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**Nolato**

Q4 2023



## Speakers



**Adrian Gilani**  
Equity Analyst | ABG



**Christer Wahlquist**  
CEO | Nolato



**Joachim Gunell**  
Equity Research Analyst | DNB



**Karri Rinta**  
Equity Research Analyst | SHB



**Moderator**



**Per-Ola Holmström**  
CFO | Nolato

## Prepared Remarks

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**Moderator**

Hello, and welcome to today's webcast presentation, where we have Nolato presenting. Today, we have the CEO, Christer Wahlquist, and CFO, Per-Ola Holmström, presenting. If you have any questions, you can use the form that is located to the right, or if you're calling in, please press star nine to raise your hand. With that said, please go ahead with your presentation.

**Christer Wahlquist**

CEO | Nolato

Yes. Welcome to the presentation on Nolato's fourth quarter report of 2023. This is Christer Wahlquist speaking, and right now I'm turning to page two in the presentation, starting with the summary of the fourth quarter for the group. Our sales totaled to a little bit more than SEK 2.2 billion in the quarter. That was a 6% decrease if we adjusted for currency and acquisition. We saw strong growth for the Industrial Solutions, but lower volumes affecting the other two business areas. Our operating profit increased to SEK 177 million, in comparison to SEK 163 for the fourth quarter of 2022. That is creating an EBITA margin of 7.9%, compared to 6.9%.

**Christer Wahlquist**

CEO | Nolato

We saw the increased margins for medical and Industrial Solutions had a positive impact through improved efficiency across the board. The cash flow during the quarter rose to SEK 80 million in comparison, very low number for the corresponding quarter in 2022. Turning to page three in the presentation deck, focusing on the full year of 2023. The total sales for the year ended up approximately SEK 9.5 billion and a margin of 8% if we exclude the non-recurring items. The earnings were just above SEK 2 per share, if we exclude the non-recurring again. We have still a very strong financial position with the net financial liabilities of just below SEK 900 million, creating an equity ratio of 56%.

**Christer Wahlquist**

CEO | Nolato

That enable us to continue to expand with our customers and also for acquisition. The Board of directors dividend proposal is 1.5 SEK per share, and our policy is that we should have more than 50% of net profit as a dividend, and at this ratio, the payout is 74%. Turning to page 4 in the presentation deck, showing the three different business area. So Medical Solutions is the largest, corresponding to close to 60% of the net sales of the company. It's SEK 1.3 billion in sales. Then we have our Integrated Solutions, which are in a phase where we are restarting and creating new businesses after the VHP business. So it corresponds to approximately 10% of the group sales.

**Christer Wahlquist**

CEO | Nolato

Then we have our Industrial Solutions business area, corresponding to approximately one third of the group sales. If we then go into the Medical Solutions business area on page 5, we can see on this graph our continuous growth of the business and building a global supplier and partner to our customers, continuous growth over the last 20 years. If we then turn to page 6, looking into the Focused Products area within the Medical Solutions business area, we have our In Vitro Diagnostic, which has been stabilized after COVID, and we see good growth potential long term for this business area. This is corresponding to approximately 13% of the Medical Solutions sales.

**Christer Wahlquist**

CEO | Nolato

The next one is Cardiology. It's a high-end market with the consisting of a lot of lifetime implants and bodily implant products, corresponding to approximately 8% of the business area sales. Pharma Packaging, stable volume market, approximately 13% of our net sales. Continence Care, 12% of group, of business area sales. It's a very high volume market with large volumes and more advanced products coming. The Surgical business, corresponding to 21%, has been a sort of volatile business after the pandemic, with the closing of the hospitals and restarting and the supply chain differences and movements over the last quarters. But going forward, looking into more advanced products with this business going into more and more robotic surgical business. Then we have the Drug Delivery focus area.

**Christer Wahlquist**

CEO | Nolato

That is, delivery systems for drugs with large molecules that cannot be taken as oral drugs, corresponding to approximately 15% of the business area sales. Turning to fourth quarter of Medical Solutions on page seven. During the quarter, we saw a 2% decrease of sales if we adjust for currency. That is coming from lower Surgical volumes due to the volatility after the pandemic, as I explained previously. The IVD volumes are in line with previous years and stabilizing after the pandemic a little bit. We saw solid demand in other areas, but some impact of inventory adjustments before year-end. The margin ended up just below 10% at 9.9%, and it's due to a change in sales mix and a lower proportion from Surgical, as well as the efficiency improvements.

