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Momentum Group AB (MMGR.B.SE)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Welcome to the presentation of Momentum Group's Q1 Report for 2025. I'm here with my colleague, Niklas Enmark, Vice President and CFO, and we will guide you through our report.

Our overall performance remained stable in a challenging market with subdued demand. Despite the prevailing tariffs and trade turmoil, we have experienced no direct impact on our operations. We have seen improved earnings and continued strong cash flow driven by significant contribution from our recent acquisitions. Our acquisition pace remains high and we are confident in our healthy financial flexibility moving forward.

Despite global uncertainties and cautious markets, we delivered a stable first quarter with improved earnings and strong cash flow. Acquired companies boosted revenue and our decentralized structure positioned as well for changes and opportunities. Recent months have brought tensed trade relations, geopolitical challenges, and tariff uncertainties, which have further affected the cautious market. Although announced tariffs have not directly impacted us, indirectly, effects may arise if customers become more cautious with major investment or decision-making processes become prolonged. The Nordic region's business climate remained stable during the quarter. While some customers focus on cost and cautiousness, demand has yet to be clearly impacted by recent tariff turbulence. The weaker demand from the automotive industry stabilized at normal levels, while Finland's industrial demand remained sluggish due to strikes. Denmark's market performed well in pharmaceuticals and green technology.

Purchasing prices and cost increased moderately. Our company showed strong delivery capacity, completing the relocation of Momentum industrial center warehouse without affecting deliveries. The global environment remains challenging, dominated by certain international security, subdued industrial activity and currency volatility.

related to ongoing tariff discussions. However, with limited exports outside Europe and minimal imports, the group is mainly affected indirectly by customer behavior.

Given this context, customers are expected to continue acting cautiously. The group's decentralized structure with decision made close to the customers and supplier, has proven effective in adapting to market conditions. Despite these challenges, we increase revenue by 11% year-on-year, primarily due to acquired operations and EBITA improved by 1%.

In power transmission, sales experienced a slight increase and the EBITA margins improved. This improvement was mainly due to stable cross – gross margins, favorable operation cost control, and somewhat lower logistic costs following the relocation of Momentum Industrial Center warehouse. The relocation was completed during the quarter without affecting business operation and resulting expenses affecting comparable comparability of totaling SEK 3 million during the quarter and in total SEK 8 million including the fourth quarter of 2024.

In specialist, sales for comparable units declined primarily due to major system sales in the previous year's period that influenced the compared – comparative figures, especially for parts of the Swedish operations.

Sales in Denmark increased, driven by the demand from the pharmaceutical sector and investments in green technology. Acquired operation contributed revenue of SEK 4 million during the quarter. Revenue for comparable units measured in local currency and adjusted for the number of trading days decreased by 2% compared to the previous year. But our EBITA increased by 7%, corresponding to an EBITA margin of 14.4%.

The business area profitability measured as a return on working capital amounted to 69%, the same as last year.

In Flow Technology, sales of comparable units increased during the quarter, driven by favorable product sales. However, the proportion of product and service sales was somewhat lower, primarily due to seasonal variations that affect the beginning of the quarter and negatively impacted EBITA margin.

Acquired businesses contributed with SEK 34 million in revenue during the quarter, with positive influencing their earnings as well. Technical Solutions experienced a decline in sales and lower earnings for comparable units during the quarter. Capacity utilization in several workshops was adversely affected by increased restraint and caution among customers.

Nonetheless, the measurement technology business exhibited stronger performance with help in marketing activities. Acquired operations contributed by SEK 40 million in revenue and during the quarter accompanied by healthy EBITA margins. Revenue rose by 36% compared to the same quarter last year, and the revenue for comparable units measured in local currency and adjusted for the number of trading days, increased by 3%.

EBITA decreased by 4% corresponding to an EBITA margin of 7.6%. The business area profitability measured as the return of working capital amounted to 57% compared to 55% last year. We acquired four companies during the quarter, adding combined annual revenue at approximately SEK 140 million. The acquisition of Hörlings Ventilteknik strengthened our service offering and geographic presence in Northern Sweden. While the acquisition of Heinolan in Finland improves our position in hydraulics and allows us to offer even better service to our industrial customers in Finland.

With the acquisition of Sulmu, we broaden our offering in industrial maintenance for the plastic industry. While the acquisition of Avoma adds advanced expertise in industrial service of rotating equipment, turbines and welding technology areas that are important for continued growth. Two of the acquisitions were made by subsidiaries in the group and demonstrate the strength of our model, with good own profitability also comes the opportunity to broaden your operations via the acquisitions.

