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Nolato

Q2 2022



Prepared Remarks



Welcome to the Nolato Q2 2022 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 Wallkest, the CEO and Per Ole Holmstrom, the CFO.



Welcome to the presentation of Nolasco's Q2 2022. This is Christoph Rokwe speaking. And beside me, I have Perola Holmstrom. Starting on Page 2, We can conclude that we have had a quarter with increasing sales in Swedish currency amounting to approximately SEK2.9 billion. However, we saw a decrease by 6% if we adjust for currency effects.



The Q2 was affected by external factors such as COVID, supply chain issues and the war in Ukraine. So that together created a profit and EBITA level of SEK264 1,000,000 in comparison to SEK 336,000,000 in the Q2 of 2021. That gives an EBITA margin of 9.1 percentage points, And that margin was then, of course, affected by volumes a lot on the cost inflation side and production efficiency due to Lack of components and supply chain issues. Cash flow during the quarter It ended up at €18,000,000 and it was low because of increased working capital requirements. But Paolo will come back to that a little bit later in the presentation.



Turning to Page 3, Summarizing up the Nonake Group and the 3 different business areas that build the group. The 3 different business areas are creating synergies By using the same technology and the same business models, but in different market segments, giving competitor advantages by cross brutalizing the different markets towards our customers. On Page 4, we start with the business area Medical Solutions. This business area has had been on a growth journey, Building a global solution for leading pharma and medtech companies. And on the graph, you will see the 20 year Sales growth for the company, we have had a long period of strong organic growth and also then combined with some acquisitions during the period.



On Page 5, We have the different product areas that is key for us. The in vitro diagnostic corresponding to approximately 18% of the total. That is a growth market, a long term growth market with very high volumes and Very interesting to be part of. The second one is then cardiology, which is, of course, implants, lifetime implants, Doing things around your heart, that corresponds to approximately 7% of our sales. Pharma packaging is the containers and for liquid and solid drugs.



Continece Care is a large volume area. It corresponds to approximately 12% of our total sales. Endoscopy and general surgery, it's the surgical part of the business That was heavily increased when we acquired GW Plastics in the United States. It's been on a situation with some lower volumes during COVID, but it's now picking up. And the last one that we are highlighting is the drug delivery, Which is then the drug delivery systems for drugs that needs to be injected slowly to your body, Corresponds to approximately 15% of the total sales for Medical Solutions.



Turning to Page 6, Highlighting second quarter for Medical Solutions. During the quarter, we saw a 19% increase in sales. But if we adjust that for currency, it corresponds to 8% increase. During the quarter, we have seen inflation on our cost side, and we have been able To move that on to transfer that to our customers, but of course, creating then growth, Not in volume, but in sales. We have had a situation where we are A little bit behind on those increases affecting our margin.



So the margin ended up at 10%. That was, of course, we saw during the quarter that we had a little bit lower sales on the IBD sector and higher on the Surgical side, affecting the margin. We saw a rising material costs, And it's offset by the increasing price towards our customers, but with some time lag. And of course, some cost impact of the capacity investments made in 2021. So the quarter ended up at Just above SEK 1,200,000,000 in sales and an operating profit of SEK 121,000,000.



If we move to Page 7, starting with Integrated Solutions. In this business area, it used to be a telecom business area. But for a number of years now, we have expanded ourselves new market segment, creating a substantial growth over the last 5, 6 years. If we then look on Page 8, looking at the different parts of the business area. We have 2 large divisions in this business area.



We have the EMC and Thermal business that is shown on the right side of this picture, and we have The consumer electronics part of the business area shown on the left side of the pitch on this picture. So here you see some examples of what we are working on and those kind of things. If we turn to Page 9, Focusing on Q2 for Integrated Solutions, we saw during the quarter a 14% decrease in sales. But if we adjust that for currencies, it was a decrease of 25%. We saw that end customer demand Was negatively affected by the situation in Eastern Europe.



