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# Momentum Group AB (MMGR.B.SE)

Q3 2022 Earnings Call

## CORPORATE PARTICIPANTS

### Ulf Christian Lilius

*President & Chief Executive Officer, Momentum Group AB*

### Niklas Enmark

*Vice President & Chief Financial Officer, Momentum Group AB*

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## MANAGEMENT DISCUSSION SECTION

### Ulf Christian Lilius

*President & Chief Executive Officer, Momentum Group AB*

Welcome to the presentation of Momentum Group's Interim Report for Q3 2022. I am Ulf Lilius, CEO from Momentum Group, and I'm here with my colleague, Niklas Enmark, Executive Vice President and CFO and we will guide you through our report today. Our agenda is to give you some information about the highlights from Q3 and the development during the quarter, as well as information about the financial targets. We will round off with our growth strategy. And now I will take you through the pilot in our report.

The activity level in operations remain high with increased revenue and healthy profit growth in the third quarter of the financial year. The business climate in our main market is in the Nordic region remained satisfactory, particularly in the industrial sector, which is our primary customer segment. To date this year, we have noted a gradual increase in order intake from our industrial customers despite ongoing turbulence in the operating environment.

The group displayed organic sales growth of 8%, which, combined with good cost control and well-managed price increases from suppliers, led to an increase in EBITA of 16% compared with the third quarter on the preceding year. EBITA through working capital remained stable at 62%. We also made the acquisition of Mytolerans during the third quarter, which offers products and services in measurement technology for Swedish industry. After the end of the period, we acquired Börjesson Pipe Systems, a leading player in sustainable flow technology solutions and products. Part of the purchase consideration was paid through a transfer of own Class B shares, which have been bought back within the framework of our share buyback program.

Now, I will hand over to Niklas, who will guide you through our Q3 report.

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### Niklas Enmark

*Vice President & Chief Financial Officer, Momentum Group AB*

Thank you, Ulf. During the third quarter, revenue increased by 17% compared with a year earlier period and amounted to SEK 400 million. Growth in comparable units was about 8%. Acquisitions added SEK 27 million to revenue in the quarter corresponding to an additional 8%. The quarter included the same number of trading days as the preceding year.

As Ulf mentioned earlier, the business climate in our main markets in the Nordic region remain satisfactory, particularly in the industrial sector, which is the group's primary customer segment. The turbulence in the market have not yet had an intangible impact on customer behavior. The shortage of components that characterized the

year has stabilized, but still causing long delivery times in certain product areas. However, we are maintaining a high delivery capacity given the circumstances. The group has also successfully offset price increases from suppliers.

The continued global impact of COVID-19, the security situation, and the declining economic conditions in general are expected to impact the market going forward. The group is, therefore, implementing ongoing measures in its operations to adapt them to the prevailing demand situation. As in the past, the group's decentralized structure with decisions made close to customers and suppliers has proven to be a major strength in this regard.

Looking at the earnings in Q3, our EBITA increased by 16% to SEK 50 million, corresponding to an EBITA margin of 12.5%, same as last year. We saw good margin levels and growth in both business areas, especially considering the extra costs we had in the components business area, which I would comment later.

Operating profit rose by 18% to SEK 47 million, corresponding to an operating margin of 11.8%. Also, our operating profit was affected by higher depreciations related to right-of-use assets compared to last year. The main drivers of our profit expansion during the quarter were the organic sales development mentioned earlier, acquisitions, and also being able to compensate for the increased cost from suppliers, as well as good cost control.

Looking at the largest cost items in the P&L, our personnel costs are increasing generally in line with the increase in average number of employees. Among other operational expenses, energy-related costs have, of course, increased, but thus far has had a limited effect, making up only a small portion of our cost of sales.

Turning to the performance for the first nine months of the financial year, our revenue rose by 14%. The increase in revenue for comparable units was approximately 9%. The reporting period contained the same number of trading days as the year earlier period. Acquisitions added SEK 55 million to the revenue, corresponding to 5% addition to revenue growth in the period. Our EBITA increased by 19% to SEK 148 million, corresponding to an EBITA margin of 11.9%.

Operating profit rose by 14% to SEK 133 million, corresponding to an operating margin of 10.7%. Operating profit included expenses affecting comparability of minus SEK 6 million related to the separate listing in the first half of the year.