After the end of the quarter, we also acquired our first subsidiary in Norway, Håland Instrumentering. The company's cutting edge expertise in valves and instrumentation will strengthen our position in the energy and processing industry.

Now, I will hand over to Niklas, who will guide you through the financial overview.

Niklas Enmark

Vice President & Chief Financial Officer, Momentum Group AB

Thank you. My name is Niklas Enmark. I'm CFO with Momentum Group, and I will do a financial overview going through the earnings and profitability performance in this first quarter of the new year. EBITA in the first quarter increased somewhat to SEK 76 million compared to last year. The EBITA margin reached 10.3% compared to 11.3% a year ago. During the period, we maintained overall stable gross margins for comparable companies in the group. But due to the lower level of sales for comparable companies, our cost of sales increased and had a negative effect on our EBITA margin.

Per business area, the industry business area increased both EBITA and margins, whereas the business area infrastructure saw the opposite. This in turn was affected by that the share of project and service sales was somewhat lower, primarily as a result of seasonal variations and also a lower level of capacity utilization in our workshops due to more cautious customers. Positive to note is that the acquisitions had a positive contribution to EBITA in the infrastructure business area.

Operating profit decreased to SEK 61 million SEK compares – corresponding to an operating margin of 8.3% compared to 9.8% of 8.3% compared to 9.8% year ago. The decrease is partly explained by items impacting comparability of SEK 3 million that relates to relocation costs and Momentum Industrial center warehouse. All in all, SEK million has been charged for relocation that is now completed, and we are already starting to see the positive effects on logistic s cost and the flexibility. Also, our depreciation and amortization increased with some SEK 5 million compared to the previous year, related to acquisitions and the acquired businesses.

Profit after financial items totaled SEK 56 million compared to SEK 55 million a year ago and was positively impacted by lower financial expense system last year in turn then impacted by positive contribution – positive currency effects and lower interest rates. Earnings per share was unchanged at SEK 0.85 per share for the quarter.

During the quarter, our strong focus on cash flow and working capital management showed good results where our cash flow from operating activities increased to SEK 92 million compared to SEK 61 million a year ago, including a decrease in working capital of SEK 23 million during the quarter.

Our return on working capital stood at 58%, which is well above the financial target of at least 45%. A return on equity was 26%. Cash flow from investing activities for the reporting period amounted to SEK 137 million. This cash flow includes acquisitions of SEK 121 million, including settlements and net investments in non-current assets of SEK 6 million. The level of net investments was unusually high and was attributed to that number of investments coincided during the quarter.

Our financial position continues to be strong, and the group's operational The group's operational net loan liability amounted to SEK 314 million, compared to SEK 252 million at the beginning of the period. Our net debt-to-EBITDA ratio was around 1.0 at the end of the period. Total cash and cash equivalents, including unutilized approved credit facilities, amounted to some SEK 787 million at the end of the quarter.

And finally, some comments on our rolling 12-month numbers. For the rolling 12-month period until the last of March 2025, our revenue is now a bit shy of SEK 3 billion. The level is more or less exactly twice the revenue we started with when we were listed in 2022, and an increase by 20% from a year ago. At the same time, our EBITA has increased from SEK 171 million to SEK 323 million, which means that we have surpassed our financial target of at least 15% of our annual growth. Our EBITA rolling 12 months is now also 15% higher than a year ago.

And now, I will hand back to Ulf who will comment on our way forward.

Ulf Christian Lilius

President & Chief Executive Officer, Momentum Group AB

Thank you, Niklas. And I will give you some input about the development over time. All in all, our company is navigating the changing market situation well with a continuing high delivery capacity and adapt the cost levels in some operations. Our companies work closely with the customers to be able to adapt quickly to changes in demand patterns and are restrictive when it comes to costs. Our stated ambition is to grow with financial stability, focus on leverage ratio and acquisition-related costs in order to create good growth in earnings per share for our shareholders over time. Our strong financial position enables continued acquisition expansion and organizational structure of capital combined with stable companies and efficient cash flow generation, and a clear capital allocation strategy gives us excellent condition to maintain a good acquisition rate in 2025.

The prevailing global and economic situation is difficult to assess and there is considerable uncertainty regard regarding tariffs, inflation, currencies, interest rates, and future economy trends. Nevertheless, I'm optimistic about the future. The market situation also presents opportunities for operations, and we are confident in our decentralized organization's ability to rapidly adapt its offering and costs.