And we also saw that the EMC part of this Business area continuing to perform well and ended up at SEK 170,000,000 in sales. We expect sales in the 3rd quarter to be around 25% lower than the Q2 this year, but You should remember that sales in the Q2 was affected by a late delivery of approximately SEK 100,000,000 That was supposed to be delivered in the Q3, affecting those and making them a little bit more even. The EBITA margin of 10.7% was, of course, affected by the lower volumes. So the quarter ended up just above SEK 1,000,000,000 in sales and an operating profit of SEK 109,000,000. If we turn to Page 10, focusing on Industrial Solutions.



With this business area, we are in the technological and the geographical expansion journey And building footprint in the 3 important continents. If we turn then to Page 11, Focusing on the two parts of the Business Area Industrial Solution, we have one part, a larger portion called general industry, focusing on large industrial customers and supporting them with the design and development and their afterwards production. The second part of the business area is automotive. And here, we focus mainly on the Scandinavian automotive market, Turning to Page 12, Focusing on Q2 for Industrial Solutions. During the quarter, we saw a 17% increase in sales.



Adjusted for currency, it ended up a 10% increase. But the volumes It was in level with last year. So it's the increase is coming from the charging of higher costs and then contributing to the positive growth of the sales. We saw component shortages, mainly in the automotive, affecting our deliveries to our customers. The margin ended up at 5.5 percentages, And that was affected by fluctuating call off order, resulting in the lower production efficiency and also a time lag in charging on the cost increases for our customers.



So the quarter ended up at SEK676,000,000 With an operating profit of SEK 37,000,000.



Good afternoon, Pero Blahornsson, to comment on group financial numbers on Page 13. Net sales increased in the quarter, Thus, currency effects stood for EUR 290,000,000 and charging on higher costs Contributed additionally, sales ended up for the group of SEK 2,900,000,000 compared to SEK 2,000,000,000 The EBITDA margin was adverse with 3.0% compared to Q2 last year 9.1%. The lower margin affected all profit levels negatively. Operating profit EBITDA, excluding a non recurring item last year, was EUR 264,000,000 Compared to SEK 336,000,000 last year. Last year, Q2 had a nonrecurring item of SEK 50,000,000 From a U.



S. Pandemic loan being waived. Cash flow of co investments It was SEK 18,000,000 compared to SEK 346,000,000. The decrease of cash flow is mainly because of higher working capital requirements compared to last year. Like in Q1, depending on generally less use of supplier finance for trade receivables.



For a large customer, we get paid in 10 to 20 days, but pay our suppliers in 90 days. When flat or decreasing sales, We have delayed effect of negative impact of working capital. Net investments affecting cash flow Full year CapEx last year 2021 was SEK 782,000,000. We have decided to acquire real estate within Medical in Sweden to secure future expansion of the Medical business. The purchase price is SEK150 1,000,000.



Payment is depending on some formalities, That's expected around the end of the year. Depending on the date, we expect CapEx to be between SEK 600,000,000 to SEK 750,000,000 for the full year 2022. Net financial liabilities were SEK 640,000,000. We have a sustained strong financial position with interest bearing liabilities of only 0.7 times of our run rate of EBITDA results.



Turning to Page 14, focusing on the current situation per business area. On the Medical Solutions, we have a maintained growth strategy, a lot of focus on innovation Based on our strong customer relationships, but the business is impacted by the pandemic. Integrated Solutions, We have established position in new product areas. We have based this on our flexible production structure. We also see the 5 year rollout and new initiatives for the automotive sector that are positive for our E and C business.



The business area at large are impacted by the geopolitical situation. On Industrial Solutions, We have advanced our market positions but are impacted by supply chain disruptions, And we are emphasizing sustainable solutions. Thank you. We are now opening up



for questions.

Q&A



Thank you. Our first question comes from the line of Adrian Ghilani of ABG.



Guidance for Q3. And basically, do you expect to be able to maintain similar margins as Q2 despite the 25%



We do think that should have a Slightly negative impact of the margins being such a high Decrease compared to this quarter, but not very much.



Okay. And also I see no mention of component shortages in VHP, but rather all focus seems to be on Sales in Eastern Europe, should we take this to mean that the bottleneck is now not on the supply side at all, but rather that Demand is entirely the issue?