And now to a few comments per business area. Firstly, the components business area, sales and earnings in the components business area were positive during the third quarter, where revenue rose by 14% compared with the same quarter last year. Revenue for comparable units measured in local currency and adjusted for the number of trading days grows approximately 7%. EBITA amounted to SEK 46 million, corresponding to an EBITA margin of 14.6%. This is including the extra cost of approximately SEK 2.5 million related to upgrading of the ERP system in Momentum Industrial coupled with a phaseout of certain products directly as a consequence of the upgrade. The business area's profitability measured as return on working capital and continued to be strong and amounted to 71%.

Looking at the individual companies. Momentum Industrial reported favorable sales growth in the quarter, mainly driven by strong growth in the paper and pulp sector, automotive and steel customer segments. The effects of the component shortage continued to be felt, although the situation improved during the quarter. Additional inventory purchases have been made to ensure high delivery capacity.

The specialist companies, particularly ETAB Industriautomation and Öbergs performed well during the quarter with the favorable growth in sales and earnings. In general, the company successfully compensated for the delivery disruptions and material shortages within the specialist field. After the end of the quarter, the group acquired Börjesson Systems (sic) [Börjesson Pipe Systems], a leading player in sustainable flow technology solutions and products.

The services business area performed well during the quarter in terms of both sales and earnings. Revenue rose by 27% to SEK 89 million compared with the corresponding quarter of the preceding year. Revenue for comparable units measured in local currency and adjusted for the number of trading days rose approximately 14%. EBITA amounted to SEK 10 million, corresponding to an EBITA margin of 11.2%. The business area's profitability measured as return on working capital continued to improve and stood at 58%.

It is very positive to see the gradual increase in profit margin in the business. During the quarter, the largest companies, Rörick and Mekano, displayed a high level of activity in their workshops and also good inflow of customer enquiries, especially towards the end of the quarter. During the quarter, we also saw a substantial part of component sales, which coupled with the good level of capacity utilization added to the profit margin.

A special shout-out also to one of the smaller companies in the group, Carl A. Nilssons, that has been able to complete a couple of major projects despite the continued challenges in delivery times of certain components. Also, the newly acquired Mytolerans delivered a strong first quarter in the group.

Now, looking at our profitability, cash flow and financial position. Firstly, the group's profitability measured as return on working capital was 63% (sic) [62%] for the most recent 12-month period. Cash flow from operating activities for the reporting period January until September totaled SEK 65 million. The decrease compared with the preceding year is mainly caused by increase in paid taxes, a large proportion of which concerned supplementary payments regarding tax for the 2021 financial year in the first quarter of this year.

Secondly, inventories increased by SEK 27 million. The latter is based on active decisions to make extra stock purchases in Momentum Industrial to support our delivery capacity to our customers. In addition, operating liabilities declined by SEK 38 million, mainly due to decrease in accounts payables during the latest quarter.

Other items that affected the cash flow during the period was acquisitions, as well as the share buybacks of in total SEK 87 million. IFRS 16 effects on cash flow is in total [ph] of course zero (10:10) but with a positive contribution to operations of SEK 37 million, of which SEK 12 million in the quarter and a negative effect on financing in the same amount.

Looking at the financial position, at the end of the period, the group's operational net loan liability amounted to SEK 57 million. Cash and cash equivalents, including unutilized granted credit facilities, totaled SEK 952 million, meaning we have ample room for continued growth and a strong financial position.

And now looking at the performance of the period in relation to our financial targets, profit expansion and profitability. I should mention that we see these targets as long-term objectives. However, looking at them quarter-by-quarter these last few years, we see that our EBITA growth quarter-over-quarter was on average 18% for the period June 2019 until September 2022, which is then above the target level of 15%.

Our profitability on working capital has increased to 62% from 46% in March of 2019 through gradual improvements in EBITA margin and capital turnover, as you can see from this chart, both are important for us as a group and we measure this for each profit unit.

I would like thereby to hand over to Ulf that will talk about our continued growth strategy and journey.

## Ulf Christian Lilius

*President & Chief Executive Officer, Momentum Group AB*

Thank you, Niklas. Now, I will give you some input about the growth strategy going forward. Since our listing in March this year, we have acquired 70% of the shares in HNC Group with its wholly owned subsidiaries in Germany and Saniflow. HNC offers components, as well as customized solutions for automation and process optimization for customers, primarily in the food and pharmaceutical industry and for machine builders. HNC has successfully commercialized its own product range of pneumatic stainless steel cylinders sold under the Unic brand. Through the acquisition, the group also has an interesting footprint in Germany, a market that we think can be further explored and developed.