Our broad exposure to industry and primarily to aftermarket customers provide stability and favorable growth opportunities. Should an economic slowdown hit us hard in the future, we are well prepared. We have a customized action plans in place for each company.

Momentum Group is an active owner that focuses on developing and acquiring companies within the product and service verticals where we have knowledge, competence and experience. We have a clear growth strategy with ambition to grow through both acquisition and development of existing businesses.

Our strategic aim is to offer sustainable products and services that help the customer in their everyday operation. Sustainable for us is to offer quality products with long life – long lifetime, low energy consumption or value added services, combining our product offering with service maintenance, repairs, and a replacement of products, as well as training a specialist expertise in order to be sustainable in the circular economy.

Our three fundamental requirements for long-term profitable growth are earnings growth, profitability and development. Our earnings growth target is to have an EBITA growth of at least 15%. And to do so, we of course have to increase our sales. If we can grow 15% five years in a row, we will double our earnings.

So the aim is to have an EBITA of SEK 340 million at the end of fiscal year 2026. In order to do so, we have to finance the expansion. We therefore have – have our super efficiency target of EBITA through working capital to be larger than 45%. This is a simplified measure of cash flow and the aim is to pay dividend one-third. We also have to pay tax, which is around one-third, and then we have one-third left to invest to grow and develop our business.

And for us, there are two ways to develop a business, to develop the offer, as well as a business idea and associated offer that support the business idea and to develop the employees. As I mentioned, our goal is to grow the EBITA by at least 15% each year over a business cycle. That should correspond to have an EBITA of SEK 340 million at the end of fiscal year 2026.

As you can see in the table, we are now on the pace of SEK 323 million in EBITA rolling 12 of the three-year and a quarter. And I'm confident that we'll keep up the pace in order to reach our goal in time. A very important factor in being able to reach this goal is to keep up high acquisition pace and that – that is why it's important for us to generate good cash flow from operations. Our financial target for profitability working capital, as I mentioned, is a simple measure of cash flow. Meaning that if you can derive good after tax profits from business and be stringent in our working capital measurement, we should generate a good cash flow.

Looking at these last three years, we have generated more than SEK 600 million in cash flow from operation and in it is also been increasing incrementally year-by-year. So, to develop the business is to develop the offer as well as business idea, associated offers to support the businesses, to develop them please. We understand the importance of sharing knowledge and successful strategies to promote growth and strengthen our common working community. Sharing & Caring is a hub for providing tools, templates, and best practices that our companies can use in our daily work. At this Internet page, our companies will not only find a variety of useful templates and tools, but also collection of best practices that have been tested and proven within our group. By sharing these resources, we strive to facilitate and accelerate our work process when creating a platform for a change of [ph] IDs 00:16:14. This is a helpful site to drive the development of each business and organic growth.

So, as you can see, we have a business school. We have also implemented the sales school to be able to sell on value. And with that also the industrial improvements that we can prove that we can be a sustainable partner for our customers. We also have a set pieces how to offer it or how to develop an offer. We also in each company have a way forward, a value creation plan. And for example, we also have a template how to run the board work. And as I usually say, it's not what happens on the board meetings that is important, it's what happens between the board meetings that is the most important thing and we tend to be very activity based that is on the board meetings that the activities that is making results.

So, here, you can see that we have made 28 acquisitions in total, and this year, we have made five and I'm very proud of the work we do know out acquisition and the templates we have. And of course, it's not that we started to do acquisitions when we were listed, we have done acquisitions for a long, long time and we have many, many skilled people working in this this area.

Yes, we have a proven model for identifying, implementing, and successfully onboarding our companies that we acquire.

But we also have, as I mentioned, the focus model and the capital allocation model that says that acquisition at the subsidiary level is okay if you have a profitability of 45% EBITA through working capital. So, as I mentioned before, we had – have made to add-on acquisitions during the quarter.

And then, we also do acquisitions of business area level in all four divisions and then we also have the acquisition at the group level. So, we tend to this have – this is a common topic on all the board meetings and all the meetings we have in the group that we discuss potential targets to acquire.

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Thank you for your time and interest in our Q1 presentation. The full report is available on our website. Should you have any questions or specific requests, please do not hesitate to contact us via our Investor Relations e-mail or by phone. Thank you and have a nice day.