to say, or?

**Christer Wahlquist**

CEO | Nolato

I would say it's a little bit too early to say. The sluggish volumes are of course due to our customers having difficulties getting the right components to their assembly lines and then affecting our volumes in the short period of time. There's a lot of rescheduling and those kind of things affecting us.

**Carl Ragnerstam**

Managing Director and Head of Small Cap Research | Nordea

Okay. Perfect. The final one. When reading the report, I get the sense that you are ready to sort of do another acquisition here. Have you increased any ambition overall, or is it? Also secondly on that note, is it too soon to use GW Plastics as a sort of lead generator when it comes to the acquisitions in the U.S.?

**Christer Wahlquist**

CEO | Nolato

I think we have a good plan for the acquisitions going forward, and we are ready and continuing our strong ambition in acquiring companies. I don't think we will use GW as our lead generator. We know which companies we want to buy.

**Carl Ragnerstam**

Managing Director and Head of Small Cap Research | Nordea

Okay, perfect. Thank you.

**Christer Wahlquist**

CEO | Nolato

Thank you.

**Operator**

As a reminder, if you do wish to ask a question, please press zero one on your telephone keypad. Our next question comes from Mikael Laséen with Carnegie. Please go ahead.

**Mikael Laséen**

Equity Analyst | Carnegie

Thanks. Yeah, I was wondering if you could maybe quantify in any way the component and material shortage effect and supply and delivery disruptions you had in Q4?

**Christer Wahlquist**  
CEO | Nolato

It is very hard to say. I would say that the main impact we have is, of course, within Industrial. The volume effect is maybe less, but it's very hard to say what it could have been if those problems wouldn't have been there. We don't have the full, let's say view on that with our customers. What we can see is the problems that we get when it comes to the internal efficiency on our side. That is not a good situation, and that is very much the reason for the low margins we do see in Q4 within Industrial.

**Mikael Laséen**  
Equity Analyst | Carnegie

Mm-hmm. When it comes to medical, you mentioned material shortage. Can you talk about that and that?

**Christer Wahlquist**  
CEO | Nolato

It is again not affecting volumes or sales very much. It is in some way affecting our internal efficiency, not as much as within Industrial, of course, but part of the margin decrease we did see is coming from those effects. It's of course a mixed picture of material shortage, component shortage, labor shortage, and it is affecting our efficiency.

**Mikael Laséen**  
Equity Analyst | Carnegie

Okay. Is it possible to increase the prices, and how much effect was that in the quarter?

**Christer Wahlquist**  
CEO | Nolato

We have increased prices for additional increases of material prices, raw material prices. That is and has been an ongoing action from our side during 2021. It was done during Q4 as well. The increase of the raw material prices were not that high in Q4 as previously during the year. There are effects of the increased raw material prices. Those effects, we have agreements giving us the opportunities to do that quite quickly. Other effects, they are of course harder to compensate for, and that is a more long-term work and not that transparent as the raw material changes.

**Mikael Laséen**  
Equity Analyst | Carnegie

All right. Okay. You also had a data breach in your European side in Q4. Can you say something about the impact from this? Was it sort of managed and you didn't see any impact at all? I guess so.

**Christer Wahlquist**  
CEO | Nolato

The impact we did see was some delays during a week's time in our European operations because our IT environment was standing still. We do assess that we delivered those delayed orders later during the quarter. Volume-wise, we don't see that we lost something during Q4. We did have a lot of internal work, of course, with this, and we did have some additional consultant fees that we paid out during Q4. Those costs were somewhere between SEK 5 million and SEK 10 million during the quarter. It stayed with that number, and I think that was something we communicated quite early in that process. It stayed that way. The impact was not that big during the quarter.

**Mikael Laséen**  
Equity Analyst | Carnegie

Okay. Got it. And yeah, getting back to the material and component situation for 2022, what do you hear from your suppliers right now and from your customers? What is your estimate when this can be more like a bit better?

**Christer Wahlquist**  
CEO | Nolato

I think it's gonna be a continuous challenge on that side. For how long, we don't really know.

**Mikael Laséen**  
Equity Analyst | Carnegie

Oh, yeah, fair enough. Difficult to say, of course. I got a couple of more questions on Integrated, first of all. How large a part of this segment's revenue was generated by the VHP product category in the quarter approximately?

**Christer Wahlquist**  
CEO | Nolato

The quarter was more in line with the recent quarters, and those have been on the level of three quarters of VHP sales for the business area. That has gone up from some quarters ago, when it was on two-thirds to three quarters instead, like it has been during some quarters now.

**Mikael Laséen**  
Equity Analyst | Carnegie

Mm-hmm. Okay. When we are looking at this for 2022 and trying to figure out what is going to happen in the coming quarters, not only Q1, how should we think about this category, the VHP category? Q4 and Q1 and Q3 relevant benchmark quarters for coming quarters, or is it anything unusual here that we should maybe be aware of?

**Christer Wahlquist**  
CEO | Nolato

There are some variations between quarters, but it's more the total supply chain movements. We will see some difference between different quarters. I think from a general perspective, we think this area is an interesting area. It's a growth area, and you should see it more on a year-on-year basis. Of course, on the other side, we have the cost-cutting initiatives going the other way, and we've been communicating that for some quarters.

**Mikael Laséen**  
Equity Analyst | Carnegie

Okay. That is from me. Thanks.

**Operator**

At this time, we have no further questions. I will now hand back to our speakers for a final remark.

**Christer Wahlquist**  
CEO | Nolato

Thank you very much for your interest in Nolato's presentation of the fourth quarter and full year 2021. I wish you all a great day. Thank you.