**Christer Wahlquist**

CEO | Nolato

So the sales ended up at SEK 1.3 billion, with an operating profit, EBITA, of SEK 129 million in the quarter. If we then turn to page 8, focusing on our Integrated Solutions business area. There you go. In this area, we have had, as you know, a strong impact of the VHP sales over the last years, and now it's coming down, as expected, and now we are focusing on expanding into new market segments. If we turn to page 9, then, looking at these different areas. So we are now focusing our business on building a well-balanced mix of products in different segments, after the dramatic movements of the VHP business.

**Christer Wahlquist**

CEO | Nolato

In this business area, we also have our EMC and thermal business, which is then consisting of a shielding solution and thermal management, different products for electronics industry. On page 10, we are then jumping into the Integrated Solutions business area for fourth quarter. During this quarter, we saw a decrease of 41% of the sales. We saw low volumes and change in sourcing strategy from the previous significant customer within the VHP area, had a negative impact as well as lower demand in general within the consumer electronics business. The EMC sales in the quarter totaled SEK 159 million, in comparison to SEK 165 million, and in this part of the business, the automotive areas increased significantly, while telecom had lower volumes in the total market. The margin was a little bit negative.

**Christer Wahlquist**

CEO | Nolato

We had a operating profit of -SEK 1 million, and that is, of course, cost adjustments in the Chinese business is going according to plan, but the lower volumes in both consumer electronics and the EMC are offsetting the positive impact on the profit. Jumping into Industrial Solutions business area, we can see a good growth over the last years in this business area, and here we are on a more technology and geographical expansion journey, creating a strong global footprint. If we then turn to page 12, looking at the different focus products area within Industrial, we are working with domestic appliances, hygiene, furniture, automotive, garden forestry, and packaging. Those are the main areas that we are focusing on our Industrial sector.

**Christer Wahlquist**

CEO | Nolato

The fourth quarter for Industrial Solutions was a 7% increase of sales if we adjust for the currency. We saw a continuous strong demand within the automotive, as well as increased volumes within our hygiene. We, on the other hand, saw demands for Consumer Discretionary sector slightly lower due to the weak economy. The margin of this business area increased to 7.4% in comparison to 2.8%, and that is due to the fact that we have less disruption in the supply chain, especially within the automotive. That meant a more efficient production, and of course, the higher volumes have a positive impact on the margins.

**Per-Ola Holmström**

CFO | Nolato

Good afternoon. Per-Ola Holmström, commenting on group financial highlights on page 14. Net sales decreased by 6%, adjusted for currency to SEK 2,252 million. We did see an improvement for operating profit to 177 compared to 163. The group EBITA margin increased with one percentage unit to 7.9%. The effective tax rate, excluding non-recurring items, was 19.4%. The tax rate for 2024 is expected to be between 22% and 23%. Cash flow after investments improved to SEK 80 million compared to -SEK 188 million. Last year had negative effects in working capital because of changes in supplier finance programs. Net investments totaled SEK 425 million for the full year.

**Per-Ola Holmström**

CFO | Nolato

We expect an increase, 2024 to around SEK 500 million, plus SEK 140 million for acquiring one production facility in Sweden, which will happen in the first quarter. So totally around SEK 640 million. The equity asset ratio was 56%, and net financial liabilities amounted to SEK 895 million. Turning to page 15, we have decided to change the group structure and with focus on building a global full service provider. So this will - this actually means that we are joining the Industrial and Integrated Solutions business area and merging those into an Engineered Solutions business area. By that, we are creating a true global footprint with extended offering. We are also merging the TDC, the medical TDC, with the electronic state-of-the-art offering that we have within the Integrated Solutions.

**Per-Ola Holmström**

CFO | Nolato

So this is something that we feel is really benefiting and creating the competitive advantage of the total group, both for the Medical Solutions area and for the Engineered Solutions. Turning to the page 16 on the current situation per business area. For Medical Solutions, we have a maintained growth strategy, a lot of focus on margin, cost adjustment, and price strategy, and efficiency. Of course, innovation and sustainability based on a broad customer base with long-standing close customer relations. On Engineered Solutions, we have advanced our market position. We have established positions in new product areas, a lot of focus on innovation and sustainable solutions. We also have seen good success in the automotive area that is positive for EMC, but we also have lower volumes within the telecom area. We see a continued lower demand in consumer electronics and Consumer Discretionary sector. We will now open up for questions.