Yes, that is correct.



Okay. And also in Medical Solutions, you mentioned several reasons for the year over year margin decline. You mentioned capacity utilization lag effect on moving on costs and also the sales Thanks. Are you able to sort of quantify how much these affected the margin and which one was the major reason for the margin decline?



Those 3 is the combination, and We do see that they are standing for quite similar effects On the margin, maybe the CapEx utilization effect It is less than the other 2.



Okay. And also, we've seen 2 quarters in a row, right, Where we where you have mentioned weaker IBD sales, is it reasonable to assume that we should start seeing more positives or



The end market for IVD is picking up. And of course, Then there is a long tail of different supplies in between. But of course, it's More question of time and than anything else, but we don't have an exact date because these Stock levels are in different parts of the supply chain.



Okay. And And also just sort of a general question on cost inflation. We saw the inflation rate continue to accelerate during Q2. So where are you sort of now in terms of Further price increases towards customers, would you say that you're keeping up with the inflation rate? Or should we expect continued lag effects in Q3 as well?



That would depend on if the prices continue to rise during the quarter, then we will continue to have the lag effect. So we will catch up when we sort of that increase is evening out to a more constant level. And then, of course, if it goes down in any areas, then we will gain on the going down with the same kind of lag effect.



Okay. But it does take you roughly 1 quarter to catch up if costs stay roughly the same. Is that reasonable?



I would not say it depends on when the growth is decreasing on the inflation side. And the total, I will not say that we are a quarter behind in our price increases, but it's been constantly Increasing for a long period of time.



Okay. And final question from my side. I'll Try my luck with this one. Is there any news or any update you can give us in regards to the dual sourcing in VHP?



We have noted in the report today that we do see One effect of dual sourcing in Q3 and the second half of To 2022. So that is a conclusion I think you Yes, are looking for



Okay. In that case, thanks for answering my questions.



Our next question comes from the line of Karl Ragnostan of Nordea. Please go ahead.



It's Karl here from Nordea. A follow-up a bit here on the dual sourcing. Is it possible to quantify, I mean, adding back the SEK 100,000,000 in large order, it's down 11% sequentially, I guess, In Q3, is it possible to give the dynamics behind it? How much would you say is Dual sourcing. And then also, would it be sort of worth going into Q4?



Or have we seen the full effect of the dual sourcing Already in Q3, would you say?



We do estimate that volumes and sales have reached or will reach The lowest level at the level we indicate for Q3, even including dual sourcing effects. So it's sort of flattening out as we estimate right now.



Okay. So you don't expect it to get worse in Q3. What you know today at least, yes? No. Okay.



That's super helpful. And could you also update us on your chances of winning new contracts with BAT? I guess, I think you said previously that it could be announced after the summer. Or is it someone else who won that contract? Or is it



We have ongoing discussions with our customer in this segment part of the business area. And we will we are not judging that they will affect the volumes during 2022.



Okay. But potentially in 2023 instead of that if you ramp up it. Okay. Very good. And also, the margin in Industrial Solutions is I mean, the 5.5% is not far away from the worst COVID level.



I mean, have you implemented an action plan there to sort of bring up the margins again? Or do you expect it to sort of normalize now that we see or hear at least that the automotive players that the production pace is starting to be more stable?



I think the margin the low margin is, of course, twofold. 1 is being A little bit behind on or the time effect of increasing prices. And you saw in and you heard in our presentation that It's substantial effect of that. And that other part is, of course, the sluggish volumes from our customer due into supply chain issues. So I think as soon as those 2 sort of external factors, so to say, are away, then we will get back To a more normal level of our profit.



And you don't see that so far?

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We see still see some volatility on our customers' demand, and we have Not seen sort of leveling out on the total picture for the cost increases.



Okay, very good. Thank you.



Thank



And there are no further questions at this time. Please go ahead, speakers.



Thank you very much for your interest in Lulatto and the presentation of our Q2. I hope you all get a very nice summer, And we'll see you later on again. Thank you very much.