In September, we also announced an acquisition of 70% of the shares in Mytolerans. Mytolerans sells mechanical and optical measuring machines for quality control, follow-up and process controls, as well as service and calibration for Swedish industrial customers. Both HNC and Mytolerans are acquired via our proven model, where we initially acquired 70% and has an option to acquire the remainder after three years.

After the reporting period, we acquired Börjesson Pipe Systems, a leading player in sustainable flow technology solutions and products. BPS is a well-established company with strong customer relations and highly competent employees that is successful with own products such as Water Hammer Protector to reduce water hammers, jet spray nozzles, design patent jet spray lances and flow meter wells to reduce water leakage on drinking water networks. Their own products complement the offer of products from leading manufacturers with BPS onboard as a major potential in development of sustainable flow technology. Like all of our companies, BPS will operate as an independent subsidiary in accordance with our philosophy based on decentralized business responsibility.

All in all, we have added almost SEK 150 million in annual turnover with these acquisitions during our time as a listed company.

Our belief is that we have critical success factors in place to succeed with our strategy. We're financially strong with room for acquisitions. We have a strong cash flow from operations and the possibility of acquisitions financing through revolving facility of SEK 800 million. We have principal owners who want to grow the group in our desired position. We have a good industrial network, mainly in Sweden, but also in Denmark, Norway, and Finland. We have a proven processes and resources and a total of around 10 employees who work in acquisitions in various forms in place to help evaluate and implement acquisitions, as well as a proven onboarding model with decentralized performance and business responsibility. And we have competence in our field at several levels from the board and management as well as in our companies.

In order to grow our business, we focus on to develop employees and sustainable companies. For us, decentralized responsibility means investing in people where commitment, attitude and drive are as important as key figures and market share. Our business philosophy is based on a decentralized responsibility for results with collaboration and partnership between the different companies in the business area where it is mutually beneficial. We also like to be an active owner and work with the companies to find new opportunities to grow and develop the business as well as grow through acquisitions. To achieve this, we believe very strongly in decentralized responsibility as well as the willingness to improve. We call this to be better than yesterday. And to be able to be better than yesterday, we have to work with simplicity.

Bottom line, we are not that complicated, we acquire, we develop, we build culture. If people grow, the business will grow. We have identified a number of product and service verticals where we would like to be present. We have grouped the companies in our three focus areas based on these. In the aftermarket group, we combine a strong value offer with a broad and deep product offering coupled with related services and expertise in industrial improvements. In our specialized companies, we focus on building expertise in a limited number of verticals per company, for example, ETAB in hydraulics, Öbergs in [ph] pneumatics (16:11), HNC in [ph] pneumatics (16:13) and automation, and now BPS in flow technology solutions. The third focus area is technical services, where we today have companies that do maintenance service on and off customer sites, as well as like refurbishment of gear, motors, pumps, generators and spindle service. We also have companies working in measurement, quality assurance and optimization.

We think a degree of focus as regards business development acquisition are an important success factor. As we grow and develop our offer, market the knowledge, we can then add adjacent product verticals with limited risk and higher chances for success. A decentralized business model is a key, where we develop each company individually based on its own merits and, as a group, build up competencies in several industrial niches. Looking ahead, we have a strong platform and a good businesses, which means that we can work with a strong focus on our selected product and service verticals.

Finally, I would like to congratulate Momentum Industrial celebrating 25 years of success. Momentum was founded in October 1997 with the ambition to be a listed company. At that time, we had sales units in 13 locations and a turnover around SEK 350 million. Today, we have grown through opening new units by greenfield, as well as acquisition that has been integrated to the same ERP system. The turnover is more than SEK 1 billion and are located in more than 30 places in the Nordic area. A journey that we have learned a lot from as a group and we still do.

Now, me and Niklas answer some question that we have received.