## Q&amp;A

**Moderator**

Thank you very much for that presentation, and like you said, now we'll open up for questions. So either you can use the form that is located to the right, or if you're calling in, you can press star nine to raise your hand, and you'll get the word. We got the first person calling in. Please go ahead. You have the word.

**Karri Rinta**

Equity Research Analyst | SHB

Hello, can you hear me?

**Christer Wahlquist**

CEO | Nolato

Yes.

**Karri Rinta**

Equity Research Analyst | SHB

Yes. Hello, it's Karri Rinta from SHB. If we start off with medical, you state that IVD is still quite weak, and now also we inventory adjustment in surgical. So I was wondering here, going into 2024, I've seen any of these ones pick up here early in Q1, or should they stay continued negative organic growth for medical in the first half of 2024?

**Christer Wahlquist**

CEO | Nolato

We are seeing, of course, volatility in supply chain for surgical, so that could, of course, affect both up and down in individual quarters before that stabilizing. On the IVD, we see long-term growth potential, and we feel that it has been sort of on the low point and starts to continue slow journey upwards.

**Karri Rinta**

Equity Research Analyst | SHB

Okay, that's clear. And then on the medical margins, they're holding up relatively well there, despite negative organic growth in the quarter. Is there something in the mix, I guess, with lower surgical that's positive, but is there anything else, impacting the margin positive there, or is it efficiency work?

**Christer Wahlquist**

CEO | Nolato

It's of course, the mix with the Surgical that you mentioned yourself, but it's also efficiency measures that we see, are sort of gaining ground.

**Karri Rinta**

Equity Research Analyst | SHB

Okay, good. And then on Integrated Solutions, we're seeing quite low levels in VHP now, I guess. So is this kind of a new level we should think regarding going forward here, like SEK 250 million? Is that something to look at before maybe EMC picks up its pace again?

**Christer Wahlquist**

CEO | Nolato

As you said, this quarter had very low volumes, and before we will see changes within the telecom sector, within EMC, we don't see any big improvements in that area. It will stay at low levels until telecom picks up.

**Karri Rinta**

Equity Research Analyst | SHB

Okay. On the savings from the restructurings made in China here in Q3, was all of these savings visible already here in Q4, or is it more to come in coming quarters, or could you provide any color on that? That'd be helpful?

**Christer Wahlquist**

CEO | Nolato

It's following the plan we had, and, let's say, half of those measures have been taken so far, and there will still be more effects coming during the first half of next year.



**Karri Rinta**  
Equity Research Analyst | SHB

Okay, that's clear. That's all for me. Thank you.



**Christer Wahlquist**  
CEO | Nolato

Thank you.



**Moderator**

Okay, and we'll move on with another question here coming in from the audience that's directed to you, Christer. Are you satisfied with the last year? And if not, what will you and the board do for a better 2024?



**Christer Wahlquist**  
CEO | Nolato

Well, I'm not pleased with our numbers for 2023. And we have done a lot of good work, but we have not seen the effect of that. And our long-term target is, of course, to come back to group level targets of 10%. That's what we're aiming for. Of course, we are restructuring our Asian footprint, and that is a measurement to create a stronger long-term offering to the market. So that is both cost out, but also sort of getting a good place for that. We are doing a lot on the improvements of the margins on the business go, especially in North America. So that is something that we are doing.



**Moderator**

Okay. Thank you, and we'll take the next question from the audience calling in. Please go ahead. You have the word. Okay, we'll move on instead. We'll take the next question here that's coming in in writing. Why will the market for VHP products in Integrated Solutions never return? It was a good way to quit smoking cigarettes. Good luck in 2024.



**Christer Wahlquist**  
CEO | Nolato

Yes, the VHP situation for Nolato was that we entered into this with anticipation of it being a decent size for the business area, but it took off and got too big for us. So we had discussions with the customer in order to find a solution. We do sourcing in order to have a good balance within the business area with the different target areas, and it turned out to be too good, too strong growth. And then we found a way to sort of get it down to a decent level, and we, our ambition is not to have that sales over 5%.