## QUESTION AND ANSWER SECTION

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

A

So, we have received some questions regarding our report. So, I will start by reading the question and Ulf will give the answers. You mentioned that the ERP upgrade for Momentum Industrial in the report as a cause for some extra costs. How are they related and when do you see that the new ERP would be up and running?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

Yeah. Firstly, I would like to point out that this is an upgrade. It's not a new ERP system we're talking about. The implementation is nearing completion, planned for this Q4 of this year. During the final implementation stages, we decided to scrap some products instead of including them in the stock ledger in the upgraded system; part of that pruning we do over time.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

A

Thank you. You mentioned in the report that the shortage of components have stabilized. Is this a general trend or do you still see problems with lead times and for how long?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

It is a trend that lead times in general has stopped increasing and in many cases have come down. However, we still experience that for some products, for example, electrical motors, compressors, the lead times continues to be high in relation to pre-COVID situation. It is difficult to tell exactly how long it will take before things are back to normal. However, I would like also highlight that the very good dialogue with and understanding we experience from our customers as we do our utmost to meet their requirements. I also think that in many cases, our proven delivery capacity and hard work has meant we can attract new customers. One very good example in the group is Öbergs that have been able to attract several hundred new customers, many of whom are now repeat customers.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

A

Thank you. How is the pipeline for M&A doing and have you changed stance in relation to this as a growth strategy due to the uncertainty in the market?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

The pipeline is doing very well. We continuously process a number of potential cases and fill the pipe with new prospects. We have also strengthened the organization during the year with skilled M&A resources. The market turbulence has not changed this in any way. If anything, I would say that even more entrepreneurs are attracted by our value proposition and long-term focus. Someone once said, never waste a good crisis, and I think this holds true. If you follow a clear path and have the means to implement a strategy, this is a perfect time. There are a lot of interesting partners out there for Momentum Group in our chosen product verticals, and we have very strong financial position. So, basically, we are being debt free.

Niklas, we got some question about the energy crisis, and how has the energy crisis affected your business so far?

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

A

Okay. So firstly, as everyone else, we experienced higher cost for electricity predominantly in our workshops. Fortunately, many of our larger businesses have district heating, [ph] what seems rich (20:52) quality environment. So the heating costs have not increased that much. For the electricity used in the business, we have, for the most part, hedged the cost over time and we continue to do so. That said, we work with energy efficiency measures such as energy mapping and production planning, reducing our need where we can.

From the customer's perspective, so far, we have not seen any tangible effect in customer behavior relating to this. And I would also like to point out that one of the key points in our offer is actually to help the customers reduce their energy consumption by offering energy efficient products. For example, top quality bearings that help reduce the friction in the manufacturing process.

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

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Thank you. And we also have one on working capital. Should we expect working capital to improve further coming quarter's receivable? Inventory looks high versus last year.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

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So, receivables are actually increasing by less than the increase in revenue. And that said, the absolute number of receivables are often higher during the period of September until November as these are months with higher activity for us. Of the increase in inventory, approximately half of the increase is related to acquisitions and half is related to the extra stock purchases in Momentum Industrial, which we see will diminish over time. Both receivables and the inventory also actually decreased during the quarter. Accounts payable decreased during the quarter by substantial amount. This is also partly due to the extra stock purchases which are now paid. The relation of working capital to sales is stable at approximately 19% for the last 12-month period.

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

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Thank you, Niklas.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

A

So, going forward, where should we expect the EBITDA margin for components to be heading given the decrease in margin this quarter and in Q2 versus last year?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

Well, what you see in components is predominantly a mix effect. The margin per company is developing in a stable or increasing manner, but as a specialist companies have a larger proportion of sales. The EBITA margin has decreased a bit. We don't give guidance on EBITA margins, however.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

A

Okay. What's the overall status of increasing prices on your products and services? Is it still easy to offset higher costs?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

Well, first of all, it is never really easy to offset higher costs. It is hard working doing this, which take up a lot of resources, working with price list and customer negotiations. Thus far, we have been successful in doing this work and we continue with a lot of activities. The outcome, however, we will have to monitor also going forward.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

A

Okay. Thank you. Can you please elaborate on what improvement measures you are implementing in your companies?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

Well, it is a wide array of activities implemented very much on a company by company basis. However, in the broader context, the areas covered pricing of products and services, cost containment measures, efficiency measures such as tracking and optimization of uptime in our workshop business, but is also making sure we stay customer-focused and not get bogged down with too much internal focus.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

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Thank you.

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

So thank you for your time and the interest listening to this presentation, which are available with the report on our website. If you have any questions or specific request, do not hesitate to contact us through our IR email or by phone. Thank you very much.

**Niklas Enmark**

*Vice President & Chief Financial Officer, Momentum Group AB*

Thank you.

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