**Moderator**

Okay, thank you. And could you please comment on the potential for future GLP-1 deliveries to your current customer, Novo Nordisk, or other players in this area?



**Christer Wahlquist**  
CEO | Nolato

Well, you know that we are in a position where we are working with the big pharma companies, and of course, we are looking into all kinds of interesting markets and solutions. So that is, of course, something that we are looking for.



**Moderator**

Thank you. We'll take the next question here. Can you elaborate on the surgical side? Is the weakness related to inventory destocking among existing customers or lost market share?



**Christer Wahlquist**  
CEO | Nolato

It's inventory adjustments and volatility in the supply chain, and it's not due to any loss of market share.



**Moderator**

Okay, thank you. And we'll take one final question here. With the merger of Integrated Solutions and Industrial Solutions into Engineered Solutions, what synergies and efficiencies are expected to be realized, and how will this restructure impact your competitive positioning and profitability?

**Christer Wahlquist**  
CEO | Nolato

Yes, on the cost side, it's no direct things. It's more the offering and the possibility to take the right business opportunities and create them into good work on a global scale. With the combined offering of the Industrial Solutions and Integrated Solutions, we have a true global footprint, and we have also technology skills and very good offering skills on the technology side that we can offer globally.

**Moderator**

Okay, we got one person calling in, so please go ahead. You have the word. Okay, it seems that he doesn't get the word or can connect it. So if you have any questions, you can press star nine to raise your hand, or if not, we'll wrap up. We got one person here asking for a question. Please, please go ahead. You have the word.

**Karri Rinta**  
Equity Research Analyst | SHB

Hi, it's Karri Rinta from SHB here again. Can you hear me?

**Christer Wahlquist**  
CEO | Nolato

Yes.

**Karri Rinta**  
Equity Research Analyst | SHB

Yes. Just one question on medical again, because you have invested quite a lot in expanding capacity here in recent years, and I'm just wondering now, when growth is a bit lower, is there any risks that the margins will be negatively impacted by overabsorption, so to say, in the business, as you see it?

**Christer Wahlquist**  
CEO | Nolato

No. We have had one quarter with decreasing sales, and our long-term plan is still valid, and we are not expecting that.

**Karri Rinta**  
Equity Research Analyst | SHB

Okay, understood. Just on the margin side, going forward in medical, do you see yourself, you know, reaching +10% margin here in the coming quarters, or will that be dependent on the volume development, or how, how should we see it?

**Per-Ola Holmström**  
CFO | Nolato

It's, of course, always, depending on volumes and different segments. But, our aim is to, further improve the margins, especially within, medical. And, we are taking, small steps in the right direction, so far at the end of, this year, at the end of 2023. And, we have taken many actions to further improve the margins going forward. And, we will, follow that closely going forward into, 2024.

**Karri Rinta**  
Equity Research Analyst | SHB

Cool. Good luck, then.

**Per-Ola Holmström**  
CFO | Nolato

Thank you.

**Moderator**

We got another person calling in, so please go ahead. You have the word.

**Joachim Gunell**  
Equity Research Analyst | DNB

Hello, this is Joachim Gunell from DNB. One question from me is that I understand you'll continue to work with price increases, but could you give any color about the magnitude of your price increases that have been done and what you expect into 2024? And is it possible to say how much time there is left on the price, cost line?

**Per-Ola Holmström**

CFO | Nolato

We have made progress since the inflationary effects came in. And that has been a long-term action that we have been doing. But we have also initiated further price increases to really have the opportunity to increase margins again, and especially directed to the US operations. And there will be further steps in further increases going forward, and we have not seen the last of it during 2023. And we expect further positive effects coming in during 2024.

**Joachim Gunell**

Equity Research Analyst | DNB

Okay, thank you. And, are you able to disclose what kind of magnitude this would represent? I mean, are we talking 2%, 5, 10? Any color would be great. Would be grateful for it.

**Per-Ola Holmström**

CFO | Nolato

It's hard to say. I mean, we have targets. We are working with those, and it's a step-by-step action that is going on. But we see definitely further opportunities to improve going forward.

**Joachim Gunell**

Equity Research Analyst | DNB

Okay, understood. Thank you. Those were all my questions, so good luck with Q1.

**Per-Ola Holmström**

CFO | Nolato

Thank you.

**Moderator**

We got another question coming in, in writing from the audience here. You have invested quite a lot in medical to continue your, your growth journey. Could lower growth in the beginning of 2024, or for the fiscal year 2024, impact margins negatively by overabsorption?

**Per-Ola Holmström**

CFO | Nolato

If we look on our plans and what we see, we are not expecting that.

**Moderator**

Okay, thank you. We got another person calling in here. Please go ahead. You have the word.

**Adrian Gilani**

Equity Analyst | ABG

Hello, can you hear me?

**Per-Ola Holmström**

CFO | Nolato

Yes.

**Adrian Gilani**

Equity Analyst | ABG

Oh, perfect. It didn't work before for me. It's Adrian here at ABG. Just a couple questions. First of all, you mentioned the inventory adjustments on the surgery side in medical. Can you give us some sort of outlook for whether or sort of when that will improve or sort of those inventories will be digested by your customers?

**Per-Ola Holmström**

CFO | Nolato

Yes. We have seen, after the pandemic, movements of supply chain in the whole surgical business with sometimes decreasing stock levels and then increasing stock levels. So it's more a volatility thing that hits individual quarters. It's stabilizing, but it will continue to have some volatility.



**Adrian Gilani**  
Equity Analyst | ABG

Okay, I understand. And then on integrated, I mean, first of all, with the lower volumes in VHP, but also some more cost savings coming in in the first half of 2024, do you have any sort of timeline as to when you expect the VHP business can be profitable once again?



**Per-Ola Holmström**  
CFO | Nolato

We have, of course, targets for all customers or and all segments to be profitable. And we have been in a situation where volumes have dramatically gone down. And, of course, we have taken action measures to handle that very big volume drop. But it will take some further time until that is reached. But definitely that is our target during 2024.



**Adrian Gilani**  
Equity Analyst | ABG

Okay, I understand. And a final one from me on the EMC side. You've previously said that they are significantly above group-level margins, although without giving an exact figure. I guess, can you just explain sort of how much, how we should think about operating leverage in that subsegment as volumes are coming down a bit? Are margins holding up, or are they coming down as well here?



**Per-Ola Holmström**  
CFO | Nolato

They did come down in this quarter, in the fourth quarter, of course, affected by a bit totally lower volumes. That is a business which, of course, have some impact from volumes. So that was the case during the fourth quarter.



**Adrian Gilani**  
Equity Analyst | ABG

Okay, I understand that. In that case, that's all for me. Thanks for taking my questions.



**Per-Ola Holmström**  
CFO | Nolato

Thank you.



**Moderator**

Take the next question here: Do you expect Integrated Solutions on a standalone basis to be profit-making in Q1?



**Per-Ola Holmström**  
CFO | Nolato

No, we don't see that to be possible during the first quarter, if volumes wouldn't increase dramatically for EMC.



**Moderator**

Okay, thank you. We'll take the next question here. How is the demand in Industrial outside of the automotive area? Can you split up the growth in Q4?



**Per-Ola Holmström**  
CFO | Nolato

Sorry, can you take that again? The automotive growth for which part?



**Moderator**

Yes, I'll just reread the question here. How is the demand in the Industrial outside of the automotive area? Can you split up the growth in Q4?



**Per-Ola Holmström**  
CFO | Nolato

Most part of the growth came from the automotive area within Industrial. As we commented in the report as well, we did see good growth in our hygiene sector. Apart from those, it was more stable levels, except for discretionary goods, which is a bit pressed because of the economical situation we have right now.



**Moderator**

Okay, thank you. When can Integrated be profitable again?



**Per-Ola Holmström**

CFO | Nolato

As we said, we have definitely that target during 2024. We don't expect that to happen in Q1, but going forward, that is what we're aiming at. That's a combination of actions taken on the cost side and then hopefully, a better volume situation for EMC in the end of 2024.



**Moderator**

Okay, that was all of the questions that we had. So thank you very much for presenting today and answering all of the questions. And also thank you to everyone who followed along for Nolato's webcast today. And I hope you have a great rest of the day, and until next time. Thank you very much.



**Per-Ola Holmström**

CFO | Nolato

Thank you all for being participating in our presentation. Thank you!